Company Number: 3943048

Financial Services Compensation Scheme Limited

Annual Report and Accounts 2012/13

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The full Annual Report and Accounts can be found at www.fscs.org.uk

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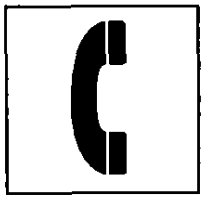
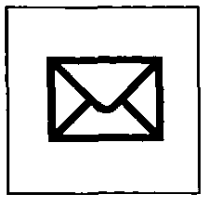
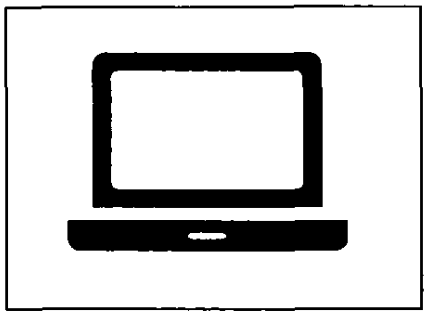
Annual Report and Accounts 2012/13







How to contact us

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Lines are open Mondays to Fridays
from 8.30am to 5.30pm

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Online enquiry form

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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 service 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.

1 The Year in Summary

This summary gives a snapshot of FSCS's performance during 2012/13
Click on the headings to go to the relevant section of the report

We received over **62,000** new claims

51

FSCS running costs

FSCS running costs for the year were £58 9m, excluding the cost of processing Welcome claims, which do not fall on the industry, and loan interest for the major banking failures of 2008/09

40

Compensation paid

FSCS paid out a total of £326m in compensation during the year, excluding the major banking failures of 2008/09 and Welcome, down from £347m in 2011/12

53

Recoveries made

In 2012/13, we recovered £777m from the estates of failed firms Recoveries from the major banking failures of 2008/09 increased to £729m, compared with £673m last year

21

Enquiries handled

During 2012/13, we dealt with 359,617 enquiries, compared with 417,436 during 2011/12

33

Raising awareness of FSCS

Phase 2 of our consumer awareness programme launched in January 2013 Our aim is to raise awareness of FSCS protection among people who save with UK banks, building societies and credit unions only half of depositors are aware their money is protected up to £85,000

26

New regulatory regime

From 1 April 2013, the UK's regulatory regime changed with the establishment of the Prudential Regulation Authority and the Financial Conduct Authority FSCS has forged constructive relationships with both bodies

64

Contingency planning

In the past year, FSCS tested contingency plans for future failures The FSCS Board participated in a two-day simulation of the failure of a fictitious life insurance company

18

New claims received

FSCS received 62,030 new claims from consumers in 2012/13 Overall, this was 36 per cent less than in 2011/12, when we dealt with more Welcome* claims During the year, there was a marked increase in the complexity of the claims, mainly arising from failures in the investment sector

59

Levies received

Levies received totalled £726m This amount includes £363m with respect to the major banking failures of 2008/09

* An innovative restructuring arrangement meant that the costs of compensating claimants and processing claims were met by Welcome Financial Services Limited at no cost to the Industry Welcome also acted as claims handling agent on behalf of FSCS under FSCS direction and control

2 Chairman's Statement

Chairman Lawrence Churchill explains how the role of FSCS has evolved over the year

It was with great pleasure that I received the baton passed to me by the former FSCS Chairman, David Hall, and I want to pay tribute to David's leadership throughout his six-year chairmanship a period that saw FSCS play an increasingly vital role protecting consumers during and after the 2008/09 financial crisis

Expectations of FSCS are, rightly, even higher now than they were six years ago FSCS has a fundamental responsibility not only to provide a responsive and efficient service today but also to make sure that FSCS is fit for the increasingly complex challenges of tomorrow

My initial focus as Chairman has been, therefore, on four key priorities strengthening FSCS's role as a trusted partner in resolving failing businesses, working closely with our partners to develop plans to manage potential future failures, raising awareness of FSCS to reassure the public about the protection offered, and engaging even more closely with our industry stakeholders

Strengthening FSCS's role as trusted partner

From 1 April 2013, the UK regulatory regime changed with the establishment of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) FSCS works with the PRA and FCA to minimise the adverse effects on consumers that the failure of an authorised firm could have on the financial services system

Zero failure does not exist, nor should it in a functioning market We need to put arrangements in place, therefore, which ensure that when businesses do fail, they can do so safely without jeopardising financial stability This is why our closer engagement with the authorities is so vital in defining the role that FSCS will have in the future resolution of those firms that do fail There is no reason why FSCS's role has to be confined to paying out compensation to depositors if better value resolution options are available which offer greater continuity for consumers The Banking Act 2009 allowed for FSCS to contribute to the costs of resolution, and a recent Bank of England and Federal Deposit Insurance Corporation joint paper in December 2012 floated the idea that when banks or building societies fail, FSCS might be 'bailed-in' alongside other creditors This approach has the potential to bring tangible benefits to consumers while saving costs to levy payers However, the final position will depend on European legislation, which is still to be concluded

We believe that open and transparent communication with our funders will create a clearer scrutiny of, and alignment with, our performance

Contingency planning and sharing

FSCS's duty to protect consumers means that we have to be ready to manage a sudden failure or future crisis We prepare and monitor our contingency plans by analysing the severity and likely impact of an event alongside our preparedness to respond For example, over two days in September 2012, FSCS Board members worked through an exercise which simulated the failure of a fictitious life insurance firm It is important to emphasise that no such failure is expected However, if one were to occur, FSCS would want to respond effectively to protect policyholders

A number of valuable lessons were learned, including the importance of clear and concise communications to all FSCS stakeholders We fed back our learning to our partners in the regulatory authorities so that we could discuss potential improvements to the resolution arrangements During 2013/14, the Board's Risk Committee provides the framework to develop our contingency planning arrangements

Raising awareness of FSCS

FSCS's role is to provide a responsive, well-understood and efficient compensation service which underpins public confidence in the financial services sector We have steadily improved our service to consumers, often paying out compensation to depositors well within the seven-day target Nevertheless, there is a continuing challenge in that not enough people know about FSCS protection The Chief Executive looks in more detail at the ways in which we are raising awareness of FSCS protection

Transparent relationships with levy payers

The Financial Services (Banking Reform) Bill sets out statutory functions for FSCS to provide compensation quickly and efficiently, while minimising the use of public funds We believe that open and transparent communication with our funders will create a clearer scrutiny of, and alignment with, our performance Our reporting on actual levy utilisation and prospective levies will continue to be open and reconcilable to previous forecasts

FSCS has recovered **£777m** from the estates of failed firms

Calibre and commitment of FSCS people

When I arrived at FSCS, I was not only struck by the admirable shape FSCS was in, despite the range and complexity of its remit, I was equally impressed by the calibre and commitment of all FSCS people across the organisation to fulfil its mission I would like to thank them for their hard work during an extremely busy year of change I would also like to thank Tony Ashford and Rosalind Reston for being such valued members of the FSCS Board and welcome Marian Glen and Charles McKenna who joined us in February

Financial stability is built on the bedrock of trust and confidence The financial protection that FSCS offers millions of consumers is a key component of that foundation because, when firms fail, FSCS steps in to protect, for example, people's hard-earned savings, investments and pensions That is why we will continue to strive over the coming year to enhance our capability to respond ever more effectively to unpredictable failures and volatile demands

Lawrence Churchill
Chairman

3 Chief Executive's Report

Chief Executive Mark Neale outlines how FSCS has managed highly complex failures, pursued substantial recoveries and invested in a more responsive and efficient service for the future

In February 2013, FSCS received a touching note from an 84-year-old customer, who thanked us for our help in paying him compensation for money he had lost when two stockbroking firms failed The note ended "We are very fortunate indeed to have an organisation such as yourselves to look after our interests If only your service were not needed!"

This very personal view of FSCS is supported by independent research which has shown consistently that FSCS protection underpins consumer confidence and, in doing so, contributes to a stable and thriving financial services industry FSCS's 'critical role' in protecting investors was recently acknowledged in the Review of the Investment Bank Special Administration Regulations 2011

FSCS's duty to individual consumers, and its contribution to financial stability, imposes some unique demands It means FSCS must live both in the here and now and in the future FSCS must become more capable in its day-to-day operations so that it can successfully manage the many highly complex issues that arise when firms fail FSCS must also be ready to protect consumers in the event of major failures in future This means ensuring that our capability to pay out compensation to consumers can scale-up to meet much greater demands than we faced in 2012/13, while being ready and able to participate in innovative resolution arrangements when these offer a better outcome for consumers and save costs

Whenever FSCS becomes the creditor of failed businesses, we must seek to maximise recoveries from their estates on behalf of the industry It is a responsibility we take as seriously as our obligation to pay compensation

FSCS protection underpins consumer confidence and contributes to a stable and thriving financial services industry

We managed a far higher than expected number of mis-sold Payment Protection Insurance claims

All in a year's work complex failures, volatile demand

FSCS has continued to deal with a number of significant failures including CF Arch Cru Funds (Arch Cru Funds), WorldSpreads Limited (WorldSpreads), Pritchard Stockbrokers Limited (Pritchards) and MF Global UK Limited (MF Global) in the investments sector, and Municipal Mutual Insurance Limited (MMI) and Lemma Europe Insurance Company Limited (Lemma Europe) in the insurance sector

In such cases, FSCS is rarely able to move straight to payout We have to resolve challenging issues first, including carrying out in-depth legal analysis into the firm's potential liability to its investors or policyholders, valuing the complicated and diversified products within a firm's portfolio, and quantifying the value of the claims according to our rules We work closely with insolvency practitioners on these issues and have adopted a project-based approach to give us the best chance of meeting our delivery service standard of dealing with claims for investment firms within six months

Despite paying out substantial amounts of compensation in respect of Arch Cru Funds (£25m), WorldSpreads (£16m) and MF Global (£30m), our continuing work in managing the complex detail of the claims has meant that FSCS has done less well delivering against some of our service standards than we would have liked However, we remain strongly committed to the six-month delivery service standard for this sector and are doing everything we can to meet it

We received over 62,000 new claims during the year compared with more than 96,900 in 2011/12, and paid out total compensation of £326m compared with £347m in 2011/12 We saw continued significant claims in the investment sector arising from the failures of WorldSpreads, Pritchards and other investment firms and in January 2013 we issued an interim levy on the Investment Intermediation sector of £20m to cover compensation costs However, we do not expect high levels of claims to continue into 2013/14

We also managed a far higher than expected number of mis-sold Payment Protection Insurance (PPI) claims numbering over 19,000 (excluding claims from Welcome), most of which were completed within our three-month target We raised an interim levy on the Insurance Intermediation sector of £16m We have explained in our regular communications to the

industry that we expect PPI claims to be a driver of FSCS costs over the next two to three years

Our delivery model, which involves outsourcing the great majority of claims we receive, has enabled us to respond to these changes in demand while continuing to hold staffing numbers and costs steady within the FSCS We employed an average of 179 staff during 2012/13

During the year, the continuing management of the review of the interim levy costs of 2010/11 (including the reporting of income for collective investment schemes), and its impact on firms, was a focus for FSCS Our work in this area included a detailed case-by-case review of all the tariff data resubmissions from firms of their annual eligible income We completed the process and issued revised levies as part of the 'truing-up' exercise of the 2010/11 year levies There is more information in our industry newsletter, Outlook

Investing for the future: an efficient and responsive service

Alongside delivering our service, we continue to invest in our future capability This will enable us to provide a better and more efficient service to consumers, which can rapidly scale-up to respond to future challenges

A good example of efficiency and responsiveness going hand-in-hand is the investment we have made in order to pay out savers in a failed bank, building society or credit union within seven days – and frequently faster However, we are mindful there is always more to do to strengthen our service, while keeping costs to a minimum Accordingly, we are also investing to improve the resilience, responsiveness and efficiency of our other services to consumers We aim to enable consumers to make claims online and streamline and improve the claims process This investment will benefit our levy payers by saving costs in the longer term

We are also investing to improve awareness of the protection we provide In September 2012, we hosted an event for senior representatives of the UK's banks, building societies and insurance companies Colleagues from the regulatory authorities also attended and we were pleased that there was overwhelming support from the industry to work alongside FSCS to raise awareness of the protection FSCS provides The benefits to industry are backed up by independent research people who are aware of FSCS are more confident consumers, less likely to panic and more likely to buy financial products We also welcome recent confirmation of widespread support from MPs for further work in this area

FSCS paid **£326m** in compensation during the year

We launched Phase 2 of our awareness-raising campaign in January 2013, following extensive input from our Consumer Awareness Advisory Panel made up of leading industry and consumer organisations The campaign has a clear and coherent direct marketing strategy complemented by industry-led activity, and targets consumers at significant decision-making points in life, such as when saving for a wedding, education, home improvements or retirement The campaign is planned to roll out until March 2014, and we have also put in place a robust evaluation framework to monitor the campaign and levels of awareness

Pursuing recoveries with resolve

FSCS must also demonstrate that we provide value for money across all our activities, including our effectiveness in making recoveries from the estates of failed businesses We have pursued recoveries tenaciously and secured £777m this year, including for the five bank failures of 2008/09, for which recoveries to date currently stand at a total of £3 2bn

Seeking recoveries is a time-consuming process that requires a combination of persistence and meticulous work It can also involve the exercise of judgement in deciding what action to pursue

We have been proactive from the outset in pursuing recoveries from the complex failure of Keydata Investment Services Limited (Keydata) FSCS has worked with

the administrators and interested parties involved in the Keydata estate to recover its costs from the assets and the underlying investments, and provided short-term loans to preserve the value of these assets FSCS also issued legal proceedings against several hundred Independent Financial Advisers who were responsible for the sales of the Keydata products to investors, and these proceedings continue The recoveries we expect to make from Keydata will result in a significant benefit to levy payers Recoveries offset compensation costs that FSCS pays out and we will continue to pursue recoveries throughout 2013/14, including taking possible action against the firms responsible for the mis-selling of PPI policies and structured investment products

Hosting IADI's 10-year anniversary conference

We are also keen to build relationships, and share learning and experience, with our international counterparts In October 2012, we were pleased to host the Annual General Meeting and Conference of the International Association of Deposit Insurers (IADI) Over 200 delegates from across the globe attended a tremendously successful event, addressed by leading figures from the UK and abroad, including the Rt Hon Greg Clark MP, Financial Secretary to the Treasury, Paul Tucker, Deputy Governor of the Bank of England and Andrew Bailey, now Chief Executive of the Prudential Regulation Authority

Our people

FSCS enables its people to develop the professional skills needed to deliver our increasingly flexible business model Our people have continued to show a strong commitment to FSCS values, to the consumers we help and the levy payers who fund us and I would like to pay tribute to the versatility, professionalism and commitment of FSCS's people throughout the year I am also looking forward to next year as we work together to enhance the responsiveness of our service, raise awareness of FSCS protection and continue to build on our positive relationships with the new regulators and the industry

Mark Neale
Chief Executive

Our people have continued to show a strong commitment to FSCS values

We aim to respond quickly, efficiently and accurately to consumer claims for compensation

Key points

- In 2012/13 FSCS received 62,030 new claims from consumers, a decrease of 36% on the number of claims received during 2011/12, mainly because of the high number of Welcome claims handled last year
- There was a steep increase in non-Welcome Payment Protection Insurance (PPI) claims to 19,035 in 2012/13, up from 13,801 in 2011/12
- There was an increase in the complexity of claims that arose from failures in the investment sector
- Claims made through Claims Management Companies accounted for just over 40 per cent of all claims
- We dealt with 359,617 enquiries covering many aspects of our work

4 Responding to Consumers

Although FSCS dealt with fewer claims this year, we saw a marked increase in complex investment claims and a sharp rise, for the third year running, in Payment Protection Insurance (PPI) claims (excluding Welcome)

A summary of claims and enquiries

The table on page 20 gives a detailed breakdown, by industry sector, of the numbers of claims received, the decisions made and the average amount of compensation paid per claimant It shows that the average payment made per claim fell overall from just over £4,300 in 2011/12 to just over £3,000 This is largely because the majority of payments related to PPI claims, which were of relatively low value, but the average payments in the investment sector also fell compared with last year

What is driving claims volumes?

Although there was an overall reduction in the volume of claims during 2012/13, there was also a continuing increase in the numbers of complex claims in the Investment Intermediation sector from failures such as MF Global, Pritchards and WorldSpreads In such cases, FSCS is rarely able to move straight to compensation payouts We have to resolve a number of challenging issues first These can include

- carrying out in-depth legal analysis into the firm's potential liability to its investors or policyholders,
- valuing the complicated and diversified products within a firm's portfolio, and
- quantifying the value of the claims according to our rules

There is more information about these failures in Section 6

PPI claims excluding Welcome

The number of PPI claims, excluding Welcome, increased during 2012/13 compared with the previous year The majority of Welcome claims were dealt with during 2011/12, although during the past year there were some 16,370 Welcome claims decisions

There was a slight drop in Home Finance claims, while mortgage endowment claims (part of Life and Pensions Intermediation) continued at the same level

Claims made through Claims Management Companies (CMCs) accounted for just over 40 per cent of all claims Significant areas of activity from CMCs related to claims arising from the failure of Arch Cru Funds, stockbroking firms and the mis-selling of mortgage endowments and PPI (including Welcome and non-Welcome claims)

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

		New claims received		Total decisions		Uphold rate		Average paid	
		2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
Deposit (SA01)		9 737	3 527	9,740	4,984	99 9%	100%	£314	£12,279
General Insurance Int (SB02)	All (excluding Welcome)	19,035	13 801	18 165	12 792	74 5%	82%	£4,149	£4 297
	Welcome[1]	16 370	67 696	17 550	55 000	91 4%	95%	£1,402	£1 828
Life and Pensions Provision (SC01)		3	3	5	2	20%	50%	£595	£1 590
Life and Pensions Intermediation (SC02)		3,691	3 767	3 598	3 890	49 6%	50%	£13 172	£10 086
Investment Fund Management (SD01)		8	46	11	53	45 5%	13%	£12 451	£12 605
Investment Intermediation (SD02)		12 300	6 899	12,255	8 342	89 6%	81%	£9 488	£16 467
Home Finance Intermediation (SE02)		886	1 191	917	1,023	4 1%	5%	£13 865	£6 401
Total		**62,030**	**96,930**	**52,522**	**86,086**	**N/A**	**N/A**	**£4,415**	**£4,362**

	New claims received		Payments made		Claims closed		Average payment value	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
General Insurance Provision (SB01)[2]	10,766	7 194	10,298	9,184	5 749	5,529	£7,656	£6,667
Home Finance Provision (SE01)	None							

1 Because of the restructuring arrangement put in place for Welcome the costs of handling and compensation for these claims will not fall on levy payers

2 FSCS does not directly process policyholder claims for General Insurance Provision as it does for other classes The nature of these claims means that there is no direct correlation between payment numbers and decisions or uphold rates

Consumer enquiries and complaints

FSCS protects consumers across the financial services industry This means that every day we handle an extremely varied range of telephone, email and written enquiries from claimants, their representatives and the general public

During 2012/13 we dealt with 359,617 enquiries compared with 417,436 during 2011/12 This figure does not cover the nearly 8,000 telephone calls, received during the year by FSCS's own office reception team, from members of the public calling FSCS when wanting to speak to their own bank

FSCS-related enquiries covered a wide range of topics about all aspects of our work, including how to make a claim, compensation limits in various sectors, and how long a claim might take Alongside this daily work, FSCS deals with any complaints it receives and responds to all Parliamentary correspondence

Reflecting the increase in complex claims, the enquiries we received also became more complex during 2012/13 As noted, a significant number of calls were the result of direct mailings sent out by deposit takers to their customers, which referred to FSCS, and from heightened interest in PPI mis-selling

Complaints rate

The numbers of complaints rose in 2012/13 to 1,008 compared with 974 in 2011/12 We saw an increase in non-Welcome PPI complaints and a higher number of complaints about decisions in the investment sector

In one Home Finance Intermediation claim, the consumer did not accept our decision and referred the matter to a judicial review The claimant was successful and the case was unsuccessfully appealed by FSCS to the Court of Appeal FSCS is considering the judgment The claim illustrates the difficult issues that can arise in determining claims under our rules

In August 2012 we moved to a more streamlined, efficient internal complaints process, more in line with that of the Financial Ombudsman Service Complaints are now dealt with by one of our complaints officers within our Specialist Contact Team, which is separate from the teams responsible for assessing claims A complaints officer carries out a review of the decision reached, taking into account any concerns raised and any new evidence When there are complaints about the mishandling or maladministration of a claim, the matter may also be referred to the Independent Investigator Nine complaints were referred to the Investigator during 2012/13

During the year we dealt with **359,617** enquiries

Consumer enquiries

Contact type			Volume received 2012/13	Volume received 2011/12
Telephone calls	Total (excluding Welcome)		153,012	125,225
	Welcome		80,642	154,412
Total telephone calls			**233,654**	**279,637**
Written correspondence	Emails and general letters	Business as usual (BAU)	54,130	39,987
		Welcome	71,751	97,702
	Parliamentary correspondence	BAU	79	108
		Welcome	3	2
Total written correspondence			**125,963**	**137,799**

Complaints

			Volume received 2012/13	Volume received 2011/12
Complaints	About the claim decision	BAU	772	452
		Welcome	43	196
	About the handling of the claim	BAU	131	96
		Welcome	54	230
	About the treatment of customers	BAU	7	N/A
		Welcome	1	N/A
Total complaints			**1,008**	**974**

Report from the Independent Investigator

The Independent Investigator reviews complaints about claims that remain unresolved following investigation and response by FSCS. Nine complaints were referred to the Independent Investigator in 2012/13

This is my fifth annual report since I took up office, and it relates to the period from 1 April 2012 to 31 March 2013

My role is to review how FSCS administers 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, almost all of the complaints referred to me 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 decisions made on claims

Having investigated a complaint, I provide a written report to the FSCS Board, giving my findings in a case 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 was provided to the complainant in every case I adjudicated 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 nine cases referred to me I upheld one complaint, found two complaints justified and found a further complaint partly justified All four of these complaints related to delays in the administration of claims In one case I recommended an apology for two service failures, relating to information on a claim, be made FSCS met that recommendation In the complaints I found to be justified, I found the redress for the delays made by FSCS prior to the complaint being referred to me to be appropriate and commensurate I did not uphold five complaints

In the complaint I upheld, I produced a Note to the FSCS Board resulting from the investigation of that complaint relating to how that complaint had arisen I am pleased that the FSCS Board took forward the comments made

I note that FSCS dealt with 62,030 new claims in this reporting period I am satisfied that FSCS is correctly signposting complainants to me should they be dissatisfied with how their claim has been dealt with

John Hanlon

Independent Investigator

How we performed against our service standards

We met most of our service delivery standards in 2012/13, including our target for compensating consumers in failed deposit takers, but just failed to meet our targets for turning round PPI and other claims.

Our targets, and a brief explanation of our performance against each target, are set out below.

Target
To answer 80 per cent of all telephone calls within 20 seconds

Performance:
Over the course of the year, just over 88 per cent of telephone calls were answered within 20 seconds

Target:
To complete 90 per cent of PPI-related claims within three months of receipt of a claim

Performance:
We completed 85 per cent of PPI-related claims within three months The shortfall was largely because of data-gathering issues and the slow response of some providers to give us the information we needed to complete claims

Target.
To answer 90 per cent of correspondence within 10 working days

Performance:
In 2012/13, we exceeded our target and answered 98 per cent of correspondence within 10 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 to savers in failed banks, building societies and credit unions within seven days of failure and to the remaining customers with more complex accounts within 20 working days.

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

Target:
To complete 90 per cent of all other claims within six months of receipt of a claim.

Performance:
We completed 84 per cent of all other claims within six months of receipt of a claim This was because, as outlined elsewhere in this year's Annual Report and Accounts, many claims were more complex and required further investigation and legal advice to resolve We focused our efforts on the resolution of those cases where customers had been waiting for a decision

Target:
To answer 90 per cent of complaints within 20 working days

Performance:
We exceeded our target and answered 97 per cent of complaints within 20 working days

We received
233,654
telephone calls
in 2012/13

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 Financial Services Authority (FSA) until 31 March 2013, and to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) from 1 April 2013. The rules under which we operate are made by the regulators and are in the FCA Handbook and the PRA Handbook.

There is more information about our new funding model in Section 7.

Our role

Our role is to protect UK consumers against financial loss from failed firms regulated by the relevant authorities. These are firms which are unable, or are likely to become 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 shows the kinds of losses and financial sectors we cover and the compensation limits.

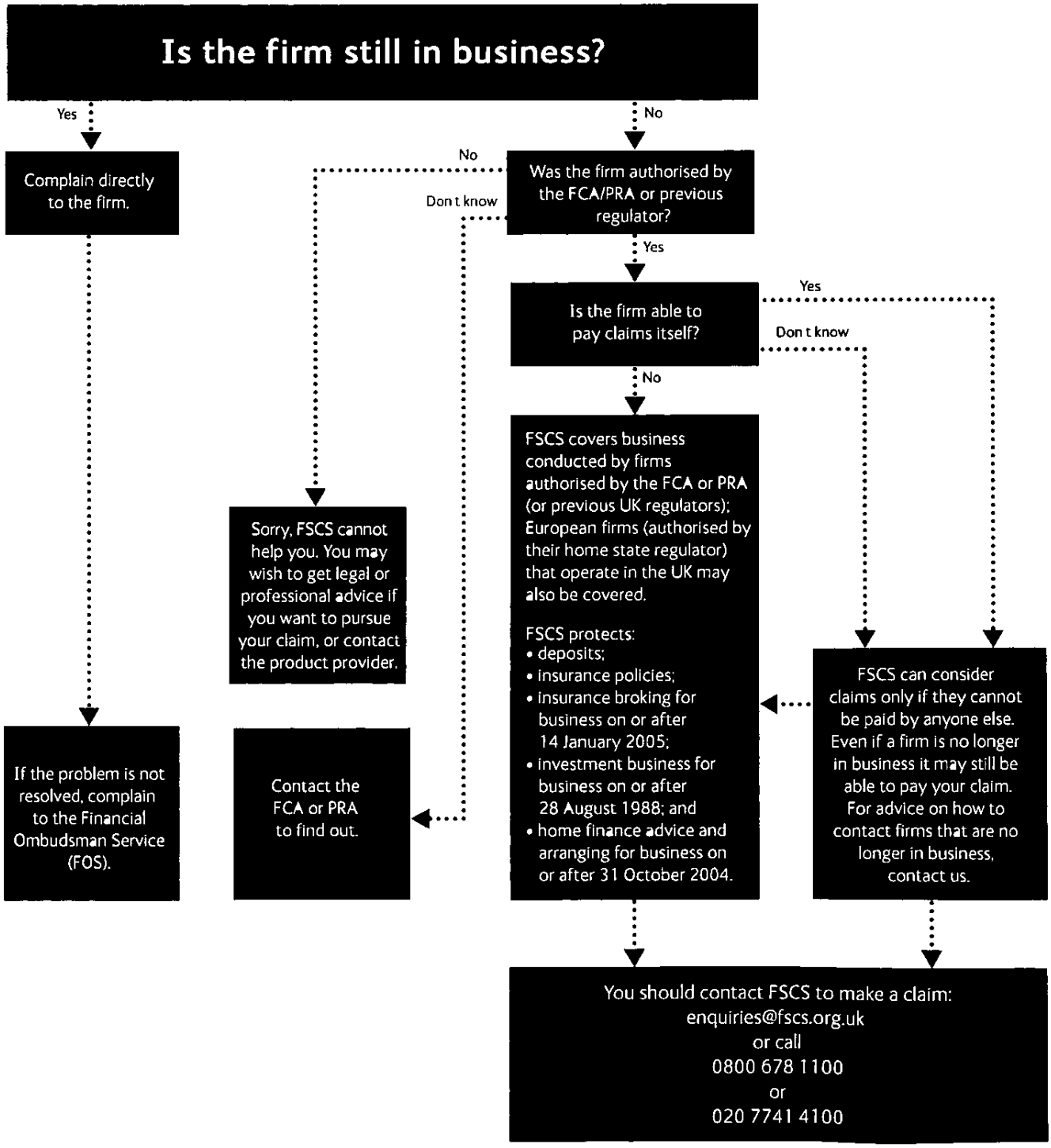
The FCA has more information about who to contact if you think you are entitled to compensation.

Links

- When is FSCS cover triggered?
- What products does FSCS cover?
- Compensation limits

Can we help?

This decision tree shows the process FSCS uses to work out whether we can help you with your claim



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% 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% of the first £30,000 and 90% 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% of the first £30,000 and 90% of the next £20,000 up to £48,000 per person per firm

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% of the claim with no upper limit, • **before 1 January 2010** the maximum level of compensation is 100% of the first £2,000 plus 90% of the remainder
Intermediation	The 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	

We answered **98%** of correspondence within 10 working days

Who may receive compensation?

To receive compensation from FSCS, a consumer must have suffered a financial loss caused by the regulated activities of a firm which has failed

The aim of compensation is to restore consumers to the position they would have been in had the firm not failed and/or if the financial product concerned had not been mis-sold

What we don't cover

- We do not pay compensation because a financial services product, for example, an investment, has not performed as you hoped it would
- We do not take account of any projected shortfall in performance

Case study

Mr Bates – Wills & Co Stockbrokers

Retired farmer Mr Bates came across Wills & Co Stockbrokers Limited by mistake.

"I received a cold call and at first I thought it was my brother's stockbroker Later I realised it wasn't"

Using money from a house sale, Mr Bates invested in low- to medium-risk shares Six months before the firm went bust, Mr Bates realised that he wasn't getting any returns from his investment

"I was hoping to get 4 per cent to 5 per cent back to buy a new car, as my previous one was 18 years old," Mr Bates revealed

It was not until Wills & Co had gone into administration that a Claims Management Company contacted Mr Bates and told him about FSCS

"I didn't even know their services existed I honestly thought that my investment with Wills & Co was gone for ever, so you can only imagine how amazed I was when FSCS helped to get my money back I'm totally ecstatic with the compensation, it's made such a difference to my life I live on a small pension so if it wasn't for FSCS I would have been in a worse financial position than before I invested with Wills & Co"

When asked if he would recommend FSCS to friends and family, Mr Bates said, "Most definitely They have a tremendously impressive service The process only took a month once the papers were in, I can't thank FSCS enough"

The compensation has made such a difference to my life.

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

Key points

- Phase 2 of our awareness programme launched in early 2013 Our messages are emphasising FSCS protection and reassurance to consumers, focusing on deposit protection
- New disclosure rules that came into force in August 2012 require banks, building societies and credit unions to display information about FSCS prominently inside their branches and online
- We continue to work productively with firms to raise awareness and understanding of FSCS protection with their customers
- Independent mystery shopping showed an eight percentage point improvement in spontaneous information about FSCS being volunteered to consumers by firms

5 Raising Awareness of FSCS

We launched the next phase of our awareness programme and worked with the industry on improving awareness about FSCS protection to 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 economic times

Research also suggests that consumers who are aware of FSCS are more confident about 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 79 per cent agreed that FSCS is vital to ensuring public confidence in financial services

Launch of our next phase of awareness work

We launched Phase 2 of our consumer awareness programme in January 2013, it will run until the end of March 2014 Our messages are emphasising protection and reassurance to consumers, focusing on deposit protection Our two key objectives are to ensure that

- in the event of a failure, consumers are reassured and do not panic, and
- those consumers who are at risk because they have savings above the compensation limit, or in unregulated products, are aware of the risk and can make informed decisions

Through our media buying strategy, we target consumers at key stages in their lives when they are likely to be more receptive to our messages for instance, saving for retirement, education or home improvements, or when planning a wedding We are using a range of channels that include radio, digital and press advertising as well as public relations and stakeholder relations, particularly with the industry

Alongside print and digital advertising, there were two weekends of targeted activities with our media partners Associated Newspapers (which owns the *Daily Mail* and *Metro*) and Absolute Radio a retirement-themed weekend in February 2013 and a university-themed weekend in March Activities involved newspaper pull-outs and features, and dedicated radio broadcasts These were developed to engage people emotionally with the protection message, within an environment or subject in which they already had an interest

We have also put an effectiveness measurement plan in place to monitor the awareness programme

Working with the FSA and industry on disclosure

In addition, we worked closely with the Financial Services Authority (FSA) and trade bodies and firms on the new requirements for deposit takers to display information about FSCS These new requirements came into force on 31 August 2012 Going forward, we are working with the FCA and PRA

We firmly believe the industry must play a leading role in promoting consumer awareness and understanding of FSCS

The new rules require banks, building societies and credit unions to display an FSCS sticker or poster prominently inside the branch, and display stickers at teller positions as well as providing an FSCS leaflet to consumers on request and online FSCS developed and produced all these materials for firms after engaging with the industry and working closely with the trade bodies

This work is supported by our poll of MPs, 79 per cent of whom agreed that banks and financial services firms should be required to inform customers of FSCS protection when selling financial products and services covered by FSCS During early 2013, FSCS carried out research on the implementation of the new disclosure requirements and found that more needs to be done to ensure that all firms comply fully with the new requirements The results of the research were shared with the main trade organisations

Awareness message channels

For FSCS's aim to be achieved, we need the industry to play their part in raising awareness and understanding of FSCS protection We appreciate the effort made by firms to amplify FSCS's message through their own communications channels to customers These activities have included, for example

- Barclays featuring FSCS's logo in its advertising;
- HSBC featuring FSCS's protection messages on in-branch radio, delivering six million exposures to date to customers,
- RBS incorporating FSCS's logo in direct marketing reaching more than four million customers, and
- Santander featuring FSCS's protection message prominently on its website

Many of the large insurance firms are also supporting FSCS, by incorporating messages about FSCS's protection in their brochures and materials that go beyond the minimum required by the current regulations We held a successful summit for industry leaders during October 2012, where CEOs or Retail Directors of major firms were addressed by the prospective leaders of the new Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), Andrew Bailey and Martin Wheatley respectively This event was an opportunity to discuss the benefits of FSCS protection and is being followed up through one-to-one discussions between industry leaders and Mark Neale

Improved mystery shopping results

The industry played a key role in Phase 1 of our consumer awareness programme Firms did much to support us, for which we are grateful, and a number are building on the work they have

Mystery shopping results

Question	2003	2007	2010	2011	2012
Spontaneously mentioned FSCS during customer query	21%	30%	42%	50%	**58%**
Mentioned that FSCS was independent	Not asked	5%	10%	14%	**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%	**38%**
Mentioned the compensation limits	18%	20%	39%	45%	**52%**
Clarified that compensation applies per authorisation, rather than per account/brand	1%	Not asked	14%	15%	**16%**

already done We firmly believe the industry must play a leading role in promoting consumer awareness and understanding of FSCS It is a key channel in FSCS's strategy to promote awareness and consumer confidence

The day-to-day contact that firms have with their customers offers an excellent opportunity to give out helpful, accurate information about FSCS to consumers The evidence shows that this information is extremely important while benefiting firms and contributing to financial stability

As the table above highlights, independent mystery shopping research carried out for FSCS during 2012 showed there was an improvement of eight percentage points in the quality of spontaneous information about FSCS being given to consumers, and an increased awareness of FSCS's compensation limits However, while we are pleased at the progress, we also recognise that there is still some way to go and that the industry must play an active role in building awareness of FSCS among their consumers

Over the coming year, we will continue to work closely with the industry and carry out further mystery shopping to monitor progress

Media coverage of FSCS's launch of the consumer awareness programme

There was strong coverage on national and local media about FSCS's consumer awareness programme that launched in January 2013 This included

- **BBC News Your Money**
  FSCS CEO Mark Neale spoke live with Penny Haslam about FSCS's deposit protection and consumer awareness
- **BBC Breakfast**
  Mark Neale spoke live with Steph McGovern about FSCS's deposit protection and limits
- **BBC Radio 4 Money Box**
  Mark Neale spoke with Paul Lewis about FSCS's protection, limits, consumer awareness and funding
- **Regional radio**
  Mark Neale and FSCS's Director of Corporate Affairs, Alex Kuczynski, spoke with regional radio stations about the launch of FSCS's consumer awareness programme, including· Radio Verulam (Hertfordshire), BBC Radio Kent, Sunrise Radio (West Yorkshire), Bolton FM and Pure Radio (Stockport)

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 and, for that reason, we worked with the Financial Skills Partnership to produce an online training module for frontline industry staff which provides training about FSCS including our compensation limits and other information that consumers find useful

We launched the module during the year and it is on the learning management systems of a number of major high street names In addition, we provided a web-based version for the staff of smaller firms to access Staff are able to take a test on the module and receive a certificate for successfully completing the course

Other activities

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 new consumer awareness programme strategy and will continue to be important as we work together to increase awareness of the protection FSCS provides

We also maintained our ongoing public relations work This generated significant amounts of media coverage at low cost For example, stories about PPI and those products that are not covered by FSCS protection, together with a range of other issues, informed millions of people about FSCS coverage and its limits We ensured that this work was consistent with our wider communications strategy and organisational priorities

Continuing dialogue with our stakeholders

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

Case study

Mr and Mrs Lister – Alpha to Omega

In 2008, Mrs Lister, a retired office administrator, and her husband invested in Alpha to Omega (UK) Limited, following their financial adviser's suggestion.

"We trusted him because previous investments had given reasonable returns We had no qualms about joining Alpha to Omega," said Mrs Lister

Choosing a long-term investment, Mrs Lister and her husband planned to use the dividends to pay for future care home fees It wasn't until spring 2009, when Mrs Lister heard from her financial adviser, that she realised that the company had gone into liquidation and her shares were frozen

"It was our new financial adviser who told us about FSCS All I had to do was complete an application form and send it back Their staff were very helpful and kept me updated while they worked on my case"

When asked about FSCS, Mrs Lister replied, "I was very satisfied with the service, it was our lifeline I dread to think what would have happened if FSCS didn't exist. I try not to think about it to be honest, especially as it was the biggest investment we'd ever made Thank goodness for FSCS"

FSCS staff were very helpful.

Media coverage

Over the year FSCS has featured in a wide range of media outlets, from leading broadcasters, such as the BBC, to highly targeted local newspapers and radio stations, from national newspapers to specialist consumer magazines such as *Which?*

In addition to regular communications with a variety of trade media outlets, FSCS has started to increase its presence in social media FSCS staff have also attended conferences and events, as keynote speakers or exhibitors, to ensure that our key audiences are aware of the protection we provide

The following offers a snapshot of the coverage FSCS has received over the year on some of the major stories relevant to our work

May 2012

The media covered consumer concerns about the safety of UK banks as a result of turbulence in Europe Among other outlets, the *Sunday Times* asked its readers 'How safe are your savings in bank accounts abroad?', while MoneySavingExpert com had a Q&A on the safety' of Santander

July 2012

The publication of the 2011/12 Annual Report and Accounts focused attention on the increase in PPI claims compared with the previous year The *Financial Times* reported that 'Mis-sold PPI doubles FSCS claims', while the *Daily Telegraph* wrote that 'PPI causes surge in compensation claims'

August 2012

The launch of a new staff training module, to enable employees of banks and building societies to better inform consumers about FSCS protection, generated widespread coverage in the regional media Among others, it was picked up by the *South Wales Guardian*, *Shropshire Star* and the London *Evening Standard* (Compensation scheme training agreed')

The introduction of new rules obligating banks, building societies and credit unions prominently to display posters and stickers in branches and on websites about FSCS protection came into operation Among a range of media outlets, this story was covered by the *Sunday Times* ('Banks can't afford to ignore this safety net for our money'), *Daily Express*, BBC Radio 4 and BBC Radio 5 Live

September 2012

The five-year anniversary of the collapse of Northern Rock prompted some titles to examine what changes had been put in place since then The *Financial Times* said 'Rock's fall has left millions in a hard place' while Yahoo asked 'Five years on, has anything changed?'

October 2012

The annual IADI conference in London, hosted by FSCS, generated coverage in both the financial and consumer media The London *Evening Standard* reported Mark Neale's suggestion about the benefit of portable accounts in the event of a failure 'Finance chief calls for portable bank accounts' Insurance News Net wrote about the election of 'IADI's new President'

November 2012

The failure of North Yorkshire Credit Union was covered by the regional media The BBC website reported 'North Yorkshire Credit Union collapses', while a number of broadcast interviews were done with local and regional television (e g ITV Tyne Tees) and radio stations

January 2013

The launch of the second phase of the consumer awareness campaign was widely reported from a number of different angles BBC Breakfast asked 'How safe is your money in a credit union?', while interviews also took place with BBC Radio 4's 'Moneybox' and the 'Your Money' show on the BBC News Channel

The *Independent* asked 'How much of your cash is safe if a bank goes bust?', while *City A M* revealed 'Savers are not aware of cash guarantees' and AOL Money revealed 'Britons more cautious over money' Specifically on the campaign, Citywire wrote that 'FSCS launches fresh £3m ad campaign', while MediaWeek revealed the 'partnership with *Metro*, Mail newspapers and Absolute Radio'

February 2013

An analysis of PPI claims in 2012 generated headlines in the national and regional media For example, the *Daily Mail* reported that 'Claims double for mis-sold PPI from companies which have gone bust', while the *Belfast Telegraph* wrote that 'Total PPI claims double in a year'

March 2013

A survey found that households across the country are keeping over £5bn in cash at home Among other titles, this was reported in *The Scotsman* and *Moneyfacts* Separately *Which?* 'Traced the families of the big banking brands and explains how these affect the way your money is protected'

Social media

To broaden our ability to communicate with various audiences, FSCS has created a number of short videos on different issues They can be found on YouTube at www youtube com/fscsprotected FSCS has also established a Twitter account which is used to engage with key opinion formers and to share press releases

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

Key points

- Total compensation paid out in 2012/13 was £326m, down from £347m in 2011/12 Compensation in the General Insurance Provision sector rose to £80m compared with £54 3m in 2011/12 The rise can be mainly attributed to the backlog of employers' liability claims that had built up while awaiting a judgment from the Supreme Court.
- We recovered a total of £777m from the estates of failed firms, including £729m from the major banking failures of 2008/09
- Interest payable on the banking loans in 2012/13 amounted to just over £429m compared with just over £370m in 2011/12 This increase was because of higher interest rates in 2012/13
- The running costs of FSCS in 2012/13 were £58 9m, excluding Welcome and the major banking loans, compared with a budget of £61 6m

6 FSCS Finances: Compensation, Running Costs, Recoveries and Levies

During 2012/13 we continued to handle complex claims in the investment sector, while there was a steep rise in Payment Protection Insurance (PPI) mis-selling claims for the third year running We were successful in pursuing recoveries from Lifemark-backed Keydata products

Overview

This section is divided into the five core strands of our finance work

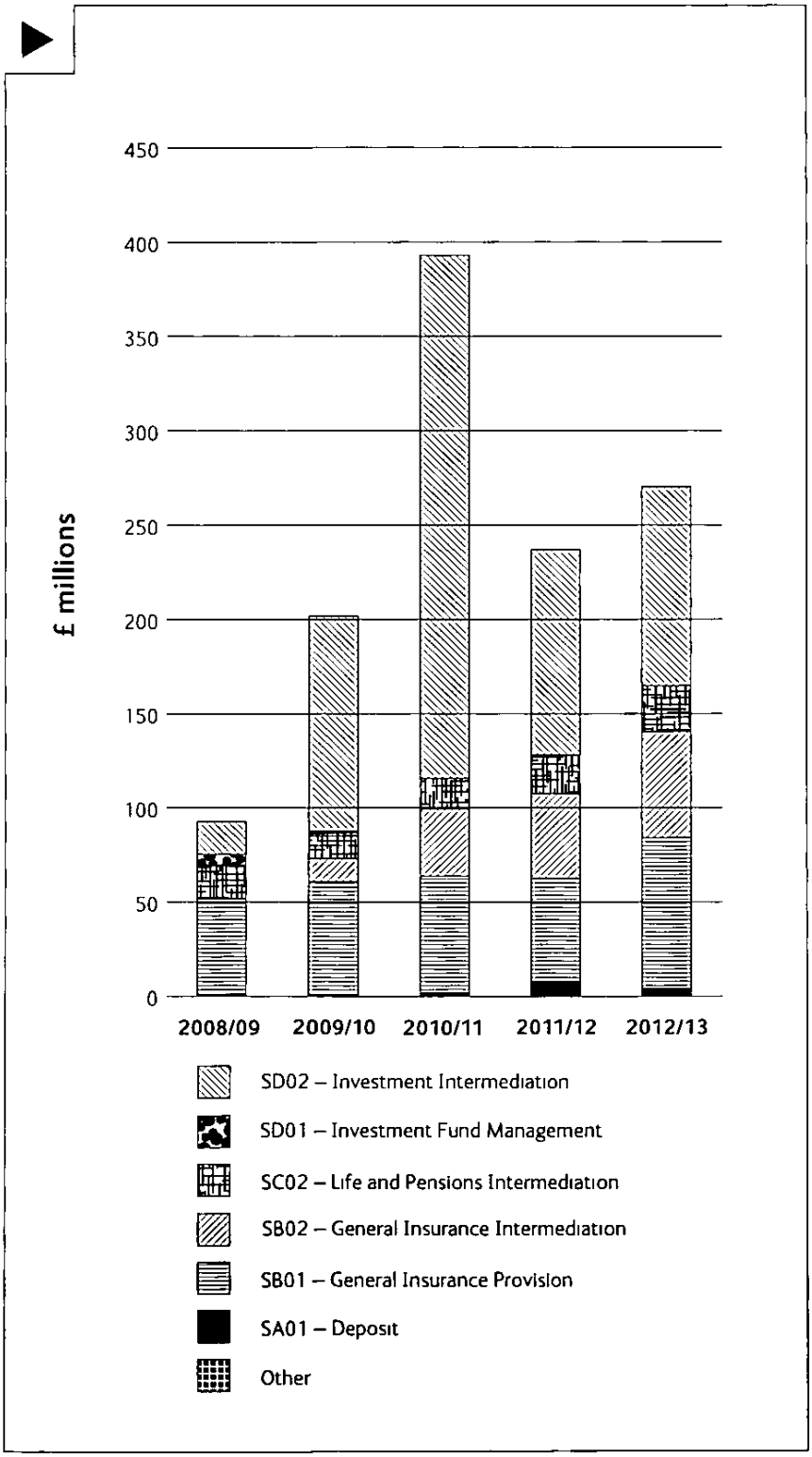
- compensation we paid out, including summaries of the major failures,
- FSCS running costs and management expenses,
- update on the major banking failures of 2008/09,
- recoveries made, and
- what FSCS levied in 2012/13 after taking recoveries into account

Compensation

Between 1 April 2012 and 31 March 2013, FSCS declared 192 firms in default, compared with 274 in 2011/12

FSCS made total compensation payments of £326m in 2012/13, compared with £347m in 2011/12 There was a rise in compensation to £80m in the General Insurance Provision sector This increase was mainly due to a backlog of claims relating to employers' liability insurance that had built up before the Supreme Court's judgment in the Employers' Liability 'Trigger' Litigation

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



Compensation payments by class/sub-class

Funding sub-class	2012/13 (£m)	2011/12 (£m)
Deposits (excluding the major banking failures of 2008/09 and Dunfermline Building Society)	3 5	7 8
General Insurance Provision	80 0	54 3
General Insurance Intermediation	56 4	45 0
Life and Pensions Provision	0 00	0 00
Life and Pensions Intermediation	24 3	20 6
Investment Fund Management	0 1	0 2
Investment Intermediation	105 3	108 8
Home Finance Provision	0 00	0 0
Home Finance Intermediation	0 5	0 3
Sub-total (excluding major banking failures of 2008/09)	**270 1**	**237 0**
Major banking failures of 2008/09	7 3	18 3
Dunfermline Building Society	35 0	50 0
Sub-total	**312 4**	**305 3**
Welcome	13 2	41 4
Total	**325 6**	**346 7**

Update on main PPI-related failures

Our largest workstream during 2012/13, in terms of new claims, has once again been PPI We paid out £56 4m in total compensation for PPI claims (excluding Welcome) We have received a significant number of claims from Claim Management Companies (CMCs) which continue to be active in this type of business Of the total PPI claims received, over half were sent to us from CMCs

We assess all claims on an individual basis and on the available evidence Overall, across all claims areas, the average CMC uphold rate is 78 per cent and the uphold rate for direct claimants is 81 per cent However, with the average FSCS payment being about £4,000, those claimants who use CMCs lose about £1,000 as CMCs can take up to 25 per cent of the compensation that is paid out

Keater Limited (formerly Mortgage Advice Services Limited)

Keater Limited was a General Insurance Intermediation firm dealing in PPI, which was declared in default in December 2010

The firm typically sold short-term policies against long-term mortgage borrowing

Picture Financial Services Plc

Picture Financial Services Plc specialised in selling PPI for mortgages and was declared in default in July 2009 We expect to receive further claims in 2013/14, although volumes are expected to decrease

Wilmslow Financial Services PLC (formerly trading as Freedom Finance)

The main activity of Wilmslow Financial Services PLC was advising on and arranging financial products, including PPI The firm was declared in default in July 2011

Welcome Financial Services Limited (Welcome)

Welcome was declared in default in March 2011, having mis-sold a large number of PPI policies However, an innovative scheme agreed with the firm and its creditors allowed Welcome to cover the costs of compensating claimants and processing the claims We do not envisage FSCS's levy payers funding costs relating to PPI claims against Welcome

FSCS has paid out £13m to Welcome claimants in 2012/13 This is in addition to the £41 4m paid out in 2011/12 These sums, together with the claims processing costs, were met under the arrangement put in place with Welcome

The total number of Welcome customers who have received compensation is now over 70,000 Claims volumes have reduced considerably over the past year and it is expected that numbers will decrease further in 2013/14

PPI claims related to major failures in 2012/13

Firm	Claims received	Decisions	Claims upheld	Compensation paid (£m)
Keater Limited	1,895	2,536	94%	£7 8
Wilmslow Financial Services PLC	2,690	2,700	69%	£7 3
Picture Financial Services Plc	2,435	2,062	89%	£16 2

General Insurance claims

Total compensation paid was more than £80m, an increase of £26m from 2011/12

Employers' liability policies issued by Chester Street Insurance Holdings Limited accounted for £46m, the largest share of compensation payments in the General Insurance sector

We received notification of 10,766 new claims in 2012/13 This is an increase of 3,569 compared with 2011/12 and is largely due to claims relating to noise-induced hearing loss (NIHL) across many estates The figure also includes around 800 claims from the failure of Lemma Insurance Company Limited in October 2012 (see below)

Lemma Europe Insurance Company Limited (Lemma)

Lemma is registered in Gibraltar but provided domestic and commercial property and liability insurance in the UK The firm had traded in the UK since January 2008 but the regulator in Gibraltar removed its permissions in August 2012 Partners in Grant Thornton were appointed as the provisional liquidators by the Supreme Court in Gibraltar in September

FSCS declared the firm in default in October 2012 and we have been working with the liquidators and their agents to manage the run-off of insurance claims against Lemma There are believed to be around 800 protected claims The majority of these are solicitors' professional indemnity claims Current indications are that protected claims might cost in the region of £25m

EL Trigger Litigation

At the end of March 2012, the Supreme Court gave its judgment on what is known in the insurance industry as the EL Trigger Litigation *

This litigation considered the allocation of mesothelioma claims under employers' liability policies and involved a number of insurers in both solvent and insolvent run-off, as well as policyholders and the life insurance market

The scheme administrator and provisional liquidator, on behalf of the insolvent estates of Builders' Accident Insurance (BAI) and Independent Insurance Company Ltd (IICL), respectively disputed coverage for historic mesothelioma claims under policies issued by BAI and IICL Pending the outcome of the litigation, claims under the affected policies had not been submitted to FSCS for payment since the second half of 2006 The Supreme Court found against the scheme administrator and provisional liquidator and consequently the estates were required to accept the mesothelioma claims as valid

During 2012/13, the backlog of claims now known to be covered was submitted to FSCS for payment A measure of the impact on compensation levels is most keenly reflected on the BAI estate where compensation in 2012/13 was at £24m compared with just under £2 5m in 2011/12 Compensation payments for IICL claims were £7 1m in 2012/13

* Employers Liability Policy 'Trigger Litigation Neutral Citation Number [2008] EWHC (QB) 2692 (the EL Trigger Litigation)

Update on high-profile investment failures

Municipal Mutual Insurance Limited (MMI)

FSCS's predecessor, the Policyholders' Protection Board (PPB), agreed to support MMI policyholders in 1993 and signed up to a 'Scheme of Arrangement in waiting' at that time

Since then, MMI has been able to run off its liabilities in a solvent manner, but as a consequence of the EL Trigger litigation, the scheme administrator assessed MMI's position and concluded that it could not maintain its solvency In November 2012, the administrator activated the Scheme of Arrangement

FSCS is bound by the actions of the PPB and we are now engaged to protect policyholders under the Scheme of Arrangement We expect that the firm will continue to handle and pay protected claims and that FSCS will reimburse the firm for those claims, but with MMI sharing the costs

As MMI ceased underwriting in 1992, it is not expected that any private individuals will need to make claims However, there will be claims by policyholders under historic employers' liability policies for injuries to their employees

MMI provided employers' liability insurance predominantly to local authorities and other public bodies, so most of these policies will not be protected because the policies were not a compulsory insurance for these bodies However, there will be a limited number of claims from policyholders who were not local authorities

MF Global Limited

On 31 October 2011, MF Global was the first firm to be placed into default under the Special Administration Regime, which came into force in February 2011

FSCS has continued to work closely with the special administrators and has resolved a number of issues during 2012/13 Claims are for the return of client funds held by MF Global at the time of its failure FSCS issued approximately 6,500 application forms and has received around 2,800 claims

WorldSpreads Limited

WorldSpreads was placed into Special Administration on 18 March 2012

WorldSpreads specialised in Contracts for Difference and spread betting financial products with branches in South Africa, Israel, Sweden, Denmark, Spain, Germany, France and Greece It had around 15,000 clients, although at the time of default only about 3,000 were active

As WorldSpreads dealt mainly with their clients online, FSCS issued some 4,000 application forms by email, using the firm's database for their clients' contact details

CF Arch Cru Funds

The Arch Cru Funds represent two Open Ended Investment Companies (OEICs), which are umbrella companies for six sub-funds The sub-funds were substantially invested in a combination of 21 cell companies incorporated in Guernsey, which in turn were invested in various assets The cell companies were suspended from dealing on 13 March 2009 because of liquidity problems FSCS has received claims for the mis-selling of the investments

In June 2011, the FSA announced a £54m settlement with various firms involved in the Arch Cru Funds, and payments under this scheme are being made

Because funds were suspended, investors have not been able to realise their funds and so cannot crystallise losses As there appears to be value in the funds, FSCS has decided to meet eligible claims on an interim basis, applying a reduced value to the returned investment but providing for a top-up payment on completion of the wind-down process of the underlying assets, which is expected to run until 2015

In April 2012, the FSA launched a three-month consultation on establishing a Consumer Redress Scheme for Arch Cru Funds investors Under the proposed scheme, Independent Financial Advisers who advised clients to invest in Arch Cru Funds would be required to follow a scheme to decide if sales were unsuitable, and then use an online calculator to determine any redress payable The FSA subsequently confirmed the redress scheme would become effective from 1 April 2013 FSCS is bound to follow the redress scheme from this date and will use the calculator to determine any redress payable on a full and final settlement basis Claims previously paid on an interim basis will not be reassessed but, where applicable, will still be eligible for a top-up payment

Keydata Investment Services Limited (Keydata)

Claims received against Keydata continued throughout the year, although in far lower volumes than in recent years A modest number of new claims is forecast for 2013/14

Pritchard Stockbrokers Limited

Pritchards was a stockbroker on an advisory, execution-only and discretionary basis The firm entered the Special Administration Regime, which came into force in February 2011, as a result of a shortfall in client funds

The majority of claims relate to a 'return of funds' These were pooled client funds held on behalf of clients by the firm FSCS issued around 5,500 applications

Summary of high-volume investment sector claims

Firm	Claims received	Decisions	Claims upheld	Compensation paid (£m)
MF Global	2,800	2,393	92%	£29 6
WorldSpreads	3,819	3,789	99%	£16
Pritchards	2,564	2,149	97%	£6 5
Arch Cru Funds	1,554	1,431	94%	£25
Keydata	119	149	94%	£1 8

FSCS running costs and management expenses

FSCS aims to control its management expenses in order to reduce the costs we impose on the industry Those costs and 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 was set annually by the FSA after consultation It limits the amount FSCS can levy in respect of management costs each year

From 1 April 2013, the FCA and PRA will set a MELL, after consultation The MELL will no longer cover the interest costs on the HM Treasury loans made to FSCS to meet the costs of compensating depositors following the major banking failures of 2008/09 From 2013/14, these interest costs will be attributed as a compensation cost on the Deposit class

The MELL for 2012/13 was set at £1bn The MELL was based on a forecast budget expenditure of £437m and allowed for interest rate increases for the banking loans The actual management expenses amounted to £489m and included interest costs of £436 4m on the loans made by HM Treasury to FSCS following the major banking failures of 2008/09

Management expenses: comparison of actual to budget	2012/13 Actual (£m)	2012/13 Budget (£m)	Variance H/(L) (£m)
Employment costs	12 5	13	(0 5)
Other staff costs	4 1	2 5	1 6[1]
Total staff costs	**16 6**	**15 5**	**1.1**
Outsourcing	14 6	14 6	0 0[2]
Other expenses	19 1	16 4	2 7[3]
Sub-total management expenses (excluding change programme and major banking failures)	**50 3**	**46.5**	**3.8**
Change programme	8 6	14 6	(6 0)[4]
Sub-total running costs	**58.9**	**61 1**	**(2 2)**
Management expenses related to 2008/09 major banking failures	0 9	1 1	(0 2)
Sub-total management expenses (excluding interest on loans related to major banking failures)	**59.8**	**62.2**	**(2 4)**
Interest on loans related to 2008/09 major banking failures	429 4	375 1	54 3[5]
Total management expenses*	**489 2**	**437 3**	**51 9**
**Excluding expenses related to Welcome Financial Services Limited*	*3 6*	*2 4*	*1.2*
	492 8	***439.7***	***53 1***

Notes on major variances

1 Other staff costs were higher than budget as a result of recruitment costs and a higher than expected number of contractors who worked on key projects to improve our processes and systems This work included the Connect and finance transformation programmes data upgrades and management of our electronic records

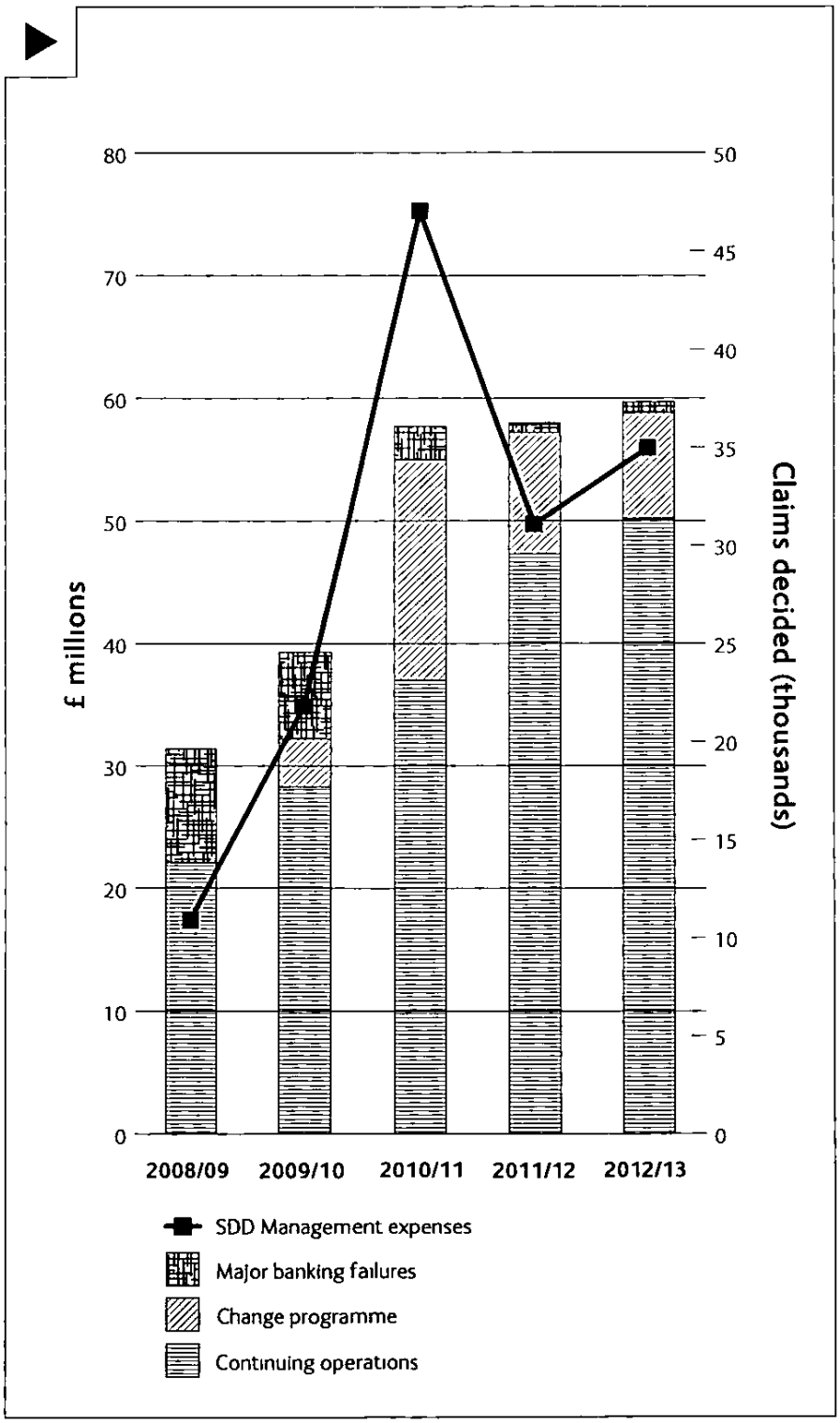
2 Outsourcing costs were in line with budget with higher PPI levels offset by lower volumes for Pritchard Stockbrokers and lower expenses for the Home Finance sector

3 Other expenses were less than budget as work to re-provision our cheque providers and the independent insurance run-off agent was deferred into the next financial year

4 Change programme costs were significantly below budget because of the deferral of project expenditure and a lower than expected drawdown against contingency

5 Interest on the loans relating to the 2008/09 major banking failures was higher than budget as the 12-month LIBOR rate was higher than expected

Management expenses (excluding Welcome and loan interest on major banking failures). 5-year trends



FSCS running costs

The running costs of FSCS in 2012/13 were £58 9m, excluding Welcome and the costs associated with the major banking failures of 2008/09, compared with a budget of £61 6m

We strive to minimise our costs and, alongside pursuing recoveries, we look to increase our efficiency and streamline our processes Key to meeting these aims is our use of outsource partners to handle the large majority of claims we receive, enabling us to respond flexibly to changes in our workload For example, the great majority of PPI claims have been dealt with by FSCS's outsource partners

The five-year trends graph shows a full breakdown of management expenses against the number of claims we handled

Update on the major banking failures of 2008/09

FSCS was instrumental in protecting the deposits of more than four million customer accounts following the failures 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)

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

During 2012/13 we continued to make good progress in paying the few outstanding claims on the fixed-term deposits held to maturity by depositors, paying out £9 5m, of which £7 3m was paid on FSCS's own behalf and £2 2m on behalf of HM Treasury

Cost of funding the banking failures

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

As explained in our 2011/12 Annual Report and Accounts, interest has been payable since 1 April 2012 at the rate of 12-month LIBOR plus 100 basis points (1 per cent), adjusted monthly, or the relevant gilt rate (if higher)

The amount outstanding on these loans as of 31 March 2013 is a little over £17bn The interest payable in 2012/13 amounted to just over £429m compared with just over £370m in 2011/12 This increase was because of higher interest rates during 2012/13

For 2012/13, the interest on these borrowings was defined as a 'specific' cost within FSCS's management expenses The interest payments were funded through levies on firms in the Deposit class only

Banking and building society failures 2008/09, compensation and recoveries

Firm	Total compensation paid to date (Note 2)	Recoveries as at 31 March 2013	Prospects of future recoveries
B&B	£15 655m	Nil	B&B s management forecast full repayment of FSCS's loan but timing remains uncertain FSCS is working with B&B, UK Financial Investments Limited and HM Treasury on this issue
Heritable	£465m	Received dividends of £360m (77%)	Expect total dividends between 86% and 90%
KSF	£2,589m	Received dividends of £1,980m (76%)	Expect total dividends between 84% and 86 5%
Icesave	£1,434m	Received dividends of £713m (50%)	Expect total dividends of approximately 100%
London Scottish	£239m	Received dividends of £80m (35%)	Expect total dividends of approximately 50%
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 £540m

Update on Dunfermline Building Society

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

FSCS has an obligation to contribute to the costs of the DBS resolution plus interest but after recoveries The contribution will be discharged through levies on the Deposit sector

Based on the best information available to the directors, the DBS provision brought forward from 2011/12 of £505m has been increased by £35m for the year to 31 March 2013 to £540m However, the outcome may be different and the final amount, once agreed, may potentially result in an adjustment to the provision

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 of compensation to levy payers The approach to recoveries 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 There is more about our recoveries policy on our website

In 2012/13, we recovered £777m from the estates of failed firms, including £729m in recoveries from the major banking failures of 2008/09

Keydata recoveries

We have actively pursued recoveries relating to investment firm failures, most notably Keydata

FSCS's court proceedings against a large number of IFA firms in connection with the sale of Keydata products are continuing The proceedings were stayed for a period of 12 months to allow the parties to complete various preliminary administrative tasks and, where appropriate, engage in settlement discussions To date, FSCS has settled claims with a number of defendants for a variety of reasons The terms of these settlements are confidential The remaining parties are still subject to the legal proceedings and, as FSCS remains confident of its position, we will continue to pursue the claims through the court process

Case Management Conferences in the Keydata Lifemark and Keydata SLS-related proceedings took place in the last week of March 2013 The court gave directions for preparations for trial at these hearings, and the proceedings will now continue with procedural steps such as disclosure of documents and service of defences

Lifemark SA update

Our involvement in the issues arising from the failure of Lifemark SA is drawing to a conclusion following the enforcement of the security held over Lifemark SA's assets by the Trustee on behalf of its creditors

Short-term liquidity funding provided by FSCS to preserve the assets following enforcement has now been repaid by the Trustee from the proceeds of a competitive sale of the assets The sale proceeds, combined with other maturities, which have been collected by the Trustee during the enforcement period, will enable some recoveries to be realised These recoveries will fall some way short of the original investment value (the Trustee of the assets has issued a public notice stating that the expected returns will be approximately 14 per cent of the capital invested), but will be substantially higher than would otherwise have been the case without FSCS's intervention
See case study

Recoveries from insurance estates

We recovered around £19m for the year from General Insurance estates, including more than £10m from Drake Insurance, £6m from KWELM and £1m from Chester Street A further significant dividend is expected from Drake Insurance during 2013/14

Recoveries from the major banking failures

During 2012/13, FSCS made recoveries totalling £729m against its costs in the form of dividend payments from the insolvency practitioners in four of the banking failures, namely

- £282m from Icesave,
- £373m from KSF,
- £39m from Heritable, and
- £35m from London Scottish

This brings the total recoveries from the major banking failures to almost £3 2bn since 2008 We have received good levels of interim recoveries in the administrations of KSF and Heritable (recoveries to date now total 76 per cent and 77 per cent of the original compensation amount respectively) We have also received dividends totalling 35 per cent from London Scottish, and also a first dividend of 45 per cent on Southsea Mortgage and Investment Company Limited (a 2011 banking failure)

Icesave

Following the October 2011 judgment by the Icelandic Supreme Court upholding the priority status of depositor creditors, including FSCS, we have received two further distributions during 2012/13, amounting to some £282m in aggregate This takes our total recovery to date to about 50 per cent of the value of the claim

Bradford & Bingley plc recoveries

The largest of the banking failures involving FSCS, B&B, accounts for the majority of FSCS's borrowing Although no recoveries were made from the bank in 2012/13, its management continues to forecast a full repayment of the amount of FSCS's claim

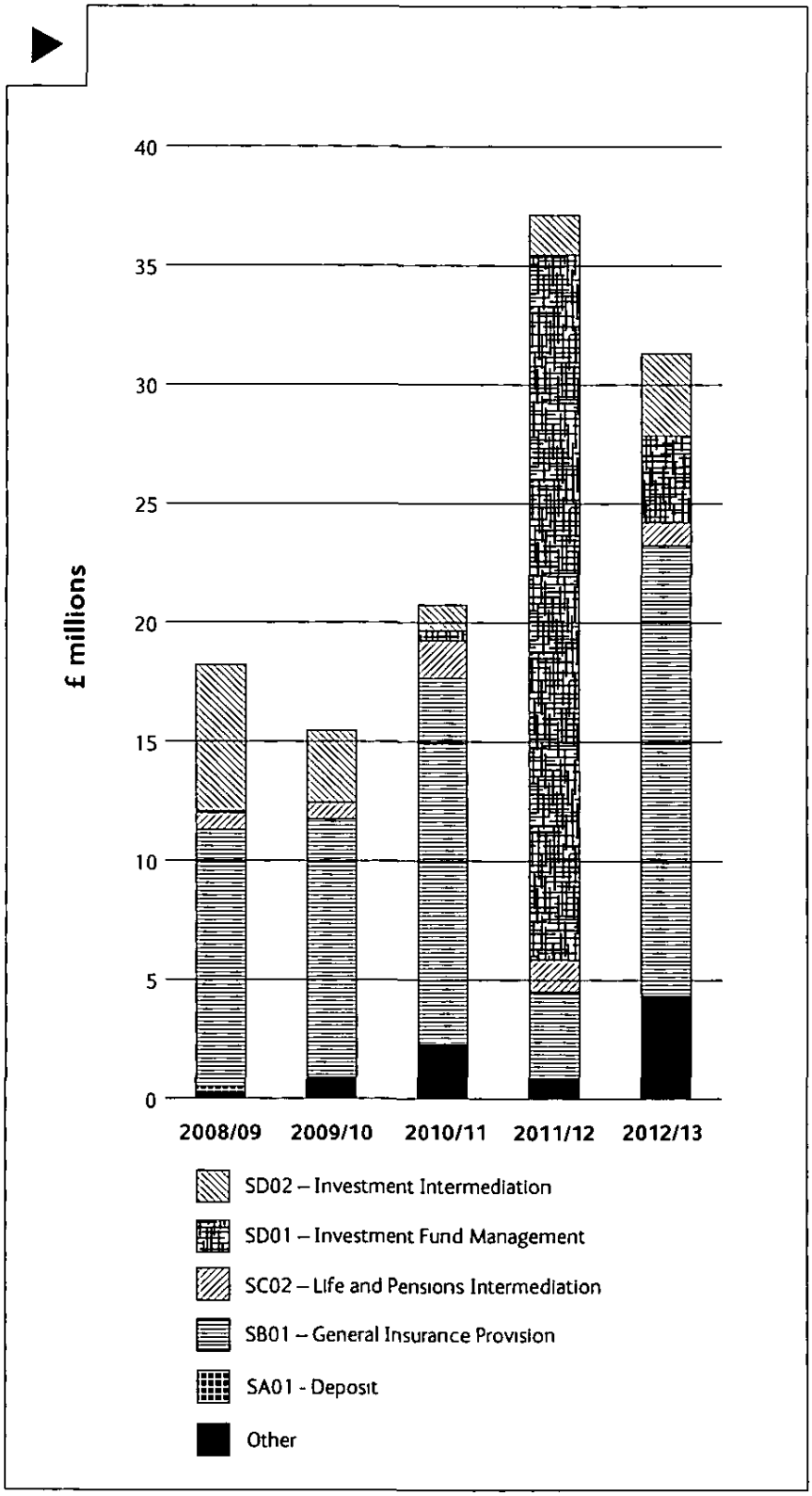
B&B is currently in public ownership and continues to run off its existing mortgage assets The precise timing of the recovery remains uncertain and could be over many years We are closely monitoring the situation and reviewing progress with HM Treasury and UK Asset Resolution, which manages the Government's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

Repaying the non-B&B loans

FSCS's current intention, which will continue to be reviewed in the light of future recoveries and market conditions, is to repay the remainder of the principal on the non-B&B loans (not recovered from the banks), estimated to be around £1 1bn over the next three years, by levying the deposit-taking class in three, roughly equal, instalments

The first instalment will be levied in 2013/14 FSCS will confirm the amount later in 2013

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



Case study

How FSCS pursued Lifemark recoveries

As the assignee of investor rights, FSCS has worked hard to pursue recoveries from Lifemark

The context

Lifemark was a Luxembourg-regulated securitisation vehicle Keydata invested customers' money in, among other products, about $605m of Lifemark bonds within a complex security structure overseen by a Trustee Lifemark, in turn, used this money to acquire a portfolio of US senior life settlement policies

However, maturities from the life settlement portfolio fell short and Lifemark was placed into 'provisional administration' in November 2009 by the Luxembourg financial services regulator, the CSSF KPMG was appointed as provisional administrator with a mandate from the Luxembourg Court to restructure Lifemark

FSCS makes short-term loan to assist a controlled process

In line with its recoveries remit, FSCS committed substantial resources to understand and assess what recoveries would be both 'reasonably possible' and 'cost-effective' to achieve It was clear at an early stage that the net realisable value of Lifemark's life settlement portfolio was substantially below the face value of the Lifemark bonds

FSCS committed substantial resources to understand and assess what recoveries would be both 'reasonably possible' and 'cost-effective' to achieve

During the first two years, the provisional administrator failed to present any restructuring proposals to the creditors At the same time, the provisional administrator disposed of some life settlement policies to third parties and used the proceeds, together with any proceeds from policy redemptions, to pay Lifemark's short-term costs By December 2011, Lifemark's provisional administrator indicated that there were no further funds available It was clear that there was a real risk that, due to the lack of liquidity in Lifemark, the life settlement policies would permanently lapse and little, if any, value would be realisable from Lifemark's remaining assets for Keydata investors, including FSCS (by virtue of assignments taken from investors who had received compensation)

Proposals for a controlled liquidation

During the second half of 2011, discussions were held to consider possible restructuring solutions The Trustee, provisional administrator, swap counterparty, FSCS, certain creditors and the CSSF participated at various points The outcome of this lengthy process was to put forward a consensual and 'controlled liquidation' of the life settlement portfolio, with a view to ensuring a managed sale process to maximise recoveries for all parties

In December 2011, FSCS made a short-term loan to Lifemark's provisional administrator to meet essential costs in order to preserve Lifemark's remaining assets and give the provisional administrator more time to put proposals to creditors for a 'controlled liquidation' This process led to a first bondholders' meeting and a vote being called for February 2012, but this had to be cancelled and reconvened due to certain deficiencies with the circulation of the notices and voting proxies

In the reconvened meeting, the bondholder creditors gave their approval for the controlled liquidation proposal The Trustee then obtained a ratification of this proposal, and the ability to take actions to implement the proposal, from the UK Court in May 2012 At about this time, Lifemark repaid the loan from FSCS in full

Also in May 2012, the Luxembourg Court placed Lifemark into 'judicial liquidation'

However, despite months of discussions, the Trustee and Lifemark's court-appointed liquidator were unable to agree terms on which to conduct a 'controlled' realisation of Lifemark's assets

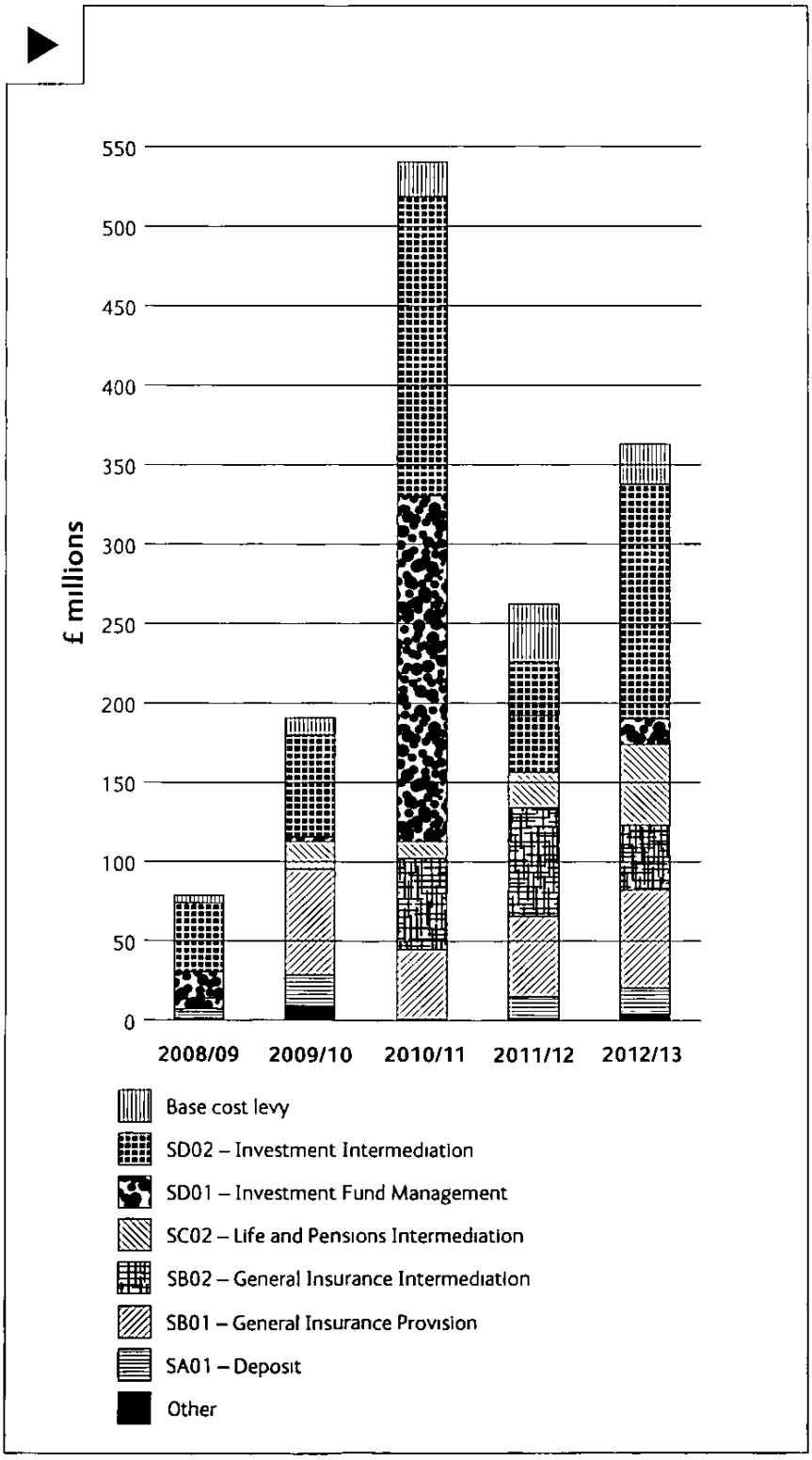
Enforcement over the Lifemark assets

In view of the failure to agree terms, FSCS again engaged in discussions with the Trustee and other interested parties to enforce the security held over Lifemark's assets so as to remove those assets from the liquidation FSCS provided a short-term loan which enabled the Trustee to take the required action to enforce security If FSCS had not intervened, it is likely that Lifemark's assets would have lapsed entirely and no value would have been realised for its creditors The short-term loan from FSCS was repaid in full

The Trustee is now completing the realisation of Lifemark's former assets and implementing arrangements for the distribution of proceeds to Keydata investors, which, while anticipated to be well below the original value of their investment, should still generate a materially better recovery than would otherwise have been the case with no intervention by FSCS

Separately, FSCS is also in the process of taking action to recover damages from those third parties who recommended and/or arranged the sale of investments involving Lifemark bonds to those claimants who have been compensated by FSCS

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



What FSCS levied in 2012/13

In 2012/13, FSCS was primarily funded by an annual levy paid by financial services firms in five sectors

- Deposit taking (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 However, we face a high degree of uncertainty about the likelihood and timing of possible failures, and the volumes, types and timing of the claims that arise This means that when claims exceed our forecasts, we may also raise an interim levy during the year However, we seek to reduce the costs to levy payers by recovering as much money as possible (for example, from the estates of failed firms) Our levies, therefore, may take into account the recoveries we expect to achieve during the year concerned We also have access to borrowing if needed

During 2012/13, levies received totalled £726m This amount includes an interest cost levy for the major banking failures of 2008/09 of £363m

Two interim levies during the year

As a result of the higher than expected cost of claims during the year, FSCS issued interim levies of £20m against firms in the Investment Intermediation class and £16m against firms in the Insurance Intermediation class towards the end of 2012/13 The Insurance Intermediation levy was a result of increased PPI claims in the year

The Investment Intermediation levy was to meet the costs of the claims for the failures of Pritchards and WorldSpreads, as well as the ongoing costs of MF Global and Arch Cru Funds claims

Interim levies were required to ensure that FSCS had the funds to pay compensation to July 2013 As our annual levy becomes payable from 1 July, the element of our levy which covers compensation costs is based on a 1 July to 30 June year

FSCS's funding arrangements under the new regulatory regime took effect from 1 April 2013 There is more information about these arrangements in Section 7

We aim to be ready to respond to defaults in the financial services industry to protect consumers and financial stability

Key points

- FSCS completed the requirements phase of its re-engineering programme, which will provide an online claim facility for consumers and enable us to scale-up our service quickly and cost-effectively in response to big failures
- We upgraded our finance systems so they are fit for purpose
- We have developed and tested our contingency plans for deposit and life insurance failures as part of an enhanced approach to risk management
- FSCS prepared for regulatory reform during 2012/13 Under the Financial Services Act 2012, FSCS is accountable to two new bodies, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), which replaced the FSA on 1 April 2013
- A new funding model for FSCS was agreed after extensive consultation with the industry, to take effect from 2013/14
- FSCS hosted the International Association of Deposit Insurers (IADI) Annual General Meeting and Conference

7 Enhancing FSCS Capabilities

Overview

FSCS must not only provide a responsive and efficient service to its stakeholders in the here and now, but also ensure that it is equipped to respond effectively in future to a wide range of eventualities We do this by

- investing in our business to ensure that it can scale-up to meet future crises with no detriment to service standards,
- undertaking contingency planning so that we have robust plans to respond to future failures, including systemic crises when FSCS's ability to do its job will be an important factor in maintaining financial confidence and stability, and
- working with our partners in government and the regulators to ensure that FSCS operates within a framework of rules and accountabilities to facilitate the delivery of an efficient and responsive service

This section is divided into three parts relating to our work on enhancing FSCS capabilities

- Investing in our business,
- Stronger risk management and contingency planning, and
- Preparing for regulatory reform

Investing in our business

We have invested in a range of projects during the year to help us improve our services to the consumer and the industry FSCS takes its commitment to providing a high-quality and cost-effective service very seriously

New electronic system for deposits

We were unable to introduce the new electronic system for deposits to provide additional scale and capacity for payments during 2012/13 as planned

Upgrading our ability to deal with all types of claims

How claimants experience FSCS is of primary importance to us and is encapsulated in our mission to provide a responsive and efficient claims process We have already put in place a faster payout capability for bank, building society and credit union failures and are now upgrading our ability to deal with other types of claims There were three main workstreams that underpinned our investment strategy over the year, aiming to drive forward significant improvements for all our stakeholders, including our consumer awareness programme which is discussed in more detail in Section 5

We have invested in a range of projects during the year to help us improve our services to the consumer and the industry

"

FSCS takes its commitment to providing a high-quality and cost-effective service very seriously

Responding effectively the Connect Programme

The Connect Programme aims to deliver a more efficient, effective and consumer-focused claims handling process that will benefit both the industry and consumers For consumers, this will include a new facility to complete claims online This, in turn, will underpin a more consistent and streamlined process to make it easier for FSCS and our outsource partners to handle failures of all kinds Over the year, we moved from defining the detailed requirements to the design and delivery phase

Responding efficiently finance transformation programme

This programme was designed to improve the services which our finance function provides both externally and internally We upgraded our systems during 2012/13, while improving our internal processes, including financial controls and budgeting and forecasting This is not only important to the efficiency and effectiveness of FSCS in the future, but also plays a part in helping us to improve our transparency to levy payers

Credit unions in Northern Ireland covered by FSCS

Northern Ireland credit unions are now covered by FSCS During the year we carried out an exercise to make sure that the credit unions were fully aware of all our data requirements This was part of our wider efforts to engage with Northern Ireland credit unions about the protection FSCS provides for their members

Improved data handling

We launched a programme to improve significantly how we hold and retrieve data so that we can be confident that data is held efficiently to enable us to respond more effectively

Stronger risk management and contingency planning

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

- large business failures,
- simultaneous multiple failures,
- failures of firms dealing in complex structured investment products,
- overseas/cross-border failures, and
- changes in technology and operations

Enterprise approach to risk

To maintain 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 has been rolled out to all 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

Review and oversight

All risks are kept under active management and are subject to frequent review by FSCS's Executive Committee They are also subject to oversight and challenge quarterly by the Audit Committee and at six-monthly full Board reviews Governance will be further enhanced with the launch of a Risk Committee early in 2013/14 FSCS also carries out internal audits of the risk management function

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

Building contingency planning

FSCS's ability to protect consumers depends on its effective integration into the wider regulatory structure and, in particular, into planning arrangements by government and the regulators for the future resolution of failing businesses

As part of this work, we have introduced a testing and exercising plan to ensure that we and our partners are well prepared for the scenarios that are most likely to come our way Among other internal exercises, the FSCS Board participated in a two-day simulation about the failure of a fictitious life insurance company, and we and our partners in government, the regulators and other industry experts were involved in a deposit scenario simulation

Both exercises were very useful and offered the chance for open conversations about both the strengths and weaknesses of FSCS's plans and the wider environment in which we would be expected to operate

Contingencies Planning Committee

All this work has been reviewed and challenged to date by FSCS's Contingencies Planning Committee In 2013/14, oversight will be undertaken by the Risk Committee ensuring that the governance structure enables us to consider our contingency planning arrangements and the current state of readiness in context with all risk exposures

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

Case study

Building our contingency planning

In September 2012, the FSCS Board, as part of its away-day activities, took part in a simulation exercise of a fictitious life insurance failure This enabled better understanding of the challenges FSCS would face if a life insurance company failed.

Why we did it

Although we did not expect a life insurance company to fail, if such a failure did happen, FSCS would want to respond effectively to reduce the impact on consumers We would seek to ensure continuity of insurance, the continuation of benefits falling due and, if required, compensation payments to policyholders who might be relying on the failed firm for income

How we prepared

The scenario was developed using internal and external experts Background briefing papers were prepared to remind the Board of FSCS's obligations in the event of such a failure and to identify the contingency planning completed to date FSCS's Executive Committee members were briefed in advance so they could inform the Board about any operational, legal and financial issues as they arose

Snapshot of what happened

Day One We asked the Board to assume the failure was not yet in the public domain and to bring their particular expertise to the scenario by playing the role of executive advisers They were asked to discuss the failure and prepare a suitable briefing note for the Government and regulators to explain the actions FSCS was taking Later on, the Board was informed that the BBC's Business Editor was reporting on the failure and FSCS was being inundated with enquiries The Board spent time reviewing FSCS's proposed communications strategy and key messages

Day Two The Board was asked to revert to their usual capacity and consider a range of policy-related decisions, including how the Board would react in the face of a major systemic uncertainty which directly affected policyholders and levy payers

Lessons identified

A number of valuable lessons were learned Some related to the broader environment in which we operate, while others were concerned with rule changes that would be required The lessons for FSCS included the importance of clear and concise communications

Future plans

We shall identify further areas for contingency planning testing and exercises in 2013/14

Preparing for regulatory reform

FSCS needs to be ready to respond to the legislative changes which affect the financial services industry During 2012/13 we have continued to prepare for the provisions of the Financial Services Act 2012, which has introduced major changes to the UK financial regulatory sector

The Act came into force on 1 April 2013, creating two new regulatory bodies which replaced the functions of the Financial Services Authority (FSA)

- the Prudential Regulation Authority (PRA), which is 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 supervises all firms, with a particular focus on protecting consumers and ensuring market integrity The FCA also has prudential regulation responsibility for those firms not included in the PRA remit

Under the new regime, FSCS is accountable to these bodies Memoranda of Understanding were published between FSCS and the PRA and the FCA We will also continue to work closely with both organisations on matters relating to consumer protection and relevant policy issues

There was a consultation about FSCS's funding arrangements during the year which incorporated the necessary rule amendments to reflect the effects of the regulatory changes

Independent Commission on Banking – new duties for FSCS

The Government has already committed to reforming the structure and supervision of the banking sector by taking forward recommendations from the Independent Commission on Banking The draft legislation also addresses FSCS governance by proposing two new statutory duties first, FSCS must have regard to its efficiency and effectiveness, and second, FSCS must have regard to the need to minimise public expenditure in carrying out its functions FSCS believes both proposed new duties align well with our existing aims

European legislation – proposals for banking and non-banking sectors

During 2012/13, there were a number of UK, European and international consultations and exercises considering resolution and crisis management options for the banking and the non-banking sectors

The European Commission moved forward a legislative proposal for bank recovery and resolution The proposed framework sets out the steps and powers to ensure that bank failures across the EU are managed in a way that avoids financial instability and minimises costs for taxpayers

The proposals consider the following

- Preparation and prevention – considering banks' recovery and resolution planning as well as obstacles to resolvability
- Early intervention – early supervisory intervention to ensure that financial difficulties are addressed as soon as they arise
- Resolution powers and tools – harmonised resolution tools and powers, together with resolution plans prepared in advance, so that national authorities in all the member states have a common toolkit
- Resolution funding – source of resolution funding and a target fund proposed equal to 1% of covered deposits in 10 years

FSCS has also been working on potential legislative changes contained in the proposals for a revised Deposit Guarantee Scheme Directive If accepted, the proposals are expected to change the funding model for deposit protection schemes across Europe, including FSCS, with the pre-funding of schemes a possible option

FSCS continues to work with the relevant UK authorities and its European counterparts on pertinent developments

Fostering international relations

FSCS continues to foster close relationships with its international counterparts

FSCS is a member of the International Association of Deposit Insurers (IADI) and the European Forum of Deposits Insurers (EFDI) FSCS is active in both IADI and EFDI, and we were proud to host the IADI 10-year anniversary conference for its Annual General Meeting

Over 200 delegates from across the globe attended the event in October 2012 Prominent speakers included the Rt Hon Greg Clark MP, Financial Secretary to the Treasury, Paul Tucker, Deputy Governor of the Bank of England, and Andrew Bailey, now Chief Executive of the PRA The conference examined the role of deposit insurers and the relationship of schemes in the financial safety net

FSCS has also worked with European colleagues through EFDI, in particular the EU members

Over the year, FSCS has also developed its contacts with a number of overseas insurance guarantee schemes, both in Europe and beyond, and hopes to build on those discussions in the next year

FSCS's new funding model

As outlined in Section 6, our accountability to our stakeholders and commitment to keep costs to a minimum remain key priorities However, while we recognise the impact that levies can have on the industry, our overriding duty is to make sure that we have the money to pay compensation claims to consumers as they fall due

An extensive FSA consultation with the industry during 2012 was carried out against the backdrop of the proposed legislative changes and to reflect the new regulatory arrangements FSCS's new funding arrangements were introduced on 1 April 2013 The consultation was a valuable exercise and under the new system we will strive to provide as much transparency, certainty or forewarning as we can to firms about the potential costs of compensation

New thresholds based on affordability and funding need

The change in the relationship between how classes are grouped has changed, moving from a provider/distributer connection to a split between the PRA and the FCA The PRA funding classes are standalone

Through the introduction of a new FCA retail pool, each FCA FSCS funding class will continue to fund the claims arising within their class However, if the Investment Provision class reaches its threshold, support will be available from a £790m retail pool funded by the FCA FSCS Intermediation classes (see Chart 1)

However, if the threshold of one or more of the FCA FSCS Intermediation classes is reached, the FCA provider contribution classes, and the remaining FCA FSCS funding classes, will contribute to the FCA retail pool with a maximum capacity of £1,050m (see Chart 2)

From 1 April 2014, FSCS will seek to smooth the impact of levies by looking further ahead at potential compensation costs that are expected in the 36 months following the date of the levy, instead of 12 months as is currently the case

Our accountability to our stakeholders and commitment to keep costs to a minimum remain key priorities

Chart 1: FCA retail pool – for compensation costs exceeding the Investment Provision class threshold only

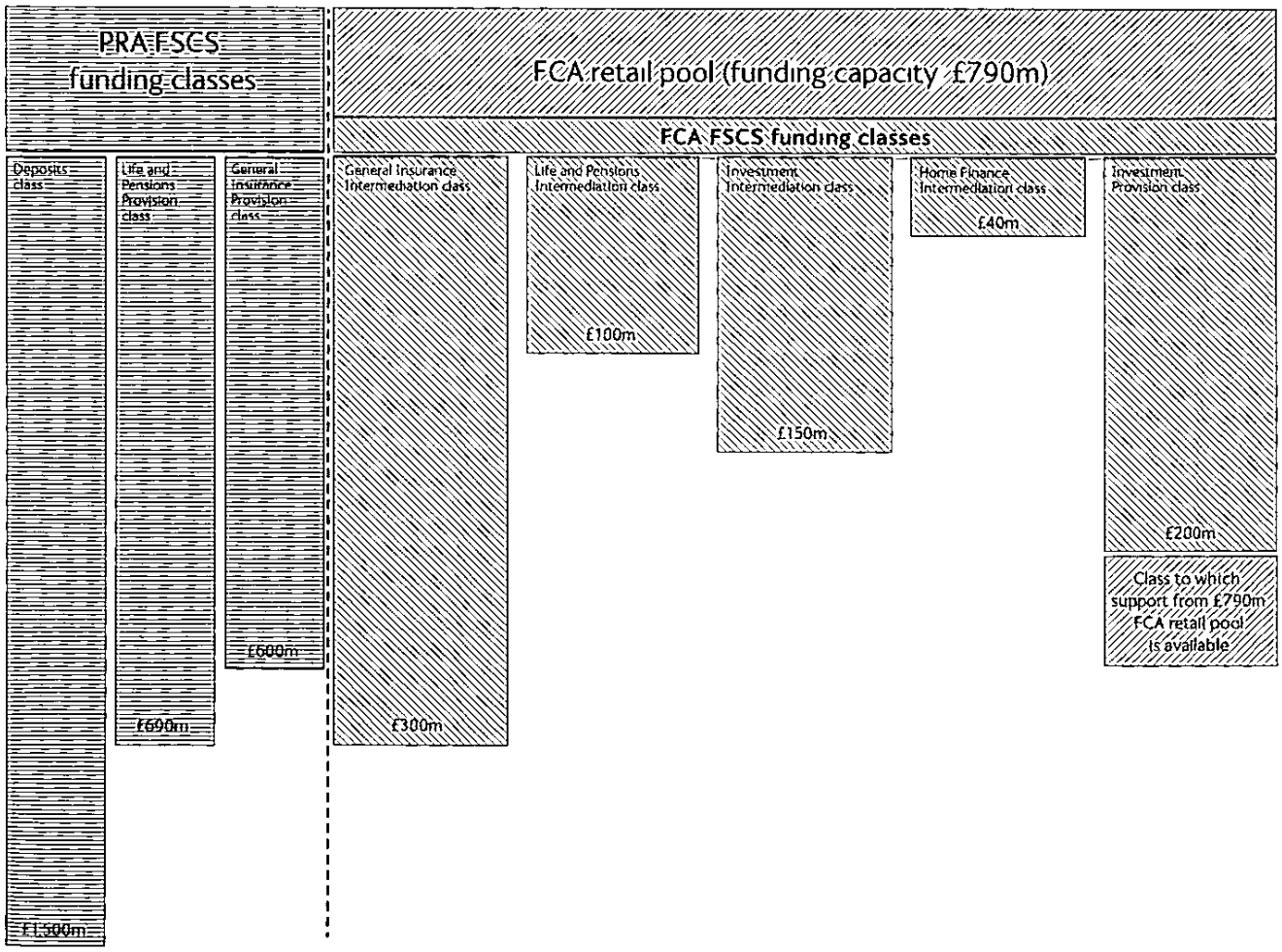
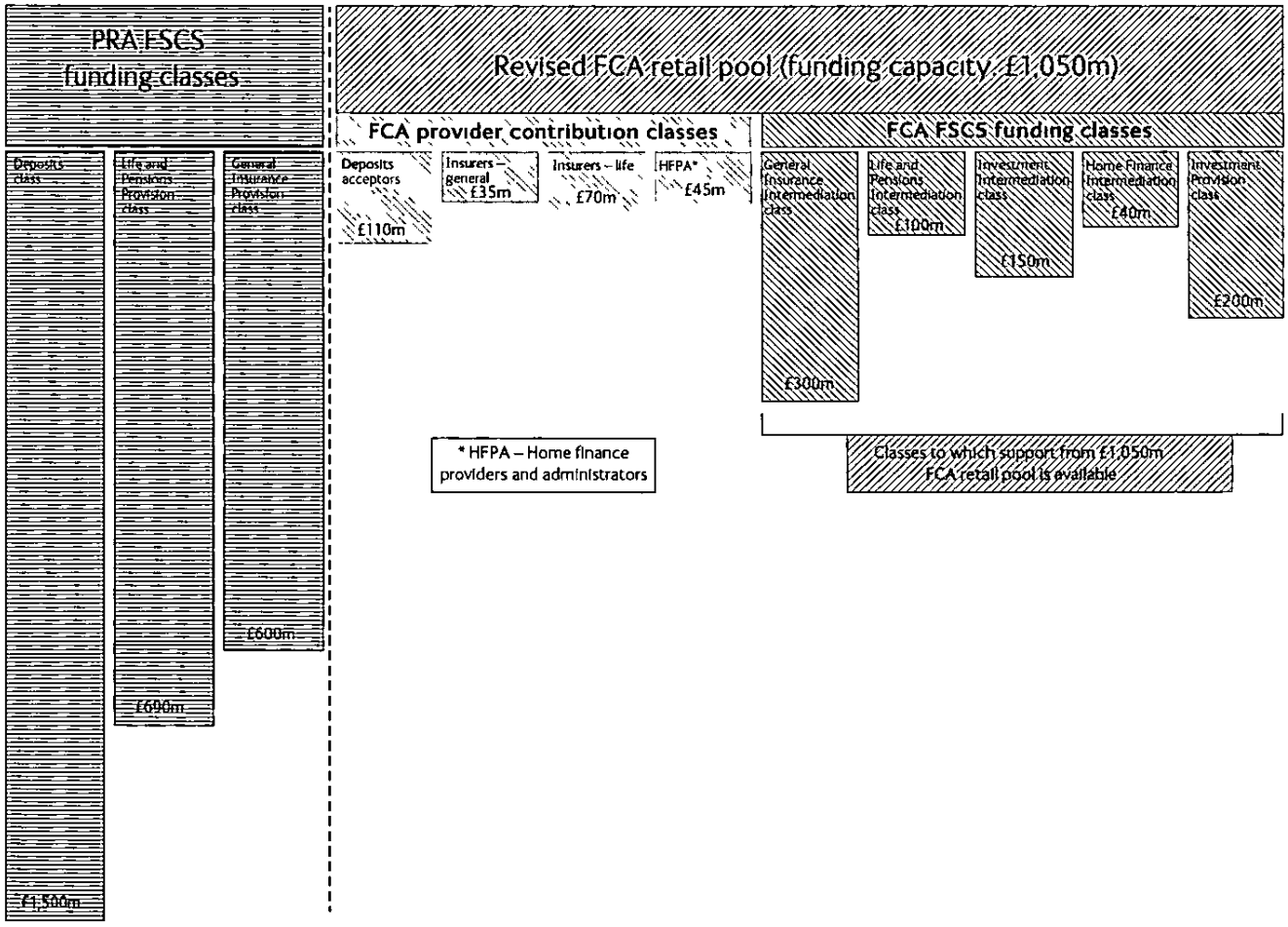


Chart 2: Revised FCA retail pool – for compensation costs exceeding an FCA Intermediaries class threshold



There is information about our funding model in our industry newsletter, Outlook, and later in 2013 we will publish a paper on our approach to raising levies This will give firms some guidance on FSCS's approach to managing its cash flows, including its use of borrowing

We aim to enhance the capability of FSCS by enabling the people who work for us to develop their skills, knowledge and professionalism

Key points

- We have increased our development budget to £250,000 and established an online Learning Zone
- FSCS moved offices, which has saved costs and improved internal communications
- We have introduced a corporate social responsibility programme enabling our people to join voluntary activities in our local community

8 Developing Our People

The success of any organisation depends on its people Attracting, retaining and developing the right people is critical for FSCS

The FSCS team – our People Strategy

The success of any organisation depends on its people Attracting, retaining and developing the right people is critical for FSCS and during the year we continued to focus on these important activities Our People Strategy puts the engagement and development of our people centre stage

Consistent with our model of outsourcing most of our business-as-usual claims handling activities, FSCS has a permanent staff of 179 people (on average over the year) Our people have the range of professional skills needed to make our business model effective and our commitment to them is to ensure that everyone can make a difference, while also developing their skills and careers in rewarding roles

Moving offices

This year we moved offices to a new location, saving costs and enabling the whole of FSCS to work across one floor, which has had the additional benefit of helping to improve communication between the different teams

Engaging our people – professional development

As part of our People Strategy, we offer a range of development programmes that encourage our people to sign up for the training that best develops their skills and careers Over the year, we have invested in learning and training programmes, including

- FSCS-wide 'Influencing with Impact' training for all employees,
- leadership development,
- Data Protection compliance training;
- diversity training,
- increased range of e-learning modules, including those written by us through FSCS's Learning Zone,
- professional qualifications support,
- Microsoft Office training, and
- PRINCE2 project management training

People survey 2012

For a second year, FSCS commissioned Best Companies to survey our people in order to establish how they perceived the organisation and to enable us to improve engagement and ensure we are as effective as possible

FSCS employees believe that FSCS makes a valuable contribution and that it has a strong social conscience

Our core offer to our people – a brief summary:

- FSCS is an organisation that makes a difference
- FSCS is an organisation in which you can make a difference
- FSCS is an organisation which will support you in developing your skills and career
- FSCS is an organisation that welcomes challenge but also challenges you to perform excellently and to improve

FSCS employees believe that FSCS makes a valuable contribution and that it has a strong social conscience

However, the survey also highlighted that we still need to make improvements We recognise that we need to increase the skills of our managers to ensure that we have a consistent approach, develop innovative ways of progressing career development in what is a medium-sized organisation, and ensure that our pay and benefits are correctly benchmarked to incentivise performance The feedback from the survey has helped us to develop a number of actions that will shape our updated People Strategy in 2013/14 These include

- launching our management development programme in June 2013,
- enhancing our capability for change management and supporting our people through change,
- actively working with our regulatory partners on establishing a mentoring programme in 2013/14, and
- developing and empowering the role of our People Forum, which acts as a sounding board, lending support and advice to FSCS on policies and procedures which could have an impact on the relationship between FSCS and our staff

Equality and diversity

At FSCS we continually work to create and maintain an environment where the organisation meets the needs and aspirations of all staff, irrespective of race, gender, disability, sexual orientation, religion, age, marriage or civil partnership, maternity or gender reassignment Our commitment is enshrined in our core value of 'working together'

FSCS encourages all communities to apply for positions within the organisation We recognise that during the assessment process, we need to ensure that the criteria for assessing candidates are fair, objective and justifiable We ensure that we collate diversity information to assess our performance from initial applications through to those successfully shortlisted and appointed This information is reviewed annually to assess the impact of our recruitment methods and to ensure that all communities have equal access to employment opportunities

The tables opposite summarise FSCS employee numbers by category and ethnic background

FSCS employee numbers by category

	As at 31 March 2013	As at 31 March 2012
Graduate	4	8
Administration Assistant	19	24
Practitioner Level 1	45	43
Practitioner Level 2	72	68
Head of Function and Managers (or equivalent)	42	35
Chief Executive and other Executive Directors	4	4
Total	**186**	**182**

Comprising

	As at 31 March 2013	As at 31 March 2012
Operational	180	179
Secondees and other people on maternity or other long-term leave	6	3
Total	**186**	**182**

Ethnic background

	As at 31 March 2013	As at 31 March 2012
Asian or Asian British	20	22
Black or Black British	18	17
Chinese or Chinese British	6	5
Other ethnic group	8	6
White British/Irish	134	132
Total	**186**	**182**

Case study

Reverend Martin Baldock – North Yorkshire Credit Union

Martin felt it was important to save some of his money with North Yorkshire Credit Union, having championed its range of savings and suitable loan schemes for the local community.

"I was surprised I hadn't heard of my credit union going bust before I received a letter from FSCS The letter included a cheque compensating me for the full amount of savings I'd had with the credit union

"I was staggered at the speed at which FSCS got me my money back

"FSCS aims to get savers' money back in less than seven days of the savings provider going bust, in my case it was just five days My message to other savers would be to make sure that your savings are FSCS protected

"Also, if you're lucky enough to have over £85,000 in savings, check that your savings providers don't operate under a single authorisation If you have more than £85,000 in two separate accounts that have just one single authorisation, you could lose anything over the limit.

"In the unlikely event that people find themselves in the same situation as I did, do not worry The cheque is probably already in the post! If your savings are FSCS protected, they are safe"

If your savings are FSCS protected, they are safe

The FSCS People Awards

We celebrated our second FSCS People Awards to recognise those who truly 'live' our values and deliver for consumers in all parts of the business All employees were able to anonymously nominate their colleagues Award contenders were judged by the Chief Executive and Chairman, along with a representative of FSCS's People Forum

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 Team Award, which was presented to our Information Technology Team

The individual 'values' award winners were (clockwise from top left) Sarah Cheng (working together), David Sarll (excellence), John King (delivery), and Susan Short (making a difference)

Corporate social responsibility

Over the past 12 months we have introduced a major corporate social responsibility programme where we focus on volunteering activities with our local community

We engaged with Heart of the City to gain their expertise on policies, strategies and general advice on various aspects of corporate social responsibility

Almost 40 per cent of our workforce participated in volunteering activities We have worked with Tower Hamlets Education Business Partnership and East London Business Alliance, which have supported us in developing our programme and connected us to specific volunteering activities

9 Our Governance

FSCS is a non-profit-making independent body, accountable to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). 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 all directors were appointed by the Financial Services Authority (FSA) until 1 April 2013, and thereafter by the FCA and PRA The appointment and removal of the Chairman is also approved by HM Treasury The Board is composed of nine independent Non-Executive Directors and four Executive Directors

Independent Non-Executive Directors

Lawrence Churchill CBE, Chairman

Margaret (Liz) Barclay

Marian Glen

Charles McKenna

Caroline (Jayne) Nickalls

Robert (Paul) Stockton

John (Max) Taylor (Deputy Chairman and Senior Independent Director)

Philip Wallace

David Weymouth

Executive Directors

Mark Neale CBE, Chief Executive

Katherine (Kate) Bartlett, Director of Operations

Aleksander (Alex) Kuczynski, Director of Corporate Affairs

Rommel Pereira, Director of Central Services

Lawrence Churchill CBE, Chairman – appointed 1 April 2012

Currently Chairman of the National Employment Savings Trust, a Non-Executive Director of Bupa, a Trustee of the International Longevity Centre (UK) and a Governor of the Pensions Policy Institute, Lawrence was previously Chairman of the Pension Protection Fund and a former Chief Executive of UK, Irish and International Life at Zurich Financial Before that he was Chief Executive of Unum and NatWest Life and Investments He was awarded a CBE in the New Year's Honours List in 2010 in recognition of his public service

Marian Glen – appointed 1 February 2013 for a three-year term

Marian was General Counsel and a member of the Executive Committee at Aegon UK for three years until 2011 Before that she was a corporate finance practitioner at Linklaters until 1994 when she joined Shepherd and Wedderburn where she became a partner specialising in corporate finance, heading up the financial services practice area Marian is a member of the Audit Committee of the Water Industry Commission for Scotland and a Non-Executive Director of Shires Income PLC

Margaret (Liz) Barclay – appointed 1 July 2011 for a three-year term

Liz is currently the writer and presenter of a number of programmes and documentaries for BBC 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 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

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

Rommel is accountable for the Finance, IT, Human Resources, Business Resilience, Change, and Facilities and Knowledge Management functions at FSCS He is also a Non-Executive Director and Chair of the Audit Committee at Shepherds Bush Housing Group Previously he worked in the not-for-profit sector for the Metropolitan Housing Partnership as Group Chief Operating Officer Before that he held posts over 14 years working across several product lines as Head of Business Unit, Chief Financial Officer, Chief Operating Officer and Business Manager (Chief Information Officer) at JP Morgan Chase He has also worked at HSBC Midland and Reuters in Finance, Technology and Change Rommel qualified as a chartered accountant at Ernst and Young

Philip Wallace – reappointed 1 June 2012 for a three-year term

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 had a number of Non-Executive roles including the Chairmanship of the Insolvency Service Steering Board, which he took up in 2007 Philip is currently Chairman of the Audit Committee

John (Max) Taylor, Deputy Chairman and Senior Independent Director – reappointed 1 September 2010 for a three-year term

Max retired from, and is now adviser to, insurance broker Aon UK Before joining Aon in January 2001, he completed a three-year term as Chairman of Lloyd's, the Insurance Market Max is also Chairman of Jubilee Managing Agency Ltd, Chairman of the Council of the University of Surrey, a former director of Qatar Insurance Services and Chairman of the Mitsui Sumitomo Insurance (London) Companies Max is currently Chairman of the Remuneration Committee

Caroline (Jayne) Nickalls – appointed 1 July 2011 for a three-year term

Formerly Chief Executive of Directgov, Jayne spent six years leading the Directgov business (through the Cabinet Office and Department for Work and Pensions from start-up to being an established, successful business at the heart of the Government's digital strategy 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 She is an experienced leader of transformational business change in both the public and private sectors

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 of 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

Robert (Paul) Stockton – appointed 1 December 2011 for a three-year term

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 investment 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

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

Charles McKenna – appointed 1 February 2013 for a three-year term

Charles spent 22 years as a partner at Allen & Overy, specialising in corporate advisory and transactional work, financial services and regulatory In the 1980s, he was involved in the formation of The Securities Association, the first UK self-regulating organisation which included advising on its constitution and rule book He served for three years on the Board of Hart Citizens Advice Bureau Service

David Weymouth – appointed 1 July 2011

David is Group Chief Risk Officer and a member of the Group Executive Committee at RSA 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 in major IT-enabled change programmes David is currently Chairman of the Risk Committee

Mark Neale CBE, Chief Executive – appointed 4 May 2010

Formerly Director General at HM Treasury responsible for Budget, Tax and Welfare, Mark led on the development of tax policy and delivery of the annual Budget and Pre-Budget Report, managing fiscal risk and welfare policy, including reducing child poverty Previously 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 as Director for Children and Housing at the Department for Work and Pensions, and was Finance Director of the Employment Service

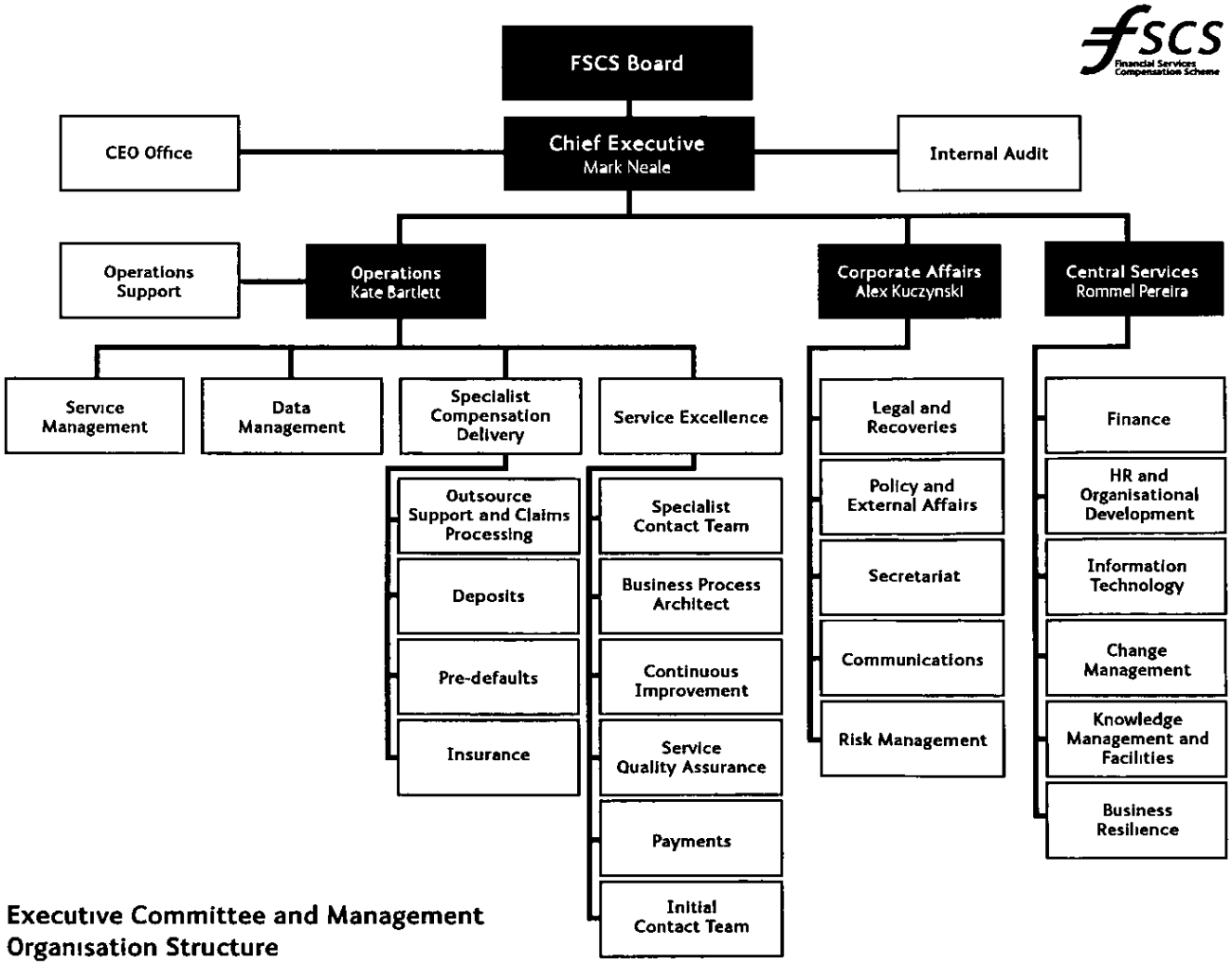
Anthony Ashford – retired from Board 31 January 2013

Anthony is 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 2000, 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

Rosalind Reston – retired from Board 31 January 2013

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

FSCS organisational chart as of 31 March 2013



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 compensation is paid to all eligible claimants This includes ensuring FSCS is prepared for new potential failures, 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 – puts in place appropriate competitive contracts with our outsourcers and monitors contractual delivery

Data Management – delivers effective and efficient data, data integration and business intelligence services to support FSCS's business strategy

Information Technology – the IT team delivers effective IT services and solutions through business and supplier partnerships, and manages the end-to-end supply chain from understanding business requirements to ensuring optimum strategic and commercial delivery of IT services in support of the achievement of FSCS's 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 (which fund FSCS by paying levies), consumers and consumer advice workers, journalists, trade bodies, regulators, MPs and government departments

Knowledge Management and Facilities – responsible for the security and integrity of all 'physical' claims files, along with the provision of office space and support services, reception, post-room and health and safety services to the Scheme

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

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

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 FSCS can continue to offer a service to our customers in the event of any disaster

Human Resources and Organisational Development – this team's mission is to build a work environment in which all FSCS people can shine, and to create an outstanding company culture with the capacity to sustain and deliver the strategic priorities identified in the business plan

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 (and revised in 2012) 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 independent 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 were appointed by the FSA until 1 April 2013, and thereafter by the FCA and PRA 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 independent 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 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 Code provision B 1 1

Senior Independent Director

During the year, the Board decided to create the role of Senior Independent Director, an independent Non-Executive Director who is able to act as a sounding board to the Chairman and serve as an intermediary for other directors when necessary, such as when concerns raised through the normal channels of Chairman, Chief Executive or other Executive Directors may be considered inappropriate The Board felt that such a role would be beneficial to the organisation and should help to provide a more transparent governance structure It was agreed that the person holding the post of Deputy Chairman (currently John (Max) Taylor) should be the person appointed to take on this new role

Appointments and retirements
Anthony Ashford and Rosalind Reston retired from the Board on 31 January 2013 having served for six years

The FSA appointed Marian Glen and Charles McKenna as Non-Executive Directors of FSCS for three years with effect from 1 February 2013 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, certain aspects of the claims handling process Claims briefings are also given to existing directors from time to time to refresh their knowledge of claims practices and explain new or revised processes Similar briefings are given occasionally to directors on other aspects of FSCS operations Individual directors also take the opportunity to request information or briefings on particular topics outside formal Board/committee meetings in order to maintain their knowledge and understanding of the company and its 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 was held in October 2009, and although there were provisional plans to repeat the exercise in 2012/13, it was felt that this was not necessary in view of the existing training and development framework, which catered adequately for directors The directors' annual performance reviews are also designed to capture individual training and development needs

Directors also keep up to date with developments in the financial services industry During the year, there was a programme of external speakers for Board days, so that directors could take the opportunity to meet, and receive occasional briefings from, external bodies such as regulators, trade bodies and consumer organisations The Chairman, Chief Executive and other FSCS officials continued to meet the appropriate authorities (HM Treasury, the FSA, FCA, PRA, and the Bank of England) and trade bodies on a regular basis

The FSCS Board is committed to high standards of corporate governance

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 maintained regular contact with directors outside formal Board/committee meetings to obtain views on current FSCS Board and organisational issues

3 Operation of the Board

The Board met 11 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 2012/13, further improvements were made to the way in which certain operational and financial information was reported to the Board, and a revised reporting tool has now been agreed for use in 2013/14

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 on the

performance and operation of the Board and each of its committees

Directors discussed the results of this exercise and the implications for the Board at one of the Board's two strategy days, in a session facilitated by the Company Secretary 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

In the latter half of 2012/13, the Board reviewed the committee structure and decided to make some changes to the committees and their respective memberships In particular, the Board agreed to set up a separate Risk Committee, which would absorb some of the Audit Committee's previous responsibilities for overseeing risk management as well as the Contingencies Planning Committee's oversight of FSCS's contingency planning and disaster recovery arrangements The Contingencies Planning Committee was, therefore, disbanded in January 2013

The creation of a separate Risk Committee required a separation of risk strategy and risk appetite and tolerances, which would be overseen by the Risk Committee, from internal controls, which would continue to be overseen by the Audit Committee To strengthen the link between the Audit Committee and Risk Committee, it was decided that the Audit Committee Chairman should be a member of the Risk Committee and the Risk Committee Chairman should be a member of the Audit Committee

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 (which, as described above, was taken over by the new Risk Committee at the end of 2012/13), 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

"

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

- the annual accounts and accounting policies,
- the financial reporting system,
- the system of internal control,
- risk management (taken over by the Risk Committee at the end of 2012/13),
- the appointment and performance of internal and external auditors,
- the audit processes and results (for both the internal 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 such as payment processes and directors' expenses Some of these matters are reported further under Internal controls

The Committee also carried out a review of its own effectiveness and that of the external and internal audit functions It also had separate discussions with both the internal and external auditors without the Executive

2 Risk Committee

The Risk Committee is a new Board committee Set up in late 2012/13, it is made up of five independent Non-Executive Directors, one of whom is the Chairman of the Audit Committee

The Committee's role is to recommend to the Board a risk appetite/tolerance statement covering enterprise-wide risks, and to review FSCS's risk management approach to identifying and managing risks in achieving FSCS's aims, including FSCS's contingency planning arrangements and disaster recovery plans The Committee, in carrying out its oversight functions, advises the Board on whether FSCS is operating within acceptable risk tolerances and whether its level of readiness to respond to significant events is appropriate to the likelihood and impact of those events

The Committee met for the first time in April 2013, and considered its role, terms of reference and future work programme, as well as the current risk profile and latest developments in business resilience The Committee will meet every quarter

3 Remuneration Committee

The Remuneration Committee met once during the year The membership of this Committee is made up of four independent Non-Executive Directors The 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 implemented a system for linking FSCS's bonus scheme to the performance of the organisation The Committee also made recommendations to the Board for the approval of the Chief Executive's remuneration package and determined the remuneration packages of the other Executive Directors, having taken into account comments from the Chief Executive In the case of the Executive Directors, performance and market data provided by external consultants are taken into account, and remuneration incorporates a performance-related element

Remuneration for Non-Executive Directors is now determined by the FCA and PRA (prior to 1 April 2013, this was done by the FSA), and is described under Directors' remuneration

4 Nomination Committee

The Nomination Committee is made up of the 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 and the PRA with regard to any changes It also reviews succession planning for both Executive and Non-Executive Directors, ensures there is appropriate liaison with the FCA and the PRA with regard to appointments and reappointments of Board members, and keeps the membership of the Board committees under review

This Committee met twice 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, see Composition of the Board As well as these appointments, the Committee considered matters relating to Board size, the mix of skills and experience on the Board and the maximum terms of Board appointments

5 Contingencies Planning Committee

This Committee had its last meeting in January 2013 With the creation of a new Risk Committee, it was decided that the oversight of FSCS's contingency planning and disaster recovery arrangements should transfer from the Contingencies Planning Committee to the Risk Committee The membership of this Committee was made up of four independent Non-Executive Directors (one of whom acted as Committee Chairman) and two Executive Directors (the Director of Operations and the Director of Central Services)

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

This Committee met three times during the year It looked at further developments on FSCS's various contingency plans, and considered the lessons learned from a number of additional simulation and testing exercises

6 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 independent 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 2013)	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Independent Non-Executive Directors				
Margaret (Liz) Barclay		x		
Lawrence Churchill			x	xC
Marian Glen	x		x	
Charles McKenna		x	x	
Caroline (Jayne) Nickalls		x		x
Robert (Paul) Stockton	x			x
John (Max) Taylor			xC	
Philip Wallace	xC	x		
David Weymouth	x	xC		
Executive Directors				
Katherine (Kate) Bartlett				
Aleksander (Alex) Kuczynski				
Mark Neale				x
Rommel Pereira				

xC= Committee Chairman

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 dates

	Board	AudCo	RemCo	NomCo	CPCo	Appointment date	Expiry of term
Number of meetings held:	11	3	1	2	3		
Independent Non-Executive Directors							
Anthony Ashford	8/9			2/2	3/3	1 Feb 2007	Expired 31 Jan 2013
Margaret (Liz) Barclay	11/11				3/3	1 Jul 2011	30 Jun 2014
Lawrence Churchill	10/11		1/1	2/2		1 Apr 2012	31 Mar 2015
Marian Glen	2/2	1/1				1 Feb 2013	31 Jan 2016
Charles McKenna	1/2					1 Feb 2013	31 Jan 2016
Caroline (Jayne) Nickalls	11/11		1/1		3/3	1 Jul 2011	30 Jun 2014
Rosalind Reston	8/9	2/2		2/2		1 Feb 2007	Expired 31 Jan 2013
Robert (Paul) Stockton	10/11	3/3				1 Dec 2011	30 Nov 2014
John (Max) Taylor	9/11	2/2	1/1			1 Sep 2007	(renewed on 1 Sep 2010) 31 Aug 2013
Philip Wallace	9/11	3/3	1/1			1 Jun 2009	(renewed on 1 Jun 2012) 31 May 2015
David Weymouth	9/11	1/1			2/3	1 Jul 2011	30 Jun 2014
Executive Directors							
Katherine (Kate) Bartlett	10/11				3/3	1 Feb 2010	(renewed on 1 Feb 2013) 31 Jan 2016
Aleksander (Alex) Kuczynski	11/11					1 Feb 2010	(renewed on 1 Feb 2013) 31 Jan 2016
Mark Neale	11/11			2/2		4 May 2010	3 May 2016
Rommel Pereira	11/11				3/3	7 Sep 2010	6 Sep 2013

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

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

- developing clear lines of responsibility and delegated authority throughout the organisation,
- management of risk using a standard 'three lines of defence' model, each of these 'lines' playing an important role within FSCS's wider governance framework, and which include the work of internal and external audit
- operational policies supported by documented company-wide procedures, including the formal recording of risks and associated mitigations in the Risk Register, and
- regular monitoring of performance against plans and targets by management

The internal control framework has been in place throughout the year and is kept under regular review by the Board

The Board also regularly reviews FSCS's performance against its Plan and Budget, and receives monthly performance reports on both operational and financial matters as well as reports from the Board s committees Furthermore, to satisfy itself that there are appropriate controls throughout the organisation, the Board receives reports from the Audit Committee on the work undertaken by the internal and external audit functions and by the risk management function

Reviewing our controls

The following paragraphs set out 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 continued to review the process by which risks are managed FSCS's Risk Register identifies and prioritises key risks to the organisation and highlights the relevant controls for each risk area The review of the Risk Register is treated as a continuous process, with the 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) The Risk Register was also considered by the Audit Committee at each meeting, up until the time the new Risk Committee took over responsibility for

overseeing certain aspects of risk management 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 attended all Audit Committee meetings and those Board meetings at which risk issues were discussed This was in order to present reports and satisfy Board and committee members that risks and controls were 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 was appropriate to the needs of the organisation, including reprioritising where necessary In addition, internal audit reports continued to provide an independent assessment of relevant risks identified in the Risk Register

4 FSCS's internal auditors continued to conduct reviews and provide reports on various aspects of FSCS's work as part of their annual plan and in response to events during the year

5 The Head of Internal Audit, who attended all Audit Committee meetings during the year, planned and oversaw the development of the internal audit plan, reported on the delivery of that plan (including the submission of internal audit reports) and reported on the progress of remedial action arising from internal audit activity During the year, the Audit Committee considered the annual internal audit plan, which included the following reviews

- corporate governance,
- risk maturity,
- critical models,
- data protection,
- service quality assurance,
- communications,
- environmental,
- business resilience,
- procurement, and
- human resources

The Audit Committee has considered any significant control weaknesses identified by the internal auditors and the remedial actions that management agreed to take The internal auditors also reported on follow-up work in relation to observations made in previous internal audit reports

6 The Audit Committee received reports on the service quality assurance (SQA) reviews of claims decisions, other claims-related activity, claims process

"

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

design and the effectiveness of related controls These SOA reviews seek to identify issues to be considered further in order to establish whether any improvements could be made or remedial measures put in place

7 The Audit Committee considered the non-audit work carried out by the external auditors in 2012/13 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

Independent Non-Executive Directors' fees are reviewed and set by the FCA and PRA (prior to1 April 2013, this was done 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 Directors' remuneration details are given in Section 10

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),
- 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 from time to time, and in previous years has felt that the Board structure adequately met the needs of directors without appointing a senior independent director

However, having reviewed the issue again in 2012/13, the Board agreed that this role would be beneficial to FSCS and in January 2013 decided to create the role of Senior Independent Director and to appoint the Deputy Chairman to fulfil that role

D 2 2/D 2 3: FSCS was not compliant with D 2 2/D 2 3 because, under the terms of its constitution, FSCS cannot set remuneration for its Chairman and independent Non-Executive Directors This is done by the FCA and PRA (and before 1 April 2013, by the FSA) with appropriate input from FSCS

List of acronyms

B&B	Bradford & Bingley Plc
CMC	Claims Management Company
COMP	the Financial Services Authority's Compensation Sourcebook, containing rules on FSCS levies and eligibility for compensation
DBS	Dunfermline Building Society
DIGF	Iceland Depositors' and Investors' Guarantee Fund
EFDI	European Forum of Deposit Insurers
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
IADI	International Association of Deposit Insurers
IFA	Independent Financial Adviser
KSF	Kaupthing Singer & Friedlander Limited
LIBOR	London Inter-Bank Offer Rate, i e the interest rate that the banks charge one another for loans
MELL	Management Expenses Levy Limit
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
QA	Quality Assurance
SDDs*	Specified Deposit Defaults
SRR	Special Resolution Regime

*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

10 Directors' Report and Accounts

The directors of Financial Services Compensation Scheme Limited (FSCS) present their 13th report, together with the audited financial statements of FSCS (on pages 108 to 136) and its classes and sub-classes (on pages 137 to 149) for the year ended 31 March 2013

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, when the FSMA came in to force, and has fulfilled those responsibilities throughout the year ended 31 March 2013

Review of activities and performance

Under the powers provided by the FSMA, 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 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 is referred to in Note 16 and in Section 6,
- recoveries through dividends from the estates of the Specified Deposit Defaults, as explained in Note 16 and in Section 6, and
- the net costs of the failure of Dunfermline Building Society, as explained in Note 17 and in Section 6

Business review

FSCS's results show an excess of income over expenditure of £497,000 (2012 £1,154,000), as shown on page 108, and a net actuarial loss arising on the final salary pension scheme assets and liabilities movements of £1,462,000 (2012 £1,925,000 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 £492,388,000 (2012 £434,787,000) in the year includes a net credit of £365,000 being the defined benefit pension scheme contributions of £649,000 less the current service cost of £284,000 plus a curtailment gain of £0 (see Note 6) (2012 £972 000, £965,000, £375 000 and £382,000 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 £492,753,000 (2012 £435,759,000)

From 26 March 2013 FSCS entered into a £750m revolving syndicated loan facility at a floating rate of interest linked to LIBOR This facility replaced the previous facilities totalling £1bn

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 applied for a reduction of the amount levied due to mistakes in the tariff data submitted by them to the FSA This process was completed in the year to 31 March 2013 and the final claims totalled £112,860,000 (2012 £86,024,000) Included in this total was £22,890 000 of claims relating to firms that were reporting income relating to Collective Investment Schemes (CIS) on an inconsistent basis and so applied to restate their relevant income A total of £66,680 000 (2012 £52,100,000) claims had been accepted and credit and debit notes raised, £8,680,000 of which related to CIS claims Following all of the credit notes being issued, the shortfall on the sub-class was collected by way of a 'truing-up' exercise in which a levy of £31,300,000 was raised on 29 January 2013

The provision brought forward from last year of £505,000,000 relating to Dunfermline Building Society has been increased to £540,000,000 based on the best information available to the directors However, the final outcome could yet be different and the final amounts, once agreed, may potentially result in a significant adjustment to the provision being required (see Notes 3 and 17)

During the year, FSCS made recoveries of £713,484,000 (2012 £853,912,000) from the 2008 banking defaults and this was set off against loans (see Note 16) A further £97,212,000 (2012 £67,852,000) was due at 31 March 2013 (see Note 13) The loans continue to accrue interest with £429,421,000 (2012 £370,166,000) charged during the year (see Note 16) This amount will be levied to firms in the Deposit class before 1 September 2013

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 independent Non-Executive Directors unless stated, were as follows

Anthony Ashford – Retired 31 January 2013
Margaret (Liz) Barclay
Katherine (Kate) Bartlett – Executive Director
Aleksander (Alex) Kuczynski – Executive Director
Mark Neale – Chief Executive and Executive Director
Caroline (Jayne) Nickalls
Rommel Pereira – Executive Director
Rosalind Reston – Retired 31 January 2013
Robert (Paul) Stockton
John (Max) Taylor
Philip Wallace
David Weymouth
Lawrence Churchill – Appointed 1 April 2012
Marian Glen – Appointed 1 February 2013
Charles McKenna – Appointed 1 February 2013

Directors' remuneration

Details of directors' remuneration is 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 9

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

Independent auditors

PricewaterhouseCoopers LLP were reappointed as auditors of the company on 20 November 2012, by a written resolution of members, and were the independent auditors for FSCS Limited and the Sub-classes for the year ended 31 March 2013 The Financial Services Act 2012 has now been implemented with the effect that FSCS will no longer be audited in accordance with Part 16 of the Companies Act 2006, but will be subject to public audit requirements The Financial Services Act 2012 appointed the Comptroller and Auditor General to be FSCS's external auditors from the financial year ended 31 March 2014 and PricewaterhouseCoopers LLP will be asked to resign their position in due course

By order of the Board

Mark Thomas
Company Secretary
26 June 2013

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 2013, 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 page 104, 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 2013 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

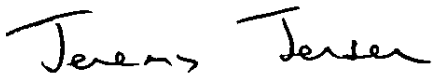
Opinion on other matter prescribed by the Companies Act 2006

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 (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 June 2013

Financial Statements of the Scheme Manager for the year ended 31 March 2013

Income and Expenditure Account

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Administrative expenses	4	(62,967)	(64,621)
Interest payable	8	(429,421)	(370,166)
		(492,388)	(434,787)
Operating income, comprising		492,885	435,941
Interest receivable and other income	9	132	182
Management expenses recoverable			
From classes and sub-classes	10	39,733	42,409
In respect of base costs	10	23,599	23,184
Interest payable recoverable			
From classes and sub-classes	10	429,421	370,166
Excess of income over expenditure before tax		**497**	**1,154**
Excess of income over expenditure after tax		**497**	**1,154**

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 2013 £'000	Year ended 31 March 2012 £'000
Excess of income over expenditure		497	1,154
Actuarial loss on pension scheme liabilities	6	(1,462)	(1,925)
Total recognised loss relating to the year		**(965)**	**(771)**

The notes on pages 111 to 136 form part of these financial statements

Balance Sheet of the Scheme Manager as at 31 March 2013

	Note	2013 £'000	2012 £'000
Fixed assets	12	**1,163**	**687**
Current assets			
Debtors amounts falling due within one year	13	571,062	523,376
Cash at bank and short-term deposits	14	159,704	114,029
Debtors amounts falling due after more than one year	13	17,720,853	18,408,060
Total current assets		**18,451,619**	**19,045,465**
Creditors amounts falling due within one year			
Bank overdraft	14	(1,413)	–
Creditors and accruals	15	(230,205)	(213,110)
Loan interest payable	16	(429,421)	(370,166)
Total current liabilities		**(661,039)**	**(583,276)**
Net current assets		**17,790,580**	**18,462,189**
Total assets less current liabilities		**17,791,743**	**18,462,876**
Creditors amounts falling due after more than one year			
Loans	16	(17,246,285)	(17,954,032)
Provisions for liabilities and charges	17	(545,458)	(508,844)
Total creditors amounts falling due after more than one year		**(17,791,743)**	**(18,462,876)**
Total net assets excluding pension liability		–	–
Pension liability	6	(4,587)	(3,622)
Total net liabilities including pension liability		**(4,587)**	**(3,622)**
Reserves	19	**(4,587)**	**(3,622)**

Approved by the Board of Financial Services Compensation Scheme Limited (Registered Number 3943048) on 18 June 2013 and signed on its behalf on 26 June 2013 by

Lawrence Churchill
Chairman

The notes on pages 111 to 136 form part of these financial statements

Statement of Cash Flows of the Scheme Manager for the year ended 31 March 2013

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Net cash inflow from operating activities	20	1,123,436	1,082,294
Returns on investments and servicing of finance	21	(370,166)	(334,414)
		753,270	**747,880**
Capital expenditure			
Payments to acquire tangible fixed assets	12	(1,261)	(91)
Net cash outflow from investing activities		**(1,261)**	**(91)**
Financing activities			
Decrease in loans	22	(707,747)	(851,233)
Net cash inflow from financing activities		**(707,747)**	**(851,233)**
Increase/(decrease) in cash	23	**44,262**	**(103,444)**

Notes to the Financial Statements for the Scheme Manager for the year ended 31 March 2013

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 the Companies Act 2006, 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 on 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 137 to 149

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 from 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 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 work 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 benefit

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 (PPI) 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 29 February 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 costs of resolution of Dunfermline Building Society (DBS), plus 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 an insolvency counterfactual, 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 We have recently received the final version of the valuer's report. We have increased the provision in the financial statements for the year ended 31 March 2013 to £540,000,000 (2012 £505,000,000) based on the best information available to the directors at this time, in accordance with our accounting policy, discounting the expected future cash flows at a pre-tax rate that reflects the current time value of money and the risks specific to the liability However, the final outcome may be different and the final amounts, once agreed, may potentially result in a significant adjustment to the provision being required (see Note 17) When FSCS is notified by HM Treasury of the final agreed contribution required, the creditor amount will be updated accordingly and the corresponding change made to the compensation cost

4 Administrative expenses

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Staff costs	5	12,651	12,271
Outsourcing costs		14,563	11,645
Welcome costs		3,552	7,370
Change programme costs		8,610	9,836
Depreciation – owned assets	12	464	809
Auditors' remuneration			
Audit services		230	274
Non-audit services		154	78
Operating lease rentals	18	1,000	1,207
Other		21,743	21,131
		62,967	**64,621**

Outsourcing costs of £14,563,000 (2012 £11,645,000) have increased due to higher claims volumes connected to PPI claims and credit union defaults

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

5 Staff costs

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Aggregate gross salaries for staff, including the Executive Directors	9,585	9,021
Employer's National Insurance contributions	1,167	1,193
Employer's pension contributions	1,899	2,057
	12,651	**12,271**

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

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

	Year ended 31 March 2013	Year ended 31 March 2012
Executive Committee and Internal Audit	7	8
Operations	102	93
Central Services	48	47
Corporate Affairs	21	21
Other	1	7
	179	**176**

6 Retirement benefits

FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Scheme), which was 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 up to a further 5 per cent will be matched by FSCS

Amounts paid by FSCS into the money purchase scheme amounted to £1,505,000 and £120,000 was outstanding to be paid at 31 March 2013 (2012 £1,151,000 and £132,000 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 benefits pension scheme was carried out as at 1 April 2012 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 2013 % (p a)	31 March 2012 % (p a)
Discount rate	4 70	5 05
Salary increase rate	N/A	N/A
Pension increase rate (where increase is based on Retail Price Index (RPI) inflation capped at 5% p a)	3 45	3 40
Pension increase rate (where increase is based on Consumer Price Index (CPI) inflation capped at 3% p a)	2 15	2 10
Expected return on Scheme assets	6 60	7 30
RPI inflation assumption	3 70	3 70
CPI inflation assumption	2 50	2 50

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 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 29 0 (28 8) years for a male currently aged 60 and 31 6 (31 5) years for a female currently aged 60 The future life expectancy at age 60 for a male currently aged 40 is 31 2 (31 1) years and 33 6 (33 6) years for a female currently aged 40

For the 31 March 2013 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 2013 This is the same as last year The proportion of members commuting the maximum cash available is also consistent with last year's assumption

For the 31 March 2013 disclosures, 80 per cent of male and 70 per cent of female members are assumed to be married, with males assumed to be three years older than females The assumption is consistent with last year's married proportion assumption

The assumptions were chosen by FSCS, with professional advice

At 31 March 2013 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 2013	Expected rate of return	31 March 2012	Expected rate of return
	£'000	%	£'000	%
Equities	10,703	7 30	9,339	7 85
Hedge funds	1,336	5 30	1,334	6 10
Property	1,237	7 30	1,334	7 60
Cash	791	2 75	103	3 10
Corporate bonds	1,347	3 90	1,334	4 60
Total assets/average return	**15,414**	**6.60**	**13,444**	**7 30**

The assets as at 31 March 2013 are consistent with 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 2013

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 2013 £'000	31 March 2012 £'000
Assets	15,414	13,444
Liabilities	(20,001)	(17,066)
Net liability	**(4,587)**	**(3,622)**

Changes in present value of the defined benefit obligation	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Opening defined benefit obligation	17,066	15,670
Current service cost	284	375
Interest cost	860	800
(Gains) on curtailments	–	(382)
Benefits paid	(372)	(247)
Actuarial losses	2,163	850
Closing defined benefit obligation	**20,001**	**17,066**

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 6%
Rate of inflation*	Increase/decrease by 0 25%	Increase/decrease by 5 2%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 2 4%

* 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 2013 £'000	Year ended 31 March 2012 £'000
Opening fair value of assets	13,444	12,819
Expected return	992	982
Contributions paid by employer	649	965
Benefits paid	(372)	(247)
Actuarial gains/(losses)	701	(1,075)
Closing fair value of assets	**15,414**	**13,444**

Actual return on the Scheme assets	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Actual return	**1,693**	**(93)**

Amount recognised in the Income and Expenditure Account	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Current service cost	284	375
Interest on liabilities	860	800
Expected return on assets	(992)	(982)
Curtailments	–	(382)
Total expense/(income)	**152**	**(189)**

FSCS expects to contribute £2,511,000 to its defined benefit pension plan during 2013/14

Amount recognised in Statement of Total Recognised Gains and Losses	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Actual return less expected return on assets	701	(1,075)
Experience (losses) arising on the Scheme liabilities	(369)	(39)
Changes in assumptions underlying the present value of the Scheme liabilities	(1,794)	(811)
Net actuarial losses recognised in the period	**(1,462)**	**(1,925)**

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 triennial actuarial funding valuation was at 1 April 2012, however, the actuaries' report on the valuation has not yet been finalised The latest view of the deficit for the 2012 funding valuation of £7 7m has been calculated on principles consistent with the 2009 valuation, updated for more recent life expectancy information On the basis of this preliminary valuation, FSCS has agreed to temporarily increase the deficit repair contributions (from £0 5m per annum under the current contribution schedule) to £2 4m per annum from April 2013 The formal contribution level will be determined when the final valuation report is received, expected in July 2013

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 the accounting standard FRS17 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

	2013	2012	2011	2010	2009
Present value of the liabilities (£'000)	20,001	17,066	15,670	13,930	7,686
Fair value of assets (£'000)	15,414	13 444	12,819	11,230	7,320
(Deficit)/surplus in the Scheme (£ 000)	(4,587)	(3,622)	(2,851)	(2,700)	(366)
Experience arising on Scheme assets (£'000)	701	(1,075)	(142)	2,350	(2,479)
Percentage of Scheme's assets (%)	4 5	(8 0)	(1 1)	20 9	(33 9)
Experience gains and (losses) on Scheme's liabilities (£'000)	(369)	(39)	239	(135)	24
Percentage of present value of Scheme's liabilities (%)	(1 8)	(0 2)	1 5	(1 0)	0 3
Total amount recognised in statement of Total Recognised Gains and (Losses) (£'000)	(1,462)	(1,925)	(506)	(2,958)	(1,666)
Percentage of the present value of Scheme's liabilities (%)	(7 3)	(11 3)	(3 2)	(21 2)	(21 7)

7 Directors' remuneration

During the year, there had been a total of eleven independent Non-Executive Directors (2012 thirteen) and four Executive Directors (2012 four) As at 31 March 2013 there were nine independent Non-Executive Directors (2012 nine) and four Executive Directors (2012 four) Total remuneration paid to directors are as follows

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Aggregate emoluments	1,186	1,170
Pension contributions – defined benefit	–	8
– money purchase	121	98
	1,307	**1,276**

Retirement benefits during the year accrued to one director (2012 one) under FSCS's defined benefit scheme and four under the money purchase scheme (2012 four)

The highest paid director, the Chief Executive (2012 the Chief Executive), received aggregate remuneration of £278,443 (comprising basic salary of £242,050, bonus of £36,308 and other emoluments of £85) (2012 £276,219 (comprising basic salary of £235,000, bonus of £37,500 and other business-related expense reimbursements of £3,719)) In the year ended 31 March 2011, when the Chief Executive was appointed, the equivalent full year pro rata remuneration was £273,759 (comprising basic salary of £235,000, bonus of £38,725 and other emoluments of £34) Contributions to a money purchase arrangement under FSCS's pension scheme have been made of £31,075 (2012 £27,025) 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 (2012 £75,000) and the fees paid to the independent Non-Executive Directors or their employers are set at £24,500 per annum (2012 £24,500) Additional fees paid to the Chairmen of the Audit Committee, Remuneration Committee and Contingencies Planning Committee were set at £5,000 per annum (2012 £5,000) In addition, business-related expenses totalling £18,388 (2012 £13,570) were reimbursed to the independent Non-Executive Directors The Chairman and the other independent Non-Executive Directors are not entitled to a pension funded by FSCS

8 Interest payable

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Loan interest – HM Treasury	16	**429,421**	**370,166**

The loan interest payable to HM Treasury of £429,421,000 is made up of a charge for 2012/13 of £429,433,000 less an adjustment for the previous year of £12,000 mainly due to the reallocation of compensation costs between HM Treasury and FSCS

9 Interest receivable and other income

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Expected net return on pension scheme assets	**132**	**182**

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 2013 £'000	Year ended 31 March 2012 £'000
Deposit	433,525	374,577
General Insurance Provision	2,286	1,898
General Insurance Intermediation	14,258	14,914
Life and Pensions Provision	110	84
Life and Pensions Intermediation	3,156	3 910
Investment Fund Management	388	799
Investment Intermediation	14,320	14,928
Home Finance Intermediation	1,111	1,465
Amount recoverable from classes and sub-classes	**469,154**	**412,575**
Amount recoverable in respect of base costs	**23,599**	**23,184**

The amounts recoverable from classes and sub-classes of £469,154,000 (2012 £412,575,000) comprises management expenses of £39,733,000 (2012 £42,409,000) and interest payable of £429,421,000 (2012 £370,166,000), both recoverable from classes and sub-classes as shown in the Income and Expenditure Account

The amount recoverable in respect of base costs of £23,599,000 (2012 £23,184,000) comprises management expenses of £23,599,000 (2012 £23,184,000)

11 Compensation payments relating to Specified Deposit Defaults

During the year, FSCS has 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 are shown in the Classes and Sub-classes Accounts These are treated as amounts paid as agent and not passed through the Income and Expenditure Account

As at 31 March 2013, compensation payments in the year in respect of the Specified Deposit Defaults[2] and their allocation for funding responsibility were as follows

	HM Treasury	HM Treasury, for DIGF	FSCS	Year ended 31 March 2013 Total	Year ended 31 March 2012 Total
	£'000	£'000	£'000	£'000	£'000
Bradford & Bingley Plc	–	–	–	–	–
Heritable Bank Plc	–	–	–	–	(6)
Kaupthing Singer & Friedlander Limited	(20)	–	145	125	11,261
Landsbanki Islands hf – Icesave	–	34	10	44	19,913
London Scottish Bank Plc	2,236	–	7,106	9,342	8,458
Year ended 31 March 2013	**2,216**	**34**	**7,261**	**9,511**	–
Year ended 31 March 2012	**11,259**	**10,097**	**18,270**	–	**39,626**

[1] Tryggingarsjoður innstaeðueigenda 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 2012	3,129	1,557	2,877	7,563
Additions in the year	76	405	780	1,261
Disposals	(1,286)	(1,557)	(2,878)	(5,721)
At 31 March 2013	**1,919**	**405**	**779**	**3,103**
Accumulated depreciation				
At 1 April 2012	(2,828)	(1,314)	(2,734)	(6,876)
Charge for the year	(211)	(126)	(127)	(464)
Disposals	1,274	1,329	2,797	5,400
At 31 March 2013	**(1,765)**	**(111)**	**(64)**	**(1,940)**
Net book value at 31 March 2013	**154**	**293**	**715**	**1,163**
Net book value at 31 March 2012	**301**	**243**	**143**	**687**

13 Debtors

Debtors amounts falling due within one year

	Note	31 March 2013 £'000	31 March 2012 £'000
Amounts due from the FSA	24	818	–
Levies receivable, net of provision			
Deposit		18	–
General Insurance Provision		10	34
General Insurance Intermediation		15,698	44
Life and Pensions Intermediation		50	95
Investment Fund Management		144	844
Investment Intermediation		23,030	60,779
Home Finance Provision		–	–
Home Finance Intermediation		5	2
In respect of base costs		625	6
Net amounts due from classes and sub-classes			
Deposit		430,285	381,870
Investment Intermediation		–	10,123
Home Finance Intermediation		–	743
Amounts due from administrators		97,212	67,852
Other debtors		142	126
Prepayments		3,025	858
		571,062	**523,376**

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) on page 145)

The amounts due from administrators of £97,212,000 (2012 £67,852,000) relate to dividends receivable from the administrator of Kaupthing Singer & Friedlander Limited and Landsbanki Íslands hf – Slitastjórn (2012 Kaupthing Singer & Friedlander Limited and Landsbanki Íslands hf – Slitastjórn) As at 31 March 2013, £35,698,000 (2012 £30,401,000) was held in an Icelandic escrow account, and classified as a debtor (falling due within one year) as opposed to cash and cash equivalents This is due to restrictions on foreign exchange transactions imposed by the Icelandic authorities The currency restrictions were introduced as a temporary protective measure although at this time it is not known when the restrictions will be lifted

Debtors amounts falling due after more than one year

	Note	31 March 2013 £'000	31 March 2012 £'000
Amount due from the Deposit class in respect of Dunfermline Building Society	17	540,000	505,000
Amounts due in respect of Specified Deposit Defaults		17,180,853	17,903,060
		17,720,853	**18,408,060**

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

As at 31 March 2013, FSCS had facilities for business purposes of £752m, comprising a 364-day Sterling revolving credit facility of £750m expiring on 25 March 2014, 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

	31 March 2013 £'000	31 March 2012 £'000
Cash at bank	159,704	109,944
Cash on short-term deposit	0	4,085
	159,704	**114,029**
Bank overdraft	(1,413)	–
	158,291	**114,029**

Cashbook balances which include cheques or other effects which are drawn but not presented are shown as bank overdrafts above, and presented within Creditors on the Balance Sheet The cash at bank includes £46,830,000 (2012 £52 972,000) 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 2013 £'000	31 March 2012 £'000
Compensation payable		1,810	1,364
Amounts due to the FSA	24	–	96
Levies accrued			
General Insurance Provision		–	115
General Insurance Intermediation		–	21
Life and Pensions Intermediation		–	200
Investment Intermediation		–	31
Home Finance Intermediation		–	1
Net amounts due to classes and sub-classes			
General Insurance Provision		47,514	47,422
General Insurance Intermediation		17,025	27,177
Life and Pensions Provision		752	854
Life and Pensions Intermediation		26,152	1,568
Investment Fund Management		4,685	27,737
Investment Intermediation		27,042	–
Home Finance Intermediation		2,107	–
In respect of base costs		10,518	8,280
Social security and other taxes		351	409
Due to claimants and/or Welcome		44,927	54,088
Accruals		7,457	10,645
Amounts due to HM Treasury	24	37,343	30,214
Other creditors		2,523	2,888
		230,205	**213,110**

The £37,343,000 due to HM Treasury (2012 £30,214,000 due to HM Treasury) (Note 13) includes an amount of £3,158,000 (2012 £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 £30,214,000 (2012 £(1,876,000)) less the compensation payments made during the year of £2,250,000 (2012 £21,356,000) on behalf of HM Treasury (Note 11) plus drawings offset against the loan of £3,155,000 (2012 £25,569,000) (Note 16) The remainder of the balance relates to HM Treasury's share of dividends declared by insolvent estates not yet received

The £44,927,000 (2012 £54,088,000) due to claimants and/or Welcome relates to payments received from Welcome As explained in Accounting policie (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 2013 £'000	31 March 2012 £'000
Amounts due to HM Treasury			
Loans	16	17,246,285	17,954,032
		17,246,285	**17,954,032**

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 2012 £'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 2013 £'000
Loan in respect of					
Bradford & Bingley Plc	15,654,509	–	–	–	15,654,509
Heritable Bank Plc	149,237	–	(44,927)	–	104,310
Kaupthing Singer & Friedlander Limited	954,490	–	(352,659)	–	601,831
Landsbanki Islands hf – Icesave	1,008,922	(32)	(281,046)	–	727,844
London Scottish Bank Plc	186,874	8,924	(34,852)	(3,155)	157,791
	17,954,032	**8,892**	**(713,484)**	**(3,155)**	**17,246,285**

Loan interest payable

	Facility £'000	Interest outstanding as at 31 March 2013 £'000	Interest outstanding as at 31 March 2012 £'000
Loan in respect of			
Bradford & Bingley Plc	15,654,509	386,433	315,421
Heritable Bank Plc	104,310	2,880	3,573
Kaupthing Singer & Friedlander Limited	601,831	16,337	21,077
Landsbanki Islands hf – Icesave	727,844	19,435	26,029
London Scottish Bank Plc	157,791	4,336	4,066
	17,246,285	**429,421**	**370,166**

The facility for London Scottish Bank Plc was drawn in full as at 31 March 2013 (£10,000,000 was undrawn as 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 29 February 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 the industry will have to pay through FSCS levies This cap will be set on the advice of the 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 levies on deposit takers

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

The loan interest of £429,421,000 is recoverable from the Deposit class by way of a compensation costs levy, and is payable to HM Treasury on 1 October 2013

17 Provisions for liabilities and charges

	31 March 2012 £'000	Charge in the year £'000	Utilised in the year £'000	31 March 2013 £'000
Restructuring	198	–	(198)	–
Levy provision	3,190	5,032	(3,190)	5,032
Dilapidations	456	(30)	–	426
Dunfermline	505,000	35,000	–	540,000
Total provisions	**508,844**	**40,002**	**(3,388)**	**545,458**

Restructuring

FSCS has undertaken a major restructuring of the organisation This resulted in some redundancies and the restructuring provision has now been fully utilised

Levy provision

The levy provision of £5 032 000 (2012 £3,190,000) related to requests for refunds received from levy payers

Dilapidations

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

Dunfermline Building Society

Following notice served by HM Treasury, FSCS has an obligation under the Special Resolution Regime to contribute to the costs of resolution of Dunfermline Building Society, plus 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 £35,000,000 in the financial statements for the year ended 31 March 2013

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 significant adjustment to the provision being required (see Note 3)

18 Payments under lease agreements

Year ended 31 March 2013

Obligations under operating leases comprise	Lease expiring: Less than one year £'000	Between two and five years £'000	Greater than five years £'000
Land and buildings	–	–	199
Other	–	33	–
	–	**33**	**199**

Year ended 31 March 2012

Obligations under operating leases comprise	Lease expiring: Less than one year £'000	Between two and five years £'000	Greater than five years £'000
Land and buildings	20	–	199
Other	44	–	–
	64	–	**199**

The lease for the former premises at 5th and 7th Floors, 1 Portsoken Street, London was 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	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
At 1 April		(3,622)	(2,851)
Excess of income over expenditure on ordinary activities after tax		497	1,154
Actuarial loss on pension scheme liabilities	6	(1,462)	(1,925)
At 31 March		**(4,587)**	**(3,622)**

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 2013 £'000	Year ended 31 March 2012 £'000
Excess of income over expenditure on ordinary activities before interest and tax		429,918	371,320
Depreciation	12	464	809
Loss on disposal	12	322	–
Decrease in debtors		604,521	697,300
(Decrease)/Increase in creditors		17,095	(14,279)
Difference between pension charge and cash contributions		(497)	(1,154)
Increase in provisions for liabilities and charges		71,614	28,298
Net cash inflow from operating activities		**1,123,436**	**1,082,294**

21 Returns on investments and servicing of finance

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Interest paid (see Notes 8 and 16)	(370,166)	(334,414)
	(370,166)	**(334,414)**

22 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
(Increase)/Decrease in cash at bank and short-term deposits in the year	(44,262)	103,444
Decrease in loans	(707,747)	(851,233)
Decrease in net debt	(752,009)	(747,789)
Net funds at 31 March 2012	17,840,003	18,587,792
Net funds at 31 March 2013	**17,087,994**	**17,840,003**

23 Analysis of change in net funds

	At 31 March 2012 £'000	Cash inflows/ (outflows) £'000	At 31 March 2013 £'000
Cash at bank and short-term deposits	114,029	45,675	159,704
Bank overdraft	–	(1,413)	(1,413)
	114,029	**44,262**	**158,291**

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 operates The FSA was considered to be a related party but not a controlling party during the year

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 £703,465,000 (2012 £576,944,000) including £363,177,000 raised as a levy for the interest on the loans relating to the Specified Deposit Defaults on 25 July 2012, a true-up levy of £31,300,000 on 29 January 2013, and £36,000,000 raised as a further interim levy on 20 March 2013 Related collections of £725,670,000 (2012 £535,270,000) were received The agency fee for the service was £420,000 (2012 £336,000)

Overall, payments less receipts of £724,756,000 (2012 £536,933,000) were made by the FSA to FSCS, leaving amounts due from the FSA to FSCS at 31 March 2013 of £818,000 (2012 £(96,000))

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 £8,000 (2012 £33,000) and administration fees of £42,000 (2012 £144,000) were paid to HM Treasury

At 31 March 2013 FSCS owed HM Treasury £37,343,000 (2012 £30,214,000) due to loans drawn down in advance of compensation payments of £3,158,000 (2012 £2,337,000) and £34,185,000 (2012 £27,877,000) relating to HM Treasury's 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 £2,216,000 (2012 £11,259,000) and on behalf of HM Treasury for DIGF of £34,000 (2012 £10,097,000) (see Note 11)

FSCS has also made a provision at 31 March 2013 of £540,000,000 (2012 £505,000,000) 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 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

26 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 2013

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 2013, with comparatives, including the equivalent fund balances for the year ended 31 March 2012, are set out as follows

	Page
Statement of directors' responsibilities in respect of the financial statements	Below
Summary of Classes and Sub-classes Accounts	138–143
Notes to the financial statements	144–149
Report of the auditors	150–151

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

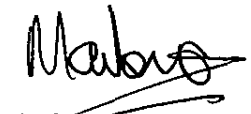
2) he/she has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that FSCS auditors are aware of that information

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 UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

By order of the Board



Mark Thomas
Secretary
26 June 2013

FSCS Classes and Sub-classes
Statement of Fund Movements for the year ended 31 March 2013

Funding sub-class code	Total		Compensation costs net of recoveries relating to SDDs		Deposit SA01		General Insurance Provision SB01	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
Compensation and interest	(325 581)	(346 691)	(7 261)	(18 270)	(38 527)	(57 836)	(80 045)	(54 308)
Exchange gain/(loss)	980	(779)	740	(828)	(16)	–	2	49
Other income	13	389	–	–	–	–	–	–
Recoveries received	776 777	759 213	728 728	673 292	3 646	678	18 908	3 635
	452 189	412 132	722 207	654 194	(34 897)	(57 158)	(61 135)	(50 624)
Attributable management costs								
Specific costs	(39 733)	(42 409)	–	–	(4 104)	(4 411)	(2 286)	(1 898)
Specified Deposit Defaults interest	(429 421)	(370 166)	–	–	(429 421)	(370 166)	–	–
	(469 154)	(412 575)	–	–	(433 525)	(374 577)	(2 286)	(1 898)
Interest received								
Gross before tax	82	193	–	–	48	5	50	49
Tax at 20%	65	(49)	–	–	38	(1)	40	(13)
	147	144	–	–	86	4	90	36
Levies received	700 803	498 679	–	4 436	379 381	353 318	61 576	50 802
Cross-subsidy transfer	–	–	–	–	–	–	–	–
Repayment of recoveries	–	–	–	–	–	–	–	–
Funds brought forward	(18 734 325)	(19 232 705)	(17 903 060)	(18 561 690)	(861 465)	(783 052)	45 826	47 510
Funds carried forward	**(18 050 340)**	**(18 734 325)**	**(17 180 853)**	**(17 903 060)**	**(950 420)**	**(861 465)**	**44 071**	**45 826**

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	
2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
(69 565)	(86 449)	(1)	(2)	(24 308)	(20 603)	(65)	(151)	(105 287)	(108 765)	–	–	(522)	(307)
–	–	–	–	(1)	–	(2)	–	256	–	–	–	1	–
–	–	–	–	–	–	–	–	13	389	–	–	–	–
17 415	48 992	–	–	965	1 347	3 652	29 607	3 452	1 662	–	–	11	–
(52 150)	(37 457)	(1)	(2)	(23 344)	(19 256)	3 585	29 456	(101 566)	(106 714)	–	–	(510)	(307)
(14 258)	(14 914)	(110)	(84)	(3 156)	(3 910)	(388)	(799)	(14 320)	(14 928)	–	–	(1 111)	(1 465)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
(14 258)	(14 914)	(110)	(84)	(3 156)	(3 910)	(388)	(799)	(14 320)	(14 928)	–	–	(1 111)	(1 465)
18	25	1	1	10	2	30	27	(74)	85	(0)	–	(1)	(1)
14	(6)	1	–	8	–	24	(7)	(59)	(22)	(0)	–	(1)	–
32	19	2	1	18	2	54	20	(133)	63	(0)	–	(2)	(1)
40 674	68 276	7	525	50 892	22 236	16 354	(35 794)	147 446	33 881	–	–	4 473	999
–	–	–	–	–	–	(16 396)	35 934	16 396	(35 934)	–	–	–	–
–	–	–	–	–	–	(28 324)	–	28 324	–	–	–	–	–
25 636	9 712	854	414	748	1 676	29 656	839	(71 767)	51 865	–	–	(753)	21
(67)	**25 636**	**752**	**854**	**25 158**	**748**	**4 541**	**29 656**	**4 380**	**(71 767)**	**(0)**	–	**2 097**	**(753)**

FSCS Classes and Sub-classes
Statement of Assets and Liabilities at 31 March 2013

Funding sub-class code	Total		Compensation costs net of recoveries relating to SDDs		Deposit SA01		General Insurance Provision SB01	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
Current assets								
Net amounts due from FSCS	91 373	106 495	–	–	–	–	47 503	47 389
Taxation	(1)	75	–	–	–	2	–	19
Term deposits and cash at bank	20 351	25 645	–	–	19 974	25 447	377	198
	111 722	132 215	–	–	19 974	25 449	47 880	47 606
Current liabilities								
Net amounts due to FSCS	(430 303)	(453 061)	–	–	(430 303)	(381 870)	–	–
Taxation	2	–	–	–	1	–	1	–
Bank overdrafts	(10 909)	(5 419)	–	–	(92)	(44)	(3 811)	(1 780)
	(441 210)	(458 480)	–	–	(430 394)	(381 914)	(3 810)	(1 780)
Long term liabilities								
Net amounts due to FSCS	(17 720 853)	(18 408 060)	(17 180 853)	(17 903 060)	(540 000)	(505 000)	–	–
Total net assets/(liabilities)	(18 050 340)	(18,734 325)	(17 180 853)	(17 903 060)	(950 420)	(861 465)	44 071	45 826

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	
2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
1 328	27 133	752	854	25 926	1 473	4 541	29 646	9 220	–	–	–	2 102	–
–	10	–	–	–	2	–	10	(1)	32	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–
1 328	27 143	752	854	25 926	1 475	4 541	29 656	9 219	32	–	–	2 102	–
–	–	–	–	–	–	–	–	–	(70 446)	–	–	–	(745)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
(1 394)	(1 507)	–	–	(768)	(727)	–	–	(4 839)	(1 353)	–	–	(5)	(8)
(1 394)	(1 507)	–	–	(768)	(727)	–	–	(4 839)	(71 799)	–	–	(5)	(753)
–	–	–	–	–	–	–	–	–	–	–	–	–	–
(66)	**25 636**	**752**	**854**	**25,158**	**748**	**4 541**	**29,656**	**4,380**	**(71,767)**	**–**	**–**	**2,097**	**(753)**

FSCS Classes and Sub-classes
Statement of Base Costs and Related Levies at 31 March 2013

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	
	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
Levies received	25 217	36 582	692	1 655	8 434	10 987	428	856	1 643	2 919	3 027	3 937	–	140
Base costs allocated	(23 599)	(23 184)	(849)	(834)	(7 728)	(7 601)	(618)	(607)	(1 756)	(1 728)	(2 672)	(2 630)	(72)	(69)
Balance at 1 April 2012	8 271	(5 127)	604	(217)	1 654	(1 732)	395	146	610	(581)	381	(926)	107	36
Funds carried forward	**9 889**	**8 271**	**447**	**604**	**2 360**	**1 654**	**205**	**395**	**497**	**610**	**736**	**381**	**35**	**107**
Current assets														
Net amounts due from FSCS	9 889	8 290	447	604	2 360	1 654	205	395	497	610	736	381	35	107
	9 889	8 290	447	604	2 360	1 654	205	395	497	610	736	381	35	107
Current liabilities														
Net amounts due to FSCS	–	(19)	–	–	–	–	–	–	–	–	–	–	–	–
	–	(19)	–	–	–	–	–	–	–	–	–	–	–	–
Total net assets/ (liabilities)	**9 889**	**8 271**	**447**	**604**	**2 360**	**1 654**	**205**	**395**	**497**	**610**	**736**	**381**	**35**	**107**

Approved by the Board of Financial Services Compensation Scheme Limited, as designated Scheme Manager of the classes and sub-classes, on 18 June 2013 and signed on its behalf on 26 June 2013 by

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	
2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000	2011/12 £'000
1 764	2 421	434	554	2 963	2 523	2 053	2 388	1 398	3 924	551	703	419	1 149	1 411	2 426
(1 630)	(1 604)	(483)	(472)	(2 171)	(2 138)	(1 742)	(1 707)	(1 675)	(1 638)	(519)	(506)	(632)	(619)	(1 052)	(1 031)
554	(263)	94	12	(19)	(404)	345	(336)	1 905	(381)	155	(42)	587	57	899	(496)
688	**554**	**45**	**94**	**773**	**(19)**	**656**	**345**	**1,628**	**1 905**	**187**	**155**	**374**	**587**	**1 258**	**899**
688	554	45	94	773	–	656	345	1 628	1 905	187	155	374	587	1 258	899
688	554	45	94	773	–	656	345	1 628	1 905	187	155	374	587	1 258	899
–	–	–	–	–	(19)	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	(19)	–	–	–	–	–	–	–	–	–	–
688	**554**	**45**	**94**	**773**	**(19)**	**656**	**345**	**1,628**	**1 905**	**187**	**155**	**374**	**587**	**1,258**	**899**

FSCS: Notes to the Classes and Sub-classes Financial Statements for the year ended 31 March 2013

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 26 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

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 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

	Year ended 31 March 2012 £'000	FSCS manual payments £'000	Year ended 31 March 2013 £'000
Bradford & Bingley Plc	15,654,509	–	15,654,509
Heritable Bank Plc	464,676	–	464,676
Kaupthing Singer & Friedlander Limited	2,589,004	145	2,589,149
Landsbanki Islands hf – Icesave	1,434,134	10	1,434,144
London Scottish Bank Plc	231,721	7,106	238,827
	20,374,044	**7,261**	**20,381,305**

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 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 29 February 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 2013 £'000	Year ended 31 March 2012 £'000
Term deposits	Available money market rates	19	23
Other bank accounts	Available rates	24	31
Loan interest		39	138
		82	**192**

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 applied for a reduction of the amount levied due to mistakes in the tariff data submitted by them to the FSA This process was completed in the year to 31 March 2013 and the final claims totalled £112,860,000 (2012 £86,024,000) A total of £66,680,000 (2012 £52,100,000) of claims had been accepted and credit and debit notes raised Those credit notes have been accounted for in the classes and sub-classes The provision for credit note requests that had been received but were still under investigation has now been released (2012 £3,190,000) in the financial statements of the Scheme Manager (see Note 17) and in accordance with the accounting policies herein, are not recognised in the classes and sub-classes

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 2013, 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 2013 of £377,000 (2012 £198,000) 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 had served notice on FSCS, revised during 2011/12, placing an obligation on FSCS to contribute to the costs of the resolution, plus 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 £35,000,000 in the financial statements of the Scheme Manager for the year ended 31 March 2013, 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 When FSCS is notified by HM Treasury of the final agreed 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 £13,182,000 (2012 £41,438,000) and management expenses of £3,552,000 (2012 £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 2013 These amounts have been recovered from the Scheme Manager

10 Going concern

At 31 March 2013 the classes and sub-classes had a total deficit of £18,050,340,000 as a result of compensation costs and management expenses being paid out in advance of levies being received

At 31 March 2013 the total deficit included current liabilities of £441,210,000 of which £430,303,000 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 2013 the classes and sub-classes had a long-term liability of £17,720,853,000 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 only be repayable through recoveries or dividends from the estates of defaulted firms and, to the extent 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 Conduct 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 2013 which comprise the Statement of Fund Movements, the 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 137, 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 FCA 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 144–146,

being the rules relevant to the period upon which we report ('the relevant rules')

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 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 on financial statements

In our opinion the financial statements for the year ended 31 March 2013 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 144–146

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we have agreed under the terms of our engagement to report to you if, in our opinion

- adequate accounting records have not been kept for the classes and sub-classes, or
- we have not received all the information and explanations we require for our audit

Other matter

Our audit was performed based on the relevant rules which were in force during the year ended 31 March 2013, as set out above

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 June 2013

How to contact us

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Lines are open Mondays to Fridays
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