Asset
Protection
Agency

an Executive Agency of HM Treasury

Annual Report and Accounts 2011-12

of the Asset Protection Agency

HC 433

July 2012

Asset Protection Agency
Annual Report and Accounts 2011-12

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Chief Executive's Foreword

This is the third Annual Report and Accounts of the Asset Protection Agency. The economic climate is much changed since RBS acceded to the scheme in December 2009 and yet globally much appears the same. While the level of risk in the Scheme has reduced significantly, we are entering a period of expected economic turmoil; turmoil the APS as currently configured cannot protect against. As we stand, it remains RBS' stated aim that they wish to exit the Scheme before the end of 2012, which HM Treasury and the FSA are currently considering.

When RBS acceded to the Scheme, the value of assets (£286bn) protected by the Scheme was unprecedented. Today the total Covered Amount, while high (£120.8bn at 31 March 2012), has significantly less risk attached to it. It remains my expectation that there will be no payout under the Scheme while HMT will realise a £5bn profit for protection rendered to both RBS and Lloyds Banking Group.

My confidence with respect to HMT's eventual payout is underpinned by the expected loss in the Scheme. We currently expect losses incurred in the portfolio to be £39bn. In order for a payout to occur, the economic climate would have to deteriorate rapidly and dramatically to levels where banks around the world, not just RBS, would be facing significant economic concerns.

During the year as part of our focus on maximising the value of the assets in the Scheme and reducing the probability of payout, the APA successfully influenced RBS' strategy for commutation of certain large monoline exposures, collection and management of data for Non-Core commercial real estate, better coordination of management of Non-Core commercial real estate managed in Global Restructuring Group, improved credit analysis and risk management in Global Restructuring Group and application of capital pricing models in Non-Core Division and Global Restructuring Group. The APA is pleased with the progress to date and continues to seek improvements.

In line with the reduction of risk in the Scheme, we have taken steps to align our activities in a manner which is commensurate with the level of risk in the Scheme. In our previous report, we noted that we have agreed a "simplification" of the Scheme with RBS which was expected to increase the Scheme's efficiency. In the reporting period we have also agreed with RBS the reduction of the number of reported data fields from around 150 to 10. It is expected that this will save RBS more than £10m in 2012, we are in active discussions with RBS on opportunities to achieve further operational savings.

Mindful of the value for money we can offer, I have begun scaling back the Agency's activities and staff levels to ensure that we continue to protect the taxpayers' interests in a way that is proportionate to the risks we are managing.

We continue to work constructively with RBS and seek to add value wherever possible. We continue to support HMT and the FSA in their deliberations over RBS' potential exit from the Scheme in the course of the year.

Three members of the APA's Leadership Team left the organisation during the period. I would like to extend my thanks to Stephan Wilcke (CEO), Jens Bech (Chief Risk Officer) and Lucy Wylde (General Counsel) for their Herculean effort and contribution to the Agency during their respective tenures here.

I would also like to thank my staff for their significant contribution to the Agency and express my appreciation for our continuing constructive relationships with RBS and HM Treasury senior management.

Bill Dickinson
Chief Executive
28 June 2012

1 Business Review

1.1 Investment Management

1.1.1 Functions

The Investment Management team fulfils its responsibility for oversight and monitoring of Covered Assets by:

- reviewing individual large credit exposures (i) presented to the APA and requiring a credit decision (credit reviews) and (ii) selected by the APA for review (asset reviews); and

- reviewing RBS business divisions which manage significant numbers of Covered Assets, including assessing their strategies, operations and management capabilities.

As at 31 March 2012, the Investment Management team comprised 11 asset specialists focused on three broad asset classes[1] to which all large Covered Assets have been allocated: corporate and leveraged finance, commercial real estate, and structured products.

1.1.2 Individual Assets

The focus for asset reviews has been the higher risk positions remaining in the Scheme. The team has therefore focused on ongoing participation and review of larger, high risk assets, which form a "Focus List". Assets contained on the Focus List are prioritised based on frequency and intensity of monitoring with live restructurings or loan sales being monitored on a weekly basis and less active situations reviewed on a less regular basis.

As at 31 March 2012, the Focus List comprised 259 borrower groups representing £47.7bn of Covered Amount of total APS Covered Amount.

During the reporting period we conducted formal credit reviews[2] on 177 of the focus list positions with aggregate Covered Amount of £31.3bn (Table 1) at a steady average rate of 3.4 per week.

[1] These APA asset classes do not reconcile to the official Covered Asset Classes defined for EU state aid purposes in the APS as certain Covered Asset Classes such as Loans, Bonds and Derivatives have been reallocated for APA internal management purposes.
[2] For the avoidance of doubt the APA is not involved in granting new credit to borrowers, but rather in credit decisions on how large existing borrowings covered by the APS are amended, restructured, refinanced, or sold where the borrower is experiencing difficulty.

Table 1: Focus List as a Proportion of Total APS Portfolio

	CRE Total	%	CLF Total	%	SF Total	%	Other	%	Total	%
Focus Portfolio Amount (£)	£18,023m	57%	£11,211m	23%	£18,484m	76%	£0m	0%	£47,718m	36%
Total Amount APS (£)	£31,424m	100%	£49,480m	100%	£24,359m	100%	£26,508m	100%	£131,771m	100%
	CRE Total	%	CLF Total	%	SF Total	%			Total	%
Focus Portfolio Number	115	2%	65	0%	79	11%	-	0%	259	0%
Total Number APS	5,650	100%	202,284	100%	739	100%	2,450,483	100%	2,659,156	100%

The Focus List represents 36% of the entire APS portfolio Covered Amount of £121bn (figure from data as at 31 March 2012). The table above provides analysis of the focus list versus the total APS portfolio by APA workstream (CRE - Commercial Real Estate, CLF - Corporate Leveraged Finance, SF - Structured Finance, Other is equivalent to retail).

1.1.3 General Asset Management

During the reporting period, the APA continued its reviews of RBS businesses in several areas including Non-Core Division, Global Restructuring Group, structured finance, commercial real estate, unsecured consumer loans residential mortgages. These reviews provide the APA with the ability to assess whether Covered Assets are receiving the best possible management, including whether outsourced asset management would be appropriate.

As noted in the CEO foreword, the APA has forged a strong working relationship with RBS which has allowed us to provide recommendations to successfully influence RBS' strategy for commutation of certain large monoline exposures, collection and management of data for Non-Core commercial real estate, better coordination of management of Non-Core commercial real estate managed in GRG, improved credit analysis and risk management in Global Restructuring Group and application of capital pricing models in Non-Core Division and Global Restructuring Group. We continue to work with RBS and seek to provide value to their operations where appropriate.

1.2 Risk

The Risk team is responsible for monitoring and managing financial risks from the APS through:

- monitoring the evolution of incurred losses and portfolio credit quality;
- providing forecasts on loss evolution and stress testing adverse scenarios;
- providing an accounting valuation of the APS, the world's largest credit derivative contract;
- awarding Loss Credits where RBS disposes of assets before losses are formally incurred under the Conditions; and
- membership of the APA Credit Committee which makes asset-by-asset decisions on individual large credit exposures.

As at 31 March 2012, the Risk team comprised 6 staff.

The APA has a range of risk policies and supporting processes in place to identify and manage its risk and to promote a strong culture of risk awareness throughout its operations. The risks associated with running the Scheme fall into two broad categories:

- Financial risks associated with HMT's potential liability under the Scheme; and
- Operational risks of running the Scheme and the APA.

This section focuses on the first category, i.e. the financial risks associated with HMT's potential liability under the APS. The second category is dealt with in the Governance Statement included in Chapter 4.

Over the course of the reporting period, the Risk team has begun to reduce the scale of its operations, consistent with the reduction of risk in the portfolio including the CEO assuming the responsibilities of the CRO. Despite this reduction in resource, the Risk team continued to meet its targets as set out in the APA's Business Plan 2011-12. More information on these can be found in Chapter 2 of this report.

The following sub-sections describe how the Risk team has discharged its responsibilities of portfolio loss forecasting, awarding Loss Credits and determining the fair value of the APS.

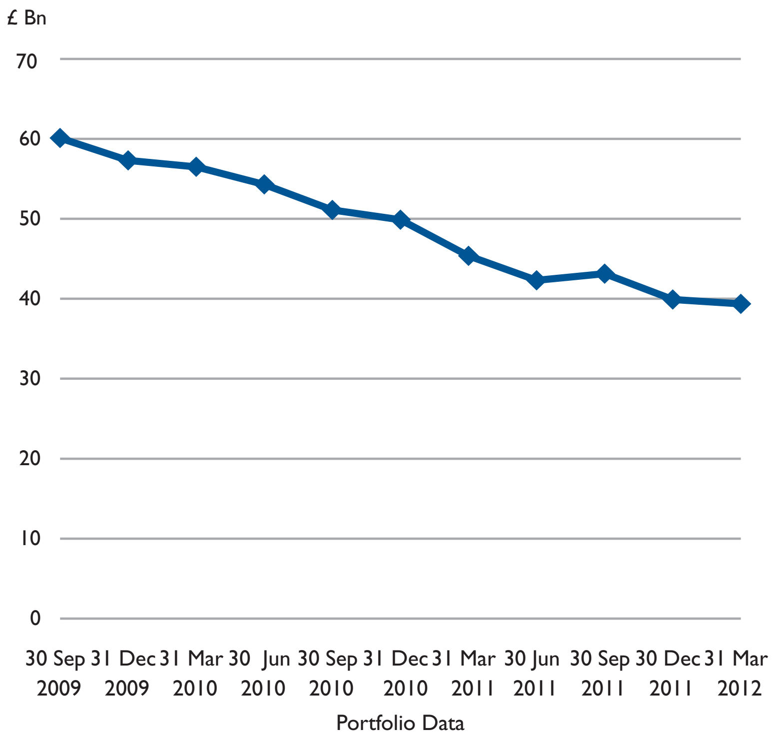
1.2.1 Developments in the APS risk exposure

The economic outlook is a key driver of the uncertainty surrounding future Scheme Losses and Recoveries, and thus the risk of HMT having to payout under the Scheme. The APA does not prepare its own economic forecasts but rather adapts external forecasts for use in its analysis. The principal sources for the APA base case forecast of Expected Loss are the Office for Budget Responsibility for UK information and the IMF for the rest of the world. Specialist forecasts are used for property prices. The overall picture is one of steady but slow economic recovery, with a gradual return to long-run GDP growth rates but a persistent gap below trend GDP. Employment and property prices are expected to recover as well, but more slowly than the recovery in output.

At 31 March 2012, Triggered Amount (including Loss Credits) stood at £36bn and Recoveries at £3bn, meaning that 55 per cent of the first loss threshold of £60bn had been utilised. The APA base case Expected Loss forecast based on 31 March 2012 portfolio data was £39bn, down from an Expected Loss forecast of £45bn based on 31 March 2011 portfolio data reported in the APA's Annual Report for the year to 31 March 2011.

The economic outlook has generally improved since RBS' accession to the Scheme in December 2009 and the portfolio of assets has decreased significantly in size as many assets have passed their Cover Termination Dates or been refinanced with other lenders. Consistent with this improvement, the APA's forecast of Expected Loss has followed a downward trend since the initial forecast was prepared on 30 September 2009 portfolio data as illustrated in Figure 1 below. The downward trend reflects improvements in the economic environment and risk parameters including the size of the portfolio, as well as the APA's deeper understanding of the Covered Assets, which has enabled it to unwind some of the conservatism built into earlier forecasts.

Figure 1: Evolution of Expected Loss



Source: APA analysis

As in the last annual report, the APA has prepared a stress case loss forecast. The stress case is broadly consistent with that set out in the FSA's Prudential Risk Outlook 2011, shifted to initiate the stress scenario in Q2 2012 and with some adaptation to fit the structure of the APA's forecasting model.

In summary, the stress scenario assumes a severe downturn in the macroeconomic environment. UK GDP growth is assumed to stall, with real GDP declining by 4.3 per cent. Alongside this fall in GDP, the scenario includes a rise in unemployment to a peak of 12.4 per cent and allows for a 'double-dip' in property prices, with house prices falling by 21 per cent from current levels and commercial property by nearly 40 per cent. The stress scenario assumes that interest rates are kept relatively low in response to the reduction in real output. The APA has used similar magnitude stress assumptions outside the UK.

In its stress case scenario, the APA predicts an Expected Loss on the APS portfolio of £42bn, which is 7 per cent higher than in the base case scenario.

Table 2 below shows Covered Amount, Triggered Amount and Expected Loss across asset classes for the APA's base and stress case forecasts based on portfolio data as at 31 March 2012. In the APA's base case, the overall Expected Loss on the portfolio is estimated at 14 per cent with consumer finance, leveraged finance, commercial real estate finance and structured finance portfolios representing 75 per cent of total Expected Loss in the base case. The APA stress case loss forecast is particularly driven by increased losses in commercial real estate and structured finance.

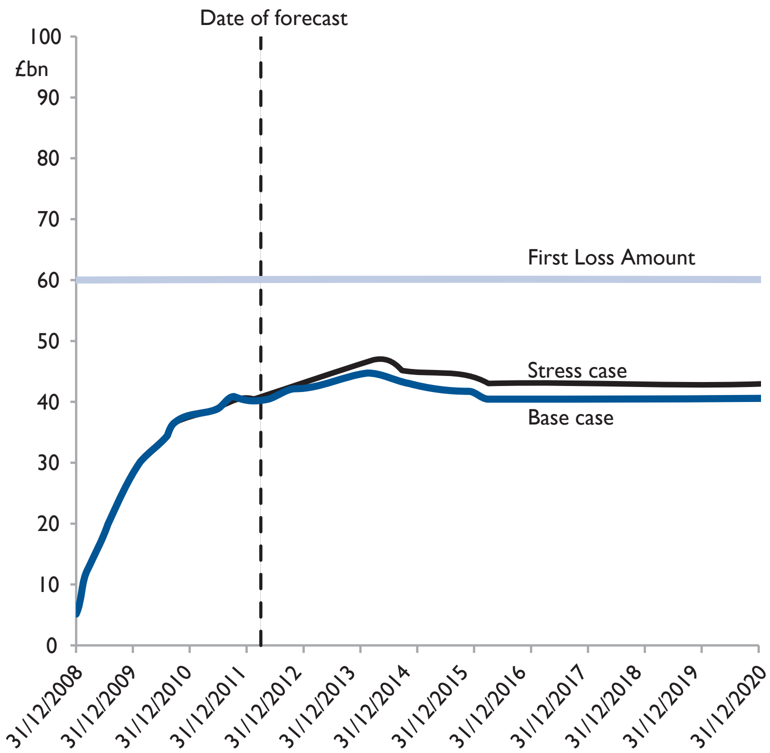
Table 2: Base and stress case loss forecasts based on portfolio data at 31st March 2012 (£bn unless otherwise stated)

APS Asset Classes	Initial Covered Amount at 31/12/2008	Covered Amount at 31/03/2011	Net Triggered Amount incl. Loss Credits	Base case		Stress case	
				Expected Loss	% of initial Covered Amount	Expected Loss	% of initial Covered Amount
Residential mortgages	15	12	0.4	2	11%	2	13%
Consumer finance	55	27	8	10	17%	10	18%
Bonds	2	0.1	£0.05m	£0.3m	0.02%	£0.4m	0.02%
Loan	80	19	4	5	6%	5	6%
Lease finance	2	1	0	0.3	13%	0.3	13%
Project finance	2	1	0.05	0.1	4%	0.1	4%
Leveraged finance	28	11	4	3	10%	3	11%
Commercial real estate	40	20	4	7	18%	8	20%
Structured finance	36	17	11	10	27%	10	28%
Derivatives	26	13	2	3	12%	3	13%
Total (£bn)	**286**	**121**	**33**	**39**	**14%**	**42**	**15%**

Source: APA analysis

Figure 2 below shows the projections of Net Loss (i.e. Triggered Amount minus Recoveries at any given point in time) for the base and stress cases based on portfolio data as at 31 March 2012. Under both the base and stress cases, Net Loss is not expected to exceed the £60bn first loss amount.

Figure 2: Base and stress case net loss forecasts based on portfolio data at 31 March 2012



Source: APA analysis

HMT benefits from substantial over-collateralisation in the Scheme. The first layer of overcollateralization is provided by the first loss amount of £60bn. The second layer is due to the fact that RBS is required to pay a £500m annual fee to remain in the Scheme.3 Only if losses are over approximately £73bn will the value of the Scheme payments be greater than the fees, and so only at that level would RBS rationally stay in and an ultimate payout be made.

The degree of over-collateralisation can be measured as the expected value of performing assets and expected Recoveries (which equals Covered Amount minus Expected Loss) relative to the size of the effective second loss tranche4 as shown below.

$$\text{Over-collateralisation in per cent} = \frac{\text{Covered Amount - Expected Loss}}{\text{Effective second loss tranche}} - 1$$

[3] If RBS exits the Scheme, any payment received by RBS must be paid back to HMT with interest.
[4] This is the amount by which the Covered Amount exceeds the £73bn referred to in the text.

Since the Scheme's inception to 31 March 2012, the degree of overcollateralization has increased from 6 to 70 per cent.

In addition to the stress case loss forecast, the APA has prepared reverse stress tests to determine the scenarios required to breach the £60bn and £75bn loss thresholds. As can be seen in Table 3 below, the scenarios required to breach even the £60bn level are extreme and require a real drop in GDP of 32%, with unemployment reaching 30%. The extreme nature of these scenarios is due to the fact that the APS portfolio has reduced significantly since inception and the Cover on many of the remaining assets is due to end over 2012 -2014. Extreme and rapidly occurring adverse scenarios are required to trigger a sufficient number of assets to breach either threshold.

Table 3: APA scenarios to reach £60bn and £75bn expected losses using 2012 q1 portfolio data

Scenarios required in the UK (with other regions similar) to reach expected losses of:	£60bn	£75bn
Real GDP trough (drop from Q1 2012 real GDP level)	-32%	-55%
Peak unemployment (percentage of labour force) and remaining at this level	30%	45%
CRE index change (drop from Q1 2012 index level) and remaining at this level	-69%	-92%
HPI change (drop from Q1 2012 index level) and remaining at this level	-47%	-71%

Source: APA analysis

1.2.2 Awarding of Loss Credits on disposal of assets

When RBS disposes of Non-Triggered Assets it is not entitled to compensation for any discount to par that it may incur as a result of the sale, as the Scheme covers only principal losses on Triggered Assets. To ensure RBS incentives to de-risk the APS portfolio are not reduced by the existence of the Scheme, a Loss Credit is generally awarded on the disposal of Non-Triggered Assets. The Loss Credit is based on the expectation of the Net Loss that would have been incurred on the asset had it remained within the Scheme.

Withdrawal of a Non-Triggered Asset reduces the total number of assets in the Scheme and thereby reduces the level of potential Losses covered by the Scheme. If no Loss Credits were awarded, RBS would extract less benefit from the Scheme as assets were removed, but its payments for being in the Scheme would remain unchanged; this could discourage RBS from selling assets covered by the Scheme. The award of a Loss Credit redresses the balance and ensures that RBS gains at least some of the benefit it would have had if it retained the asset within the Scheme while de-risking the Scheme and the bank overall.

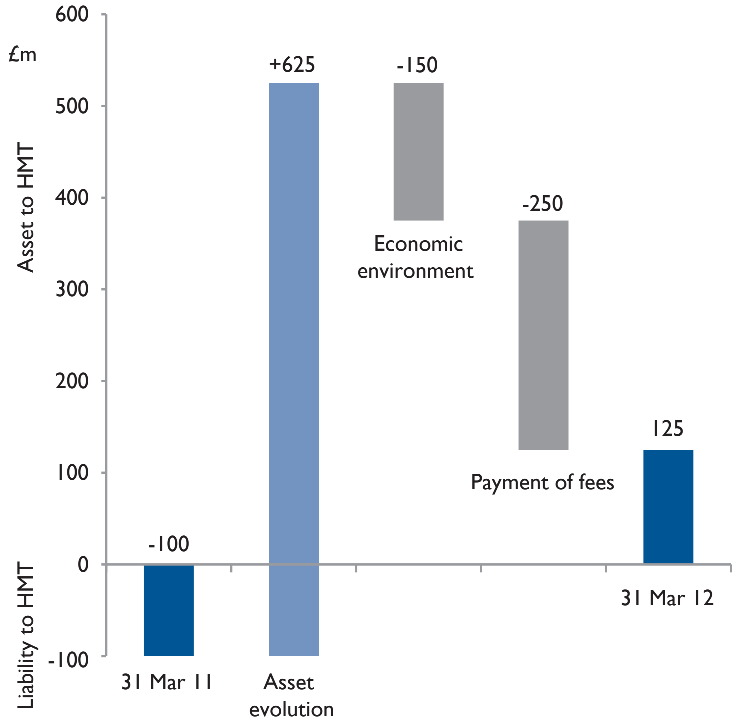
As at 31 March 2012 the APA had awarded Loss Credits of £1.8bn on £11bn of Covered Assets. The Loss Credits included individual disposals as well as number of portfolio disposals. HMT has reviewed the functioning of the Loss Credit mechanism over the year and decided to continue it, with a further review in a year's time or, if earlier, when awarded Loss Credits exceed £10bn. However, from 1 January 2012, RBS has expressed an intention to only request Loss Credits under exceptional circumstances, in line with the reduced chance of payout from the Scheme.

1.2.3 Valuation of the APS

For the purposes of HMT's Annual Report and Accounts, the APS is accounted for as a derivative. In accordance with IFRS, the APS is marked-to-market, with the result reflecting movements in credit spreads, exchange rates, interest rates, and the quality of the underlying portfolio.

As at 31 March 2012, the fair value of the APS is a £125m asset to HMT. This is a mark-to-market profit to HMT of £2,475m since inception (£200m in the year to 31 March 2010, £1,800m in the year to 31 March 2011, and £475m in the year to 31 March 2012). The fair value of the APS asset is the value of the remaining fee payments less the protection. Figure 3 below summarises the drivers of change in the valuation since 31 March 2011.

Figure 3: Attribution of changes in value since 31 March 2011 (£m)



Source: APA analysis

The APS asset value decreases as Scheme payments are received and the value of remaining payments is reduced, but no profit is recognised at that time. Profits are recognised only as the value of the protection decreases. The central expectation is that the value of the protection will decrease smoothly through time, though even in this case, there will be jumps in the derivative valuation as fees are paid. The current valuation is consistent with the expectation of no payout by HMT and an exit by RBS at the point of having paid the minimum fee of £2.5bn.

The valuation model incorporates several simplifications, the most significant of which is over the exit option. The model assumes RBS will have perfect foresight as to the level of ultimate losses and stay in only if the value of protection payments exceeds the value of the fees; otherwise, RBS will seek to exit on 30 September 2012 having paid the minimum fee of £2.5bn.

The timing of RBS's exit from the Scheme has not yet been determined and is subject to regulatory and other factors. While the possibility of RBS continuing in the APS beyond September 2012 increases the value of the derivative to HMT, this has not been reflected in the valuation, as it would be a purely subjective adjustment.

Further details on the valuation of the APS financial instrument can be found in HMT's Annual Report and Accounts.

1.3 Finance and Operations

The Finance and Operations team is responsible for the oversight of data reported under the Scheme, Scheme Ledger reporting, IT and other infrastructure, as well as the APA's HR and finance function. Section 2.2 of this report contains management commentary for the APA's financial results for the period 1 April 2011 to 31 March 2012.

As at 31 March 2012, the Finance and Operations team comprised 11 staff.

1.3.1 Data Management and Validation

The APA's approach to data management and reporting has changed significantly in the reporting period. In light of the significantly reduced likelihood of payout, the APA and RBS agreed to reduce the number of reported data fields from around 150 to 10.

This "abridged reporting" has significantly improved the efficiency of the Scheme enabling RBS to save costs of more than £10m in 2012 while still enabling the APA to prepare fit for purpose loss forecasts and financial instrument valuations.

In addition to the reduction in data fields, RBS has also withdrawn over 5,000 Covered Assets from the Scheme during the reporting period. This withdrawal represents an aggregate reduction of 15.4 of Covered Amount and 6.7% of Risk Weighted Assets.

The APA estimates that cost savings in excess of £13m have been realised as a result of these new reporting measures.

1.3.2 Verification

Verification provides assurance over the data RBS submits to the APA and supplements the due diligence exercises carried out on assets prior to the formation of the APA.

In keeping with the APA's desire to place as much reliance as possible on RBS internal systems, the APA influenced the scope of work performed by RBS Group Internal Audit (GIA) who performed a number of audits of contractual reporting processes and limited substantive asset testing. Pricewaterhouse Coopers (PwC) performed an oversight role on behalf of the APA which included assessing the independence, competence and objectivity of GIA and carrying out re-performance of a selection of the tests performed by GIA. PwC conducted an assessment of GIA on behalf of the APA in order for the APA to place reliance on GIA's work for the period. PwC's findings enabled the APA to continue to conclude that it is appropriate to place reliance on the work of the GIA function in relation to APS audits. The work of GIA was performed to a high standard, for example GIA applied stringent protocols and developed well thought out workflow processes in their performance of verification procedures.

The APA gained assurance and evidence over the quality of the data reported to the APA by RBS from a number of sources that include:

- overseeing the reconciliations of the APS data to the audited financial accounts
- reviewing RBS's internal APS Annual Assurance Plan and Report
- attending the RBS Senior Oversight Committee
- analytical review procedures performed by the APA and RBS

2 Performance and Results

2.1 Performance against targets

This section of the document provides an assessment of APA performance against the targets that were included in the Agency's 2011-12 Business Plan.

1 To agree a focus list with RBS of priority large assets and update this regularly; to conduct reviews of all assets on the focus list by 31 March 2012; to provide RBS with timely decisions where required minimising delays; to avoid occasions (target >95%) in connection with Conduct Requiring Approval where, through lack of APA response within five business days, RBS is able to invoke the "snooze/lose" provisions.

Achieved.

The APA had agreed a Focus List of priority large assets with RBS in August 2011. This Focus List is reviewed on a monthly basis.

In the reporting period, the APA reviewed 177 files with £31.3bn Covered Amount.

2 To provide robust APS loss forecasts to HMT, both on a quarterly basis by no later than 6 weeks after receipt of Quarterly Statement data from RBS, and also in line with agreed timetables for fiscal events.

Achieved.

The APA provided quarterly loss forecasts in the reporting period within the timelines stated. In the period, the Expected Loss outcome decreased significantly from £45bn to £39bn.

3 To produce an auditable valuation of the APS that complies with International Financial Reporting Standards and in line with appropriate accounting policies, in accordance with agreed timelines for inclusion in HMT's Annual Report and Accounts and Parliamentary Estimates.

Achieved.

As at 31 March 2012, the fair value of the APS was a £125m asset on HMT's balance sheet. This is a mark-to-market profit to HMT of £2,475m since inception.

4 To progress the APA's programme of verification of data reported by RBS to provide evidence to support losses claimed, the data used to prepare the loss forecasts and determine whether a selection of Scheme rules have been complied with. To test the ten priority data fields for the top 20 per cent of assets, by value of Covered Amount, by 31 March 2012.

Achieved.

The APA gained assurance and evidence over the quality of the data reported to the APA by RBS from a number of sources, and was sufficient to provide comfort that the data used by the APA for loss forecasting and APS financial instrument valuation was fit for purpose.

The ten priority data fields for the top 20 per cent of assets by value of Covered Amount, were tested by 31 March 2012.

5 To monitor the implementation of APS adviser recommendations made in respect of asset management strategy for RBS business units managing covered assets.

Achieved.

As at 31 March 2012, all business unit projects had been completed and there were no outstanding business reviews.

6 To process all loss credits for disposal of non-triggered assets within one month of receipt of all relevant information.

Achieved.

As at 31 March 2012, 26 Loss Credits had been processed, of which 100% had been processed within one month.

RBS advised the APA that it would only request Loss Credits in exceptional circumstances from 1 January 2012.

7 To provide full and accurate reporting to HMT's APS Team and HMT Group Finance, within agreed timelines and taking account of Parliamentary reporting requirements and targets agreed with HMT.

Achieved.

In the reporting period, the APA met all of its reporting requirements to HMT.

8 To conduct APA operations in accordance with Government data handling, IT use and security policies.

Achieved.

The APA has complied with all Government policies relating to data handling, IT use and security in the reporting period.

9 To operate within budget and in line with HMT Group policies including on financial and commercial management.

The APA operated within its budget for the reporting period.

10 In line with HMT Group policies to provide HMT with relevant information in a timely manner to enable HMT to meet operational, contractual and statutory deadlines when responding to Parliamentary Questions and Freedom of Information requests.

Achieved.

In the reporting period, the APA responded to all Parliamentary Questions and Freedom of Information requests within the required timeframes. All statutory and other deadlines in relation to the provision of requested information were met.

2.2 APA financial results

The APA's financial results for the period from 1 April 2011 to 31 March 2012 were £10.3m of revenue and £10.3m of costs, as costs incurred by the APA in managing and administering the APS are passed on to RBS under the terms of the Scheme.

The Parliamentary control totals were income of £10.0m and Gross Administration Costs, excluding provision expense, of £10.0m.

Actual costs of £9.4m excluding provision expense of £0.9m, were £0.6m lower than the amount originally budgeted, in particular due to lower than budgeted Verification and Legal expenditures. The £0.9m provision expense is classified as Annually Managed Expenditure (AME) and is offset by under spends elsewhere in HM Treasury's AME budget for 2011-12. The actual net operating costs of nil were the same as that budgeted.

At 31 March 2012, APA's statement of financial position showed total assets less liabilities surplus as was the case at 31 March 2011. The APA's statement of financial position is a product of the relationship between the APA and HMT as its parent department. The APA is an executive agency operating at arm's length from ministers, but its funding is an allocation of the total voted by Parliament to HMT. The APA has no operating capital or cash of its own; its liabilities are paid by HMT. The cash funding thus provided by HMT to the APA does not equate to the net operating cost recorded by the APA on an accrual basis. As required by the Government Financial Reporting Manual, funding is recorded in the general fund within Taxpayers' Equity, along with net operating cost. The balance of Taxpayers' Equity can therefore be particularly affected by unpaid and accrued liabilities recognised as an expense by the APA but not yet funded by HMT and outstanding receivables.

2.3 APA supplier payment policy

All the APA's supplier invoices are processed for payment by HMT, which is committed to the prompt payment of all invoices not in dispute. In May 2010, the government introduced a five day payment target for SME suppliers to receive payment which accelerated payment from the 10 day target set for SME suppliers in November 2008. During 2011-12, HM Treasury Group achieved 93 per cent of all supplier payments within five days (against a target of 90 per cent).

The APA's trade creditor days for the period, calculated as the proportion that is the aggregate amount owed to trade creditors at 31 March 2012 compared with the aggregate amount invoiced by suppliers during the year, expressed as a number of days when compared with the one year period of account, was 0 days (2010-11: 3.2 days for the one year period of account).

3 Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HMT has directed the APA to prepare, for each financial year, the resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HMT has appointed the Chief Executive as the Accounting Officer of the APA.

The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the APA's assets, are set out in Chapter 3 of Managing Public Money published by HMT.

4 Governance Statement

4.1 Scope of responsibility

As the Accounting Officer for the APA, I am responsible for maintaining a sound system of internal control that supports the achievement of APA policies, aims and objectives, whilst safeguarding the public funds and APA assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

The APA is legally part of HMT; however, as an executive agency, it operates at arm's length from Ministers. Oversight of and approval for policy, strategic objectives and the financial framework of the APA are the responsibilities of the Chancellor of the Exchequer, which he has delegated to the Permanent Secretary of HMT. In my role as the Chief Executive and Accounting Officer of the APA, the Permanent Secretary has further delegated responsibility for the operational decisions and day-to-day management of the APA to me.

As Chief Executive and Accounting Officer of the APA, I am responsible for ensuring that the APA carries out its functions in accordance with the Framework Document, the APA's annual Business Plan and the Accounting Officer delegation letter from the Permanent Secretary. In addition to my responsibilities relating to the APA, I am responsible for managing and measuring the Government's liability under the APS, which for the year to 31 March 2012 included producing an independent estimate of expected losses, expected recoveries and the expected future value of the protection issued under the APS to be incorporated into HMT's Resource Accounts, and also verifying any sums to be paid out by HMT as a result of the protection offered under the APS. These responsibilities are to be discharged in a way that will deliver value for money and in line with the terms and conditions of the APS.

4.2 Governance: Advisory Board, Committees, Leadership Team and internal audit

Advisory Board

Role and responsibilities of the Advisory Board

The APA has established an Advisory Board (the "Board") to advise its Chief Executive and Accounting Officer on all strategic operational and management issues pertaining to the achievement of the APA's objectives and fulfilment of its responsibilities.

Size and Composition of the Advisory Board

Members of the Board have been appointed by the Permanent Secretary of HMT, in line with applicable HMT and Cabinet Office guidance, acting on the recommendation of the Chief Executive of the APA. The Board consists of:

- two independent directors, one of whom acts as Chairman;
- two senior representatives from HMT;
- the Chief Executive and Accounting Officer of the APA; and
- the APA's Leadership Team (see below).

The Board includes at least one member who holds professional qualifications from a recognised accounting body.

Operation of the Advisory Board

The Board usually meets at least quarterly, or more often as required. Its meetings are chaired by the Chairman. The Board may establish Committees of the Board as it determines appropriate and details of the current Committees are provided below.

The Board and its Committees self-assess their effectiveness on an annual basis in accordance with their respective terms of reference. The most recent self-assessments were performed in the period March to June 2012. Results concluded that the activities of the Board and the Committees were fit for purpose having regard to their terms of reference and the APA's stated objectives.

The Board is advisory, has no statutory function, and works with the Chief Executive and Accounting Officer to develop corporate policy, ensure good corporate and financial governance and monitor performance including an assessment of the APA's compliance with the Corporate Governance Code. Responsibility for all decisions taken by the APA remains with the Chief Executive and Accounting Officer of the APA.

Please see below 2 tables detailing the number of board meetings held during the year and attendance by members:

Table 1: Attendance at APA Advisory Board Meetings

Board Member	15 September 2011	6 December 2011	6 March 2012
Jack Caouette	✓	✓	✓
Hamish Buckland	✓	✓	✓
Elizabeth Dymond		✓	✓
Mridul Hegde	✓	✓	✓
Stephan Wilcke	✓		
Bill Dickinson	✓	✓	✓
Ion Dagtoglou	✓	✓	✓
Jens Bech	✓	✓	✓
Lucy Wylde	✓	✓	✓

Table 2: Attendance at APA Audit and Risk Committee Meetings

Committee Member	13 May 2011	14 June 2011	22 September 2011	16 December 2011	16 March 2012
Mike Ashley	✓	✓	✓	✓	✓
Hamish Buckland	✓	✓	✓	✓	
Elizabeth Dymond	✓	✓	✓	✓	✓

Audit and Risk Committee

The Audit and Risk Committee's role is to advise the Chief Executive and Accounting Officer in relation to risk control and governance by reviewing the effectiveness, reliability and integrity of the APA's risk assurance framework. The Audit and Risk Committee meets at least quarterly, reporting its findings to the Board. The Audit and Risk Committee is chaired by a member of HMT's Group Audit and Risk Committee; other members include one of the HMT's representative members and one of the independent members of the Board. The National Audit Office, APA internal auditors and HMT internal auditors are all invited to attend Audit and Risk Committee meetings.

Remuneration Committee

The Remuneration Committee provides advice to the Chief Executive and Accounting Officer on remuneration arrangements and terms and conditions for the staff of the APA. The Remuneration Committee meets on an annual basis. The members are the Chief Executive and two independent members of the Board. The APA's HR manager provides secretarial support.

Expected Loss Committee

The Expected Loss Committee serves as a consultative body to discuss loss forecasts on large Covered Assets and Loss Credits in connection with disposals of Non-Triggered Assets. The Expected Loss Committee meets as required. Meetings are chaired by the Risk Director responsible for individual Expected Loss assessments and include relevant representatives from the Risk and Investment Management teams.

Internal Credit Committee

The Internal Credit Committee serves as a consultative body to enable views and knowledge to be shared on both credit decisions required to be taken by the APA and ad hoc credit reviews. The Internal Credit Committee meets three times a week or as required. Attendees include members of the Leadership Team, the Chair of the Expected Loss Committee and the Chief Credit Officer real estate on a standing basis. However, authority to approve or decline credit decisions rests with a hierarchy of authorised individuals as specified in the Procura (see below).

Sanctions Committee

The Sanctions Committee comprises the Leadership Team, the Chief Credit Officer Real Estate and General Counsel and exists to support me in decision-making relating to any use of APS sanctions against RBS. The Sanctions Committee did not meet during the reporting period.

The Leadership Team

The primary body in the APA for identifying and mitigating risk on a day-to-day level is the Leadership Team, which comprises the Chief Executive and Accounting Officer and the heads of each division of the APA. The Leadership Team generally meets twice weekly. At meetings the heads of each division are required to report on any new risks identified in the areas for which they have responsibility and on any changes in the status of existing risks. Each head meets with his or her own team on a weekly basis.

Over the course of the reporting period there have been some departures from the APA's Leadership Team which are listed below. As the Chief Executive and Accounting Officer, I am satisfied that the APA has replaced these members with individuals who have the appropriate skills to perform the roles against the increasingly limited role of the Agency and that an adequate hand over was carried out.

The key departures during the period were:

- Stephan Wilcke, Chief Executive on 7 October 2011 – replaced by Bill Dickinson
- Lucy Wylde, General Counsel on 31 March 2012 – replaced by Adrian Yeo
- Jens Bech, Chief Risk Officer on 16 March – replaced by Paul Doran.

- Bill Dickinson performed the role of Chief Financial and Operating Officer up until his appointment as Chief Executive. Since the departure of Paul Doran Chief Risk Officer, he has also performed the role of Chief Risk Officer and Chair of the Expected Loss Committee. The Chief Executive has taken a decision to combine the roles, and as such, no replacements have been sought.

Internal Audit

The APA has appointed Ernst & Young to act as its internal auditors. The role of the internal auditors is to provide an independent review of risk management and control, to offer guidance to Management on effective risk management and control and to provide systematic, objective and disciplined approaches for evaluating the effectiveness of internal control, risk management and governance processes. The internal auditors carry out their work in accordance with the internal audit plan and regularly report on their work to the Audit and Risk Committee.

Risk assessment, risk profile and emerging risks

The APA monitors the level of risk associated with the operation of the Agency and the Scheme, which is documented in its risk register. The risk profile of the APA has diminished significantly over the reporting period as a result in the reduction of the fiscal risk for HMT in the Scheme.

The key risks that face the APA are the following:

- The uncertain life of the APS and the APA

The APA is a finite organisation with an uncertain lifespan based on RBS' continued participation in the Scheme. RBS has publicly stated that they wish to exit the APS in the fourth quarter of 2012, although it is not clear whether RBS will in fact exit the Scheme at this time. Whilst RBS' continued financial recuperation remains the APA's priority, we manage the Scheme in a way that is proportionate to the level of the risk in the Scheme including in respect of staff levels and the level of expense we incur with our service providers.

As the closure of the Agency at some point during 2012-13 is a realistic possibility, the APA has taken steps, as set out in its Business Plan 2012-13, to ensure that the organisation is fully prepared for such an event. These preparations include that the APA will assist HMT and RBS in their plans for potential APS exit; and ensure that knowledge captured since its inception is available to be transferred to relevant parties.

- Data security

The APA handles confidential information relating to RBS, its customers and staff and also holds confidential information relating to APA staff, to HMT and to other government bodies. The APA recognises the sensitive nature of the data they recieive and process. Therefore the appropriate controls and safe guards in response to the data risks have been put in place to ensure security and integrity of data is maintained at all times. The APA complies with Cabinet Office and HMT reporting requirements in relation to security and information assurance. The APA had no personal data related incident over the financial reporting period which was required to be reported to the Information Commissioner's Office.

The risk and control framework

APA management gain assurance from a wide ranging suite of controls that collectively form the bedrock of our operational framework.

The APA maintains a risk management framework to identify, mitigate and review the APA's strategic, reputational and operational risks. As noted above, it also maintains a risk register that is monitored and reviewed by the Board quarterly. The risk registers highlights and prioritises key risks and is used to monitor the effectiveness of the control environment and to strengthen controls where required. Underpinning the risk and control framework, the APA has focused its efforts on identifying and mitigating risks in priority areas and has taken a proportionate, risk-based approach to its control framework. In particular the APA has developed and maintained the following key control components:

1. In May 2011 the APA completed and submitted its Security Risk Management Overview 2011-12 to HMT. Policies are set out in Knowledge Management guidance documents available and distributed to all staff. Mandatory compliance training and a related annual compliance assessment are carried out for all APA staff to address Government Data Handling Review and information assurance requirements. Policies on anti-fraud measures and whistle-blowing have been implemented. The APA has its own Conflicts of Interest Policy which covers standards of propriety and conduct, dealing in securities and other assets, confidentiality and official information, gifts and hospitality and the Business Appointment Rules.

2. Segregation of duties controls is in place to promote independent checking and reconciliation, and to avoid concentration of key activities or related controls in the hands of individuals or small groups of staff. The APA has a Service Level Agreement (SLA) with the Debt Management Office (DMO) and HMT which provides various levels of segregations of duties. In particular segregation of duties takes place between front and back office activities, though it is recognised that, in a relatively small organisation such as the APA, segregation of duties can be a challenge.

3. Policies and procedures have been applied to mitigate risks in business critical areas, including financial control, personnel management, and data assurance. The policies and procedures have been documented for all main activities and include:

   - monthly balance sheet reconciliation and certification procedures and quarterly agreement of all material balances and accruals with suppliers;

   - procurement controls that have been put in place to ensure only genuine expenditure is incurred on behalf of the APA;

- appropriate financial controls to ensure the APA operates within the budget agreed with HM Treasury; and

- an internal framework (Procura Framework) to delegate authority for specific approval decisions .

4. The Procura Framework controls the internal delegation of authority and specifies approval levels in such areas as credit decisions, operational decision-making, spending, contracts, stakeholder communication and internal policy-making. With regard to credit decisions, the framework sets out the hierarchy of individuals who are authorised to approve transactions, for example Prohibited Conduct requests from RBS, depending on the size of the relevant transaction.

5. Following agreement between the APA and RBS of a timetable for the delivery of data and the specific information to be included in each data submission, arrangements have been put in place to validate data delivered by RBS before it is distributed for use by the Investment Management, Finance and Risk teams. Key elements of these arrangements include: a series of data validation tests to assess the data quality; discussion with RBS of exceptions identified during validation testing; and, frequent, often bi-weekly, conference calls between the APA validation team and the relevant RBS data team.

6. The APA has an independent verification agent to develop and carry out policy and procedures where required for the achievement of accurate, valid and appropriate data verification, including loss verification over the life of the APS, and reviewing the work of the RBS Group Internal Audit function.

7. The APA has set up a Business Continuity Plan (BCP) which leverages the SLA with the DMO, whereby the DMO provide IT related recovery services.

8. Staff undertake training in areas which pose particular risks. All new staff receive compliance training and receive copies of the APA's Conflicts of Interest Policy and the 'APA Compliance Commandments' as part of their induction packs. Subsequent to this, all staff undertake an annual compliance test. The results are assessed by General Counsel and followed up as necessary with staff. Where required to enable them to fulfil their role, staff also undertake training on the APA's Insider Dealing and Market Abuse Policy which covers procedures designed to avoid the APA and its staff breaching insider dealing and market abuse legislation.

Review of effectiveness

As Chief Executive and Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. Further, I have with the assistance of the Agency's Audit and Risk Committee reviewed the effectiveness of the organisation's operation against the Corporate Governance Code. My review is informed by the work of the internal auditors, the APA managers who have responsibility for the assessing and maintaining the system, and the comments of the National Audit Office in their management letter and other reports. In relation to the review, I benefit from the advice of the Leadership Team, the Board and the Audit and Risk Committee. Subsequent to the review, a plan is in place to address weaknesses and ensure continuous improvement of the system.

There are a number of activities that form the basis of my review of the effectiveness of the APA system of internal control. Annually I formally review the key outcomes and findings of the following:

- the proceedings of the Leadership Team, which has met regularly, usually twice a week, during the reporting period. I have used this forum to discuss risk and internal control systems;
- the proceedings of the Board;
- the proceedings of the Audit and Risk Committee, which reviews the effectiveness of the risk management and internal control framework; and
- the output of the APA's internal audit function, performed by Ernst & Young.

The APA's internal auditors performed a review of the APA's key processes in April 2012. The findings and related management action points were agreed with management and subsequently reported to the Audit and Risk Committee in May and June 2012. The review by the internal auditors covered APA's controls and processes for the period 1 April 2011 to 31 March 2012. The internal auditors' strategy was to a take a risk based approach and accordingly key processes were chosen to be tested. Our internal audit has concluded that management is operating a control environment generally adequate for an organisation of APA's size. Accordingly, Internal Audit has reported to the Audit and Risk Committee that this Governance Statement in their opinion is a true and fair reflection of the material aspects of the control environment of the APA.

External audit is performed by the Comptroller & Audit General. So far as I am aware, there is no relevant audit information of which the APA's external auditors are unaware, and I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that the APA's external auditors are aware of that information. 'Relevant audit information' means information needed by the external auditors in connection with preparing their audit report.

Whilst both the internal and external audit reports give assurance that the majority of controls the APA has developed are well designed and will give good assurance in the future, the APA continues to evolve the framework for risk and financial management.

Lapses in Data Security

There have been no lapses of data security in this reporting period.

Significant internal control issues 2011-2012

No significant internal control issues in the APA were identified for the reporting period.

In my opinion, the APA's system of internal control was effective in response to the changing risk environment faced by the APA in the reporting period, and remains so on the date I sign this statement.

Bill Dickinson
Chief Executive and Accounting Officer
28 June 2012

5 The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Asset Protection Agency for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statements of: Comprehensive Net Income, Financial Position, Changes in Taxpayers' Equity, Cash Flows; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Asset Protection Agency's affairs as at 31 March 2012 and of the net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter

In forming my opinion on the financial statements, which is not modified, I have considered the adequacy of the disclosures in note 2.2 to the financial statements concerning whether the functions of the Asset Protection Agency will continue and therefore whether the financial statements should be prepared on a going concern basis. HM Treasury is considering what future role the Agency will have given the reduction in the level of risk within the Asset Protection Scheme. Although no Ministerial or HM Treasury decision has been taken to close the Asset Protection Agency and cease its functions, this indicates a material uncertainty which casts significant doubt on whether the Agency is able to continue as a going concern. The financial statements do not include the adjustments that would be required if the entity was unable to continue as a going concern.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in Performance and Results for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
2 July 2012

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

6 Accounts of the APA

Primary Financial Statements

Statement of Comprehensive Net Income

For the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
Administration costs			
Staff costs	3	4,828	6,377
Other administration costs	4	5,503	8,366
Gross administration costs		10,331	**14,743**
Operating income	5	(10,331)	(14,743)
Net administration costs		-	-
Total net operating costs		-	-

All expenditure is classified as administration. No programme expenditure has been incurred.

The notes on pages 41-62 form part of these accounts.

Statement of Financial Position

As at 31 March 2012

	Note	2012 £000	2011 £000
Non current assets			
Property, plant and equipment	7	74	200
Intangible assets	8	1,318	3,025
Total non-current assets		**1,392**	**3,225**
Current assets			
Trade and other receivables due within one year	9	2,477	3,062
Cash and cash equivalents		-	-
Total current assets		**2,477**	**3,062**
Total assets		**3,869**	**6,287**
Current liabilities			
Trade and other payables falling due within one year	10	(2,003)	(2,968)
Provisions due within one year	10	(923)	-
Total current liabilities		**(2,926)**	**(2,968)**
Non-current assets plus/less net current assets/(liabilities)		**943**	**3,319**
Non current liabilities			
Other payables: amounts falling due after more than one year	10	-	(1,711)
Total non-current liabilities		-	(1,711)
Assets less liabilities		**943**	**1,608**
Taxpayers' equity			
General fund		943	1,608
Donated asset reserve			
Total taxpayers' equity		**943**	**1,608**

Bill Dickinson
Chief Executive and Accounting Officer
28 June 2012

The notes on pages 41-62 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2012

	Notes	General Fund £000	Total Reserves £000
Balance at 1 April 2011		**(1,608)**	**(1,608)**
Changes in taxpayers' equity for 2011-12			
Non-cash charges - cost of capital	4	-	-
Non-cash charges - auditor's remuneration	4	(24)	(24)
Net operating cost for the period		-	-
Total recognised income and expense for 2011-12		**(24)**	**(24)**
Net parliamentary funding repaid		689	689
Balance at 31 March 2012		**(943)**	**(943)**

The notes on pages 41-62 form part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
Cash flows from operating activities			
Net operating cost		-	-
Adjustments for non-cash transactions	4	2,781	1,259
Changes in working capital other than cash	14	(2,091)	(5,449)
Net cash inflow/(outflow) from operating activities		**689**	**(4,190)**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	-	(9)
Purchase of intangible assets	8	-	(2,410)
Net cash (outflow)/inflow from investing		**(0)**	**(2,419)**
Cash flow from financing activities			
Net parliamentary funding drawn down		689	6,609
Net cash inflow/(outflow) from financing activities		**689**	**6,609**
Net increase/(decrease) in cash and cash equivalents in the period before adjusting for receipts and payments to the Consolidated Fund		**-**	**-**
Receipts due to the Consolidated Fund		-	-
Payments of amounts due to the Consolidated Fund		-	-
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**-**	**-**

The notes on pages 41-62 form part of these accounts.

Notes to the APA Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM) issued by HMT. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the APA for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Changes in accounting policy and disclosures

1.1.1 New and amended standards adopted by the Agency

The Agency has adopted all existing standards and amendments applicable to the activities of the Agency in accordance with the FReM from the start of the accounting period dated 1 April 2011.

1.1.2 Standards, amendments to and interpretations of to existing standards that are not yet effective and have not been early adopted by the Agency

As per the FReM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2011, that have an effective date of application of 1 April 2011, or earlier.

The following standards, amendments and interpretations are issued but not yet effective for the financial year beginning 1 April 2011 and have not been adopted early:

- IAS 1 Presentation of financial statements (Other Comprehensive Income)
- IAS 19 Post-employment benefits (pensions)
- IFRS 7 Financial Instruments: Disclosure (annual improvements)
- IFRS 9 Financial Instruments
- IFRS 13 Fair Value Measurement
- IPSAS 32 Service Concession Arrangement

1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets.

1.3 Basis of preparation

These financial statements have been prepared on the basis that the Agency is a going concern. Note 2.2 provides further information on the going concern basis of preparation and impact on the financial statements if an alternative basis were to be adopted.

1.4 Property, plant and equipment and intangible non-current assets

1.4.1 Measurement

Property, plant and equipment and intangible non-current assets are carried at cost on initial recognition. Cost includes all expenditure which is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the APA and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Net Income during the period in which they are incurred.

All non-current assets are carried at historical cost less depreciation, with the exception of intangible assets. Intangible assets are carried at fair value in line with FReM which has adapted IAS 38 'Intangible Assets' to take into account considerations for not-for-profit entities. The lower of depreciated replacement cost and value in use is used as a proxy for fair value.

1.4.2 Recognition

The threshold for capitalising non-current assets is £5,000.

Development costs of computer software are recognised as intangible assets when they exceed the capitalisation threshold above and meet the following criteria:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;

- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

When the computer software is under development, and meets the above criteria, it is classified as Asset Under Construction until launch, when it is transferred to Software.

1.5 Depreciation

The charge for depreciation is calculated to write down the cost or valuation of property, plant and equipment to their estimated residual values by equal instalments over their estimated useful lives, which are as follows:

Furniture, fixtures and fittings	2.8 years
Office and other non-IT equipment	2.8 years
Leasehold improvements	2.8 years
Computer and telecom hardware, software and licences	Between 3 and 2.1 years [1]
Other plant and machinery	2.8 years

[1] The useful life was adjusted to fully depreciate the software asset by 30 September 2012

Depreciation is charged in the month following acquisition up to the month prior to disposal.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. In the reporting period the useful life of the non current assets were reduced from 3 years to rates which will result in the assets being fully depreciated by 30 September 2012. This change of estimate increased the depreciation charge for the year to 31 March 2012 by £319,000.

Assets are assessed at each reporting date to determine if there is any indication that an asset may be impaired. If an indication exists and an asset's carrying amount is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

1.6 Cash and cash equivalents

The APA does not hold any cash or cash equivalent balances. All cash transactions are processed by HM Treasury (HMT) using HMT's bank accounts.

1.7 Trade receivables and other current assets

Trade receivables and other current assets primarily consist of amounts due from participants within the APS and represent the recharge of the costs of the Agency. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non current assets.

Trade receivables, except for those with public bodies, are recognised initially at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In accordance with the FReM, trade receivables with public bodies are carried at historical cost less any impairment.

The Agency assesses at each balance sheet date whether there is objective evidence that a trade receivable or other current asset is impaired. An asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

The criteria that the Agency uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the counterparty (for example, equity ratio, net income percentage of sales);
- breach of loan covenants or conditions; and
- deterioration in the value of collateral.

The Agency first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account in the statement of financial position and the amount of the loss is recognised in the Statement of Comprehensive Net Income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When an asset is uncollectible, it is written off against the related provision for asset impairment. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the counterparty's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in the statement of financial position and the amount of the reversal is recognised in the Statement of Comprehensive Net Income.

Trade receivables and other current assets are recognised when the rights to receive the cash flows from the asset or substantially all risks and rewards of ownership fall to the Agency.

Trade receivables and other current assets are de-recognised when the rights to receive cash flows from the asset have expired or where the Agency has transferred substantially all risks and rewards of ownership.

The fair value of trade receivables with a maturity of less than one year is assumed to approximate their book values.

1.8 Trade payables and other current liabilities

Trade payables and other current liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables and other current liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade payables and other current liabilities are recognised when the Agency enters into an obligation.

Trade payables and other current liabilities are de-recognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

The fair value of trade payables and other current liabilities with a maturity of less than one year is assumed to approximate their book values.

1.9 Financial instruments

The Agency recognises measures and discloses financial instruments following guidance in the FReM and IFRS.

1.9.1 Definition of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.9.2 Categories of financial instruments

Based upon the guidance in IFRS, Financial instruments have been classified into the following three categories, which are determined at initial recognition:

- derivatives at fair value through Statement of Comprehensive Net Income;
- loans and receivables; and
- available-for-sale financial assets.

Derivatives at fair value through Statement of Comprehensive Net Income

A derivative is a financial instrument or other contract within the scope of IAS 39 if it has all three of the following characteristics:

- its value changes in response to a change in the value of the underlying;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

The Agency does not hold any derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Agency upon initial recognition designates as Available-for-sale;

The Agency does not hold any loans and receivables, other than those classified under Trade Receivables; see Note 9.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other categories and are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates, FX rates or equity prices.

The Agency does not hold any available-for-sale financial assets.

1.10 Provisions, contingent liabilities and contingent assets

A provision is recognised when the following three criteria are met, in line with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets:

- there is a present obligation (either legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

The discount rate applied to general provisions is 2.2 per cent, which is in line with the guidance issued by Public Expenditure System paper PES(2004) 04.

In accordance with IAS 1 Presentation of Financial Statements, provisions are separated into current and non-current.

Generally, contingent liabilities and contingent assets are not recognised as liabilities or assets in the statement of financial position, but are shown as a separate note. A contingent liability is disclosed in the notes to the accounts when the possibility of an outflow of economic benefit to settle the obligation is more than remote. A contingent asset is disclosed in the notes to the accounts when an inflow of economic benefit is probable.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, the contingent liabilities and assets which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.11 Revenue recognition and operating income

Revenue is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Agency. Revenue comprises the fair value of consideration received or receivable and is shown net of VAT.

Operating income relates directly to the operating activities of the Agency. It includes recharges to participants in the APS for the cost for services incurred by the Agency.

1.12 Deferred income

Income is recognised by reference to the stage of completion of a transaction or asset at the end of the reporting period in line with IAS 18. Where payment has been received which is greater than the income to be recognised by reference to the stage of completion of the transaction or asset, this is deferred within the Statement of Financial Position. The deferred income is released to the Statement of Comprehensive Net Income as income to match the expense of the transaction or asset; see note 10.1.

1.13 Administration and programme expenditure

All expenditure is classified as administration other than the provision expense of £923,000, which is initially recognised as AME Programme. Net administration costs reflect the costs of running the Agency. No programme costs have been incurred.

1.14 Capital charge

A non-cash charge, reflecting the cost of capital utilised by the Agency, was included in operating costs for the period to 31 March 2010. For the year to 31 March 2011 the FReM removed the requirement to record a notional cost of capital and therefore from 1 April 2010 onwards the Agency was not required to record a notional cost of capital charge. However an adjustment was made in year to 31 March 2011 to offset the Cost of Capital credit in 2009-10.

1.15 Pensions

The provisions of the Civil Service pension schemes, which are described in Note 3.2, cover some employees. The defined benefit schemes are unfunded and are contributory. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the defined benefit schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the defined benefit schemes. In respect of the defined contribution schemes, which cover some employees, the Agency recognises the contributions payable for the year.

1.16 Early departure costs

The Agency is required to meet the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme (described in Note 3.2) benefits in respect of employees who retire early. The Agency provides for the costs when the early retirement is agreed and binding on the Agency, effectively charging the full cost at the time of the decision and holding this in a provision. There have been no early retirements to date.

1.17 Employee benefits

The Agency has provided for the cost of accumulating compensated absences. This is accounted for when an employee renders services that increase their entitlement to future compensated absences. This accrual is monitored on a yearly basis.

1.18 Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases are charged to the Statement of Comprehensive Net Income on a straight-line basis over the term of the lease.

1.19 VAT

Many activities of the Agency are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Where VAT is recoverable in respect of APA expenditure, it is recovered by HMT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalized purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.1 Critical accounting estimates and assumptions

The following estimates have been identified as having a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Provision for staff redundancies as referred to in note 11.

The useful life of the non current assets were reduced from 3 years to rates that will fully depreciate all fixed assets by 30 September 2012 (as referred to in note 1.5).

No further estimates or assumptions have been identified.

2.2 Critical judgements in applying the Agency's accounting policies

While these financial statements have been prepared under the basis that the Agency is a going concern, it is considered that there is a material uncertainty as to whether the Asset Protection Agency (APA) will be in existence as at 31st March 2013.

Over the course of the last 12 months, there has been a significant reduction in the level of risk within the Asset Protection Scheme (APS). HM Treasury is considering whether, and if not until when, the APA is required to operate the APS. To date no Ministerial or HM Treasury decision has been taken to close the APA. The HM Treasury Parliamentary Main Estimate for 2012-13 includes authority for £5,592,000 for APA Gross Administration Costs.

If the financial statements had not been prepared on the basis of going concern, the impact on the financial statements would have been as follows:

- Recognition as provisions of the contingent liabilities described in note 16 and consequential increases in staff and other administration costs.

- An increase in the operating income of the Agency in respect of the above items.

3. Staff numbers and costs

3.1 Analysis of total costs over categories

	2011-12 Permanent staff £000	2011-12 Others £000	2011-12 Total £000	2010-11 Total £000
Wages and salaries	241	3,947	4,188	5,680
Social security costs	30	399	429	460
Accrued employee benefits	8	87	96	123
Other pension costs	50	67	117	114
Total costs	**330**	**4,499**	**4,829**	**6,377**
Less recoveries (income) in respect of outward secondments	-	(1)	(1)	-
Total net costs	**330**	**4,498**	**4,828**	**6,377**

Permanent staff includes those on a permanent contract of employment with the Agency, either on part-time or full-time contracts. Others include those who are on fixed term contracts with the Agency and also those who are seconded or contracted to the Agency. The Agency is not liable to social security costs, pension costs or other accrued employee benefits for those seconded or contracted to the Agency and hence their full cost is recorded within the Wages and salaries row above.

3.2 Pension schemes

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme but the Agency is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk.

For 2011-12, employer's contributions of £76,352 were payable to the unfunded multi-employer defined benefit scheme at one of four rates in the range 16.7 to 23.7 per cent of pensionable pay, based on salary bands. For 2010-11, employer's contributions of £51,288 were payable to the unfunded multi-employer defined benefit scheme at one of four rates in the range 16.7 to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer's contributions were paid to one or more of a panel of three appointed stakeholder pension providers for the period of £4,558 (2010-11: £10,413). Employer contributions are age-related and range from 3.0 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

Stephan Wilcke opted to have employer pension contributions at 20 per cent of pensionable pay paid into a private pension outside the civil service pension scheme. Total employer contributions for the period were £15,282 (£30,000 for 2010-11).

In addition, employer contributions of £19,663, being 0.8 per cent of pensionable pay (2010-11: £22,146, being 0.8 per cent of pensionable pay), were payable to the partnership pension providers to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of all employees.

Contributions due to the partnership pension providers at the balance sheet date were nil (31 March 2011: £13,046). Contributions prepaid at that date were nil (31 March 2011: nil).

3.3 Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

	2011–2 **Number**	**2010–11** **Number**
Permanent Staff	1.5	2.0
Others	37.5	42.6
Total	**39.0**	**44.6**

Permanent staff includes those on a permanent contract of employment with the Agency, either on part-time or full-time contracts. Others include those who are on fixed term contracts with the Agency and also those who are seconded or contracted to the Agency.

4. Other administration costs

	2011-12 £000	2010-11 £000
Consultancy costs	1,322	5,517
Accommodation costs	108	98
Office services	739	801
Staff-related costs, including recruitment, training and travel	99	248
Rentals under operating leases	455	443
Total	2,722	7,107
Non cash items		
Depreciation and similar charges:		
Auditor's remuneration and expenses	24	23
Provision charge (see note 10)	923	-
Cost of capital reversal (see note 1.14)	-	27
Depreciation	1,833	1,209
Total non cash items	**2,781**	**1,259**
Total	**5,503**	**8,366**

No payments were made to the auditor in respect of non-audit services in 2011-12.

5. Income

Operating income analysed by activities:

	2011-12			2010-11
	Appropriated in Aid £000	Payable to Consolidated Fund £000	Income included in SCNI £000	Income included in SCNI £000
Fee Income	**(10,331)**	**-**	**(10,331)**	**(14,743)**

Fee income relates solely to the recharge of total operating costs to RBS.

6. Analysis of operating segments and fees and charges for the period to 31 March 2012

The Agency applies IFRS 8 and considers it has one operating segment. The segment's income and expenses are stated in the Statement of Comprehensive Net Income, and the segment's assets and liabilities are stated in the Statement of Financial Position.

All fee income disclosed in Note 5 arises in relation to the APA's function of operating the APS. All costs included within Note 4 are incurred to enable the APA to meet that function.

7. Property, plant and equipment

	Leasehold Improvement £000	Furniture & Equipment £000	IT Equipment £000	Total £000
Cost/valuation				
At 1 April 2011	28	100	220	348
Transfers	-	-	-	-
Additions	-	-		
Impairments	-	-	-	-
Disposals	-	-	-	-
At 31 March 2012	**28**	**100**	**220**	**348**
Accumulated depreciation				
At 1 April 2011	(13)	(50)	(85)	(148)
Transfers				
Charge in period	(10)	(35)	(82)	(127)
Impairments				
Released on disposal				
At 31 March 2012	**(24)**	**(85)**	**(166)**	**(274)**
Net book value 31 March 2011	15	50	135	200
Net book value 31 March 2012	**4**	**16**	**54**	**74**

All assets above are owned by the Agency.

8. Intangible assets

	Software £000	Total £000
Cost/valuation		
At 1 April 2011	4,190	4,190
Additions	-	-
Transfers	-	-
Disposals	-	-
As at 31 March 2012	**4,190**	**4,190**
Accumulated depreciation		
At 1 April 2011	**(1,165)**	**(1,165)**
Charge in period	**(1,707)**	**(1,707)**
Disposals	**-**	**-**
As at 31 March 2012	**(2,872)**	**(2,872)**
Net book value as at 31 March 2011	3,025	3,025
Net book value as at 31 March 2012	**1,318**	**1,318**

All assets above are owned by the Agency.

9. Trade receivables and other current assets

9.1 Analysis by type

	2012 £000	2011 £000
Amounts falling due within one year		
Trade Receivables	-	-
Deposits and advances	(1)	2
Prepayments and accrued income	2,478	3,060
	2,477	**3,062**
Amounts falling due after more than one year		
Other receivables	-	-
Total	**2,477**	**3,062**

9.2 Intra government balances

	Amounts falling due within one year 2012 £000	Amounts falling due after more than one year 2012 £000	Amounts falling due within one year 2011 £000	Amounts falling due after more than one year 2011 £000
Balances with other central government bodies	83	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Sub total: intra government balances	**83**	**-**	**-**	**-**
Balances with bodies external to government	2,393	-	3,062	-
Total receivables as at 31 March	**2,477**	**-**	**3,062**	**-**

10. Trade payables and other current liabilities

10.1 Analysis by type

Amounts falling due within one year	2012 £000	2011 £000
Trade payables	-	(62)
Other payables	(11)	-
Other taxation and social security	(113)	(164)
Accruals	(391)	(1,105)
Deferred income	(1,392)	(1,514)
Accrued annual leave	(96)	(123)
Provisions due within one year	(923)	-
Total	**(2,926)**	**(2,968)**
Amounts falling due after more than one year	**2011 £000**	**2011 £000**
Deferred income	-	(1,711)
Total	**-**	**(1,711)**

Deferred income:

During 2009, RBS and Lloyds Banking Group (LBG) paid for the set-up costs of the APS and the APA. Payment for the acquisition of capital assets was not taken to the Statement of Comprehensive Net Income as Income but deferred as deferred Income. The deferred income is released to the Statement of Comprehensive Net Income to match the expense to which it relates. The deferred income relating to capitalised assets is released to the Statement of Comprehensive Net Income to match depreciation of the software asset.

10.2 Intra-government balances

	Amounts falling due within one year 2012 £000	Amounts falling due after more than one year 2012 £000	Amounts falling due within one year 2011 £000	Amounts falling due after more than one year 2011 £000
Balances with other central government bodies	**(138)**	-	(298)	-
Balances with public corporations and trading funds	-	-	-	-
Sub total: intra-government balances	**(138)**	**-**	**(298)**	**-**
Balances with bodies external to government	(2,788)	-	(2,670)	(1,711)
Total payables as at 31 March	**(2,926)**	**-**	**(2,968)**	**(1,711)**

11. Provisions for liabilities and charges

The Agency meets the additional costs of benefits beyond the normal benefits in respect of employees who retire early by paying the required amounts annually to the relevant scheme over the period between early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the HMT discount rate. As at 31 March 2012 there were no early retirements and hence no provision recognised.

There were two provisions for liabilities and charges as at 31 March 2012:

- A provision for staff redundancies of £865,000. An obligation was created prior to 31 March 2012 for employees in the Agency's Investment Management and Risk teams. It is expected that the provision will be used in respect of voluntary exit packages, voluntary redundancies and, potentially, compulsory redundancies prior to 31 March 2013.

- A provision of £58,236 for premises dilapidation costs in respect of the building lease referred to in note 13.

12. Capital commitments

There were no capital commitments at 31 March 2012.

13. Commitments under operating leases

The table below states the Agency's operating lease rental commitments within the time periods set out below.

	2012 £000	2011 £000
Buildings:		
Within one year	**168**	**337**
Two to five years	**-**	**786**
More than five years	**-**	**-**
	168	**1,123**
Other:		
Within one year	69	78
Two to five years	-	35
More than five years	-	-
	69	**113**

The building lease has a six month break clause, where the Agency is only liable to pay for the six month notice period at a cost of £169,000. The APA served notice to the Landlord on 30 March 2012 to vacate the premises by 30 September 2012.

14. Reconciliation of working capital other than cash for the cash flow statement

	2012 £000	2011 £000
Movements in working capital other than cash:		
Decrease/(Increase) in current trade receivables	585	(2,742)
(Decrease) in current trade payables	(965)	(1,259)
(Decrease) in non-current trade payables	(1,711)	(1,448)
Changes in working capital other than cash	**(2,091)**	**(5,449)**

15. Financial instruments

As the cash requirements of the Agency are met through the Estimate process and managed by HM Treasury, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk.

16. Contingent assets and liabilities

The Agency had no contingent assets as at 31 March 2012.

The APA is a finite life organisation of uncertain duration, and as such as described in note 11, two provisions were deemed to be necessary as at 31 March 2012. In addition, there are the following related contingent liabilities:

- £419,000, in respect of voluntary redundancies and, potentially, compulsory redundancies that may be recognised before 31 March 2013.

- potential contract termination payments which could range from approximately £160,000 if the APA were to be closed soon after 30 June 2012 with limited notice to approximately nil if the APA were closed by 31 December 2012 with more than three months notice.

The Agency has no contingent liabilities in respect of early retirement as at 31 March 2012.

17. Related party transactions

The Asset Protection Agency is an executive agency of HM Treasury. HM Treasury is regarded as a related party. During the period, the Agency has had a number of material transactions with HM Treasury and with other entities for which HM Treasury is regarded as the parent Department. The principal such transaction was a Service Level Agreement that was entered into between HM Treasury, the Debt Management Office (DMO) and the Agency. The DMO is an executive agency of HM Treasury and is a related party of the Agency. Under this Service Level Agreement the DMO provides information technology support and facilities services to the Agency. All costs are recharged to the Agency on a commercial basis. The building lease described in note 13 is with the DMO.

Royal Bank of Scotland (RBS)

HM Treasury has a 66% stake in the voting share capital of RBS, and as such RBS is a related party of the Agency. During the year RBS made payments to the Agency in respect of the recharge of the Agency's costs. As described in note 9.1, before commencement of the Agency, RBS also made payments to HM Treasury in respect of the recharge of HM Treasury's costs in setting up the Agency.

Lloyds Banking Group (LBG)

HM Treasury has a 39% stake in the voting share capital of LBG, and as such LBG is a related party of the Agency. As described in note 10.1, before commencement of the Agency, LBG made payments to HM Treasury in respect of the recharge of HM Treasury's costs in setting up the Agency.

Other

In addition, the Agency has had a small number of transactions with other government departments and other central government bodies, and entities included within the Whole of Government Accounts. Most of these transactions have been with the Government Actuary's Department and the Government Car and Dispatch Agency.

Senior management have confirmed to the Agency's CEO that they have not entered into any transaction with related parties which are not in the ordinary course of business, or which are at preferential rates. The CEO has also confirmed that he has not entered into any transaction with related parties which were not in the ordinary course of business or which are at preferential rates.

18. Events after the balance sheet date

The financial statements were authorised for issue on 2 July 2012.

7 Remuneration Report

7.1 Remuneration policy

The APA requires staff with specialist financial and technical expertise. Before the APA's launch, HMT ran a compensation bench-marking exercise to determine the level of remuneration and benefits needed to attract candidates with the requisite skills. On the basis of the bench-marking exercise, HMT Operations Committee approved the pay principles to be adopted in setting salary ranges and the packages for the senior APA staff disclosed below were approved by the Cabinet Office.

7.2 Remuneration Committee

The APA Remuneration Committee exists to advise the Chief Executive and Advisory Board on remuneration for APA staff and to give HMT such advice as they may seek on pay and bonus recommendations in respect of the Chief Executive. The members of the Remuneration Committee are John B. Caouette and Hamish Buckland. The Chief Executive also attends meetings of the Remuneration Committee except where his own performance is being discussed.

7.3 Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit and on the basis of fair and open competition, but also includes details of the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

The majority of the employees at the Asset Protection Agency are appointed on fixed term appointment basis, receive a basic salary, and are eligible to be considered for bonuses based on performance. However, due to the modified terms and conditions of their employment, they are not eligible for any employer pension contributions to their salary. Employees on secondment from other Government departments retain the terms and conditions of their home department.

As a permanent staff member, the Chief Executive Officer is eligible for pension contributions as detailed below. Independent members of the Advisory Board are appointed in accordance with Cabinet Office guidance and paid on a fee arrangement only.

7.4 Remuneration received

The following sections provide details of the salaries and pension entitlements of the most senior civil servants as a result of their employment by APA and their influence on managing or controlling the activities of the APA. This report is based on payments made by the APA and subsequently recorded in the accounts of the APA. These disclosures have been subject to external audit.

Table 1 below sets out the salary paid by the APA to senior APA staff and fees paid to members of the Advisory Board for their services to the APA. Salary includes gross salary or fees, overtime and any other allowance to the extent that it is subject to UK taxation for the year ended 31 March 2012.

There were no pay increases awarded during the year in accordance with the Civil service freeze in pay.

Table 10: APA senior staff salaries and Advisory Board fees (Audited)

	Note	2011-12 £000 Salary (Full Year Equivalent (FYE))	2010-11 £000 Salary
Senior APA staff			
Stephan Wilcke – Chief Executive (to 7 October 2011)	(1)	75-80 (145-150)	145-150
Bill Dickinson – Chief Executive (from 7 October 2011) (Chief Financial and Operating Officer to 7 October 2011)	(2)	135-140	135-140
Jens Bech – Chief Risk Officer (to 16 March 2012)	(3)	155-160 (160-165)	160-165
Ion Dagtoglou – Chief Investment Officer	(4)	160-165	160-165
Brian Scammell – Chief Credit Officer (Real Estate)	(5)	130-135	130-135
Lucy Wylde – General Counsel (from 1 May 2011 to 31 March 2012)	(6)	145-150 (155-160)	
Paul Doran – Chief Risk Officer (from 16 March 2012)	(7)	5-10 (140-145)	
Advisory Board members			
John B. Caouette	(8)	10-15	10-15
Hamish Buckland	(9)	10-15	65-70
Band of Highest paid Director's Total Remuneration (£'000)		185-190	175-180
Median Total Remuneration		99,000	99,923
Ratio		1.9	1.8

Notes:

(1) Stephan Wilcke was employed on a permanent contract from 28 September 2009 and was the APA's Chief Executive from the APA's launch on 7 December 2009 until 7 October 2011. He had opted to have employer pension contributions at 20 percent of pensionable pay paid into a private pension outside the civil service pension scheme. Total employer contributions for the period were £15,282 (£30,000 for 2010-11).

(2) Bill Dickinson is employed on a permanent contract from 22 February 2010, taking up his office as Chief Financial and Operating Officer from 1 March 2010. On 7 October 2011 he was appointed Chief Executive Officer. The APA makes employer contributions to the Nuvos scheme. The real increase in the pension during the year was £3,690. As at 31 March 2012, the accrued pension and related lump sum (as at the age of 65) was within the banding £7,501-£10,000 (within the banding £2,501-£5,000 for 2010-11). The CETV of his pensions as at 31 March 2012 was £99,318 (£53,732 at 31 March 2011). The increase in the CETV during the year funded by the employer was £21,000. The actuarial factors used to calculate CETVs were changed in 2011-12. The CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

(3) Jens Bech was employed on 30 November 2009 on a four year fixed term contract. His employment ended on 16 March 2012. He was not eligible for employer pension contributions.

(4) Ion Dagtoglou was employed on 30 November 2009 on a four year fixed term contract. He is not eligible for employer pension contributions.

(5) Brian Scammell was employed from 4 January 2010 as a Chief Credit Officer on a two year fixed term contract on a 4 day week basis. During the financial period his contract was extended to 30 June 2012. His salary disclosed above (including FYE) is on a 4 day week basis. He is not eligible for employer pension contributions.

(6) Lucy Wylde was General Counsel throughout the reporting period and the previous year. From 1 May 2011 to 31 March 2012 she was an employee. Until 30 April 2011 she was on secondment from Slaughter and May. Slaughter and May were paid a fee of £6,623 (£79,476 for 2010-11), excluding VAT, for her services.

(7) Paul Doran was appointed as Chief Risk Officer on 16 March 2012. Paul was employed at the APA on a four year fixed term contract from 26 April 2010. He was not eligible for employer pension contributions. He resigned from the APA on 23 April 2012.

(8) John B. Caouette was appointed as a member of the Advisory Board on 18 March 2010 on a one year fixed term contract. The APA exercised options to extend this contract for the 12 months to 17 March 2012 and the 12 months to 17 March 2013. He receives a fee within the banding £10,000-£15,000 per annum.

(9) Hamish Buckland was employed as a Chief Credit Officer until 31 January 2011, for which his salary fell in the banding £55,000- £60,000. He also served as a member of the Advisory Board on the basis of a one year fixed term contract from 18 March 2010. The APA exercised options to extend this contract for the 12 months to 17 March 2012 and the 12 months to 17 March 2013. He receives a fee within the banding £10,000-£15,000 per annum for his services as a member of the Advisory Board.

7.5 Median Pay Ratio (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in the APA in the financial year 2011-12 was £185,000-£190,000 (2010-11, £175,000-£180,000). This was 1.9 times (2010-2011, 1.8 times) the median remuneration of the workforce, which was £99,000 (2010-2011, £99,923).

In 2011-12, 0 (2010-2011, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £22,785 to £190,000 (2010-11 £25,750 to £176,000).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer vale of pensions.

The ratio figure of 1.9 is relatively low for a Central Government executive agency. This is due to the Agency employing specialist staff which make up more than half of its staff complement.

7.6 Performance bonuses (Audited)

At the end of the 2011-12 reporting period performance appraisals were undertaken in line with Civil Service appraisal and performance award policies. Bill Dickinson has waived any bonus for the period. To date no bonus awards have been made to members of the Leadership team in respect of the period to 31 March 2012. The extent of any bonus to members of the Leadership team is the subject of further discussion with HMT. The APA financial statements for the year to 31 March 2012 include an accrual of £88,733 for the estimate of the bonus that may be paid to members of the Leadership team for the year to 31 March 2012.

During the reporting period performance bonuses in respect of the year to 31 March 2011, approved by the Remuneration Committee on 13 May 2011, were paid to members of the Leadership team as follows:

Bill Dickinson	£25,000
Jens Bech	£25,000
Ion Dagtoglou	£25,000
Brian Scammell	£20,000

Individual performance bonus awards to other members of APA staff of £141,347 were approved by the Remuneration Committee on 24 April 2012 in respect of the period to 31 March 2012 (£179,398 for period to 31 March 2011).

Chairman of the Audit and Risk Committee and other senior APA staff

Michael Ashley was appointed as Chairman of the Audit and Risk Committee in March 2010. He does not receive remuneration from the APA.

7.7 Notice periods

Senior APA staff (excluding Advisory Board members) are required to give three months' notice to terminate their employment.

For all senior APA staff the APA is entitled to give five weeks' notice (extended by one week per year over four years of continuous service) if retired on age grounds, if dismissed on grounds of inefficiency, or if dismissal is the result of disciplinary proceedings in circumstances where summary dismissal is not justified. If retired on medical grounds the period of notice is up to nine weeks. If employment is terminated compulsorily on any other grounds, unless such grounds justify summary dismissal at common law or summary dismissal is the result of disciplinary proceedings, six months' notice must be given. The exceptions to this are that for Stephan Wilcke for whom the notice period was 12 months if notice had been given before 28 March 2011 and was subsequently six months and for Lucy Wylde for whom the notice period was 12 months if notice had been given before 1 March 12 and subsequently is 6 months.

If employment is terminated without the notice periods above, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

Members of the Advisory Board and are entitled to give one month's notice. The APA is entitled to give one month's notice.

7.8 Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

7.8.1 Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. For the senior management's pension entitlements from the Civil Service Pension Scheme, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension Scheme arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with the Occupational Pension Scheme (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

7.8.2 Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Bill Dickinson
Chief Executive
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