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Financial Services Compensation Scheme

Annual Report and Accounts 2013/14

FSCS
Financial Services
Compensation Scheme

# Financial Services Compensation Scheme

## Annual Report and Accounts 2013/14

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## Annual Report and Accounts 2013/14

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# Contents

# Our Role, Mission and Aims

## Our role

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

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

It is funded by levies on authorised financial services firms.

FSCS does not charge individual consumers for using its services.

## Our mission

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

## Our aims

In taking forward our mission, we aim to:

- respond quickly, efficiently and accurately to consumers' claims for compensation;
- raise public awareness of the protection we provide;
- ensure that we operate as cost-efficiently as possible and maximise recoveries from the estates of failed providers and third parties;
- be ready to respond to failures in the financial services industry in a way that protects consumers and financial stability; and
- enhance our capability by developing the skills, knowledge and professionalism of the people who work for us.

Section 1

# The Year in Summary

A broad snapshot of FSCS's performance during 2013/14.
Click on the headings to go to the relevant section of the report.

## £243m

FSCS paid out £243m in compensation in 2013/14 compared with £326m in 2012/13. Compensation in the General Insurance Provision sector rose by £10m from 2012/13, but fell in the Investment Intermediation sector to £71m from £105m in 2012/13. The fall was due to declining numbers of new PPI claims.

## 39,000

We received over 39,000 new claims from consumers during 2013/14. While PPI claims seem to have peaked for the time being, there is a steady rise in more complex claims. The indications are that rising complexity will continue to be a feature of FSCS's work.

## Raising awareness

Supported by the industry, we continued our campaign to raise consumers' awareness of FSCS's protection, so building confidence in the financial services sector.

## £353m

We recovered £353m from the estates of failed firms, including £241m from the major banking failures of 2008/09.

## Five-year vision

We published our first five-year strategy document, *Vision for a Confident Future*, as part of our continuing drive to boost consumer confidence while improving our services.

## Connect

Our investment in claims handling – the Connect programme – will streamline our claims-handling process and management; and allow consumers to submit and track claims online via our website.

## £1.1bn

The levies we received totalled £1,111m, compared with £726m in 2012/13. This figure included provision for interest costs and a capital repayment levy totalling £791m arising from the major banking failures of 2008/09, payable by banks, building societies and credit unions only.

## 200,720

We handled 200,720 enquiries about our work. The enquiries were often more complex than in the past, reflecting the type of claims that we are receiving.

## £57.7m

FSCS management expenses for the year were £57.7m, excluding the costs of processing Welcome Financial Services Limited PPI claims, which do not fall on the industry, and the loan interest for the major banking failures of 2008/09.

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**FSCS has a clear sense of direction about its future**

Section 2

# Chairman's Statement

Chairman Lawrence Churchill reports on progress against the four priorities he set for FSCS.

This year we published FSCS's five-year vision. Although this is a broad plan for the future, it is built on the strong foundations of our past experience. Strategies that ignore the past or, even worse, disavow it, tend to be built on a frail foundation. FSCS has a clear sense of direction about its future because of its deep understanding of the past.

A timeline, running through the strategy, summarises key events in FSCS history. It pinpoints how far we have come since 2001 when FSCS was established as a world-first: an integrated compensation scheme for regulated financial services. Indeed, FSCS replaced no less than eight previous schemes. Thirteen years on, the financial services landscape has undergone seismic changes. We have dealt with the failures of five banks and a building society; major investment firms have gone bust; and several credit unions have failed. However, what remains a constant in turbulent times is the reassurance that FSCS offers millions of people. Since we started, we have now paid out a total of £26bn in compensation.

The future is, of course, full of uncertainty: the reality is that there are always going to be potential changes that impact on our work. We are clear, however, as to which principle should guide us: we will continue to support financial stability by protecting consumers with speed, continuity and convenience while achieving value for money for levy payers.

### Our seven imperatives

Our five-year vision sets out seven imperatives if FSCS is to meet the rising expectations of consumers and of our stakeholders, particularly the levy payers who fund us. The imperatives are discussed in more detail in Section 4.

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**What remains a constant in turbulent times is the reassurance that FSCS offers millions of people**

Over **60%** of the public are aware of FSCS or a deposit protection scheme

Our strategy does not try to second-guess market forces or which firm is going to fail or when, but rather it looks at the different ways that we can underpin FSCS's resilience. In this way we can ensure FSCS is prepared to manage future challenges. Our own considerable know-how has highlighted where we have done well, certainly, but also where we need to improve so we can respond smoothly to rapid and unpredictable fluctuations in our workload.

An enduring climate of reassurance is extremely important to sustain consumers' confidence in financial products and services. If consumers are certain that they will get their money back when a financial provider fails, then they are far less likely to remove their money in a panic. However, as consumers become increasingly aware of FSCS, they also hold higher expectations about the efficiency and speed of our service, and rightly so. They turn to us during a stressful period of their lives and we must make sure the experience that they have of us is a positive one.

Thanks to the fast depositor payout arrangements we established with the industry and regulators in 2011, FSCS has since compensated the great majority of depositors within seven days and frequently much sooner. Nine out of ten PPI claims are turned round within three months and eight out of ten other claims within six. But we are also conscious that we must modernise our service to reflect the way consumers want to manage their finances. To that end, we are developing our Connect programme so consumers can apply online for compensation instead of having to fill in paper forms. The Chief Executive discusses the benefits of Connect in more detail in Section 3.

## Looking back at four priorities

In last year's annual report and accounts, I identified four priorities on which I wanted FSCS to continue to work in order to support our mission to provide a responsive, well-understood and efficient compensation service.

### Strengthening FSCS as a trusted partner

The Financial Services (Banking Reform) Act 2013 introduced two new statutory duties on FSCS. We must have regard to both the need to operate FSCS efficiently and effectively, while minimising taxpayer funding costs in relation to loans or other financial assistance; and to provide HM Treasury with information for government accounting purposes.

FSCS works closely across many aspects of our remit with the two regulators, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), together with HM Treasury and the Bank of England. FSCS has strengthened the relationship with all four partners. There is regular contact alongside a continuing discussion about what FSCS can and, indeed, cannot do. This means we are able to define better what our capabilities are across different resolution scenarios and so plan accordingly.

### Contingency planning and sharing

Our strong connections with the FCA, PRA and HM Treasury (collectively, the Authorities) and others ensure that our contingency planning is secure and well thought through. We share information and exchange views about the resolvability of various financial services firms across the different sectors in the event of a failure. As we outline in this report, failures can be extremely complex, sometimes involving multiple products that are structured in opaque ways, covering various overseas jurisdictions. We have worked at being better prepared for such complexity while assessing how FSCS will cope in response to sudden demand and high volumes of claims. We are also active and enthusiastic contributors to the discussions about potential improvements to FSCS across all sectors.

### Raising awareness

It is greatly encouraging that more than 60 per cent of the public are aware of FSCS or a deposit protection scheme. However, one of the greatest remaining challenges is to raise awareness about FSCS coverage across all the financial products for which we pay out compensation. The key here, in my view, is to make sure that the message is clear, consistent and,

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**I believe we should open a dialogue with the industry and the regulators to address the issue of complexity**

above all, easy for non-experts to follow. I believe we should open a dialogue with the industry and the regulators to address the issue of complexity. People need to understand better exactly what they are buying and the level of protection. This work is going to be increasingly important in the coming year when the pension rules, announced in the Budget 2014, come into force.

**Transparent relationships with levy payers**

The role of FSCS is established in statute through the Financial Services and Markets Act 2000 (as amended in 2010 and 2012). Levy payers, for the most part, recognise that we are an operational arm of the safety-net as a whole and we do not set the rules. The good relationship FSCS enjoys with levy payers is reflected in the positive partnership of the raising awareness programme outlined above.

We also work hard to make sure that the levies that the industry pays to FSCS are robust; and that the process through which we set and raise them is transparent. Following consultation with the industry, from 1 April 2013, except in the case of the deposit-taking class, FSCS now levies the greater of either one-third of the next 36 months' expected compensation costs; or the costs expected over the 12 months from the date of the levy.

By looking further ahead at expected compensation costs, we may be able to help reduce the volatility of annual levies and the likelihood of interim levies. This approach is based largely on past claims experience, which we adjust to reflect current claims trends and market intelligence when the levy is set. There is more information on the five-step process we take to arrive at the levy in Section 7.

We also put effort into our communications with the industry. We meet regularly with representatives from different sectors. Our publication Outlook, regular website updates and the annual Plan and Budget keep the industry closely informed about the specific detail of the levies, and the latest information about defaults, compensation payments, recoveries made and FSCS running costs.

## Our people – a can-do attitude

I would like to thank retiring FSCS Board member and my deputy chair, Max Taylor, for his energy and wise counsel in support of FSCS's aims over the past six years. Max made a major contribution to FSCS during his time on the Board, throughout the financial crisis and as deputy chairman.

And I should like to pay a particular tribute to Rommel Pereira who announced that he would be leaving FSCS after three and a half years as our Director of Central Services. In that time, Rommel contributed hugely to building the professionalism of key parts of the organisation, particularly the crucial central services of IT, Finance and HR, as well as playing a major role in the continuing transformation of FSCS to meet future challenges.

FSCS encourages all our people to be on top of their game, and to embrace a can-do mentality that is ready to deal with whatever unexpected events the future holds. Our people are the driving force of our five-year vision, so investing in further building their skills and knowledge is a priority. This year, as always, their commitment to the job in hand and providing an excellent service is exemplary. I would like to thank everyone at FSCS for their dedication and professionalism. They continue to deal with demanding defaults against a background of rapid change, while creating a forward-looking culture.

**Lawrence Churchill**
*Chairman*

**“Reliability is what consumers and our levy payers expect from us in respect of every claim we handle**

Section 3

# Chief Executive's Report

Mark Neale reports how FSCS has put in place the right conditions to support financial stability, while offering value for money to all its stakeholders.

FSCS is a force for financial stability. It exists to protect consumers when financial firms fail. But FSCS is also doing something even more fundamental: it is contributing to a properly functioning market in which financial services businesses can succeed, certainly, but can also fail without undermining the market itself. Financial services businesses can only fail safely if FSCS can protect consumers and enable them to get on with their lives with the minimum of disruption.

We already have a highly successful track record of changing to meet the needs of consumers. But to be a first-class compensation service, we need a clear strategy to prepare for the many challenges ahead. This is why we produced our five-year vision in January 2014. Our Chairman discusses the strategy in greater detail in Section 2.

I believe that there are four broad and inter-related conditions that need to be in place for us to be consistently effective. These can be summed up as reliability, credibility, flexibility and visibility.

## Reliability – a trusted compensation scheme

We must be able to keep our commitment to compensate consumers quickly and accurately – within seven days in the case of people who have deposits in a bank, building society or credit union. Reliability is what consumers and our levy payers expect from us in respect of every claim we handle.

This year we dealt with over 200,720 enquiries compared with 359,617 in 2012/13, covering all aspects of our work. We received over 39,000 new claims, compared with just over 62,000 in 2012/13. We have paid out total compensation of £243m, compared with £326m in 2012/13.

We have started to see evidence of a slow but steady decline in the number of PPI claims (excluding those handled by the arrangement we have with Welcome Financial Services Limited) to 12,053, compared with the previous year's high number of 19,035. This has led us tentatively to conclude that we may be past the peak of PPI claims for the time being. We shall continue to monitor the situation very closely and keep the industry informed.

Over the past four years, we have seen highly complex failures, particularly in the investment sector. This means that although the number of claims is down, the level of complexity has risen considerably. The failure of Catalyst Investment Group Limited (Catalyst) in October 2013 highlighted the intricate demands arising from multiple products, difficult quantification issues and the involvement of numerous third parties and jurisdictions. I am also increasingly concerned by the growing number of claims FSCS has seen in the past year arising from wrong advice to consumers to move retirement saving out of occupational schemes and into risky assets held within Self-Invested Personal Pensions (SIPPs).

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**FSCS has a strong and consistent track record in making recoveries to benefit levy payers**

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**We are recognising the issue of volatility by moving to a new funding approach**

We strongly support the action the FCA has taken to address this.

## Credibility – efficiency and value for money for stakeholders

FSCS's primary responsibility is to the consumers who need our protection.

But we must be credible to levy payers and to our stakeholders in government and the regulators by showing that FSCS is efficiently and effectively run and that our funding arrangements are fair and transparent.

The costs of the compensation that FSCS pays must be pooled across the industry. The levies received during 2013/14 were £1.1bn compared with £726m in 2012/13. These figures include the interest costs and a capital repayment levy for the major banking failures of 2008/09.

I remain conscious that many firms paying our levies find their unpredictability and volatility hard to cope with. Other levy payers continue to believe that the basis on which our levy is pooled takes insufficient account of risk and leaves well-run, low-risk firms picking up the costs of failed firms which ran higher risks.

We are recognising the issue of volatility from 2014/15 by moving to a new funding approach which looks across three years and takes account of recent history and emerging trends. I hope this makes supplementary levies less likely, although it will not rule them out.

We also continue, together with our partners in the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), to keep the fairness of our funding arrangements under review. The European Union's Deposit Guarantee Schemes Directive (DGSD) will, for example, mandate the adoption of a risk-based approach to raising levies to meet the costs of deposit failures. I welcome this. The PRA will publish a consultation paper covering this and other DGSD issues later in the year.

### Management expenses

Our total management expenses during 2013/14 were £57.7m compared with £59.8m in 2012/13. Our costs were lower than last year as a result of reduced outsourcing costs, a lower spend on legal and professional costs and the deferral of some of the costs relating to our investments in modernising our business. We continue to think that our business model of outsourcing claims is the best guarantee of value for money in the face of a volatile and unpredictable workload. It enables us to draw on the spare capacity of our outsource partners to meet fluctuations in demand. And we secure competitive pricing by requiring our outsource partners to compete against each other for new work.

### Recoveries

FSCS has a strong and consistent track record in making recoveries to benefit levy payers. Since the financial crisis, we have recovered


£3.7bn. Over the past year we recovered £353m in respect of failed firms, including £241m from the major banking failures of 2008/09. This compares with £777m in 2012/13. We actively engage with HM Treasury in our work to secure returns from the estates of the failed banks and will continue to do so in the coming year.

While we pursue recoveries only where it is cost-effective and reasonable to do so, our considerable success over the longer term is because we are prepared to be proactive and open to different approaches. We work to hone our capability as a major creditor of failed firms. Where appropriate, we will also take legal action through the courts, as we have done against a large number of Independent Financial Adviser (IFA) firms for investors' losses on products promoted by Keydata. During 2013/14, we recovered about £88m from investment failures, including Keydata. These recoveries either go back to the industry or, as in the case of the Investment Intermediation sector, are offset against compensation costs.

## Flexibility – responding to unpredictability

Our ability to be flexible goes hand-in-hand with our commitment to be a reliable compensation scheme.

Our standard compensation payout is often in the form of a cheque or cash over the counter at a post office. We also routinely make compensation payments into consumers' bank accounts through Bankers' Automated Clearing Services (BACS).

This is reassuring in itself but is not always the best result for everyone. When businesses fail, many consumers will attach as much importance to continuity of service as to compensation. This will be true, for example, of insurance policies and also of current accounts on which many people rely to manage their day-to-day finances. So FSCS must be prepared, in conjunction with its partners, to explore compensation arrangements which also deliver continuity. For example, in the event of bank, building society or credit union failures, under the Banking Act 2009, FSCS should be ready to finance the costs of a transfer of customers' accounts to another provider (as we did in 2008 when Bradford & Bingley's accounts were transferred to Santander).

We must respond to the ways that consumers themselves want to deal with their finances and how they wish to seek compensation from FSCS. This is why we are investing in our Connect programme, a top priority. For the first time, Connect will enable consumers to make claims direct to FSCS via a secure user-friendly online process. Connect is due to go live in the coming year.

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**We must respond to the ways consumers themselves want to deal with their finances**

## Visibility – telling consumers who we are

People cannot have confidence in organisations they do not know about. But that was exactly the position of FSCS before the financial crisis. FSCS had kept a very low profile because no one had really expected banks, building societies or other major financial services businesses to fail. FSCS is now much better known. Consumers who go into any UK bank, building society or credit union, or check out their respective websites, will see straightforward information about FSCS protection prominently displayed.

This work is complemented by FSCS's own radio, press and digital advertising. The campaign is beginning to pay dividends: awareness of FSCS or of our protection is at around 60 per cent of the population. But this also means that around 40 per cent of people are not aware that their savings are protected, so we still need to do a great deal more work.

FSCS only spends money when there is a strong business case for doing so. We have always set out to show an unequivocal link between raising awareness and confidence in financial products. Conversely, we must also have evidence that a lack of awareness is detrimental to the industry and consumers. People might be steering clear of useful products because they are unaware of FSCS protection and believe the products are riskier than they are; or people may be taking risks unknowingly, assuming FSCS will protect them when we cannot. The prospective changes to retirement saving announced by the Chancellor in the Budget 2014 will, for example, increase the importance of raising consumers' understanding of how FSCS protects annuities and other options for investing to generate an income in retirement, so that consumers are aware of the differences in protection. This is not the only, or even the most important, consideration consumers will need to have in mind when deciding how to invest their retirement savings, but it will be important that consumers do not make choices on the basis of wrong assumptions about the protection they would enjoy if a product provider or intermediary failed.

## Our people – our future

That a successful organisation relies on the talent of its people might be obvious, but what is perhaps less obvious is the extent to which people can influence the culture and direction of travel for the longer term. I would like to thank our people for contributing so much to our five-year vision and the way in which teams have worked so hard during the past year.

I know we do not do everything perfectly, but our teams' sense of purpose and commitment to consumers and stakeholders alike reflect the thorough professionalism that FSCS people exemplify. Thanks to their focus, they reflect the reliability, credibility, flexibility and visibility of our organisation now and in future.

**Mark Neale**
*Chief Executive*

# The preparation of the financial statements 2013/14

From 1 April 2013, under the provisions of the Financial Services Act 2012, FSCS has been audited in accordance with the rules governing public audit requirements. The Comptroller and Auditor General was appointed to carry out our external audit work. This is a development we welcomed because the change gave us an excellent opportunity to take a fresh look at how we report on FSCS's finances.

The directors have chosen to prepare the financial statements at Section 11 in accordance with International Financial Reporting Standards (IFRS). This has been done with the aims of:

- enhancing the quality of the financial information;
- making the financial statements easier to compare and understand; and
- improving transparency for all our stakeholders.

The end result will contribute to our imperative of demonstrating that FSCS offers value for money and enhances our accountability to stakeholders.

Also as part of the transition to IFRS, the FSCS directors have taken the opportunity to re-assess the basis of preparation for the financial statements. As part of our aim to offer greater transparency, we decided to include compensation costs, recoveries and levy income within the statement of comprehensive income and statement of financial position. These transactions are also included within the financial statements of the classes and are presented on a consistent basis with last year.

We are considering opening a dialogue with the trustees of the FSCS Pension Fund to review the rules bearing on the extent to which a pension scheme surplus generated through our repayment plan can be utilised by the company.

Section 7, as in previous annual reports, covers the main 'headline' figures of FSCS's finances that are of particular interest to levy payers and our other key stakeholders: compensation costs, management expenses, an update on the major banking and building society defaults of 2008/09, recoveries made and levies received.

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**The directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards**

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

**Key points**

- Our vision was published in January 2014 and guides our work for the next five years.
- It places all our stakeholders at the centre of our work.
- Seven imperatives are shaping our strategy.

Section 4

# Our Vision for a Confident Future

## FSCS published its five-year vision in January 2014. It is part of our drive to boost consumer confidence while improving our services.

Set against a timeline that tracks some of the key events in our past, *Vision for a Confident Future* spells out clearly what we aim to achieve. The document describes FSCS's progress since our modest beginnings in 2001 and will guide our work for the next five years. It sets ambitious targets aligned to our annual Plan and Budget.

Our vision puts all our stakeholders at the heart of what we do. It reflects our commitment to being open and transparent and is a central part of our accountability.

During the past 13 years, demand for our services has varied enormously: from 8,000 claims in 2002/03 to protecting four million consumers in 2008/09 following the collapse of major banks. The crisis showed that FSCS needed to be able to respond smoothly to rapid and unpredictable fluctuations in our workload.

We know that we will face many unforeseen challenges in the next five years, but we can predict some of the factors that will influence the environment in which we are working. Consumers will expect us to provide a service which matches their expectations of other providers in the financial market. In particular, they will increasingly expect to engage with us online. FSCS protection must keep pace with developing markets for financial products that continue to come on stream. We also need to be able to respond to growing complexity, particularly in the investment field.

Potential changes are also increasingly likely to result from EU legislation, and we need to be ready to deal with those changes. This means working closely with the regulators that set our rules, the industry and our European counterparts.

**2013**

- January: FSCS launches a second phase of its consumer awareness programme on radio, in press and in digital, with a focus on deposits.
- January: research shows consumers are more cautious about their money as a result of the financial crisis, although 69% are confident their money is safe with UK firms.
- February: FSCS Plan and Budget includes an indicative levy of £311m in 2013/14 with a lower volume of claims in, although PPI claims continue. To date, FSCS has paid nearly £240m to almost 96,000 PPI claimants.

# Our seven imperatives

We have seven imperatives of equal importance that are shaping our strategy. These are the actions that FSCS must take to deliver consumer focus, efficiency and cost-effectiveness. The publication of the imperatives allows the industry to see and measure FSCS's direction and development over the next five years.

**Modernising** our service to consumers to provide a fast, reliable and responsive service at reasonable cost. We plan to give people more choice in how they deal with us by providing a secure and user-friendly online claims service within the coming year.

**Diversifying compensation routes** so that, together with our partners in government and the regulators, we find new ways of resolving claims and industry failures to give consumers maximum convenience and continuity at the lowest cost to the industry.

**Raising awareness** of the protection we provide is important to boosting consumer confidence. It goes hand in hand with improving our service. It is no good providing a great service that no one knows about and which fails to reassure.

**Improving our value for money, transparency and accountability.** We know the industry expects FSCS to show financial discipline and a commitment to value for money. We share this view. We will be clear about what we are trying to achieve and the most efficient way of achieving it.

For each of these, FSCS is developing operational improvements. In future annual reports and in the Plan and Budget, we will report progress against each imperative.

- April: Northern Ireland credit unions are now protected by FSCS.

- April: new FSCS funding system comes into effect following an FSA consultation and policy.
- April: MPs call for banks and building societies to do more to promote FSCS protection, with 81% believing the firms should warn people when they go over the £85,000 limit.

- April: annual levy is set at £285m, with costs for investment intermediaries up due to the costs of major failures such as MF Global, Pritchard Stockbrokers and WorldSpreads.
- April: Portadown Diamond Credit Union fails and FSCS protects members.

- July: FSCS's Annual Report shows it paid £326m in compensation to 85,000 consumers during 2012/13, and investment failures become increasingly complex.
- July: FSCS recoveries tally £777m from the estates of failed firms.

> **We plan to give people more choice in how they deal with us**

**Achieving excellence as a creditor.**
Where financial services businesses fail with substantial assets, FSCS must maximise what it can recover for levy payers. This will be true whether FSCS acts as a creditor in the conventional sense or acquires rights in the winding-up of a firm as part of a statutory resolution.

**Deepening contingency planning** with key stakeholders to make sure we respond effectively to crises and play a positive part in resolving failures in any sector of the industry. Preparation is vital to responding effectively in a crisis.

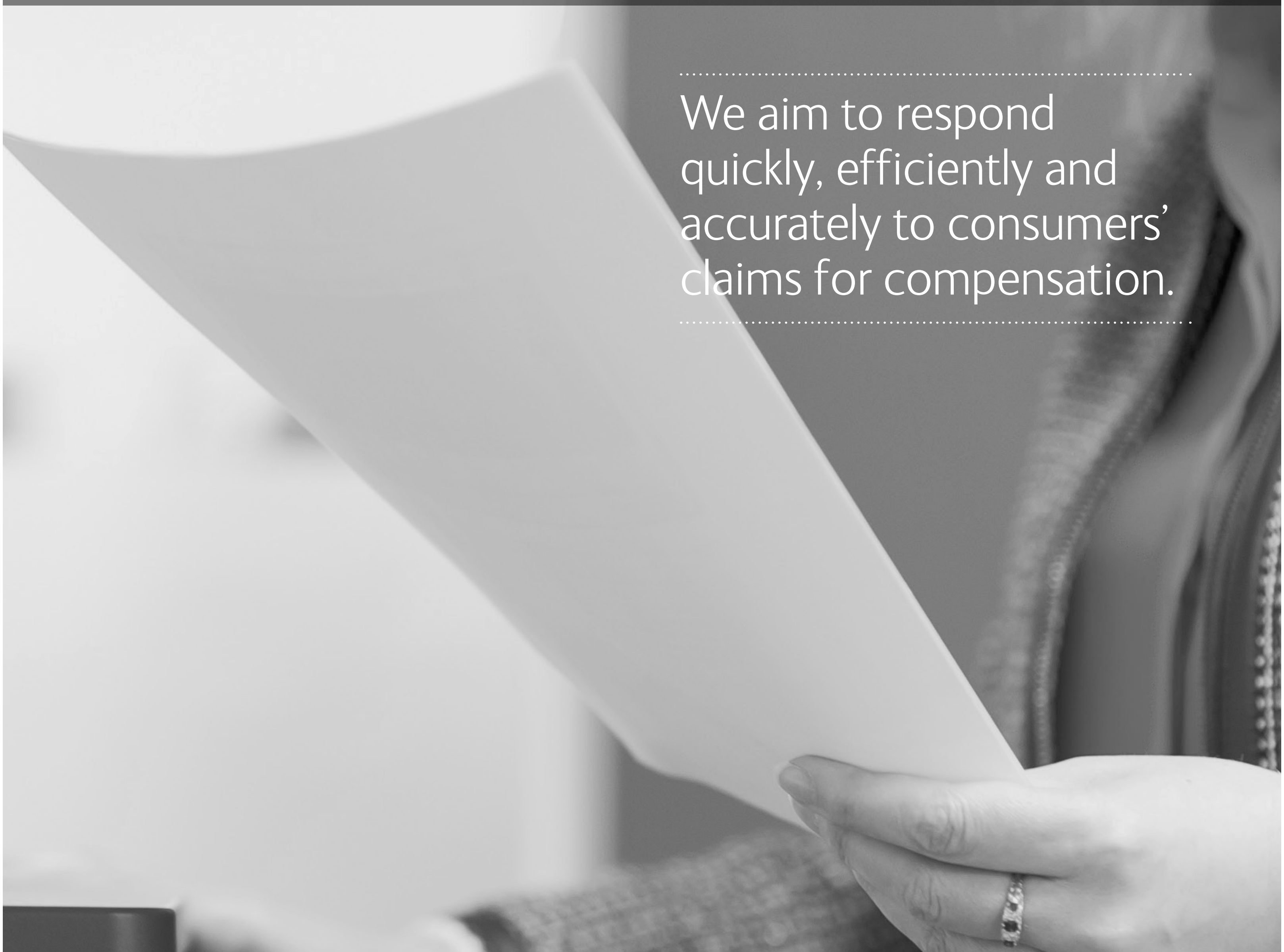
**Engaging our people and organisation** to make FSCS more agile and even more professional. We will equip our people to respond to, and embrace, change and to rise to whatever challenges we will face. We aim to be an Investor in People and achieve Best Companies accreditation.

- October: FSCS launches an online protection checker for consumers. Thousands start to use the simple tool.

- December: Financial Services (Banking Reform) Act 2013 receives royal assent.
- December: Deposit Guarantee Schemes Directive is agreed in Europe.

**2014**

- January: FSCS launches its five-year vision with its Plan and Budget, reinforcing its commitment to accountability and transparency to levy payers.



We aim to respond quickly, efficiently and accurately to consumers' claims for compensation.

## Key points

- We received 39,258 new claims from consumers during 2013/14, a decrease of 37% on the number of claims received during 2012/13, largely because of falling numbers of PPI claims.
- We received 12,053 PPI claims over the year, compared with about 19,000 in 2012/13.
- The number of complex claims arising from the Life and Pensions Intermediation class and the Investment Intermediation class increased over the year.
- We dealt with 200,720 enquiries relating to all aspects of our work.
- In 2013/14 100% of customers were paid compensation within seven days of the failure of a credit union. Most customers with more complex accounts were paid within 20 days.

Section 5

# Responding to Consumers

FSCS dealt with fewer Payment Protection Insurance (PPI) claims than expected this year. However, there has been a continuing increase in the numbers of complex claims.

## A summary of claims and enquiries

We received 39,258 new claims from consumers during 2013/14, which was 37 per cent less compared with 2012/13. We decided a total of 38,637 claims in 2013/14, compared with 62,030 claims the previous year. The average payment was £5,135.63.

The chart shows claims numbers, the decisions made and average compensation payments by class.

## What has driven claims over the past year?

The Life and Pensions Intermediation sector saw an increase in claims in 2013/14. This was because of an increase in Self-Invested Personal Pensions (SIPPs) claims and the continuing, although relatively low, volumes of mortgage endowment claims.

The second significant increase was in the General Insurance Provision sector, which in 2013/14 saw the number of claims rise to 14,328 compared with 10,766 received in 2012/13. In common with the general insurance industry, the policyholders of many of the failed insurer estates have experienced increasing numbers of noise-induced hearing loss (NIHL) claims. These NIHL cases are the primary cause of the increase in new claims numbers for this sector.

### PPI claims decreasing

For the first time in four years, PPI claim volumes decreased during 2013/14 to 12,053 (excluding Welcome Financial Services Limited) compared with about 19,000 the previous year. At the year-end we had completed 13,683 claims, of which the vast majority were completed within our target timescales.

We may now have passed the peak of PPI claims and be witnessing a downward trend, although it remains possible that an upward trajectory could resume in the coming year. There was also a decrease in Investment Intermediation claims and another slight drop in Home Finance claims.

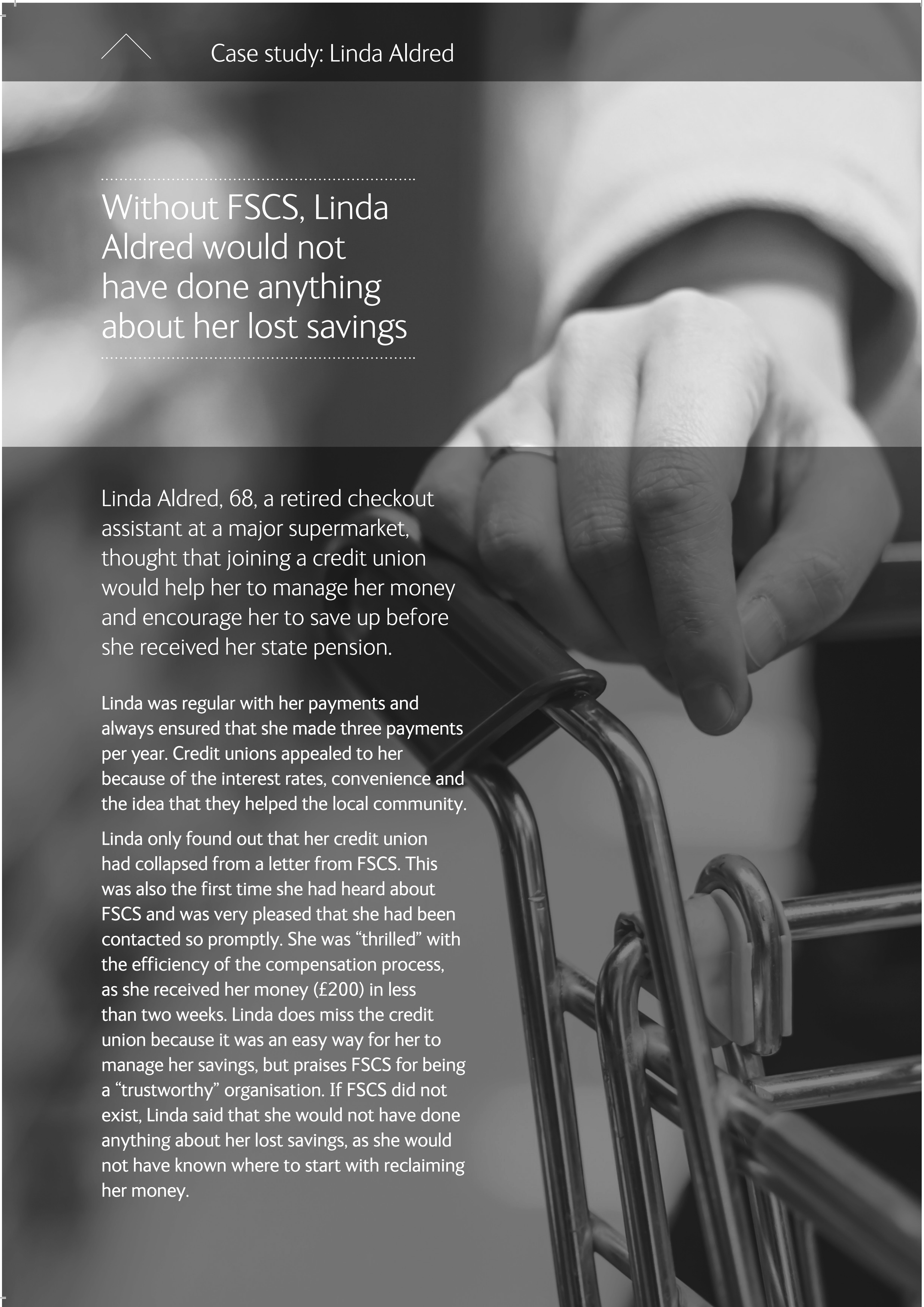
### Claims Management Companies (CMCs)

Claims made through CMCs accounted for just over 44 per cent of all claims. Significant areas of activity from CMCs were claims relating to mortgage endowments, PPI (both non-Welcome and Welcome claims), mortgage intermediaries and stockbroking.

Of the total PPI claims received, over two-thirds were sent to us from CMCs. Whether a claim is received via a CMC or an individual is irrelevant to whether or not we uphold the claim. We assess all claims case by case on their own facts. However, claimants who use CMCs can receive less compensation because CMCs can take up to 25 per cent of the payment out of FSCS's compensation.

"

**There was a continuing increase in the complexity of claims in 2013/14**



# Without FSCS, Linda Aldred would not have done anything about her lost savings

Linda Aldred, 68, a retired checkout assistant at a major supermarket, thought that joining a credit union would help her to manage her money and encourage her to save up before she received her state pension.

Linda was regular with her payments and always ensured that she made three payments per year. Credit unions appealed to her because of the interest rates, convenience and the idea that they helped the local community.

Linda only found out that her credit union had collapsed from a letter from FSCS. This was also the first time she had heard about FSCS and was very pleased that she had been contacted so promptly. She was “thrilled” with the efficiency of the compensation process, as she received her money (£200) in less than two weeks. Linda does miss the credit union because it was an easy way for her to manage her savings, but praises FSCS for being a “trustworthy” organisation. If FSCS did not exist, Linda said that she would not have done anything about her lost savings, as she would not have known where to start with reclaiming her money.

We received
**39,258**
new claims in
2013/14

## Claims, decisions and average payments by class

| | | New claims received | | Total decisions | | Uphold rate | | Average paid | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2013/14 | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2012/13 |
| Deposits (SA01) | | 6,066 | 9,737 | 6,070 | 9,740 | 99.8% | 99.9% | £633 | £314 |
| General Insurance Int. (SB02) | All (excluding Welcome[1]) | 12,120 | 19,035 | 13,881 | 18,165 | 75.2% | 74.5% | £3,915 | £4,149 |
| | Welcome | 8,289 | 16,370 | 6,514 | 17,550 | 92.2% | 91.4% | £1,463 | £1,402 |
| Life and Pensions Provision (SC01) | | 0 | 3 | 3 | 5 | 66.7% | 20% | – | £595 |
| Life and Pensions Intermediation (SC02) | | 4,248 | 3,691 | 3,944 | 3,598 | 44.8% | 49.6% | £11,104 | £13,172 |
| Investment Provision (SD01) | | 2 | 8 | 5 | 11 | 100% | 45.5% | £7,377 | £12,451 |
| Investment Intermediation (SD02) | | 7,823 | 12,300 | 7,373 | 12,255 | 83.4% | 89.6% | £10,939 | £9,488 |
| Home Finance Intermediation (SE02) | | 710 | 886 | 847 | 917 | 3.5% | 4.1% | £39,994 | £13,865 |
| **Total** | | **39,258** | **62,030** | **38,637** | **62,241** | **n/a** | **n/a** | **£5,136** | **£4,415** |
| Home Finance Provision (SE01) | | None | | | | | | | |
| General Insurance Provision (SB01)[2] | | 14,328 | 10,766 | 13,339 | 10,298 | 7,505 | 5,749 | £6,785 | £7,656 |

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

2 FSCS does not directly process claims for General Insurance Provision as it does for other classes. The nature and complexity of these claims mean there is no direct correlation between the numbers of payments and the numbers of 'decisions' or 'uphold rates' in any one year.

# Persistence paid off for couple mis-sold an investment

Mr and Mrs Willcox sought the help of a financial adviser when they were looking to invest some inheritance from which they wished to receive some income.

After discussing their criteria with the adviser, it was recommended that Mr and Mrs Willcox put their money in an investment that was linked to stocks and shares. After the first year, the investment value had decreased considerably. Yet, despite their concerns, the adviser recommended they keep the money invested, and not draw an income from it – although by this stage they were meant to be able to do so. However, Mr and Mrs Willcox were keen to minimise any potential losses. They expressed their concerns to their son and daughter-in-law, who immediately investigated their paperwork/contract for the investments. It was then that they realised they had been wrongly advised. They had confirmed that they were low-risk investors, yet the products they had been sold were, in fact, high risk.

It was decided that the policy sold was not what they had wanted, so to avoid any further losses Mr and Mrs Willcox cashed in their policy, but the amount they got back was significantly less than they had invested. The advising firm rejected an initial claim from the Willcoxes for mis-selling, so they proceeded to take their claim to the Financial Ombudsman Service. The adjudicator found the case in the couple's favour, despite an appeal from the firm.

Finally, they received a letter confirming they would be getting their money back within 28 days but within that time they instead received a letter saying the company had gone into administration.

"We were devastated. We had made so much effort and thought this problem had been resolved. The work to get to this point alone had been unbelievable.

"We got in contact with FSCS and submitted a new application for compensation which included the confirmation of the firm's administration status. The customer service was exemplary, we can't thank the FSCS enough," said Mr Willcox. "We were delighted to finally receive compensation from FSCS. It was for the full amount we had lost, so we didn't lose any money.

"With our money back in our own pocket, we were able to replace our car and give some money to help our grandchildren," said Mrs Willcox.

"People can be daunted by the paperwork for claiming. If you truly believe you've been mis-sold an investment and are owed your money back or compensation, it's worth putting the time and effort in, you shouldn't give up."

## Continuing increase in complex claims

Although 2013/14 saw an overall reduction in the volume of claims, there was a continuing increase in the complexity of claims. This complexity limits our ability to achieve economies of scale for handling such claims. We explain some of the issues involved when we talk about complex claims.

## Consumer enquiries and complaints

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

During 2013/14 we dealt with 200,720 enquiries compared with 359,617 during 2012/13. The decrease in enquiries corresponds to the decrease in claims over the year. General enquiries cover all aspects of our work, including how to make a claim, the compensation limits in different industry sectors and how long a claim might take. Alongside this daily work, FSCS also deals with any complaints it receives, as well as responding to all Parliamentary correspondence.

Although the volume of enquiries was lower in 2013/14 compared with the previous year, we were asked for increasingly detailed information about the claims process.

### Complaints rate

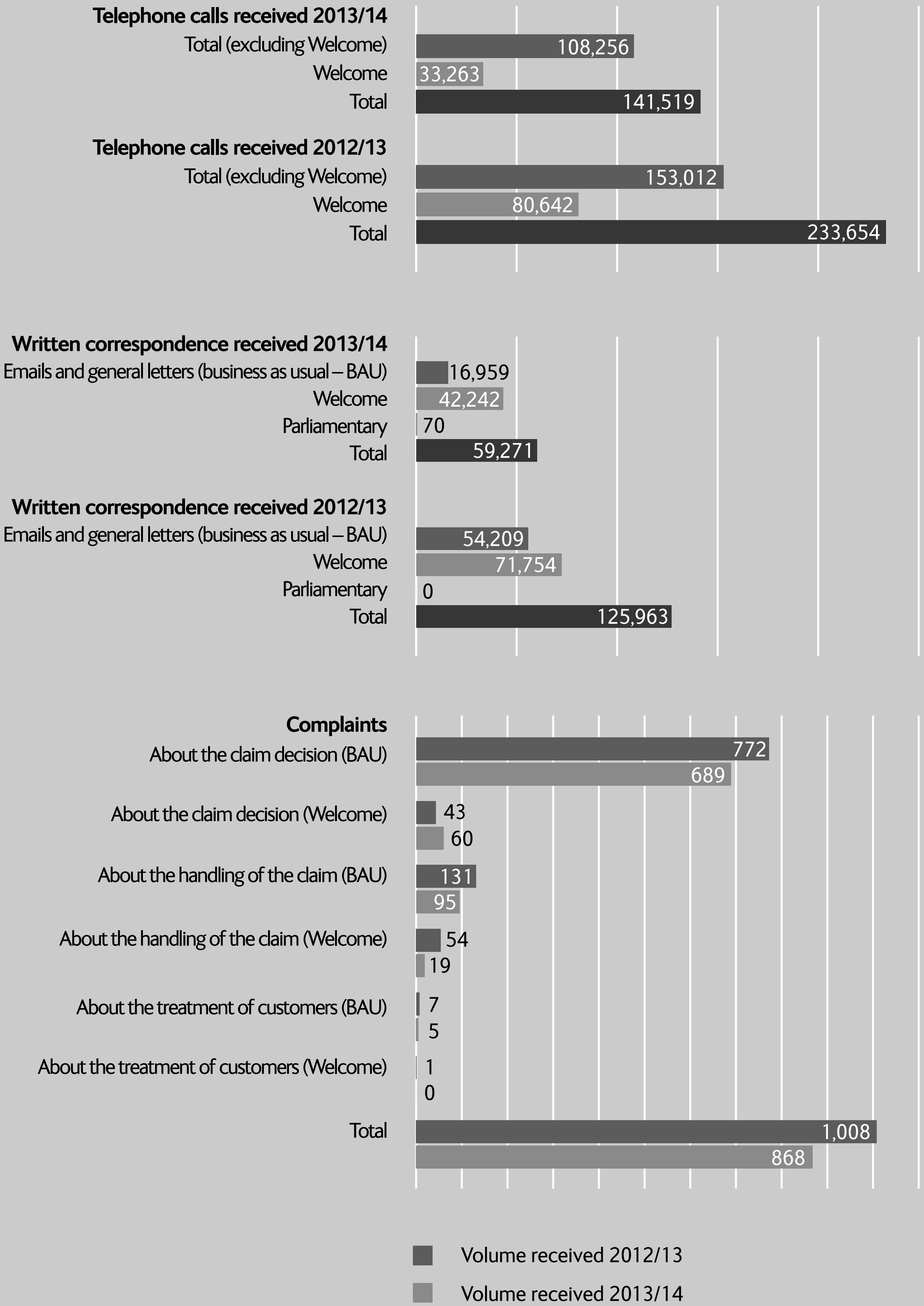
The number of complaints received in 2013/14 fell to 868 from 1,008 in 2012/13. Many complaints we received also related to issues involved with the handling of increasingly complex claims, as outlined above.

Complaints are dealt with by one of our complaints officers within our Specialist Contact Team, which is separate from the teams responsible for assessing claims. A complaints officer carries out a review of the decision reached, taking into account any new evidence and concerns raised. When there are complaints about the mishandling or maladministration of a claim, the matter may also be referred to the Independent Investigator. Two complaints were referred to the Independent Investigator during 2013/14. The Independent Investigator always makes a separate report.

“

**Although the volume of enquiries was lower, we were asked for increasingly detailed information**

## Consumer enquiries and complaints



# Two complaints were referred to the Independent Investigator in 2013/14.

The Independent Investigator reviews complaints about claims that remain unresolved following investigation and response by FSCS.

This is my sixth annual report since I took up office, and it relates to the period from 1 April 2013 to 31 March 2014.

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

I do not investigate disagreements or disputes about the merits of a decision made on a claim itself. This is made very clear to claimants who ask for a complaint to be referred to me. Notwithstanding this, almost all of the complaints referred to me at a complainant's request over the last six years have sought to raise issues about the decision made on a claim to FSCS. I make it clear to complainants that I will not adjudicate on decisions made on claims.

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

A copy of my report is provided to the complainant in every case I adjudicate upon. I investigate complaints following review of the complaint by FSCS under its internal complaints procedures.

In this reporting period, I investigated and reported on two cases referred to me. I did not uphold the complaints. In relation to one of the complaints I made reference to the length of time FSCS had communicated with the complainants on a claim's rejection.

I note that FSCS dealt with more than 39,000 new claims in this reporting period. I am satisfied that FSCS is correctly signposting complainants to me should they be dissatisfied with how their claim has been dealt with.

**John Hanlon**
*Independent Investigator*

# How we performed against our service standards

As the chart shows, we exceeded our service standards across all but one of our activities. This was to meet 90 per cent of 'other' claims within six months of receiving a completed application form. (Of the remaining 10 per cent, no claims should be older than 12 months unless exceptional circumstances apply.) We decided 80 per cent of claims within the target time of six months. Again, this is because we have continued to receive increasingly complex and intricate claims that can be time-consuming to resolve; and, on occasions, it is difficult to obtain the necessary information from third parties.

| **Target**: | **Performance**: |
| --- | --- |
| To answer 80 per cent of all telephone calls within 20 seconds. | Over the course of the year, we answered 88 per cent of all telephone calls within 20 seconds. |
| To answer 95 per cent of calls within 90 seconds. | We answered 99 per cent of calls within 90 seconds. |
| **Target**: To answer 90 per cent of correspondence within 10 working days. | **Performance**: We answered 99 per cent of correspondence within 10 days. |
| **Target**: To answer 90 per cent of complaints within 20 working days. | **Performance**: We answered 97 per cent of complaints within the target. |
| **Target**: To send out 90 per cent of application forms within five working days. (This target does not apply to the Deposits sector because application forms are not used for these claims.) | **Performance**: We sent out 99 per cent of forms within five days. |

| Target: | Performance: |
|---|---|
| To confirm a compensation decision to the majority of savers in failed banks, building societies and credit unions within seven days of failure. (To pay the remaining customers with more complex accounts within 20 days.) | In 2013/14 100 per cent of customers were paid compensation within seven days of the failure of a credit union. (The majority of customers with more complex accounts were paid compensation within 20 days.) |
| **Target:** To confirm a compensation decision on 90 per cent of PPI claims within three months of receiving a completed application form. | **Performance:** We confirmed decisions for 95 per cent of claims within the target. |
| **Target:** To confirm a compensation decision to 90 per cent of all other claims within six months of receiving a completed application form. Of the remaining 10 per cent, no claims should be older than 12 months, unless exceptional circumstances apply. | **Performance:** We confirmed decisions for 80 per cent of claims. |
| **Target:** To make a compensation payment in 90 per cent of claims within 10 working days of acceptance of a compensation offer (where applicable).[1] | **Performance:** We made compensation payments within the target date in 100 per cent of claims. |

1 Where compensation takes the form of an annuity, we will arrange compensation within 10 working days of receipt of all necessary information from third parties.

## Understanding our work

FSCS is the UK's statutory fund of last resort for customers of financial services firms. We are a non-profit-making independent body, accountable to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The rules under which we operate are made by the regulators and are in the FCA Handbook and the PRA Handbook.

### Our role

Our role is to protect UK consumers (and small businesses) against financial loss from failed firms regulated by the relevant Authorities. These are firms which are unable, or likely to become unable, to pay claims against them. We do this by providing an effective and efficient compensation scheme to eligible consumers. We do not charge individual consumers for using our service and consumers do not need to use a CMC to apply for compensation.

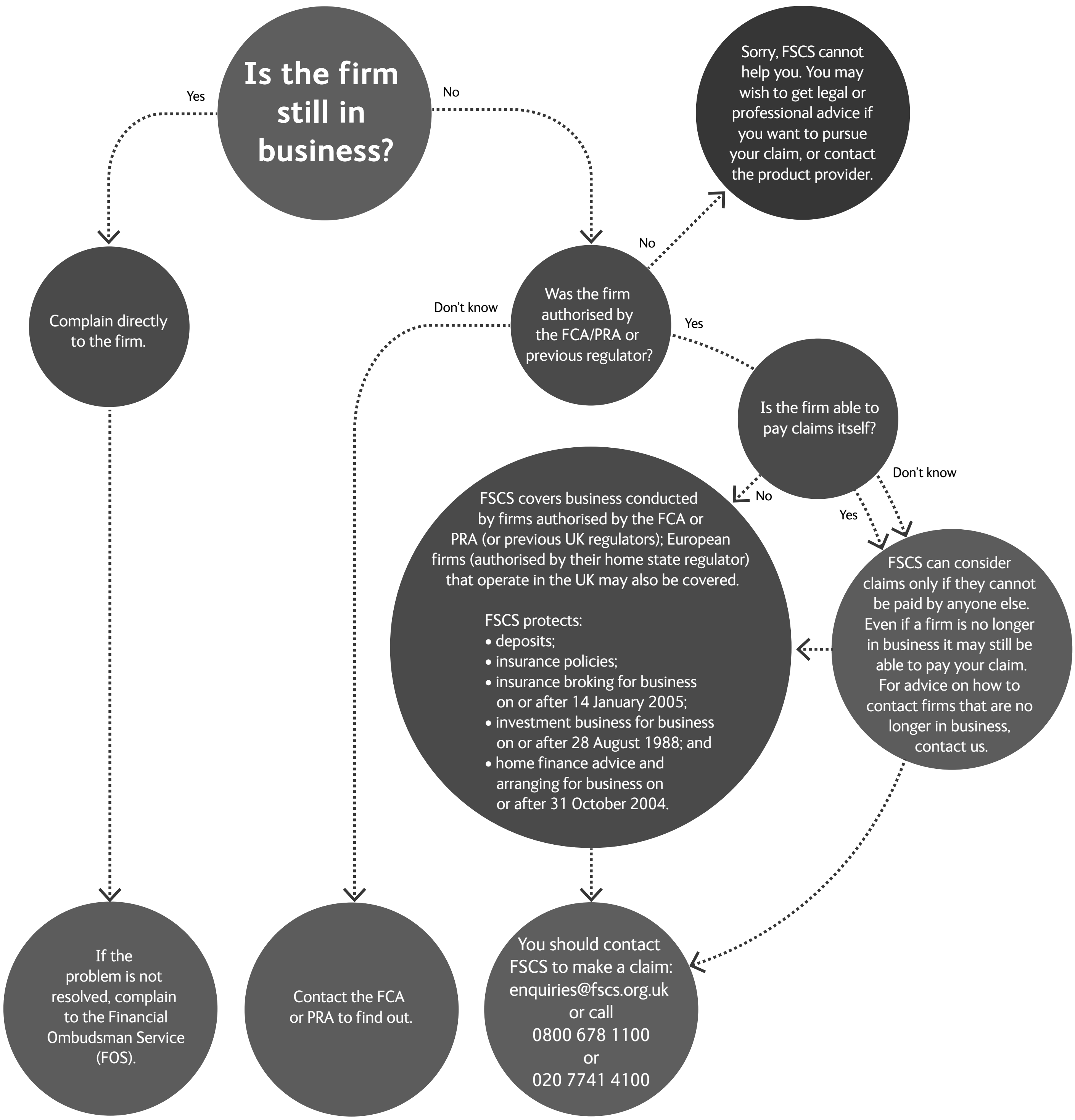
We only pay compensation for financial loss and there are limits to the amount of compensation we can pay. The table shows the financial sectors we cover, alongside what we protect and the compensation limits. The 'Can we help you?' decision tree shows the process we use to work out whether or not we can help you with your claim.

The FCA hosts the Financial Services Register of authorised firms and has more information about who to contact if you think you are entitled to make a complaint or a claim for compensation.

FSCS is funded by the industry. There is more about our funding model, including the 36-month approach for calculating compensation costs, in Section 7.

# Can we help you?

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



## What FSCS protects and compensation limits

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

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

### Who may receive compensation?

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

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

### What we do not cover

- Please note we do not pay compensation because a financial services product, such as an investment, has not performed as well as you hoped it would.
- We do not protect shares held in a company that have become worthless on that company's collapse.
- We do not compensate purely for a projected shortfall in performance.

# Managing complexity

In recent years FSCS has seen increasing numbers of complex investment claims including, over the past year, escalating volumes of pension advice claims relating to advice to switch to a SIPP.

In the past, investment claims tended to be relatively conventional, or were restricted to the activities of a particular failed firm. Now we are increasingly seeing claims relating to complex investments where numerous parties are involved in the design, management and distribution of the products (including some based overseas).

### Investment claims – Catalyst Investment Group Limited (Catalyst)

Catalyst offered bonds issued by a Luxembourg-based firm called ARM Asset Backed Securities SA (ARM), which itself was subject to insolvency proceedings in late 2013. Catalyst had a key role in promoting funds backed by ARM, which had been suspended since 2011.

FSCS had to reach a view on the liability of Catalyst, while considering the liability of other firms which might be responsible for losses, both within the UK and overseas. As part of this work, we also needed to investigate the prospects for recovering the cost of compensation payments, and ensuring that appropriate steps were taken to protect our future recoveries interests. This, in turn, not only protects our levy payers who are expected to bear significant costs relating to this default, but also the interests of claimants who may also benefit from future recoveries if their losses exceed FSCS's maximum payout of £50,000.

In addition, we needed to liaise with various third parties to obtain the data we required to process claims: information that was not obtainable from one reliable source.

Following work with the FCA, ARM's provisional liquidators and other third parties, FSCS was able to start inviting claims applications in March 2014.

### SIPP claims

A second example of complexity is the work we are doing to deal with increasing volumes of claims relating to advice given to consumers to switch from conventional pensions to a SIPP. FSCS has started to receive claims against firms such as TailorMade Independent Limited, which failed in October 2013.

FSCS's experience accords with concerns that the FCA has raised regarding the conduct of such firms and the potential for significant consumer detriment as a result of investors being encouraged to invest their pension funds in high-risk assets, many of which are illiquid. The result is that investors cannot access their funds. FSCS has been establishing the liability of the firms involved in this business and the losses that can be attributed to them. At times this can be complicated by the esoteric nature of many of the investments placed in SIPPs. Many of these assets are based overseas and are subject to significant uncertainty as to their status, value or future.

### 'Passported-in' firms

We continue to handle claims arising from the failures of two EEA insurance firms: Lemma Europe Insurance Company (Lemma), declared in default in September 2012; and European Risk Insurance Company (ERIC), declared in default on 28 April 2014. Both insurers were operating in the UK under the 'passporting-in' arrangement that allows an EEA-authorised firm to carry out its permitted activities in another EEA member state, such as the UK, if that firm fulfils the requirements under the relevant single market directive.

However, in the event of failure, a number of challenges can arise. For example, the necessary trading information about the firm is not always readily available; and we have to deal with insolvency laws and liquidators operating in non-UK jurisdictions.

# Compensation maintains confidence

Rodney Mander found FSCS's compensation process efficient and straightforward.

Rodney Mander, 72, a retired naval officer, decided to invest with Wantsum Savers Credit Union in order to save up for Christmas presents for his family alongside general living expenses.

He only found out about the position of his account with Wantsum Savers Credit Union when FSCS sent him a letter explaining about the collapse of Wantsum and to reassure him that his savings were protected. If Rodney had not received this letter, he would not have known that he could gain full compensation.

Rodney praised FSCS's compensation process for being "extremely straightforward", particularly for someone who has not previously claimed compensation. Rodney says that as the claims process was handled with great efficiency, he not only feels that he can trust FSCS but is also confident enough to save with another credit union.

In the future, Rodney will highly recommend FSCS's service to his friends and family. If FSCS's service did not exist, Rodney would have attempted to contact the Citizens Advice Bureau, but would not have known how to handle the claims process on his own.

# We aim to raise public awareness of the protection we provide.

## Key points

- Just over 60% of the public are aware of FSCS or the fact that a protection scheme exists.
- Some 85,000 people have clicked on our Protection Checker tool, launched in October 2013.
- We are working on an 'FSCS Protected' badge for the industry to use on their products.
- We have increased our presence on social media, including Twitter and Vine.

Section 6

# Raising Awareness of FSCS

By working closely with the industry and running a successful direct campaign, we continued to raise awareness of FSCS among UK consumers.

## Building customer confidence through FSCS awareness

In our *Vision for a Confident Future*, published in early 2014, we stated that one of our objectives is for 70 per cent of all UK adults to be aware of FSCS, or a protection scheme, by 2018/19. In this respect, we have particularly focused on raising awareness of our protection for deposits. This is one of our key commitments and is driving forward our consumer awareness strategy.

We know that consumers who are aware of FSCS are more confident when it comes to buying financial products. This, in turn, greatly contributes to stability in the financial services sector and encourages consumers to buy financial services. FSCS helps consumers to feel reassured. GfK NOP research indicates that currently:

- over 60% of the public are aware of FSCS or a protection scheme;
- 42% are reassured because FSCS exists; and
- 69% are confident that their money is safe.

While we have seen an increase of more than 30 percentage points about the 'awareness of a protection scheme' since 2008, we are aware that we are still behind other countries. For example, the protection scheme in the US, the Federal Deposit Insurance Corporation, regularly measures an awareness level of more than 80 per cent among the general public.

## Awareness builds confidence, which builds stability

Our key audiences are those 'in need of help' – consumers who own financial products but who are unaware of FSCS protection.

We aim to achieve 70 per cent awareness by 2018/19 through two inter-related strands: first, by directly marketing to consumers; and secondly, by supporting the industry to make information available to consumers. We know that the work the industry does on our behalf, alongside our own consumer marketing and public relations, delivers our aim to build reassurance and confidence, so contributing to financial stability.

Our collaborative work with the industry also aims to improve compliance. It is mandatory to display materials about FSCS protection (for example, posters, stickers, presence at tellers' positions and the ready availability of leaflets) in the branches of providers and on relevant digital/web pages.

We have a robust research and evaluation framework in place which has allowed us to analyse and refine our activity. During 2013/14 we carried out regular evaluation of the awareness work to learn lessons for 2014/15, but also to refine the marketing campaign, for example by re-focusing some of the radio advertising.

### Protection Checker

One of the ways we have built awareness is through our consumer microsite www.fscs.org.uk/protected. Within the site, we developed a Protection Checker tool, launched in October 2013. The tool allows people to check whether their deposits are protected with an authorised financial services provider and, if they have savings over £85,000, to check whether their money is protected or at risk (for example, by being held in firms that share one banking authorisation). Since the launch, over 85,000 people have clicked on the Protection Checker and nearly 20,000 have completed it. Importantly, its mere availability also contributes to a sense of reassurance.

**Mystery shopping results**

To see how frontline bank and building society/financial services staff are improving their communications about FSCS, we run a mystery shopping programme to check compliance and staff knowledge. While there are some encouraging signs of improvements year on year, particularly in response to mentioning that FSCS could pay compensation if a firm went bust, we are keen to work with the industry to achieve consistently higher scores.

The benefit is not just one way. It is the strong and positive link between awareness of FSCS on the one hand and customer confidence to buy financial products on the other.

| Question | 2007 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Spontaneously mentioned FSCS during customer query | 30% | 42% | 50% | 58% | **57%** |
| Mentioned that FSCS was independent | 5% | 10% | 14% | 14% | **17%** |
| Mentioned that FSCS could pay compensation if the firm was unable, or likely to be unable, to pay claims against it | 20% | 33% | 37% | 38% | **49%** |
| Mentioned compensation limits | 20% | 39% | 45% | 52% | **44%** |
| Clarified that compensation applies per authorisation, rather than per account/brand | Not asked | 14% | 15% | 16% | **14%** |

**“**

**Our key audience remains those who own a number of financial products but are unaware of FSCS or a protection scheme**

“

**We know that consumers who are aware of FSCS are more confident**

We also continued to build positive relationships at senior level with the industry, including communicating our findings from our mystery shopping research. We are working on an ‘FSCS Protected’ badge for the industry to use on its products, and with banks and building societies so that the badge can be featured on customer-focused advertising. The PRA is supportive of our approach and we hope that the industry will enthusiastically adopt the FSCS badge.

### Building on success

Following a successful programme during 2013/14, our direct campaign has moved into the next phase for 2014/15.

We continue to focus on communicating awareness of the protection scheme for deposits and we have a continuing presence across a variety of media channels. Our key audience remains those who own a number of financial products but are unaware of FSCS or a protection scheme, although we also target those who have deposits over our limits and who are not aware that an element of their deposits may be at risk. This audience has grown: we know that nearly 21 million people fall into these categories, and we hope to reach at least 75 per cent of them during the year.

### Support from the industry

Industry commitment in raising awareness of FSCS is essential and we are encouraged by the leadership and the various activities the industry has delivered. These include:

- Barclays featuring FSCS in its ISA advertising;
- HSBC featuring FSCS on its in-branch radio and ensuring that all its customers know about FSCS protection;
- Lloyds Bank featuring FSCS on its website and mobile app;
- Nationwide including FSCS in its press advertising;
- RBS featuring FSCS in its direct mailings; and
- Santander prominently displaying FSCS on its website.

### The ‘direct to consumer’ campaign

The ‘direct to consumer’ programme included radio advertising featuring the voice of actor Benedict Cumberbatch as well as press, magazine and digital advertising. During 2013/14, we also worked with Absolute Radio, the *Daily Mail*, the *Mail on Sunday* and *Metro* newspapers to develop a bespoke partnership programme, based around important milestones that consumers could be saving for, such as funding education, a wedding, buying a house or the cost of parenthood. By optimising our content and producing research, infographics and commentary, we have:

- seen over 150,000 visits to our consumer microsite since January 2013;
- generated over 55 million media opportunities to see our key FSCS awareness messages; and
- grown our Twitter followers from 2,000 to 7,000.

# Media coverage

Over the year FSCS has featured in media outlets ranging from leading broadcasters, such as the BBC, to carefully targeted regional newspapers and radio stations. There was also regular coverage in the online versions of the national dailies. The following offers a snapshot of the coverage FSCS has received over the year.

## Social media

In addition to our regular communications with a wide range of industry media outlets, FSCS has continued to increase its social media presence via Twitter and Vine. FSCS staff have also attended conferences and events, as keynote speakers or exhibitors, to ensure that our key audiences are aware of the protection we provide.

## April 2013

A polling of MPs, carried out by FSCS, showed that banks should give warnings about savings limits. Among others, this was covered by BBC Radio 5 Live and the *Financial Times:* Why confusion reigns over the safety of savings.

## July 2013

Falling claims numbers, outlined in last year's annual report, saw Telegraph.co.uk reporting that the Financial lifeboat pays out less as claims fall, while the New Model Adviser wrote that FSCS pays out £25 million over Arch Cru.

## November 2013

Following the success of the Protection Checker launch, the *FTAdviser* quoted Danny Cox, head of financial planning at Hargreaves Lansdown, who said the tool would benefit from price comparison sites linking to it. Research into consumer habits around weddings piqued interest from titles such as *Wedding Journal*, which cited that Fewer couples are paying for their weddings.

## February 2014

*City A.M.* reported on FSCS's five-year vision. Mark Neale's comments on Payment Protection Insurance (PPI) claims featured on Telegraph.co.uk.

## August 2013


FSCS radio advert - Crash helmet: 0.32s

The launch of the latest phase of FSCS's awareness campaign, with Benedict Cumberbatch's voiceover, attracted lots of coverage. MailOnline wrote: Elementary advice for savers: Radio ads featuring Sherlock star tell you where to seek compensation if your bank or building society collapses. MSN also noted that Cumberbatch voices compensation ads, as did Telegraph.co.uk.

## September 2013


Pure 107: 2.41s

British Savings Week saw FSCS CEO, Mark Neale, being interviewed for 74 regional radio stations including Gloucester FM, Pulse Radio and Radio Cardiff and for international broadcaster Voice of Russia. Credit unions adopting an FSCS training course also attracted attention in many titles, including the *Lancashire Evening Post* and the *Warwickshire Telegraph*.

## October 2013

BBC Cumbria: 3.53s

The launch of the Protection Checker saw coverage on many regional radio stations such as BBC Radio Cumbria, Pure 107.8 FM and BBC Radio Hereford & Worcester and was picked up in regional titles such as Newcastle's *The Journal* and FinanceExplained.tv.

## December 2013

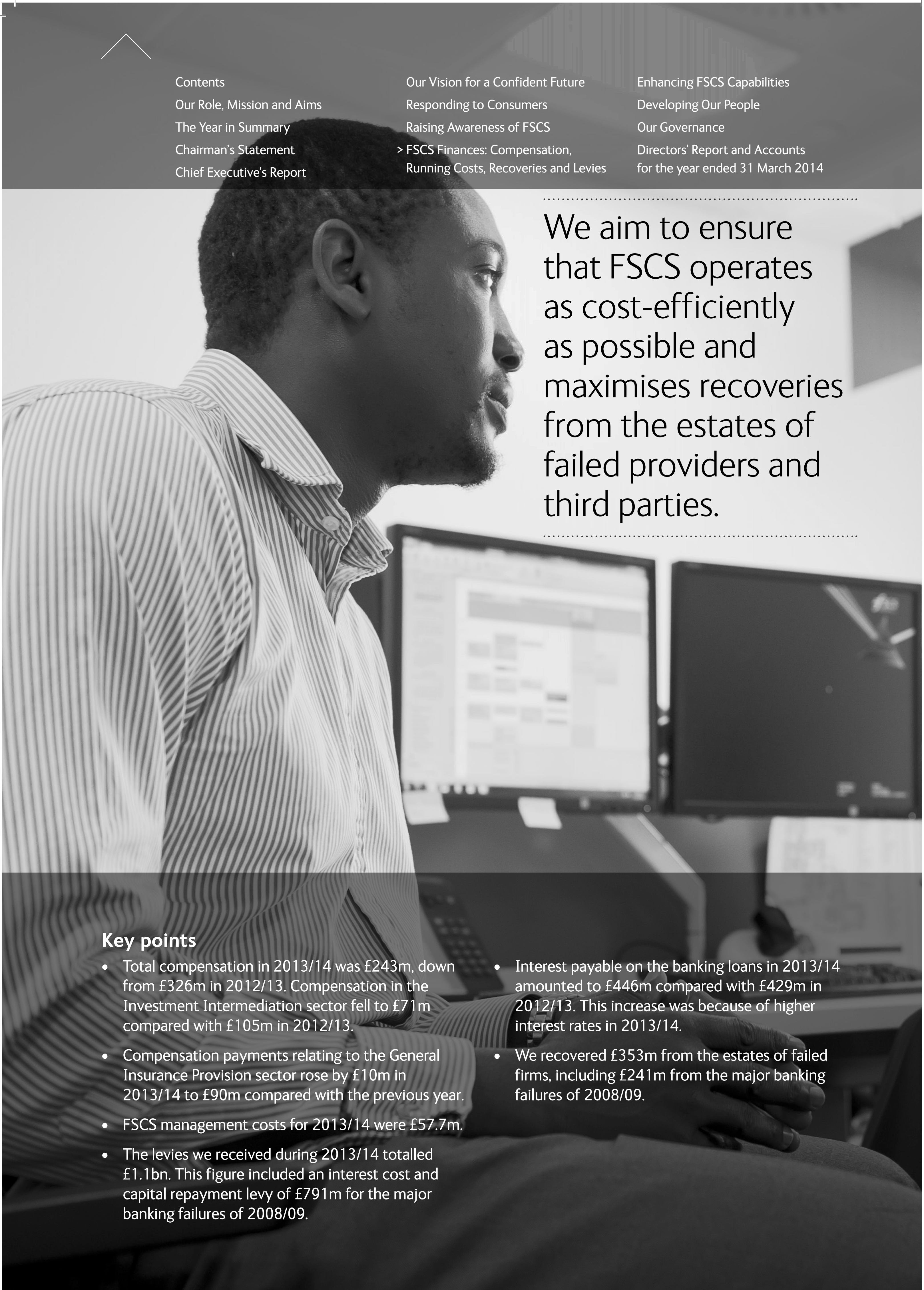
The wedding research became very popular in the party season and featured in publications such as *Your London Wedding* and the *Grimsby Telegraph*.

## January 2014

Research commissioned by FSCS found that two-thirds of holiday-makers saved up for their trips. This was reported widely in the national press such as *This is Money*, the *Sunday Mirror* and *The Independent*, and in regional titles such as the *Express & Star* and *The Bolton News*. An FSCS case study was featured in *Closer* magazine: Rebecca Joyce told how she finds ways to save on a daily basis.

## March 2014

Following the Chancellor's Budget *The Times* reported that Everyone's a winner with the nicer Isa. *This is Money* advised consumers on how to Boost the returns on your savings despite wretched rates. The article reminded consumers that up to £85,000 is safe deposited in an FSCS-protected bank.



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

**Key points**

- Total compensation in 2013/14 was £243m, down from £326m in 2012/13. Compensation in the Investment Intermediation sector fell to £71m compared with £105m in 2012/13.
- Compensation payments relating to the General Insurance Provision sector rose by £10m in 2013/14 to £90m compared with the previous year.
- FSCS management costs for 2013/14 were £57.7m.
- The levies we received during 2013/14 totalled £1.1bn. This figure included an interest cost and capital repayment levy of £791m for the major banking failures of 2008/09.
- Interest payable on the banking loans in 2013/14 amounted to £446m compared with £429m in 2012/13. This increase was because of higher interest rates in 2013/14.
- We recovered £353m from the estates of failed firms, including £241m from the major banking failures of 2008/09.

Section 7

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

We continued to pay out compensation across a wide range of qualifying claims during 2013/14. We made substantial recoveries and continued our work to ensure that our management expenses are value for money.

## Overview

As the Chief Executive outlines, FSCS has chosen to prepare the Directors' Report and Accounts in accordance with the International Financial Reporting Standards (IFRS) to enhance transparency and the quality of the information. As part of this transition, FSCS directors, having re-assessed the basis of the preparation of the financial statements, have decided to:

- include compensation costs, recoveries and levy income within the statement of comprehensive income (these transactions are also included within the class accounts); and
- extend the recognition of recoveries to include recoveries where no notification has been agreed or received but when it is probable that the future economic benefits will flow to FSCS; and the value can be measured reliably, based on the best information available to the directors.

The full detail of the management accounts can be found at Section 11.

As in previous years, this section of the report covers the main headline figures and is divided into the five core strands of our finance and recoveries work:

- Compensation we paid out, including summaries of the major failures;
- FSCS running costs and management expenses;
- Update on the major banking failures of 2008/09;
- The recoveries made; and
- What FSCS levied in 2013/14 after taking recoveries into account.

# Compensation payments – a summary

Between 1 April 2013 and 31 March 2014, FSCS declared 209 firms in default, compared with 192 in 2012/13.

FSCS made total compensation payments of £243m in 2013/14, compared with £326m in 2012/13. The fall was because of lower PPI claims volumes. However, there was a rise in compensation costs relating to General Insurance Provision. Compensation costs for the Investment Intermediation sector were just over £71m. However, as we did not start processing Catalyst claims until April 2014, the costs of these claims that also fall on the Investment Intermediation sector are not included in the 2013/14 accounts.

Claims for compensation in the Life and Pensions sector rose over the year, and looks set to continue in 2014/15 following the liquidation of TailorMade Independent Limited in October 2013.

# £10m increase in compensation payments in the General Insurance Provision class

## Compensation payments by class

| Funding class | 2013/14 £m | 2012/13 £m |
|---|---|---|
| Deposits (excluding the major banking failures of 2008/09 and Dunfermline Building Society) | 3.7 | 3.5 |
| General Insurance Provision | 90.0 | 80.0 |
| General Insurance Intermediation | 40.9 | 56.4 |
| Life and Pensions Provision | 0.0 | 0.0 |
| Life and Pensions Intermediation | 18.7 | 24.3 |
| Investment Provision | 0.1 | 0.1 |
| Investment Intermediation | 71.3 | 105.3 |
| Home Finance Provision | 0.0 | 0.0 |
| Home Finance Intermediation | 1.2 | 0.5 |
| **Sub-total (excluding major banking failures of 2008/09)** | **225.9** | **270.1** |
| Major banking failures of 2008/09 | 0.0 | 7.3 |
| Dunfermline Building Society | 12.0 | 35.0[1] |
| **Sub-total** | **237.9** | **312.4** |
| Welcome | 5.5 | 13.2 |
| **Total** | **243.4** | **325.6** |

1 This figure is a movement in the amount expected to be paid to HM Treasury.

## PPI claims in 2013/14 relating to major failures

| Firm | Claims received | Decisions | Claims upheld % | Compensation paid £m |
|---|---|---|---|---|
| Norton Insurance Services Limited | 2,044 | 2,296 | 87 | 7.3 |
| Wilmslow Financial Services Plc | 1,934 | 2,464 | 87 | 7.3 |
| Picture Financial Services Plc | 1,031 | 1,292 | 93 | 10.2 |

# **£11.2m** paid out in compensation to claims arising from the Fyshe Horton Finney default

## Update on General Insurance Provision – compensation claims

During 2013/14, total compensation of £90m was paid, an increase of £10m compared with 2012/13. The largest share of the compensation payment, £54.4m, was paid against employers' liability policies issued by Chester Street Insurance Holdings Limited.

## Update on General Insurance Intermediation – PPI compensation

Apart from Welcome (see right), the largest defaults giving rise to PPI claims were:

- **Norton Insurance Services Limited** declared in default in July 2012;
- **Wilmslow Financial Services Plc** (formerly trading as Freedom Finance) declared in default in July 2011; and
- **Picture Financial Services Plc** declared in default in July 2009.

### Milburn Insurance Services Limited (Milburn)

Milburn is a UK-based insurer which ceased underwriting new business in September 2013. Milburn's policies were sold via brokers through various cover holders. After FSCS declared Milburn in default in December 2013, partners of Begbies Traynor Group Plc were appointed joint administrators. FSCS has been working with them to manage the run-off of claims against Milburn. Approximately 600 claims have been made to date, the majority of which relate to property damage. Compensation totalling £483,000 has been paid.

### Welcome Financial Services Limited (Welcome)

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

FSCS has paid out £5.5m in compensation to Welcome PPI claimants during 2013/14. This is in addition to £13.2m paid out in 2012/13 and £41.4m paid out in 2011/12. These sums, together with the claims processing costs, were met under the arrangement put in place with Welcome. PPI claims volumes have continued to decrease and it is expected that numbers will decrease further in the coming year.

In January 2014, FSCS reached a further agreement with Welcome for the financing of compensation payments relating to the mis-selling of any other insurance products by the firm. To date, 125 claims totalling £78,400 have been paid in relation to other 'non-PPI' policies.

## Update on Investment Intermediation compensation claims

This sector is where we saw the greatest volatility of claims volumes during 2013/14 – and where managing the claims process has been most complex. These trends are likely to continue in 2014/15.

### Fyshe Horton Finney Limited

The stockbroking firm Fyshe Horton Finney Limited was declared in default in March 2013. For the majority of claims, we were able to dispense with FSCS application forms following a recent rule change agreed with the Financial Conduct Authority (FCA) and the particular circumstances of this firm. Claimants holding one account, with an agreed total balance of below £50,000, returned their claim agreement forms direct to the Special Administrators, who then paid the total agreed balance of the compensation direct to the claimant. This procedure:

- was convenient for investors;
- reduced the time taken to pay claimants; and
- had significant cost savings for levy payers.

We received 2,384 new claims during the year and paid out total compensation of £11.2m, having upheld 99 per cent of the claims.

### CF Arch Cru Funds (Arch Cru)

The majority of Arch Cru compensation claims fell into the Investment Intermediation sector. FSCS continues to process claims in relation to advice given by failed Independent Financial Advisers (IFAs) to invest in Arch Cru funds. FSCS calculates the compensation due to investors with eligible claims in accordance with the consumer redress scheme launched by the FCA in April 2013. FSCS follows the approach under the redress scheme, to compare the value of an eligible claimant's Arch Cru investment with the value of a suitable alternative investment.

### Catalyst Investment Group Limited (Catalyst)

There is more on the background to Catalyst in Section 5.

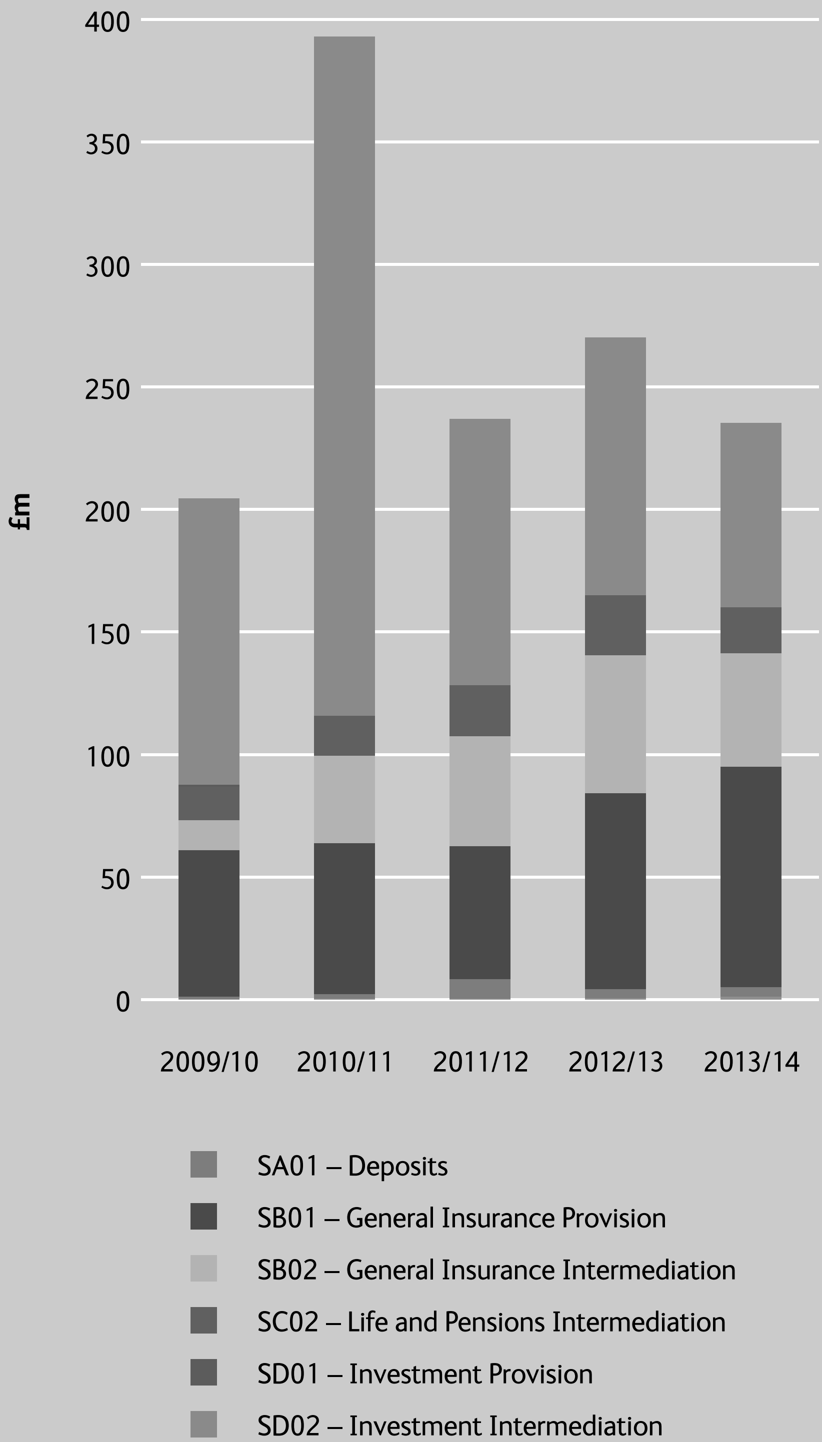
The bulk of the Catalyst claims will fall into the 2014/15 financial year with virtually no cost implications for 2013/14. However, we expect the compensation costs to run into tens of millions of pounds. We shall keep the industry closely informed. Our legal team has also been liaising with the liquidators of ARM Asset Backed Securities SA to ensure that FSCS obtains the maximum recovery possible.

### Other major Investment Intermediation defaults

We are nearing the tail-end of claims from other major Investment Intermediation defaults, including:

- Pritchard Stockbrokers Limited (average compensation paid: £4,000);
- WorldSpreads Limited (average compensation paid: just over £7,000); and
- MF Global Limited (in this case we have continued to work closely with the Special Administrator. Following the resolution of certain issues, and a distribution of funds, a number of claimants received top-up payments).

**Compensation payments (excluding major banking and Dunfermline Building Society failures of 2008/09): five-year trends**




The bulk of the **Catalyst claims** will fall into the 2014/15 financial year with virtually no cost implications for 2013/14

# FSCS running costs and management expenses

FSCS aims to control its management expenses in order to reduce the costs we impose on the industry. Those expenses and costs consist of:

- the 'business as usual' costs of running FSCS, including the handling of claims;
- our investment in strengthening our future capability and improving our efficiency;
- the costs of pursuing recoveries from the estates of failed businesses and from third parties which share responsibility for claimants' losses: FSCS only spends on recoveries where it is cost-effective and reasonable to do so; and
- the interest costs and associated management expenses on the loans from HM Treasury to cover the costs of the major banking failures of 2008/09.

All these expenses (with one exception) are subject to the Management Expenses Levy Limit (MELL), which is set annually by the FCA and the Prudential Regulation Authority (PRA) after consultation. The MELL limits the amount FSCS can incur and levy in respect of management costs each year. The MELL no longer covers the interest costs on the loans made by HM Treasury to FSCS to meet the costs of compensating depositors following the major banking failures of 2008/09. From 2013/14, these interest costs are attributed to the compensation costs levy payable by the Deposits class.

The MELL for 2013/14 was set at £94.4m and included £20m of non-levied contingency funding for major failures. The actual management expenses amounted to £57.7m.

## FSCS running costs

The running costs of FSCS in 2013/14 were £57.7m, excluding the arrangement with Welcome and the interest costs associated with the major banking failures of 2008/09, compared with a budget of £73.4m (excluding the non-levied contingency costs, which account for most of the variance).

We strive to minimise our costs and, alongside pursuing recoveries, we are committed to increasing our efficiency and streamlining our processes as part of our value for money imperative. Key to meeting our aim is our use of outsource partners to handle the great majority of claims we receive, which enables us to flex our capacity and costs in response to fluctuations in our workload.

During 2013/14, some aspects of our running costs were deferred until 2014/15. These related to:

- the activities that underpin our change programme, including Connect;
- handling the compensation claims relating to the Catalyst default; and
- pursuing Keydata recoveries through the court litigation.

The money not spent in 2013/14 is accounted for to levy payers in the relevant industry sector through a reduced levy for that sector in 2014/15.

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

“

**We strive to minimise our costs**

"

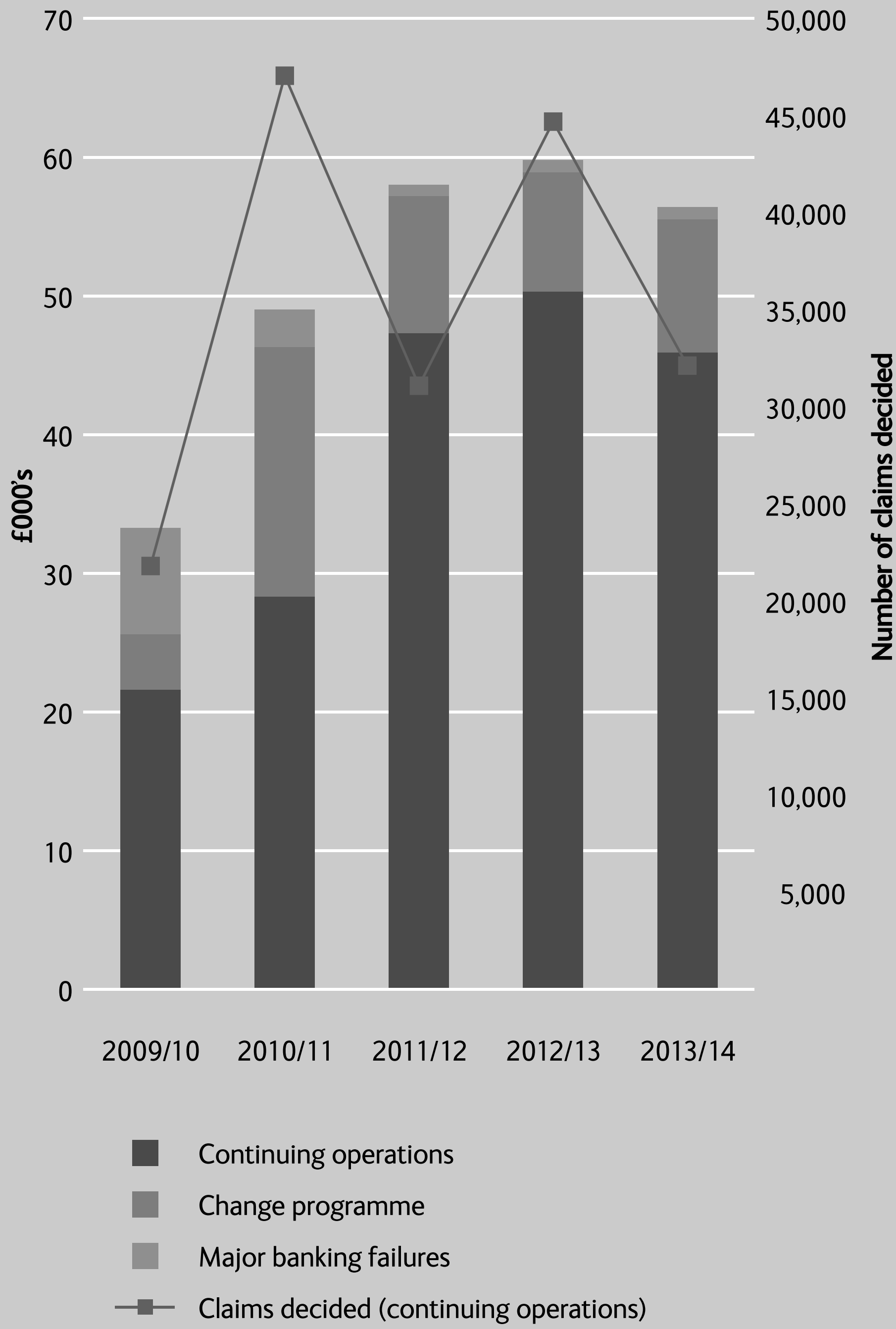
**The MELL limits the amount FSCS can incur and levy in respect of management costs each year**

## Management expenses: comparison of actual to budget

| | 2013/14 Actual | 2013/14 Budget | Variance H/(L) |
|---|---|---|---|
| | £m | £m | £m |
| Employment costs | 13.5 | 16.3 | (2.8) |
| Other staff costs | 5.3 | 3.1 | (2.2) |
| **Total staff costs** | **18.8** | **19.4** | **(0.6)**[1] |
| Outsourcing | 11.6 | 12.1 | (0.5)[2] |
| Other expenses | 17.3 | 23.9 | (6.6)[3] |
| **Sub-total management expenses (excluding change programme and major banking failures)** | **47.6** | **55.4** | **(7.8)** |
| Change programme | 9.6 | 18.0 | (8.4)[4] |
| **Sub-total running costs** | **57.3** | **73.4** | **(16.1)** |
| Management expenses related to 2008/09 major banking failures | 0.5 | 1.0 | (0.5) |
| **Sub-total management expenses (excluding interest on loans relating to major banking failures)** | **57.7** | **74.4** | **(16.7)** |
| Non-levied contingency | 0.0 | 20.0 | (20.0) |
| **Sub-total MELL** | **57.7** | **94.4** | **(36.7)** |
| Interest on loans relating to 2008/09 major banking failures | 445.7 | 379.5 | 66.2[5] |
| **Total management expenses*** | **503.5** | **473.9** | **29.6** |
| *Excluding expenses relating to Welcome | 1.7 | 2.9 | (1.2) |
| | **505.2** | **476.8** | **28.4** |

1. 'Total staff costs' were lower than budget as a result of reduced pension deficit funding costs.
2. 'Outsourcing' costs were lower than budget resulting from lower numbers of PPI claims.
3. 'Other expenses' were lower than budget due to a lower spend on legal and professional costs.
4. 'Change programme' costs were significantly below budget because of the deferral of project expenditure and a lower than expected drawdown against contingency.
5. 'Interest on loans relating to 2008/09 major banking failures' was higher than budget as gilt rates were higher than budgeted.

**Management expenses (excluding Welcome and loan interest on major banking failures of 2008/09): five-year trends**



## Case study: Mrs Wendy Allington

# "I thought I had lost it all."

In 2010, retired businesswoman Mrs Wendy Allington found herself in an alarming financial predicament.

Mrs Allington's financial adviser had mis-sold her investment products, and when he went out of business she wondered if she would ever see any of her money again.

"I made a number of investments through my financial adviser's advice. I had wanted to make the most out of my money to help support a good standard of living throughout my retirement. When I was alerted to the fact that I may have lost my investments as a result of my adviser, and some of those investment products going bust, I was shocked. The money was supposed to be my income. I thought I had lost it all.

"My son-in-law recommended I make a claim for compensation through FSCS. I contacted them and supplied all the relevant details to make a claim. It took some time but I have since received compensation for the mis-sold investments.

"If you feel like you are owed compensation from a financial services firm going out of business, it really is worth pursuing.

"Getting financial compensation from FSCS means I can now live out my retirement more comfortably. I don't have to be concerned about electricity and other bills and I can even think about taking holidays to visit friends.

"I would like to thank FSCS for the hard work, patience and tenacity demonstrated. What a worthwhile job you have, enabling folk like myself to enjoy the basic comforts in their final years... Be proud!"

# Update on the major banking failures of 2008/09

FSCS was instrumental in protecting the deposits of more than four million customers' accounts following the failures of five banks in 2008. These were:

- Bradford & Bingley plc (B&B);
- Kaupthing Singer & Friedlander Limited (KSF);
- Heritable Bank Plc (Heritable);
- Landsbanki Islands hf (Icesave) now LBI hf; and
- London Scottish Bank Plc (London Scottish).

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

During 2013/14 we continued to make good progress in settling the few outstanding claims on the fixed-term deposits held to maturity by depositors, paying out £0.3m.

## Cost of funding the banking failures

The scale of the compensation payments resulting from the banking failures meant that FSCS had to borrow, initially from the Bank of England. This borrowing was re-financed with longer-term loans from HM Treasury.

As explained in previous annual reports, interest has been payable since 1 April 2012 at the rate of either 12-month LIBOR plus 100 basis points (one per cent), adjusted monthly, or, if higher, the relevant Debt Management Office (DMO) rate.

The interest on the loan to finance the B&B borrowing has been payable at the DMO rate throughout 2013/14, at an average rate of 2.7 per cent, resulting in a cost of £422m. The interest on the other banking failure loans has been payable at the LIBOR-based rate at an average of 1.89 per cent, resulting in a cost of £24m. In both cases, these costs will be levied in summer 2014 for repayment to HM Treasury on 1 October 2014.

The amount outstanding on these loans as of 31 March 2014 is a little under £16.6bn. The interest payable in 2013/14 amounted to just over £446m compared with about £429m in 2012/13. This increase was due to higher interest rates during 2013/14.

For 2013/14, the interest on these borrowings was defined as a 'specific' cost within FSCS's management expenses (although such costs are now regarded as 'compensation' costs). The interest payments are funded through levies on firms in the Deposits class only.

## Update on Dunfermline Building Society (DBS)

DBS was the first financial institution to be resolved under the Banking Act 2009.

In March 2009:

- the deposits in DBS were transferred to Nationwide Building Society;
- a bridge bank was established; and
- building society administrators were appointed.

## Banking and building society failures 2008/09: compensation and recoveries

| Firm | Total compensation paid to date | Recoveries received to date | Prospects of future recoveries |
|---|---|---|---|
| Bradford & Bingley | £15,655m | Nil | B&B's management forecast full repayment of FSCS's loan but timing remains uncertain. FSCS is working with B&B, UK Asset Resolution and HM Treasury on this issue |
| Heritable | £465m | Received dividends of £437m (94%) | Estimated total dividends between 95% and 100% |
| KSF | £2,589m | Received dividends of £2,117m (82%) | Estimated total dividends between 85% and 86% |
| Icesave | £1,434m | Received dividends of £799m (55%) | Estimated total dividends of approximately 100% |
| London Scottish | £239m | Received dividends of £84m (35%) | Estimated total dividends of approximately 50% |
| DBS | n/a | n/a | Recoveries are paid to HM Treasury and FSCS pays any shortfall in resolution costs (subject to a statutory cap). Provision: £552m |

Under the regulations, FSCS contributes to the Authorities' costs of the DBS resolution, up to the amount that FSCS would have incurred had DBS gone into insolvency and compensation been paid to DBS's depositors. The numbers for this cap to FSCS's contribution are calculated by FSCS, which determines the amount of the compensation payout, and by an independent valuer, appointed by HM Treasury, who calculates the recoveries that FSCS would have received had DBS gone into insolvency.

On 31 July 2012, the Independent Valuer submitted his report and determination. FSCS requested a reconsideration. The result of that reconsideration was accepted by FSCS and HM Treasury. FSCS's liability to HM Treasury will not be finalised until the end of the resolution process. Based on the best information available to the directors, the DBS provision of £540m brought forward from 2012/13 increased to £552m for the year to 31 March 2014. However, the outcome might be different and the final amount, once agreed, may potentially result in an adjustment to the provision. HM Treasury has subsequently indicated that it is likely to request an interim payment for the costs of resolution payable on 1 October 2014. As we reported to the industry in our Plan and Budget 2014/15, we currently expect this to amount to £100m and will levy for this at the same time as the annual interest charge. The contribution will be met through levies on the Deposits sector.

# Recoveries – reducing the costs for levy payers

FSCS is committed to carrying out its statutory duty to pursue recoveries in order to reduce the costs of compensation to levy payers. The process can be complex and time-consuming, often involving multiple stakeholders, complicated financial products and challenging legal issues, and has a multi-jurisdictional reach. Our approach is determined by the facts of each case and we only pursue recoveries when it is reasonably possible and cost-effective to do so. In general, claims are pursued with the relevant insolvency practitioners of failed firms, such as liquidators or administrators, and/or against relevant third parties (such as professional indemnity insurers) where there is a good prospect of obtaining recoveries.

During 2013/14, we recovered £353m from the estates of failed firms. This figure includes £241m from the major banking failures of 2008/09.

## Update on Keydata recoveries

FSCS paid out compensation of £330m to over 20,000 underlying investors who had suffered losses on structured products marketed and distributed by Keydata Financial Services Limited (Keydata).

We have continued actively to pursue recoveries relating to the failure of Keydata for some years through a number of different avenues. As we outlined in last year's Annual Report and Accounts, the primary avenue for recoveries has been the litigation we are pursuing against a large number of IFA firms in connection with their selling of Keydata-related products, SLS and Lifemark SA.

At the Case Management Conference (CMC) in March 2013, FSCS had selected certain IFAs as Lead Case Defendants (LCDs) so that the proceedings would continue by means of test cases against those firms.

However, FSCS has recently reached settlements with the LCDs and those firms are no longer parties to the proceedings. In addition, FSCS has achieved a substantial number of settlements with other Defendants in the proceedings who were not identified as LCDs in March 2013.

At a CMC in May 2014, the court made orders in respect of the process for the selection of replacement LCDs and lifted the stay of the proceedings in respect of those identified potential replacement LCDs. The court also ordered that those potential replacement LCDs take such steps as they may be advised to resolve the claims by settlement discussions (or otherwise).

The next CMC is scheduled for July 2014 where it is anticipated that the final replacement LCDs will be determined alongside a process for the selection of test cases. FSCS remains confident of the prospects for the success of its claims and is taking steps to progress the proceedings against the remaining Defendants.

# Update on Lifemark SA recoveries

Since Keydata's failure in 2008, FSCS has invested significant time and resources in pursuing recoveries from Lifemark.

Lifemark was one of the providers of bonds in which Keydata invested. The Lifemark Trustee is close to finalising the realisation of Lifemark's former assets and has distributed the proceeds of those assets realised so far. FSCS, standing in the shoes of the Keydata claimants it has compensated, has received payments from PricewaterhouseCoopers (PwC), Keydata's administrators. To date, FSCS has received in the region of £36m.

FSCS is required to calculate whether claimants have suffered a disadvantage arising solely from their prompt acceptance of FSCS's offer of compensation, compared with what might have been the position had they delayed acceptance.  If this is the case, FSCS must pay the recoveries over to the claimants to the extent that the claimants are disadvantaged.

## How this works in practice – an example

A and B are two claimants. Both A and B have a protected investment business claim of £60,000 against a relevant person in default. FSCS offers both claimants £48,000 compensation (the maximum amount payable against the Keydata default).

A accepts immediately, and assigns his rights against the relevant person to FSCS, but B delays accepting FSCS's offer of compensation, and makes a claim to PwC, Keydata's administrators, first.

PwC makes distributions of 10p/£ to all the creditors. The payment for A (£6,000) goes to FSCS, because the claimant's rights were assigned to FSCS when compensation was paid. However, B's payment (also £6,000) goes directly to B.  B is able to bring his remaining claim (£60,000 less £6,000) to FSCS. FSCS could pay £48,000 on this claim.  This would give B a total of £54,000 from PwC and FSCS, relative to the £48,000 which A has received from FSCS. In this case, FSCS would be obliged to pay £6,000 to A, so that he is left in the same position as B.

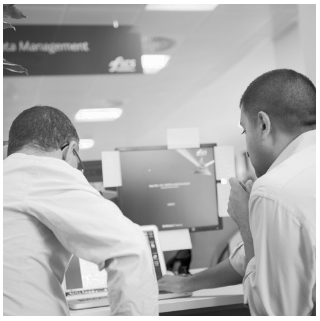
In September and December 2013, FSCS made payments out of recoveries to the majority of claimants entitled to receive them.

In order to make as accurate a calculation of these payments as possible, FSCS has carried out a great deal of work to reconcile the data it holds with that held by PwC. In some cases, this has included a thorough manual review of claims files. This was necessary because the court determined that the distribution amount due from Lifemark's Trustee would vary depending on which Lifemark bond(s) a claimant invested in, and claimants generally submitted their claim to FSCS under a single claim reference, even where they had made multiple Lifemark investments. Therefore, in order to calculate the payments out of recoveries which were due to claimants, FSCS needed to carry out a review of claims data. This enabled us to reconcile FSCS claims and the Lifemark investments made by the claimants. Having now completed this work, FSCS is currently working on making a third payment in June 2014.

Lifemark's Trustee currently anticipates making one final distribution to bondholders in the last quarter of 2014, and FSCS will assess again at this point whether further payments are due to claimants, and make them where appropriate.

After the deduction of these payments to claimants out of recoveries, FSCS is due to allocate the remaining net recoveries from the Lifemark vehicle to the levy payers, which we anticipate will be in the summer of this year.

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



**“ Our approach is determined by the facts of each case**

## Legal action against Icelandic Depositors’ and Investors’ Guarantee Fund

FSCS, together with the relevant Dutch Authorities, has filed a claim against the Icelandic Depositors’ and Investors’ Guarantee Fund in the Reykjavík District Court. The action is to recover certain amounts related to the payout to customers of Icesave, the internet branch in the UK of the Icelandic bank, Landsbanki Islands hf (now LBI hf), which collapsed in 2008. The litigation has attracted a high level of media coverage around the world. FSCS and the Fund have exchanged statements of case but no date has been set for trial.

Three hundred and thirty thousand UK consumers had deposited money in Icesave. FSCS has already compensated the savers involved and we have worked in the five years since the collapse to recover the money we spent.

## Update on recoveries from the major banking failures of 2008/09

FSCS continues to be an active member of the creditors’ committees of the failed banking estates and we also continue to receive dividends in respect of our claims. These recoveries are used to reduce the borrowing that FSCS arranged with HM Treasury in order to compensate the customers of the failed banks. We have made recoveries of £241m during the past year to offset against the loans.

### Bradford & Bingley plc (B&B) – recoveries

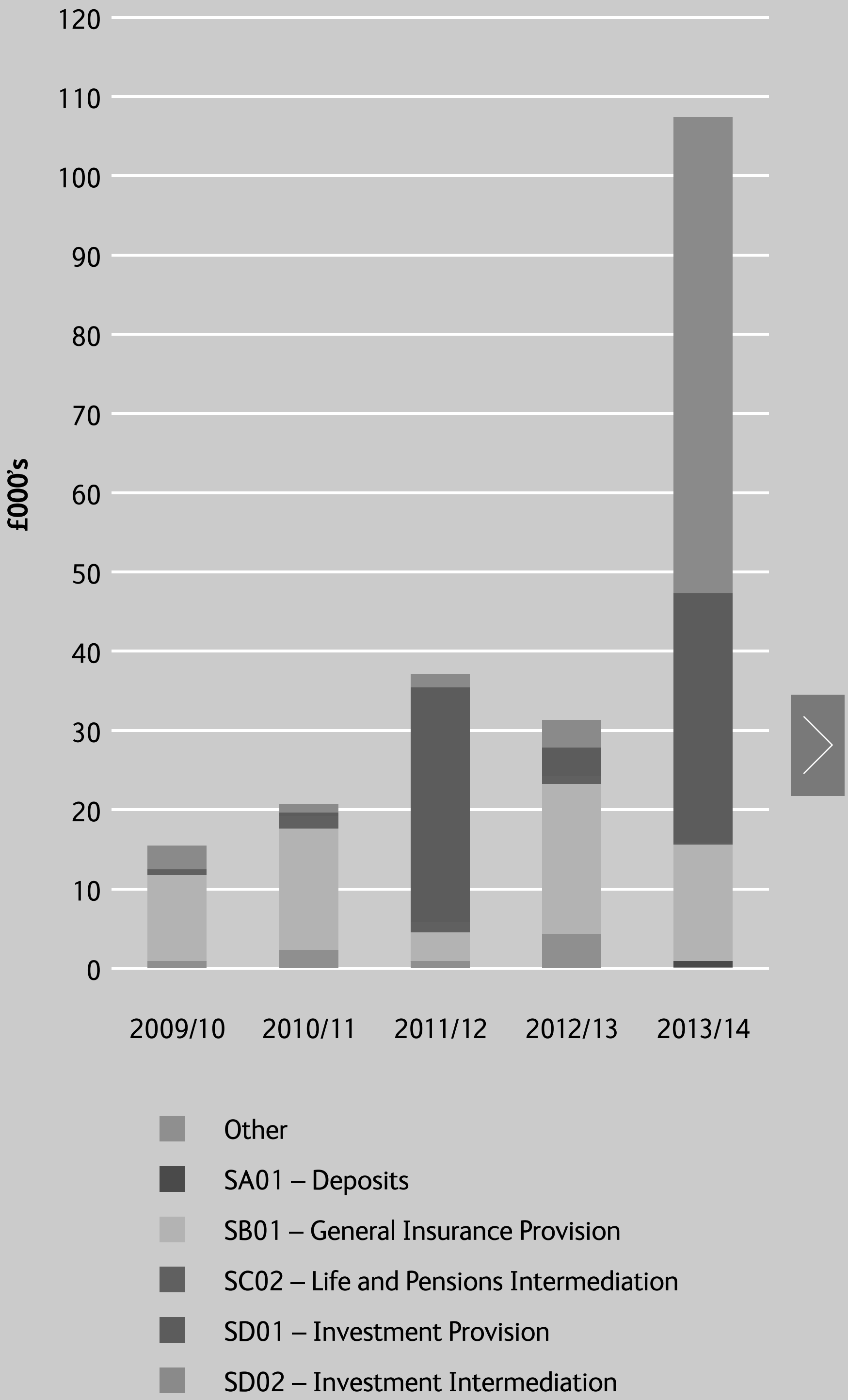
The winding down of B&B’s business continues, with UK Asset Resolution overseeing the procedure on behalf of HM Treasury. As B&B did not enter an insolvency process, there is no creditors’ committee in which FSCS can participate. While B&B forecast a full repayment of the FSCS claim, the timing of the repayment remains uncertain. We are carrying out further work with regard to options that may accelerate the repayment.

### Lehman Brothers – recoveries from complex default

Before Lehman Brothers failed in 2008, a substantial number of UK consumers had bought structured products from three plan managers – NDF Administration, Defined Returns Limited and ARC Capital – which in turn were backed by various Lehman entities. As a result of certain non-compliant marketing materials, over 2,000 customers of these firms had their claims for compensation paid by FSCS.

Having taken an assignment of these customers’ rights, FSCS has been pursuing claims in the estates of various Lehman entities across the world, including in Germany, the US and the UK. Over the past year, FSCS has recovered £5m from the Lehman insolvency. We expect further substantial recoveries from the Lehman estates.

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



# What FSCS levied in 2013/14

In 2013/14, FSCS was primarily funded by an annual levy paid by financial services firms in five sectors:

- Deposits (banks, building societies and credit unions);
- Investments;
- General Insurance;
- Life and Pensions; and
- Home Finance.

The new 36-month funding model may help to reduce the volatility of annual levies and the likelihood of interim levies while also giving the industry greater certainty. In September 2013, we published a paper setting out our five-step approach to calculating the new 36-month levy.

However, we nonetheless continue to face a high degree of uncertainty about the likelihood and timing of possible failures, and the volume, types and timing of the claims that could arise. As a result, there will continue to be occasions when we have to raise an interim levy.

During 2013/14, the levies we received totalled £1.1bn. This figure includes an interest cost and capital repayment levy for the major banking failures of 2008/09 of £791m. The amounts levied took into account the recoveries achieved during the year.

# The new 36-month funding model

## The 36-month model may help to reduce the volatility of annual levies and the likelihood of interim levies while also giving the industry greater certainty.

FSCS plays a critical role in protecting consumers when firms fail and our existence helps to promote consumer confidence. FSCS is funded entirely by levies on the financial services industry and it is vital that FSCS has access to adequate funding to meet its obligations. Moreover, our funding model must be sustainable in order to pay out compensation when we are required to do so.

The 36-month levy calculation is designed to reduce the likelihood of raising interim levies on the industry by looking further ahead at potential compensation costs that are expected in the next 36 months, instead of just 12 months. The approach is based largely on past claims experience, which we adjust to reflect current claims trends and market intelligence when the levy is set. FSCS will review the claims and costs of previous years and compare those against the information that might be available to assess costs expected over the next 36 months.

The option for FSCS to be able to calculate the annual levy in 36-month blocks was introduced for all funding classes, with the exception of the Deposits class, on 1 April 2014. The Deposits class is likely to be funded on a different basis in line with the new EU Deposit Guarantee Schemes Directive (DGSD) requirements.

## Our five-step approach to calculating the 36-month levy

From 1 April 2014, except in the case of the Deposits class, FSCS will levy either one-third of the next 36 months' expected compensation costs or the costs expected over the next 12 months from the date of the levy – whichever is the greater.

The 36-month compensation cost levy involves a five-step process.

1. We calculate the average figure for compensation paid by the class over the last three years.
2. We identify, and adjust for, any inflating or exceptional factors in the last three years (where the level of costs is not expected to be repeated).
3. We add the costs of known or expected defaults for which claims have not yet been paid, but which have been identified as payable over the next 36 months.
4. We factor in any new or current upwards claims trends expected over the next 36 months.
5. We account for the opening balances for each class.

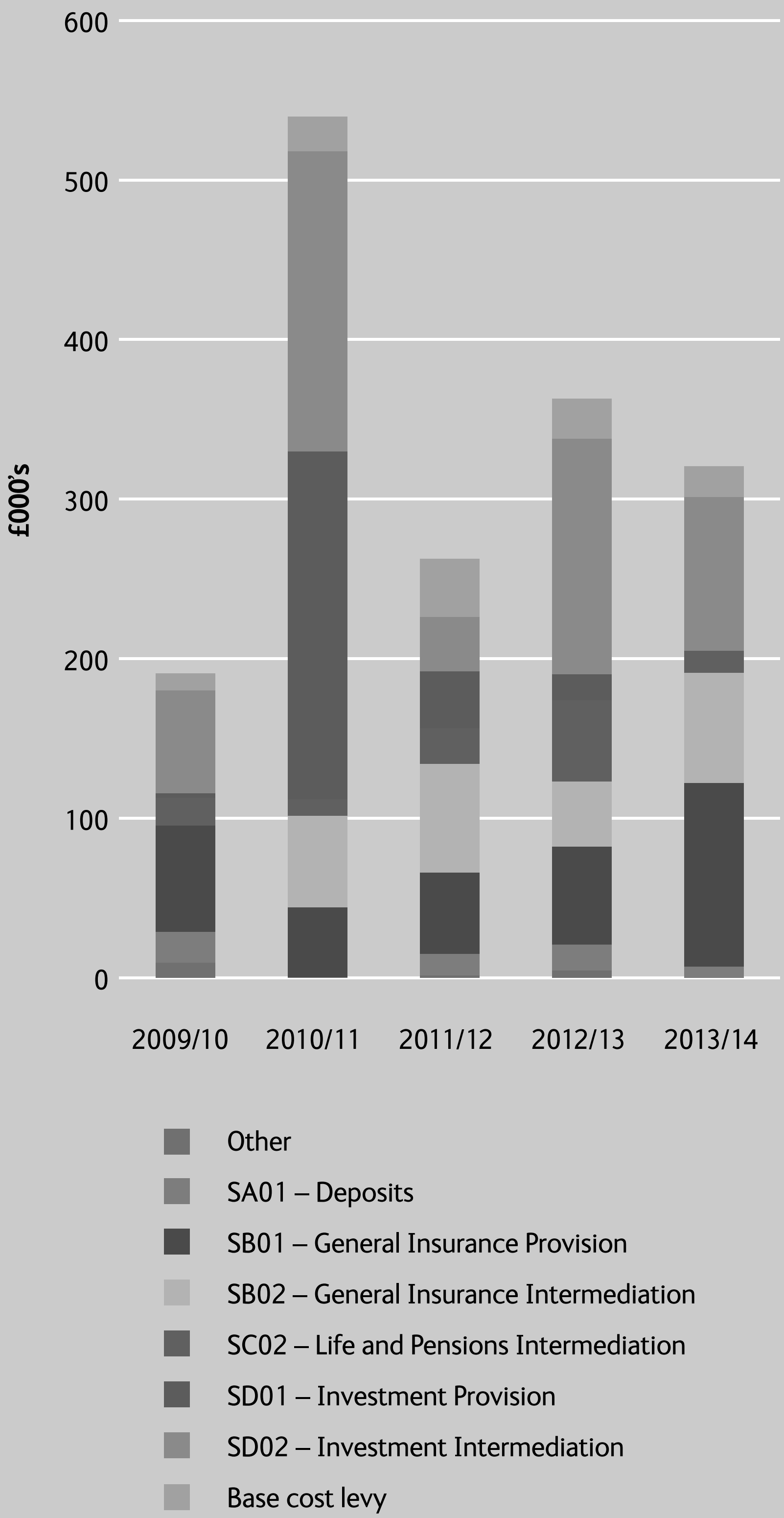
Where the amount reached exceeds the annual class threshold (i.e. compensation costs and the specific costs element of management expenses), the annual limit cap will be applied. Cross-subsidy would not be triggered by the three-year forecasting approach.

FSCS believes the historical compensation costs of individual sectors currently offer the best indicator of future costs as, although claims values vary from year to year, there have been consistent demands on funding classes from firms that fail, resulting in claims to FSCS.

The three-year cycle is reset each year and recalculated to allow FSCS to adjust levies in the light of any additional information. Where the amount exceeds a class threshold, the annual limit cap applies. The FCA retail pool would not be triggered by the three-year forecasting approach but only by the actual costs incurred in a financial year.

FSCS does not aim to levy more than it expects to need, or retain funds which it does not expect to call on.

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




The new **36-month** funding model may help to reduce the volatility of annual levies and the likelihood of interim levies

# Nowhere to turn if FSCS did not exist

Jan Williams, 62, a freelance journalist, was inclined to join a credit union while she was covering a story about credit for a local Kent newspaper. She thought that credit unions were a good idea as they help the local community and allow people in debt to still receive a good deal on a loan.

Jan decided to save a modest amount of £20 each month as she wanted to save enough money to pay for her daughter's wedding dress. She is grateful for the prompt and efficient service provided by FSCS and only found out about the collapse of Wantsum Credit Union from an FSCS letter. Jan said that she would not have known who to turn to if FSCS did not exist. She would have searched aimlessly online for advice. Overall, Jan said that FSCS provided "faultless performance".

# We aim to be ready to respond to failures in the financial services industry in a way that protects consumers and financial stability.

**Key points**

- Our Connect programme will bring our claims processes into a single, consistent and well-controlled platform that our outsource partners can also use.
- We have continued to build stronger risk management and contingency planning processes to identify, assess and deal with risk.
- We are working with the PRA and the industry on the implementation of the Deposit Guarantee Schemes Directive (DGSD).
- FSCS continues to foster close relationships with our international counterparts.

Section 8

# Enhancing FSCS Capabilities

We must not only provide a fast and responsive service day to day but also enhance our capabilities so that we are as prepared as we can be to deal effectively with complex defaults.

## Overview

As we make clear in our *Vision for a Confident Future*, we seek to provide a better service that delivers value for money. To meet our seven imperatives, we are investing in our organisation-wide change portfolio. The actions we have taken over the past year, and shall continue to take in the coming year, enable us to deliver an effective service to consumers while strengthening our capabilities to meet unpredictable demands in the future.

While our core service remains unchanged, our role within the financial services sector has become far more prominent since the banking crisis of 2008/09. We have contributed our expertise to help inform the new directives and legislation.

This section of the report is divided into the four key components that relate to our continuing work in enhancing FSCS capabilities, namely:

- Modernising our service through Connect;
- Developing stronger risk management and contingency planning;
- Contributing to key developments in protection policy to support our strategy, including:
  - legislative changes in the UK;
  - the requirements of the Deposit Guarantee Schemes Directive; and
  - Review of the Special Administration Regime (SAR) for investment firms; and
- Fostering international relations.

"

**FSCS's role within the financial services sector has become more prominent since the banking crisis of 2008/09**

# Modernising our service

## Connect programme

Our top priority is to provide a responsive and efficient service to people who have lost money as a result of an authorised financial services business failing. Although we already provide a good service, we need to modernise our claims-handling process so that it is more responsive to the needs of consumers. This is the purpose of our Connect programme.

The programme will bring our processes onto a single, consistent and well-controlled platform which our outsource partners will also be able to use. Our aim is to achieve better customer service at the same time as improving operational efficiency and effectiveness to help reduce costs for our levy payers. Connect will improve our readiness to respond to significant increases in claims volumes while allowing claimants to engage with us through the channels they find convenient, including an online facility through our website to make and track a claim.

During 2013/14, the programme moved from defining detail of the required processes to meeting the specific requirements outlined above. Connect is due to be implemented during the coming year.

## Electronic payment systems

In 2011 FSCS initiated a project to enlarge its capacity to pay out to depositors in failed banks and building societies in seven days by making payments directly into alternative bank accounts, but this work is now on hold. FSCS's net spending on the suspended project was £1m. This capacity would have been in addition to the current payment options of sending cheques through the post and payments over Post Office counters.

The work is now on hold because of challenges in delivery and recent developments in planning for the resolution of failing banks and building societies, which has meant that the need for additional FSCS payout capacity is under review.

## Finance Transformation Programme (FTP)

Due to be completed in June 2014, the FTP is designed to improve the services that our finance function provides both externally and internally to ensure value for money, which is a key component of our five-year vision. There is more about our approach to value for money below.

The FTP upgraded FSCS's systems and internal processes, including financial controls, budgeting and forecasting, to ensure that we can provide timely and accurate financial reporting and analysis to a range of internal and external stakeholders. This work is not only important for the future efficiency and effectiveness of FSCS, but it also plays a key role in helping us to improve our transparency to levy payers.

## Value for money (VFM) across all our activities

Improving VFM, transparency and accountability is one of the seven imperatives in our *Vision for a Confident Future*. Our approach to VFM is to make the best use of the resources we have available, while balancing efficiency, economy and effectiveness for our stakeholders.

Because of the volatility of our workload, FSCS's business model relies on maintaining a core of permanent, professional staff and outsourcing many services that are particularly subject to fluctuations in demand. During the year, therefore, we focused our VFM activity on enhancing our procurement practices with a range of policies and procedural improvements to support a consistent approach. Work is also under way to embed further a comprehensive understanding of VFM across the whole of FSCS. Our aim is to establish and maintain the most cost-effective model for FSCS.

## Electronic Document and Records Management (EDRM)

The EDRM programme is designed to ensure that FSCS controls and manages its data more effectively.

### Delivering VFM in our business process outsourcing model

Supply chain flexibility is a key area of value for FSCS. In the event of a business failure or default, we have to be able rapidly to deploy claims-handling capacity to process high volumes of claims, often at short notice. The challenge for FSCS is to secure a flexible supply chain capability while keeping costs down for the levy payer.

FSCS has responded to this challenge by setting up a framework arrangement whereby a diverse panel of suppliers offering a range of specialist experience are pre-selected and compete for packages of claims as and when the demand arises. FSCS staff work closely with the panel to strike a balance between ensuring that the suppliers are always 'on standby' and 'ready for service' without the costs being too prohibitive. In the event of an emergency we can quickly commission the right services in the right place at the right time and cost to deliver on our commitments to our claimants.

Once implemented across the organisation, EDRM will reduce both the amount of information FSCS holds electronically and the volume of paperwork that is stored. More than half of FSCS's departments had migrated their systems to EDRM at the end of April 2014.

Staff at all levels have been fully engaged in the EDRM process and had the necessary training to ensure that they are appropriately skilled to manage their data within the new system. This has meant increased accountability at an individual level to ensure that data and records are complete, secure and retained for no longer than is required.

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**We focused our VFM activity on enhancing our procurement practices**

# Developing stronger risk management and contingency planning

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

The biggest risks arise from:

- large business failures;
- simultaneous multiple failures;
- failures of firms dealing in complex structured investment products;
- overseas/cross-border failures; and
- IT system upgrades.

## Enterprise approach to risk

To maintain our resilience to these and other risks, FSCS has adopted an International Organization for Standardization (ISO) 31000-aligned enterprise-wide approach to risk management, in line with corporate governance best practice. ISO 31000 provides a framework and process to manage risk. Having robust processes in place means that we can identify, assess and deal with all risk types throughout the organisation.

Enterprise risk management has been rolled out to all business units. Managers and staff have been trained in risk management techniques and given responsibility to identify, assess, monitor and report operational risks under the guidance of risk management staff. Risk assessments are also included in all process reviews, using formal tools and supporting governance.

### Review and oversight

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

As well as having robust risk management, FSCS plans carefully for contingencies. We seek to ensure that our level of preparedness for any particular eventuality is proportionate to the likelihood of the risk materialising. We test our judgements in these respects by submitting them to the challenge of the Risk Committee.

### Risk maturity audit

An independent risk maturity assessment was agreed as part of the 2013/14 audit plan. The main objectives were to:

- assess the level of understanding across a selection of FSCS staff; and
- review risk management documentation.

The Chartered Institute of Internal Auditors (CIIA) has defined a set of criteria by which an internal audit can determine the level of risk maturity within an organisation. These include:

- leadership;
- risk strategy and policies;
- people;
- processes;
- risk handling; and
- outcomes from the risk management process.

The assessment report contains an assessment of each risk maturity criterion, together with any specific actions for management to take. A five-level scale is applied to the risk maturity rating of the organisation as a whole. Using the CIIA methodology, FSCS was deemed as being Level 3 ('Risk Defined') in its maturity and attitude to risk management. Our target is to be Level 4 ('Risk Managed)'.

## Continuing to build our contingency planning

Our ability to protect consumers depends on integrating contingency planning effectively into the wider regulatory structure and, in particular, into planning arrangements by government and the regulators for the future resolution of failing businesses.

Building on the lessons we learned from the two contingency planning exercises completed last year, FSCS has been working with the Authorities in two important areas.

### Life insurance simulations – developing our knowledge

Following on from the FSCS Board's participation in a two-day simulation of the failure of a fictitious life insurer, FSCS and the Authorities have developed their thinking through further simulations and workshops. These sessions have been very valuable in deepening each organisation's understanding of the issues that might be faced, while better preparing us in the event that we are faced with a failure in the insurance sector.

### Insolvency practitioner (IP) liaison

We have established good links with the IP market, which is a key FSCS stakeholder. Alongside the regular annual event for IPs (co-hosted with the Bank of England), FSCS established a working group to meet through the year and consider issues and risks that are significant to FSCS, and which the IP of a failed financial services firm might be required to handle. This group has considered matters such as:

- the preparation and treatment of the Single Customer View (SCV) file by a bank administrator;
- funding the estate costs;
- the role of FSCS as creditor; and
- how to respond to a life insurance failure.

### Review and oversight – the Risk Committee

The Risk Committee has oversight of our risk management and contingency planning. The committee reviews and challenges our work, while also ensuring that FSCS's governance structure enables us to consider our arrangements and current state of readiness in the context of all risk exposures.

# Contributing to key policy developments

During the year FSCS responded to the further legislative changes that affect the financial services industry. We have also continued to implement the changes from the Financial Services Act 2012 and the Financial Services (Banking Reform) Act 2013.

The Financial Services Act 2012 created two new bodies to oversee financial regulation: the Financial Conduct Authority (FCA), responsible for business and market conduct; and the Prudential Regulation Authority (PRA), which focuses on prudential issues. FSCS remains an independent organisation accountable to both, and we must submit to both Authorities an annual report and accounts, copies of which must also be sent to HM Treasury and the Comptroller and Auditor General of the National Audit Office (NAO). The Act also appoints the Comptroller and Auditor General as FSCS's external auditor (with effect from 1 April 2013). FSCS has chosen to prepare the Directors' Report and Accounts for 2013/14 in accordance with International Financial Reporting Standards (IFRS) to enhance transparency and the quality of the information.

FSCS's primary duty is to compensate consumers of failed financial firms. Under the 2013 Act, new statutory duties were put in place to reflect FSCS's increased prominence in the sector and its important role in supporting financial stability. These duties are to have regard to the need to:

- ensure efficiency and effectiveness; and
- minimise public expenditure.

The Act also clarified the Chief Executive's role as the statutory Accounting Officer. The Board welcomed the duties and the reinforcement of FSCS's accountability to HM Treasury.

## Implementing the requirements of the Deposit Guarantee Schemes Directive (DGSD)

Following the European Council approval of a political agreement reached with the European Parliament in February 2014 on the DGSD, the Parliament approved the final text in April. The DGSD is expected to come into force in the summer of 2014, with a commencement date 12 months later. FSCS is working with the PRA and the industry on its implementation.

The DGSD was established to protect the depositors of all credit institutions and safeguard the stability of the banking system as a whole. The directive requires all EEA member states to operate a deposit guarantee scheme (DGS) to provide protection and contribute to financial stability.

The main changes that member states' schemes will have to adopt include:

- a mandatory requirement for a seven working day payout across the EEA, with a transition period from the current 20 working day repayment period, to reduce the payout deadline by 2023;

- protection for temporary high balances;
- extending the eligibility criteria to include medium and large businesses;
- flagging of eligible accounts for protection by providers and the right to information about the DGS;
- mandatory disclosure requirements for deposit takers across the EEA (changes to the existing disclosure wording currently used by UK deposit firms will be required);
- a fund with a maximum of 0.8% of covered deposits, to be achieved within 10 years;
- access to funding in the event that the available financial means of a DGS are insufficient to repay depositors;
- risk-based levies; and
- stress-testing of DGS systems every three years.

We are working closely with the PRA and other Authorities on the implementation of these provisions.

## Bank Recovery and Resolution Directive (BRRD)

The BRRD was approved at the same time as the DGSD. The framework sets out the necessary steps and powers to ensure that bank failures across the EU are managed in a way that avoids financial instability and minimises costs for taxpayers. The proposals include the following:

- **preparation and prevention** – considering banks' recovery and resolution planning as well as obstacles to resolvability;
- **early intervention** – early supervisory intervention to ensure that financial difficulties are addressed as soon as they arise;
- **resolution powers and tools** – harmonised resolution powers and tools, together with resolution plans prepared in advance, so that national authorities in all the member states have a common toolkit;
- **resolution funding** – source of resolution funding and a proposed target fund equal to 1% of covered deposits in 10 years. The BRRD also provides for the relevant DGS to provide funding for resolutions in certain circumstances; and
- **depositor preference** – priority status for FSCS and depositors as creditors in an insolvency.

FSCS continues to work with the relevant UK Authorities on putting in place the necessary changes in order to comply with both directives.

## Review of the Special Administration Regime (SAR) for investment firms

In light of the experience following the collapse of the Lehman companies in 2008, the SAR was created in 2011 to offer a modified insolvency procedure for investment firms. Lehman's was a major default that tested the capability of the UK's insolvency framework to deal with the failure of a large, modern investment firm that held substantial amounts of Client Assets.

In creating the SAR, the UK Parliament required that HM Treasury hold an independent review of the Investment Bank Special Administration Regulations within two years. An interim report was published in April 2013 assessing how well the SAR was meeting its legislative aims. A second and final independent report, published in January 2014, took a broader look at whether more can be done in terms of legislation, market practice and regulation to improve the SAR.

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**During the year, FSCS responded to the further legislative changes which affect the financial services industry**

FSCS contributed to the report, which contains a number of recommendations aimed at improving the efficiency of the SAR and addressing some of the difficulties exposed by high-profile cases such as the failures of MF Global UK Limited and WorldSpreads Limited. The report's publication also coincided with the FCA's consultation on the reform of the Client Asset Sourcebook (CASS).

The key recommendations from the final report include:

- facilitating customer and Client Money transfers, including expressly referring to transfers being part of the SAR objective instead of merely the 'return of Client Assets' (so that, for example, transfers can be done smoothly at an early stage in the administration without the need for individual client consent);
- reform of the Bar Date provisions, including a court procedure for the administrator who, having seen one or more 'soft' Bar Dates pass, is able to set a 'hard' Bar Date, which will be definitive to conclude client claims; and for Client Money – as well as general Client Asset – claims to be subject to the Bar Date provisions;
- enhancements to FSCS's role, including co-operation with administrators and sitting on creditors' committees, regardless of whether FSCS has yet made compensation payments, unless it is clear that no compensation will be payable;
- clearer record keeping to facilitate FSCS payouts; and
- ensuring that the CASS rules and the SAR can work more harmoniously together (for example, by adopting the Hindsight Principle in both regimes); and clarifying that CASS determines the regime for distributing Client Assets, while the SAR determines the regime as far as creditors are concerned.

FSCS is keen to work with the FCA and the industry to implement the changes outlined in the CASS Policy Statement and with the UK Authorities on any further changes arising from the SAR recommendations.

# Fostering international relations

FSCS continues to foster close relationships with its international counterparts.

We are active in both the International Association of Deposit Insurers (IADI) and European Forum of Deposit Insurers (EFDI). We were a founding member of the International Forum of Insurance Guarantee Schemes (IFIGS), a group of insurance guarantee schemes from around the world interested in sharing their experiences in providing policyholder protection in the event of an insurance company failure.

During 2013/14, we worked closely with our IADI colleagues on a revision of the Core Principles for Effective Deposit Insurance Systems and a methodology for compliance assessment. The Core Principles have been adopted by IADI and the Basel Committee for Banking Supervision and are used by the International Monetary Fund and World Bank as part of the Financial Sector Assessment Program assessments.

We also worked closely with European colleagues through EFDI, in particular EU members, in relation to the proposed changes and implementation of European directives.

We regularly host visits from many of our international counterparts, during which we share best practice and information about our systems and processes in paying out compensation to consumers.

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**We worked closely with our IADI colleagues on a revision of the Core Principles for Effective Deposit Insurance Systems**

We aim to enhance our capability by developing the skills, knowledge and professionalism of the people who work for us.

**Key points**

- In 2013, we set out our new three-year People Strategy, built around six key strategic objectives.
- Employee engagement, as measured by our People Survey 2013, increased by 3% compared with last year.
- We were recognised as 'Ones to Watch' by Best Companies.
- We launched our new leadership and management development programmes.
- Some 62% of employees took part in our corporate social responsibility programme.

Section 9

# Developing Our People

Last year we set out our three-year strategy with clear objectives to develop the talent, skills and professionalism of FSCS people.

## Developing our people

FSCS makes a significant investment every year in its workforce because we recognise that our success depends upon harnessing the potential and talent of all our staff to optimise the benefits of the investment. Our reputation and performance rely on our ability to initiate, implement and sustain effective people management across all levels of the organisation.

FSCS has a permanent staff of 201 people as at 31 March 2014. Our people have a wide range of professional skills from data management to legal to accountancy and claims processing. Our commitment to them is to ensure that everyone can make a difference, while also developing their skills and careers in rewarding roles.

## Our People Strategy – enhancing performance

In order to deliver on our *Vision for a Confident Future*, we need a clear strategy for attracting, developing and engaging talented and capable people. Last year we set out our new three-year People Strategy for 2013 to 2016 built around six key strategic objectives:

1. Organisational development – improving organisational performance;
2. Management development – empowering management capability and managing performance;
3. Learning and development – enlightening our leaders;
4. Recognition and reward – inspiring individuals;
5. Talent management – making it all happen; and
6. Human resources services – supporting our business.

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**Our people have a wide range of professional skills**

# FSCS has a permanent staff of **201**

**Our core offer to our people – a brief summary:**

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

In line with these objectives, over the year we have:

- given our Executive Committee cross-cutting responsibilities for our customers; and strategic and VFM objectives to enhance cross-organisational working. We restructured key teams within the business to support these changes;
- delivered the first modules in our management development programme: Managing Attendance and Managing Performance. We also co-commissioned sessions with the Money Advice Service for delivery later in 2014;
- enrolled our first cohort in the Towards Outstanding Leadership Programme and launched our pilot of Coaching Circles;
- commissioned an independent market pay review and introduced a greater level of clarity around our pay and bonus decisions;
- introduced a new talent management framework and facilitated talent management discussions across our divisions; and
- restructured the Human Resources and Organisational Development team to ensure we have the right knowledge and skills to deliver our People Strategy.

## People survey 2013

For a third year, we commissioned a survey from Best Companies to establish how FSCS's people perceived the organisation. The survey enables us to improve engagement and ensure that we are as effective as possible. The Best Companies Index (BCI) measures employee engagement on a 900-point scale. Last year our BCI score increased by 27 engagement points or three per cent overall.

Some of the positive headlines include:

- 87% of our people believe they can make a valuable contribution to our success;
- 75% are proud to work for FSCS;
- 71% feel that they greatly benefit from the training we are providing;
- 84% feel that FSCS has a strong social conscience; and
- 92% feel that we encourage and support charitable activities.

The results of the survey demonstrate that when we identify and target specific actions to address engagement issues they produce positive results. However, the challenge remains to understand better and then tackle those areas where we still need to make improvements – our two lowest-ranking factors related to leadership and how we pay and reward our employees. Leadership is about motivating others to achieve our vision, so it should be about collaboration, and we are already changing our organisational structure to support this. In addition, we are working to establish greater flexibility and choice in our range of benefits.

## Equality and diversity

We celebrate diversity and promote a culture where differences between people are respected and valued. We deal with people as individuals, while recognising that many people also share common experiences based on their backgrounds. Equality is about breaking down the barriers that block opportunities for certain groups of people in society, the workplace, education and the world around us.

During the year we became involved with three key programmes to ensure we are leading by example:

- **Opportunity Now** aims to increase women's success at work. We are working to create a better gender balance for leadership progression and develop an agile work culture that is fit for the future.
- **Race for Opportunity** is committed to improving employment opportunities for ethnic minorities across the UK. FSCS is part of the pilot Mentoring Circles programme which brings together people across a wide range of organisations, including Nationwide, Sainsbury's, British Telecom and HSBC. Both of these campaigns are part of Business in the Community.
- **Stonewall Diversity Champions programme** brings the lesbian, gay and bisexual (LGB) perspective to business so that the business is better placed to understand and meet the needs of LGB clients. The programme has 600 members across a range of sectors.

Through these partnerships we are continuing to widen the focus of our equality and diversity agenda and ensure that we support the aspirations of all staff, irrespective of race, gender, disability, sexual orientation, religion or belief, age, marriage or civil partnership, maternity or gender reassignment.

## Gender and ethnic balance in FSCS management

Women and people from minority ethnic backgrounds are currently under-represented among FSCS managers. We have a total of 56 managers, of whom 25 per cent are women and seven per cent are from minority ethnic backgrounds. Women also make up 36 per cent of our Board of 11 (including executive and non-executive directors). At present, there are no members from minority ethnic backgrounds.

We shall look at ways of improving the gender balance, while ensuring we offer everyone good development opportunities so that people from whatever background can compete for new roles, including managerial roles.

The following tables summarise FSCS employee numbers by category and ethnic background.

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**We celebrate diversity and promote a culture where differences between people are respected and valued**

Over **62%**
of our staff participated in volunteering activities

## FSCS employee numbers by category

| | As at 31 March 2014 | As at 31 March 2013 |
|---|---|---|
| Graduate recruits | **0** | 4 |
| Administration assistant | **17** | 19 |
| Practitioner level 1 | **52** | 45 |
| Practitioner level 2 | **78** | 72 |
| Head of Function and managers (or equivalent)* | **50** | 42 |
| Chief Executive and other Executive Directors | **4** | 4 |
| **Total** | **201** | **186** |
| Comprising: | | |
| Operational | **199** | 180 |
| Secondees and other people on maternity or other long-term leave | **2** | 6 |
| **Total** | **201** | 186 |

*The increase in the number of managers is to help us enhance our capabilities and provide a better service.

## Ethnic backgrounds

| | As at 31 March 2014 | As at 31 March 2013 |
|---|---|---|
| Asian or Asian British | **18** | 20 |
| Black or Black British | **17** | 18 |
| Chinese or Chinese British | **7** | 6 |
| Other ethnic group | **9** | 8 |
| White British/Irish | **147** | 134 |
| Not specified | **3** | – |
| **Total** | **201** | 186 |

## Corporate social responsibility

FSCS continues to engage its staff in a range of corporate social responsibility (CSR) activities. Over the past year we have focused on helping the local community within Tower Hamlets, Hackney and Newham. We are increasing our ties with certain charities and organisations in the area and our activities have included:

- a reading programme in a local school;
- assisting with a city farm; and
- helping a residents' association in Hackney.

FSCS staff are also assisting in many other projects across the local area. We continue to work with Heart of the City and were shortlisted for the Lord Mayor's Dragon Awards 2013. We also have a productive relationship with Tower Hamlets Education Business Partnership and East London Business Alliance, which have supported us in developing our CSR programme and connected us to specific volunteering activities.

Over 62 per cent of our workforce participated in volunteering activities; and 92 per cent of FSCS staff who have volunteered believe they have made a positive contribution to the local community. We firmly believe the CSR programme helps with employee development, improves diversity awareness and widens FSCS's public profile.

THE LORD MAYOR'S 2013
HEART OF THE CITY
AWARD FINALIST

**"**

**92 per cent of FSCS staff who have volunteered believe they have made a positive contribution to the local community**

# FSCS People Awards

We celebrated our third FSCS People Awards to recognise those individuals who have made a big difference across the organisation over the year – people who deliver for consumers and their teams. All employees were able to nominate their colleagues anonymously.

The nominees were judged by the Chief Executive and Chairman, with a representative from FSCS's People's Forum.

The awards were made for achievement against each of FSCS's four core values: Delivery, Working Together, Making a Difference and Excellence.

There was also the Team Award and three new awards for Rookie of the Year, Rising Star and Giving Something Back.

And the winners of the FSCS People Awards 2013/14 are...

“

**The Initial Contact Team works with all teams across FSCS to deliver an exceptional service to consumers**

*Team Award*
**Initial Contact Team**

*(left to right):*
Terry Povey, Tom Sheffield, Zahier Sheikh, Mellisa Asamoah, Allister Smith, Cynthia Langlais, Kristian Henery, Alan Szenkier, Cliff Fine, John Evans, Preetesh Dushra

*Giving Something Back*
**Romy Deutscher** and **John King**

"It is important for FSCS to have a strong CSR agenda and to contribute to the community in which it operates."

*Rising Star*
**Charlotte Pugh**

"I've been given lots of opportunities to develop my experience since working at FSCS."

*Making a Difference*
**Sarah Smith**

"Working at FSCS is exciting, challenging and fulfilling, and I am constantly learning."

*Rookie of the Year*
**Theresa Agonmuo**

"I was given the opportunity to shadow the Finance Team, which led to a six-month contract – a fantastic opportunity to develop my career."

*Excellence*
**Liz Sherwin**

"Contributing to maximising FSCS recoveries, such as in relation to Lifemark, has presented us with some unique challenges, but it has provided me with invaluable experience which I will use in other recoveries cases in the future."

*Working Together*
**Laura Powell**

"Working at FSCS has enabled me to develop my knowledge and to explore new avenues such as working on the Connect programme."

## FSCS Finance Team – finalists in the Business Finance Awards 2014

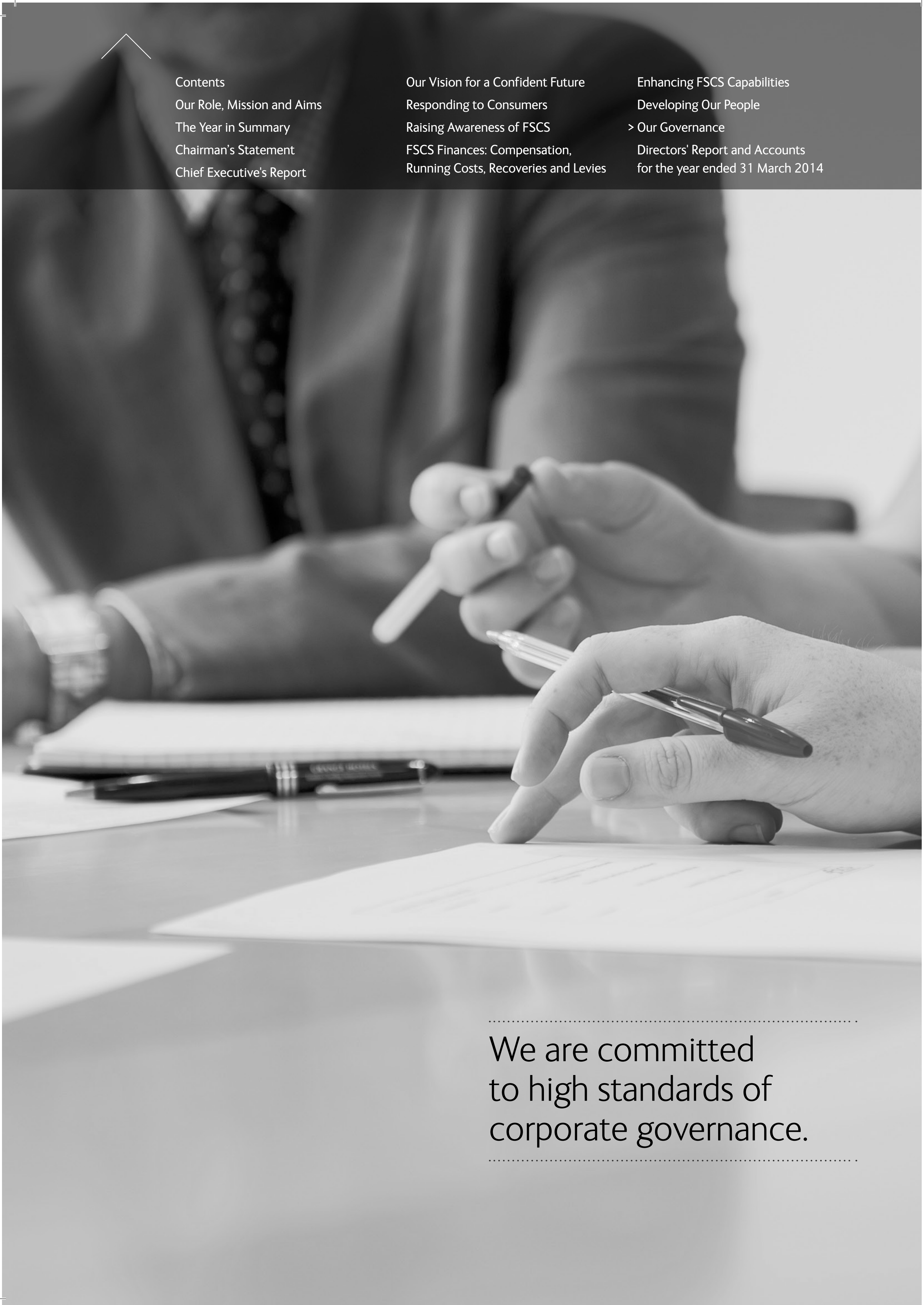
BusinessFinance Awards 2014 FINALIST

We are delighted that FSCS's Finance Team was declared a finalist in the prestigious Business Finance Awards 2014.

The awards celebrate the vital role that Finance plays in UK businesses, including in the public sector.

*Delivery*
**Harpreet Likhari**

"I have worked on a variety of projects that have given me insight into the FSCS teams that all strive to meet the expectations of claimants and levy payers."



We are committed to high standards of corporate governance.

Section 10

# Our Governance

FSCS is a non-profit-making independent body, accountable to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The corporate governance of FSCS is the responsibility of the Board of Directors.

The FSCS Board is committed to high standards of corporate governance. FSCS is a company limited by guarantee and is, therefore, not required to comply with all the provisions of the UK Corporate Governance Code issued in September 2012 (the Code). However, in order to ensure best practice, the Board has chosen voluntarily to follow the provisions of the Code. This section explains how FSCS has applied the main principles of the Code and where it has departed from some of the Code's provisions.

In addition, the financial statements have been prepared in accordance with the Companies Act 2006, International Financial Reporting Standards (IFRS), as adopted by the European Union, and directions issued by HM Treasury.

## The FSCS Board

### 1. Composition of the Board

The FSCS Board consists of 11 directors, eight of whom are non-executive directors, including the Chairman. The three executive directors are the Chief Executive, the Director of Operations and the Director of Corporate Affairs.

Max Taylor retired from the Board on 31 August 2013, having served for six years. After reviewing the mix of skills and experience on the Board, as well as its size and composition, it was decided not to recruit another non-executive director following Mr Taylor's departure. This resulted in a reduction in the number of non-executive directors on the Board from nine to eight. Two executive directors were re-appointed during the year: Mark Neale and Rommel Pereira. Both had served on the Board for three years at the date of re-appointment, and both were appointed for a further three years. Subsequent to this, Rommel Pereira (Director of Central Services) left FSCS and resigned from the Board on 31 May 2014. Following a review of the company's executive and organisational structure, it was decided not to continue with the role of Director of Central Services, so this reduced the number of executive directors on the Board from four to three. Further details of appointment dates are given in the Directors' Report.

All directors were appointed by the Financial Services Authority (FSA) until 1 April 2013, and thereafter by the FCA and the PRA. The appointment – and removal – of the Chairman is also approved by HM Treasury. The appointment of FSCS's Chairman and other directors, both executive and non-executive, is made using external search consultancies and open advertising. There were no new Board appointments in 2013/14.

**“**

**The biographical details of the directors demonstrate the broad range of experience and expertise they bring to the Board**

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**The Financial Services Act 2012 imposed new statutory requirements on FSCS for the audit of its accounts**

*Directors’ independence*

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

Subject to any such potential conflicts of interest being declared on individual matters from time to time, all the non-executive directors are considered to be independent, within the meaning expressed in the Code provision B.1.1.

*Senior Independent Director*

The Senior Independent Director is an independent non-executive director who is able to act as a sounding board to the Chairman and serve as an intermediary for other directors when necessary, such as when any concerns raised through the normal channels of the Chairman, Chief Executive or other executive directors may be considered inappropriate. The Board decided that the Deputy Chairman should be the person appointed to take on the role of Senior Independent Director. Max Taylor was Deputy Chairman and Senior Independent Director up to 31 August 2013, and Philip Wallace took over these responsibilities with effect from 1 September 2013 following Mr Taylor’s retirement from the Board.

**2. Induction, appraisals, training and development**

On appointment, all new directors receive an FSCS-delivered induction. This includes a briefing by the Executive and management teams on FSCS’s operations and the various functions within the organisation. Although there were no new appointments to the Board during 2013/14, there were two new appointments in early 2013, so inductions were carried out accordingly.

Both new and existing directors have taken the opportunity to ‘sit in’ with some of the claims teams to see, first hand, certain aspects of the claims-handling process. Claims briefings are given to directors to refresh their knowledge of claims practices and explain new or revised processes. Similar briefings are given occasionally to directors on other aspects of FSCS operations. Individual directors also take the opportunity to request information or briefings on particular topics outside formal Board/committee meetings in order to maintain their knowledge and understanding of the company and its operations.

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

The training is sometimes delivered to individual directors and sometimes to the whole Board in an externally facilitated workshop. A Board refresher on directors' duties and corporate governance is being planned for later this year. The existing training and development framework for directors is being reviewed with a view to providing a more suitable mechanism to help them record and regularly refresh their skills and knowledge. The directors' annual performance reviews are also designed to capture individual training and development needs.

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

*Annual performance review*

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

The Chairman's own performance was similarly assessed and his annual review was carried out on behalf of the Board by the Deputy Chairman. The Chairman also maintains regular contact with directors outside formal Board/committee meetings to obtain views on Board performance and organisational issues and, in addition to the annual performance reviews, meets the non-executive directors from time to time without the executive directors present.

### 3. Operation of the Board

The Board met 11 times during the year. A formal schedule of matters reserved to the Board provides a framework for the Board's decision making. In accordance with this schedule, the Board is responsible for a number of statutory requirements, primarily deriving from company law and the Financial Services and Markets Act 2000, as well as for governing the strategic direction and the financial operation of FSCS. It is responsible for setting policy and ensuring that appropriate internal control measures are in place.

Other matters are delegated by the Board to its committees or to management. The Board has established a number of committees to which it has delegated specific powers, duties and decision-making responsibilities. These are described below under Committees of the Board. The Chief Executive may exercise any function of FSCS except where otherwise required by legislation, or for matters reserved to the Board, or one of its committees. The Chief Executive may also delegate authority to one or more individuals for carrying out specific functions or meeting operational requirements.

*Timely and relevant information*

The Board believes that it receives and has access to, on a timely basis, the relevant information needed to make appropriate decisions. Directors review this matter on an ongoing basis to ensure that the Board continues to receive sufficient accurate, timely and clear information. In 2013/14, following a review of the Board reporting mechanism, further improvements were made to the way in which certain operational and financial information was reported to the Board.

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**FSCS actively seeks diversity on the Board consistent with its skills base**

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

*Review of Board performance*

During the year, the Board carried out an annual review of its own performance. This Board evaluation exercise included the use of an online feedback form containing a comprehensive set of questions and criteria relating to all areas of Board effectiveness, including:

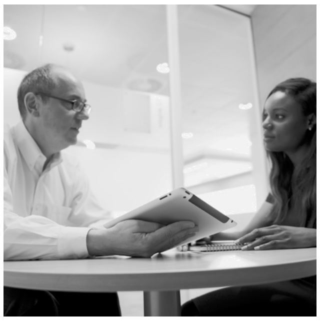
- how the Board works together as a unit;
- the balance of skills and experience;
- independence;
- knowledge of the company; and
- Board diversity (including gender balance).

FSCS's approach to Board diversity is also explained further under the Nomination Committee.

Using the pre-defined criteria, every director was invited to comment on the performance and operation of the Board and each of its committees. The directors discussed the results of this exercise and the implications for the Board at one of the Board's two strategy days, in a session facilitated by the Company Secretary. These strategy days also gave the Board the opportunity to consider the key priorities for the organisation and to review FSCS's key risks and strategic direction.

FSCS is considering the possibility of having the Board evaluation for 2014/15 facilitated externally.

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



## Committees of the Board

### 1. Audit Committee

The Audit Committee's role is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations. With the creation of the Risk Committee in early 2013, this allowed the Risk Committee to oversee FSCS's risk strategy and risk appetite and tolerances, whereas internal controls continued to be overseen by the Audit Committee.

The Audit Committee met four times during the year. It consists of four independent non-executive directors, one of whom is Chairman of the Risk Committee, and the Board ensures that at least one member has recent and relevant financial experience. The FSCS Chairman and Chief Executive normally attend meetings by invitation, and other members of management attend meetings as required. The lead audit director at the National Audit Office and representatives from FSCS's internal auditors, Grant Thornton, attended each of the Audit Committee meetings in 2013/14 at the request of the committee chairman. The outgoing external auditor, PricewaterhouseCoopers LLP, also attended the first meeting of the Audit Committee in 2013/14.

The Audit Committee reports to the Board after each meeting and is responsible for reviewing the following key areas:

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

During the year, in addition to the above matters, the Audit Committee also considered:

- quality assurance reports on the end-to-end claims process;
- internal audit reports;
- the rolling internal audit programme;
- the external audit plan; and
- papers or reports on a number of matters such as directors' expenses, cyber security, fraud and money laundering.

In reviewing matters relating to the financial statements, the Committee considered a number of position papers on the more significant issues relating to the preparation of the accounts, such as the accounting treatment for the major banking failures of 2008/09, related parties, materiality, going concern and the pensions scheme provision.

Reports were also provided and considered by the Audit Committee, on the proposed implementation of IFRS. These matters were initially considered by management and then discussed further between the Audit Committee and the auditors, and with the Executive, in order to ensure that the appropriate accounting treatment was applied and presented accordingly in the financial statements.

*Annual Report and Accounts*

The Audit Committee also advises the Board on whether the Annual Report and Accounts as a whole is:

- fair, balanced and understandable; and
- provides sufficient information to enable FSCS's performance, business model and strategy to be assessed.

As part of its annual cycle of reviews, the Audit Committee carried out a review of its own effectiveness and that of the internal audit function. It also had separate discussions with both the internal and external auditors without the Executive being present.

*Change of external auditors*

The Financial Services Act 2012, which came into force on 1 April 2013, imposed new statutory requirements on FSCS for the audit of its accounts by making amendments to the Financial Services and Markets Act 2000. As a result of these legislative changes, the Comptroller and Auditor General was appointed as FSCS's external auditor with effect from 1 April 2013, with the National Audit Office acting on behalf of the Comptroller and Auditor General in carrying out our external audit work.

The Audit Committee oversaw the transition of the external audit function from PricewaterhouseCoopers LLP to the Comptroller and Auditor General and the National Audit Office during 2013/14. In view of these changes, the Audit Committee did not carry out its usual annual assessment of the effectiveness of the external audit function in 2013/14.

**2. Risk Committee**

The Risk Committee's role is to recommend to the Board a risk appetite/tolerance statement covering enterprise-wide risks, and to review FSCS's risk management approach to identifying and managing risks in achieving FSCS's aims, including FSCS's contingency planning arrangements and disaster recovery plans. The Risk Committee, in carrying out its oversight functions, advises the Board on whether FSCS is operating within acceptable risk tolerances and whether its level of readiness to respond to significant events is appropriate to the likelihood and impact of those events. As described in the Audit Committee section above, while the Risk Committee has responsibilities for overseeing the risk management arrangements, the Audit Committee retains the responsibility for overseeing the internal control framework.

The Risk Committee is made up of five independent non-executive directors, one of whom is the Chairman of the Audit Committee. The Chief Executive and Head of Risk normally attend meetings by invitation, as do other members of the Executive and management teams from time to time.

During the year, the Risk Committee considered the following matters:

- FSCS's Risk Policy and risk management arrangements, including the 'three lines of defence' model;
- the organisation's risk profile and the key risk exposures affecting the achievement of FSCS's aims;
- the setting and monitoring of risk tolerances, including the identification of where risks fell outside acceptable tolerances and the plans for remedial action;
- papers and reports on social media risk, treasury risk appetite and cyber security risks;
- the annual review of the Risk Committee's effectiveness, having taken into account feedback obtained from Board members as part of the annual Board evaluation exercise;
- a self-assessment of FSCS's risk management approach against ISO 31000;
- the Risk Committee's terms of reference;
- FSCS's contingency planning arrangements for large business failures in the financial services industry; and
- the disaster recovery strategy and testing arrangements.

In addition, subsequent to the year-end, the Risk Committee reviewed the Risk Management Plan for 2014/15.

Some of these matters are reported further under Internal controls.

### 3. Remuneration Committee

The Remuneration Committee's role is broadly to consider FSCS's remuneration policies, make recommendations to the Board on the Chief Executive's remuneration package, determine the remuneration package of FSCS's other executive directors, look at remuneration trends across FSCS and review executive and employee benefit structures. The Remuneration Committee is currently reviewing its remit and terms of reference and will make appropriate recommendations to the Board.

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

During the year, the Remuneration Committee considered FSCS's salary benchmarking arrangements and analysed current and forecast market conditions in the UK economy to help inform the proposed salary budget. In addition, the Remuneration Committee reviewed FSCS's performance as part of its determination about the potential size of the bonus pool; and also considered the total reward package for employees.

The Remuneration Committee made recommendations to the Board for the approval of the Chief Executive's remuneration package and determined the remuneration packages of the other executive directors, having taken into account comments from the Chief Executive. In the case of the executive directors, performance and market data provided by external consultants are taken into account. Remuneration incorporates a performance-related element.

Remuneration for non-executive directors is determined by the FCA and the PRA (prior to 1 April 2013, this was done by the FSA), and a fuller report on directors' remuneration is given in the Remuneration Report.

Other reviews carried out by the Remuneration Committee included:

- an annual review of its effectiveness, having taken into account feedback obtained from Board members as part of the annual Board evaluation exercise; and
- a review of its terms of reference, which continued into 2014/15.

### 4. Nomination Committee

The Nomination Committee's role is to review the structure, size, and composition of the Board (including the balance of skills, knowledge and experience) and make recommendations to the FCA and the PRA with regard to any changes. It also reviews succession planning for both executive and non-executive directors, ensures that there is appropriate liaison with the FCA and the PRA about appointments and re-appointments of Board members, and keeps the membership of the Board Committees under review. The Nomination Committee is made up of the FSCS Chairman, the Chief Executive and two independent non-executive directors.

The Nomination Committee met twice formally during the year. It considered matters relating to the process for appointing and re-appointing directors as well as the specific appointments of four non- executive directors, whose first three-year appointments were due to expire in mid- to late 2014. Outside these scheduled meetings, the Nomination Committee also considered the re-appointment of two executive directors, Mark Neale and Rommel Pereira.


The process for reviewing directors' appointments and re-appointments involves holding initial discussions on Board size, the mix of skills and experience on the Board and the phasing of directors' periods of appointment. In the case of re-appointments, consideration is also given to the performance reviews of the directors concerned. These reviews include assessing the continued effectiveness of the director's performance and the individual's ongoing commitment to the role. In the light of these assessments, the Nomination Committee's recommendations are then passed to the FCA and the PRA for consideration and, if thought fit, approval. For new appointments, an external search consultancy is engaged and the positions are made available through open advertising. A selection panel, which includes FCA and PRA representation, carries out the selection exercise, following which the panel's recommendations for Board appointments are put to the FCA and the PRA for approval.

During the year, Mark Neale and Rommel Pereira were re-appointed, using the relevant parts of the above process, as executive directors for further three year periods. Initial consideration was also given to the potential re-appointment of four non-executive directors in 2014, which was then discussed further with the FCA and the PRA. There were no new Board appointments made in 2013/14.

The Nomination Committee also considered changes to the Code with regard to boardroom diversity and carried out an annual assessment of its effectiveness, having taken into account feedback obtained from Board members as part of the annual Board evaluation exercise.

*Board diversity*

FSCS actively seeks diversity on the Board consistent with its skills base and Board requirements. The Board recruitment processes, which include instructions given to external search consultancies, ensure that the benefits of diversity, including gender, are taken into account. FSCS has not set specific measurable objectives for the application of its Board diversity approach, and Board appointments continue to be based on merit, measured against objective criteria, and the skills and experience the individual can bring, while also having due regard to the benefits of diversity on the Board.

The annual Board evaluation also incorporates a review of the skills, experience, independence, knowledge and diversity (including gender diversity) of Board members. Any relevant findings from these evaluations are considered, as appropriate, by the Nomination Committee and in the Board recruitment processes.

### 5. Claims Decisions Committee

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

### Working Groups

As well as the formal Board committees, ad hoc Board working groups are set up from time to time to look at specific areas of significance for the organisation. These working groups do not have any decision-making authority, but serve to assist the Executive by discussing and giving views on certain topics.

## Attendance at Board and committee meetings

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

| | Board | AudCo* | RemCo* | NomCo* | Risk Committee | Appointment date | Expiry of term date |
|---|---|---|---|---|---|---|---|
| **Number of meetings held:** | **11** | **4** | **4** | **2** | **4** | | |
| **Non-executive directors** | | | | | | | |
| Margaret (Liz) Barclay | 10/11 | | 3/3 | | 3/4 | 1 Jul 2011 | 30 Jun 2017 (renewing on 1 July 2014) |
| Lawrence Churchill | 11/11 | | 4/4 | 2/2 | | 1 Apr 2012 | 31 Mar 2015 |
| Marian Glen | 11/11 | 4/4 | 4/4 | | | 1 Feb 2013 | 31 Jan 2016 |
| Charles McKenna | 10/11 | | 3/4 | | 4/4 | 1 Feb 2013 | 31 Jan 2016 |
| Caroline (Jayne) Nickalls | 11/11 | | | 2/2 | 4/4 | 1 Jul 2011 | 30 Jun 2017 (renewing on 1 July 2014) |
| Robert (Paul) Stockton | 10/11 | 4/4 | | 2/2 | | 1 Dec 2011 | 30 Nov 2017 (renewal approved for 1 Dec 2014) |
| John (Max) Taylor | 4/4 | | 1/1 | | | 1 Sep 2007 | (renewed on 1 Sep 2010) Retired 31 Aug 2013 |
| Philip Wallace | 9/11 | 4/4 | | | 3/4 | 1 Jun 2009 | (renewed on 1 Jun 2012) 31 May 2015 |
| David Weymouth | 8/11 | 3/4 | | | 4/4 | 1 Jul 2011 | 30 Jun 2017 (renewing on 1 July 2014) |
| **Executive directors** | | | | | | | |
| Katherine (Kate) Bartlett | 10/11 | | | | | 1 Feb 2010 | (renewed on 1 Feb 2013) 31 Jan 2016 |
| Aleksander (Alex) Kuczynski | 10/11 | | | | | 1 Feb 2010 | (renewed on 1 Feb 2013) 31 Jan 2016 |
| Mark Neale | 10/11 | | | 2/2 | | 4 May 2010 | (renewed on 4 May 2013) 3 May 2016 |
| Rommel Pereira | 9/11 | | | | | 7 Sep 2010 | (renewed on 7 Sep 2013 for a further three years) Resigned 31 May 2014 |

* Attendance only shown for Committee members

AudCo – Audit Committee RemCo – Remuneration Committee NomCo – Nomination Committee

## Committee membership as at 31 March 2014

| Committee membership | Audit Committee | Risk Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Non-executive directors** | | | | |
| Margaret (Liz) Barclay | | x | xC (from 01/09/13) | |
| Lawrence Churchill | | | x | xC |
| Marian Glen | x | | x | |
| Charles McKenna | | x | x | |
| Caroline (Jayne) Nickalls | | x | | x |
| Robert (Paul) Stockton | x | | | x |
| John (Max) Taylor | | | xC (to 31/08/13) | |
| Philip Wallace | xC | x | | |
| David Weymouth | x | xC | | |
| **Executive directors** | | | | |
| Katherine (Kate) Bartlett | | | | |
| Aleksander (Alex) Kuczynski | | | | |
| Mark Neale | | | | x |
| Rommel Pereira | | | | |

xC = Committee Chair

## Internal controls

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

The main components of FSCS's system of control are:

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

The internal control framework has been in place throughout the year and is kept under regular review by the Board. The Audit Committee carries out, on behalf of the Board, an annual review of the effectiveness of the internal control arrangements.

The Board also regularly reviews FSCS's performance against its Plan and Budget, and receives monthly performance reports on both operational and financial matters as well as reports from the Board's committees. Furthermore, to satisfy itself that there are appropriate controls throughout the organisation, the Board receives reports from:

- the Audit Committee on internal controls and the work undertaken by the internal and external audit functions; and
- the Risk Committee on FSCS's risk management framework and its management of risk exposures.

### Reviewing our controls

The following paragraphs set out the additional work that FSCS has carried out during the period covered by the Annual Report and Accounts in order to satisfy itself that there are appropriate controls throughout the organisation.

1. The Risk Committee reviewed the process by which risks are managed. The Executive identifies and prioritises key risks to the organisation and FSCS's Risk Register records these along with the relevant controls for each risk area. The review of FSCS's Risk Register is treated as a continuous process, with the Register changing over time in line with changes in FSCS's priorities, activities and exposure to risk.

   The Risk Register continued to be reviewed and updated monthly by the Executive Committee (the executive directors). All directors are now able to access the Risk Register at any time, and the 'risk profile', which summarises the full Risk Register and highlights the material exposures to the achievement of FSCS's aims, is considered by the Risk Committee at each of its meetings. The Audit Committee and Risk Committee report to the Board after each committee meeting and, as a matter of good practice, the Board itself considers the Risk Register at least once a year.

2. The Head of Risk attended all Audit Committee meetings, Risk Committee meetings and those Board meetings at which risk

issues were discussed. This was in order to present reports and satisfy Board and committee members that risks and controls were being appropriately managed by the Executive and the management of the company. The risk management function is also subject to internal audit.

3. The Audit Committee continued to ensure that the internal audit plan was appropriate to the needs of the organisation, including re-prioritising internal audit reviews where necessary. In addition, internal audit reports continued to provide an independent assessment of relevant risks identified in the Risk Register. The Audit Committee approves the annual internal audit plan and, on an ongoing basis, considers proposed changes to either the current year's plan or future years' plans.
4. The Head of Internal Audit, who attended all Audit Committee meetings and most of the Risk Committee meetings during the year, planned and oversaw the development and delivery of the internal audit plan, reporting to the Audit Committee on its progress, presenting those final internal audit reports that did not achieve a 'satisfactory' rating, and reporting on management's progress in completing remedial actions arising from internal audit activity.

   The following internal audit reviews were reported on during the year:

   - business resilience (from the 2012/13 plan);
   - procurement (from the 2012/13 plan);
   - human resources (from the 2012/13 plan);
   - project management governance;
   - policy governance;
   - recoveries;
   - claims handling and compensation payments (for 'deposit' claims);
   - records and data management;
   - IT general controls;
   - claims service-level agreements (for 'non-deposit' claims);
   - business planning and budgetary control;
   - risk management;
   - risk maturity; and
   - finance payment processes.

   The Audit Committee considered any significant control weaknesses identified in internal audit reviews and the proposed remedial action that management agreed to take, along with updates from internal audit on the progress made by management in implementing those remedial actions.
5. The Audit Committee received reports on FSCS's service quality assurance (SQA) reviews of the performance of the end-to-end claims process against pre-defined quality standards. These SQA reviews seek to identify issues to be considered further in order to establish whether any improvements could be made or remedial measures put in place.
6. Any non-audit work to be carried out by FSCS's external auditors must be approved in accordance with FSCS's policy. The policy includes the requirement to ensure that the external auditors' objectivity and independence would be safeguarded were they to carry out any non-audit work for FSCS. A report is submitted annually to the Audit Committee on any non-audit work carried out by the external auditors. In 2013/14, the outgoing external auditors, PricewaterhouseCoopers LLP, concluded some non-audit

FSCS operations carry a variety of financial risks

services for FSCS that had started in 2012/13, and confirmation was received of the external auditors' objectivity and independence in respect of this work. Since taking on the responsibility for the external audit of FSCS from 1 April 2013, as described in the report on the Audit Committee and in the Directors' Report and Accounts, the National Audit Office has not carried out any non-audit services for FSCS.

## Financial risk management

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

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

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

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

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

## Compliance with the UK Corporate Governance Code

FSCS has complied throughout the period covered by this report with the relevant provisions set out in the Code, issued in September 2012, with the exception of the following:

- B.2.1 (making recommendations for Board appointments);
- D.2.2 (setting remuneration for the Chairman and Chief Executive);
- D.2.3 (remuneration for non-executive directors); and
- Section E (relations with shareholders) and other provisions relating to shareholders.
- **B.2.1:** The Code suggests that the Nomination Committee should lead the process for Board appointments and make recommendations to the Board. As all of FSCS's directors are appointed by the FCA and the PRA, FSCS's Nomination Committee makes its recommendations to the FCA and the PRA.

**D.2.2/D.2.3:** Under the terms of its constitution, FSCS cannot set remuneration for its Chairman and non-executive directors. This is done by the FCA and the PRA (before 1 April 2013, this was done by the FSA, with appropriate input from FSCS). The Code also recommends that the Remuneration Committee should have delegated responsibility for setting executive directors' remuneration. In FSCS's case, the Remuneration Committee has the delegated responsibility for determining the remuneration of all executive directors except that of the Chief Executive. The Chief Executive's remuneration package is determined by the Board following recommendations made by the Remuneration Committee.

**Section E and other provisions relating to shareholders:** As FSCS does not have shareholders, those provisions of the Code that refer to shareholders are interpreted as referring to an equivalent body or bodies, or treated as not being relevant for FSCS.

Section E of the Code (relations with shareholders) covers provisions relating to the maintenance of a dialogue with shareholders and investors. Although FSCS is a company limited by guarantee with no shareholders, there is close and regular liaison with other key stakeholders, such as levy payers, trade bodies, HM Treasury, the FCA, the PRA and the Bank of England.

# The Board of Directors

FSCS was set up under the Financial Services and Markets Act 2000. Under the terms of the Act all directors were by appointed by the FSA until 1 April 2013, and thereafter by the FCA and PRA. The appointment and removal of the Chairman is also approved by HM Treasury. The Board was composed of nine independent non-executive directors until 31 August 2013, and thereafter eight; and four executive directors.

## Independent non-executive directors

Lawrence Churchill CBE, Chairman

Margaret (Liz) Barclay

Marian Glen

Charles McKenna

Caroline (Jayne) Nickalls

Robert (Paul) Stockton

John (Max) Taylor (Deputy Chairman and Senior Independent Director until 31 August 2013)

Philip Wallace (Deputy Chairman and Senior Independent Director from 1 September 2013)

David Weymouth

## Executive directors

Mark Neale CB, Chief Executive

Katherine (Kate) Bartlett, Director of Operations

Aleksander (Alex) Kuczynski, Director of Corporate Affairs

Rommel Pereira, Director of Central Services

**Lawrence Churchill CBE, Chairman – appointed 1 April 2012 for a three-year term**

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

**Margaret (Liz) Barclay** – **re-appointed 1 July 2014 for a three-year term**

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

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

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

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

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

**Caroline (Jayne) Nickalls** – **re-appointed 1 July 2014 for a three-year term**

Formerly Chief Executive of Directgov, Jayne spent six years leading the Directgov business (through the Cabinet Office and Department for Work and Pensions) from start-up to an established, successful business at the heart of the Government's digital strategy. Previously, she was responsible for the delivery function of Chordiant Software in Northern Europe. There, she led and managed the delivery of a wide range of enterprise solutions to clients across a number of industries, particularly financial services. She is an experienced leader of transformational business change in both the public and private sectors.

**Robert (Paul) Stockton – will be re-appointed 1 December 2014 for a three-year term**

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

**John (Max) Taylor, Deputy Chairman and Senior Independent Director – retired 31 August 2013**

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

**Philip Wallace, Deputy Chairman and Senior Independent Director – re-appointed 1 June 2012 for a three-year term**

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

**David Weymouth – re-appointed 1 July 2014 for a three-year term**

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

**Mark Neale CB, Chief Executive – re-appointed 1 May 2013 for a three-year term**

Formerly Director General at HM Treasury responsible for Budget, Tax and Welfare, Mark led on the development of tax policy and delivery of the annual Budget and Pre-Budget Report, managing fiscal risk and welfare policy, including reducing child poverty. Previously he was Director General for Security at the Home Office with responsibility for Counter-terrorism and Organised Crime. This included the creation of the Serious Organised Crime Agency, and development of the Government's counter-terrorism strategy. Mark has also been responsible for welfare reform as Director for Children and Housing at the Department for Work and Pensions, and was Finance Director of the Employment Service.

**Katherine (Kate) Bartlett, Director of Operations – re-appointed 1 February 2013 for a three-year term**

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

**Aleksander (Alex) Kuczynski, Director of Corporate Affairs – re-appointed 1 February 2013 for a three-year term**

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

**Rommel Pereira, Director of Central Services – resigned from Board 31 May 2014**

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

# FSCS teams and roles

The FSCS teams are made up of skilled specialists. Each team has a distinct role in helping us deliver our mission and aims.

## Specialist Compensation Delivery

This team ensures that compensation is paid to all eligible claimants. This includes ensuring that FSCS is prepared for new potential failures, managing our outsource partners, paying claims dealt with by FSCS and processing faster payouts for deposit claims.

## Service Excellence

This team has a wide remit, including payment processing, systems and process change, responding to enquiries from claimants, managing contact with MPs, as well as continuous improvement and SQA.

## Service Management

This team puts in place appropriate, competitive contracts with our outsourcers and monitors contractual delivery.

## Data Management

This team delivers effective and efficient data, data integration and business intelligence services to support FSCS's business strategy.

## Information Technology

The IT team delivers effective IT services and solutions through business and supplier partnerships, and manages the end-to-end supply chain from understanding business requirements to ensuring optimum strategic and commercial delivery of IT services in support of the achievement of FSCS's business objectives.

## Legal and Recoveries

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

## Policy and External Affairs

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

## Secretariat

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

## Communications

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

### Risk Management

This team is responsible for the oversight of FSCS's risk strategy and managing, tracking and reporting risks in line with the strategy.

### Business Resilience

This team is focused on building FSCS's resilience to adapt and respond more rapidly to all types of failures and disruptions. It develops contingency plans and tests these plans to help FSCS deal with failures more effectively and ensure that FSCS can continue to offer a service to our customers in the event of any disaster.

### Finance

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

### Human Resources and Organisational Development

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

### Knowledge Management and Facilities

This team is responsible for the security and integrity of all 'physical' claims files, along with the provision of office space and support services, reception, post-room and health and safety services to FSCS.

# Directors' Remuneration Report

Certain parts of this report are subject to audit, and these are marked in the relevant sections.

## Annual Report on Remuneration

Non-executive directors' fees are reviewed and set by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Prior to 1 April 2013, this was the responsibility of the Financial Services Authority (FSA). FSCS is responsible for setting the remuneration for executive directors. The Remuneration Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval. The Chief Executive is not present when this remuneration package is being considered. The remuneration packages of the other executive directors are determined by the Remuneration Committee. A fuller description of the work of the Remuneration Committee earlier in this section.

## Directors' remuneration table for 2013/14

Audited section

| | 2013/14 | | | | |
|---|---|---|---|---|---|
| | Fees and salary[1] | Taxable benefits[2] | Performance-related bonus[3] | Pension[4] | TOTAL |
| | £'000 | £'000 (nearest £100) | £'000 | £'000 (nearest £1,000) | £'000 |
| **Non-executive** | | | | | |
| Margaret (Liz) Barclay | **25–30** | – | – | – | **25–30** |
| Lawrence Churchill | **75–80** | – | – | – | **75–80** |
| Marian Glen | **20–25** | – | – | – | **20–25** |
| Charles McKenna | **20–25** | – | – | – | **20–25** |
| Caroline (Jayne) Nickalls | **20–25** | – | – | – | **20–25** |
| Robert (Paul) Stockton[5] | **0–5** | – | – | – | **0–5** |
| John (Max) Taylor | **10–15** | – | – | – | **10–15** |
| Philip Wallace | **25–30** | – | – | – | **25–30** |
| David Weymouth | **25–30** | – | – | – | **25–30** |
| **Executive** | | | | | |
| Katherine (Kate) Bartlett | **175–180** | **1.3** | **25–30** | **14** | **220–225** |
| Aleksander (Alex) Kuczynski | **210–215** | **1.8** | **35–40** | **57** | **305–310** |
| Mark Neale | **245–250** | **0.2** | **40–45** | **32** | **320–325** |
| Rommel Pereira | **165–170** | **1.8** | **15–20** | **22** | **205–210** |
| Highest-paid director's total remuneration[6] (£'000) | **290–295** | | | | |
| Median total remuneration for FSCS staff[6] (£) | **43,449** | | | | |
| Remuneration ratio[6] | **6.7** | | | | |

| | 2012/13 | | | | |
|---|---|---|---|---|---|
| | Fees and salary[1] | Taxable benefits[2] | Performance-related bonus[3] | Pension[4] | TOTAL |
| | £'000 | £'000 (nearest £100) | £'000 | £'000 (nearest £1,000) | £'000 |
| | | | | | |
| | 20–25 | – | – | – | 20–25 |
| | 75–80 | – | – | – | 75–80 |
| | 0–5 | – | – | – | 0–5 |
| | 0–5 | – | – | – | 0–5 |
| | 20–25 | – | – | – | 20–25 |
| | 0–5 | – | – | – | 0–5 |
| | 25–30 | – | – | – | 25–30 |
| | 25–30 | – | – | – | 25–30 |
| | 20–25 | – | – | – | 20–25 |
| | | | | | |
| | 175–180 | 1.1 | 15–20 | 14 | 205–210 |
| | 205–210 | 1.6 | 35–40 | 56 | 295–300 |
| | 240–245 | 0.1 | 35–40 | 31 | 305–310 |
| | 160–165 | 1.6 | 15–20 | 20 | 200–205 |
| | 275–280 | | | | |
| | 42,756 | | | | |
| | 6.5 | | | | |

Notes:

1 The Chairman and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any additional remuneration in respect of their roles as directors. Salaries and fees are stated for the financial year in respect of which they are earned. Marian Glen and Charles McKenna joined the Board on 1 February 2013, so their 2012/13 fees reflect this. More details on directors' salaries and fees are given in the relevant section below.

2 'Taxable benefits' represent the gross value of benefits, whether cash or non-cash, that are chargeable to UK income tax. For executive directors, the figures in this part of the table include private medical cover and travel insurance. The figures in this column exclude any taxable expenses directly and properly incurred in the performance of FSCS duties, which, for the Board as a whole, amounted to £12,000 in 2013/14 (2012/13: £18,400) (to the nearest £100). The majority of these additional taxable expenses relate to non-executive directors' travel to FSCS, and any associated subsistence, for attending Board and committee meetings and include the associated income tax and National Insurance liability, which is met by FSCS as agreed with HM Revenue and Customs.

3 'Performance-related bonus' is stated for the financial year in respect of which it is earned. More details on the bonus framework are given in the relevant section below.

4 'Pension' is shown as the amounts paid by the employer to defined contribution pension schemes, including any 'matching' contributions made by FSCS. Details are given below under 'Directors' pension entitlements'.

5 By arrangement and agreement with Paul Stockton's employing company, Mr Stockton does not receive a Board fee. Instead, the normal annual fee for non-executive directors of £24,500 is invoiced by, and paid to, his employing company. The invoiced amounts include VAT, so the annual amount payable in respect of Mr Stockton's non-executive directorship of FSCS for 2013/14 was £29,400. No part of this benefit passes to Mr Stockton.

6 This section of the table shows the relationship between the remuneration of the highest-paid director and the median remuneration of the organisation's workforce. The banded remuneration of the highest-paid director in 2013/14 was £290,000–£295,000 (2012/13: £275,000–£280,000). This was 6.7 times (2012/13: 6.5) the median remuneration of the workforce, which was £43,449 (2012/13: £42,756). For this purpose, total remuneration includes salary and taxable benefits. It does not include pension contributions. Full details of the remuneration of the highest-paid director are given below under 'Highest paid director' and in Note 7 to the financial statements.

## Highest-paid director

### Audited with the Notes to the Financial Statements

The highest-paid director, the Chief Executive (2013: the Chief Executive), received aggregate remuneration of £290,463 (comprising basic salary of £246,891, bonus of £43,206 and other emoluments of £366) (2013: £278,443 (comprising basic salary of £242,050, bonus of £36,308 and other emoluments of £85)). Contributions to a money purchase arrangement under FSCS's pension scheme have been made of £32,096 (2013: £31,075). The Chief Executive did not receive additional remuneration in respect of his role as director.

## Directors' remuneration framework

### Directors' fees and salaries

*Non-executive directors*

The current non-executive director fees, including those of the Chairman, were set in April 2011 and have been unchanged since then.

The Board fees paid to the Chairman, Lawrence Churchill, in 2013/14 were set at £75,000 per annum (2012/13: £75,000), and fees paid to other independent non-executive directors or their employers were set at £24,500 per annum (2012/13: £24,500). Additional fees paid or payable to the Chairmen of the Audit Committee, Risk Committee and Remuneration Committee were set at £5,000 per annum (2012/13: £5,000). During the year, Philip Wallace was Chairman of the Audit Committee, David Weymouth was Chairman of the Risk Committee, Max Taylor was Chairman of the Remuneration Committee up to 31 August 2013 and Liz Barclay was Chairman of the Remuneration Committee from 1 September 2013. The FSCS Chairman, Lawrence Churchill, was also the Chairman of the Nomination Committee but did not receive an additional fee for this additional role. Similarly, there is no additional fee payable to the Deputy Chairman and Senior Independent Director, Philip Wallace, in respect of these roles.

*Executive directors*

The Remuneration Committee has applied certain principles when reviewing executive remuneration.

First, the salaries of executive directors should be determined on the same basis as other staff and should be subject to the same affordability constraint. This means that the pay of executive directors should not be allowed to grow in aggregate faster than the underlying growth in the FSCS pay bill generally. Pay growth for the coming year was taken as two per cent, although this did not preclude some differentiation in the salary increases awarded to executive directors subject to this overall constraint.

Second, the growth in the salaries of individual executive directors should be set with regard to external benchmarks for equivalent roles. For this purpose, FSCS regards the median salary for equivalent roles as the appropriate benchmark. This is to ensure that, broadly, FSCS matches market rates in order to motivate and retain, but not necessarily to pay significantly more or less generously than the market.

Salaries for executive directors were subject to a market pay review carried out by external consultants in 2013/14. This market review of salaries was carried out for all FSCS salaries, and involved collecting pay data with the aim of helping to set FSCS's own pay rates at the appropriate level in order to recruit and retain the staff it needs.

The salaries of executive directors were reviewed and determined in line with the above principles and by reference to the performance assessments and benchmark data.

### Performance-related bonus

Audited section

Executive directors were eligible to be considered for a performance-related bonus. These bonuses are not available to non-executive directors.

The key principle underpinning the bonus system is that bonuses should be non-consolidated performance awards reflecting the contribution of the executive director concerned to the performance of FSCS as a whole. Objectives are set for each executive director, and include an element of strategic objectives linked to the performance of the organisation as a whole. These are measured and reviewed during the course of the year and at year-end along with other aspects of individual performance. There is a cap of 20 per cent of salary on these bonuses.

### Directors' pension entitlements

Audited section

During the year, one director (2012/13: one) had a prospective entitlement to a defined benefit

| Name of director | Normal retirement date | Accrued pension at 31 March 2014 £'000 | Real increase in pension £'000 | Cash Equivalent Transfer Value at 31 March 2014 £'000 | Cash Equivalent Transfer Value at 31 March 2013 £'000 | Real increase in Cash Equivalent Transfer Value £'000 |
|---|---|---|---|---|---|---|
| Alex Kuczynski | 8 Jul 2025 | 29 | 0 | 716 | 725 | (9) |

pension. Retirement benefits also accrued during the year to four directors (2012/13: four) under the money purchase pension scheme. The independent non-executive directors are not entitled to a pension funded by FSCS.

The four executive directors during the year were members of the defined contribution (money purchase) pension scheme, on the same terms as for other employees. FSCS makes a contribution equal to six per cent of basic salary, which increases to eight per cent after two years of service and 10 per cent after five years of service. Employees may make a contribution to the plan, and FSCS will match this with an employer's contribution up to a maximum of an additional five per cent of basic salary.

The defined benefit (final salary) pension scheme closed to future accrual on 30 June 2011. Defined benefit pension entitlements accrued for Alex Kuczynski as a result of participation in the defined benefit pension scheme from his date of joining the pension scheme on 20 April 1998 to the date of the pension scheme closing to future accrual on 30 June 2011. The accrued pension is the pension that the member is entitled to receive when he reaches pension age, and this increases between 31 March 2014 and 8 July 2025. Mr Kuczynski may elect to retire earlier than his normal retirement date but the pension will be subject to an actuarial reduction. Due to the nature of these defined benefit pension rights being different from retirement benefits accruing in a defined contribution scheme, further details are given in the table above.

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. 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. The 'real increase in Cash Equivalent Transfer Value' reflects the increase in CETV using actuarial factors based on market conditions at the start and end of the period. It does not include the increase in accrued pension due to inflation.

### Other benefits

Executive directors are entitled to receive other benefits. Some of these, such as private medical cover and travel insurance, are detailed in the remuneration table under 'taxable benefits'; and pension benefits are described in the section above. Other benefits available to executive directors, in common with other employees, include life assurance, flexible working, flu vaccinations, season ticket loans, gym subsidy, childcare vouchers, the cycle-to-work scheme, annual professional subscriptions and access to the employee assistance programme helpline.

### Remuneration for executive directors holding other non-executive positions

Mark Neale holds a non-executive director post as independent member of the Council of the University of Roehampton. This position is unremunerated. There are no remunerated non-executive positions held by executive directors.

**Mark Neale**
*Chief Executive*
30 June 2014

# Directors' Report and Accounts for the year ended 31 March 2014

Section 11

# Strategic Report

The directors of Financial Services Compensation Scheme Limited (FSCS) present their Strategic Report for the year ended 31 March 2014.

## Review of the business

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA) to administer a single compensation scheme for consumers in respect of regulated financial services activities, should an authorised financial services firm be unable, or likely to be unable, to meet its liabilities. FSCS assumed its responsibilities at midnight on 30 November 2001 (a date referred to as N2), when FSMA came into force, and has fulfilled those responsibilities throughout the year ended 31 March 2014.

FSCS is funded by levies on firms authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). For this purpose, firms are allocated to 'classes' which reflect the nature of the business they conduct. This enables the costs of failures to be passed to firms conducting similar business.

FSCS prepares financial statements for both itself and for each of the classes. FSCS's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements of the classes have been prepared in accordance with Section 218 of FSMA and the FCA/PRA Handbook.

Under the new FEES rules which took effect on 1 April 2013, the amount that can be raised by FSCS levy in the year (compensation costs and specific management expenses) will vary, depending on the funding class. Only FCA classes will receive support from other classes and so for PRA classes the amount that FSCS can levy in any year is the individual class limit. For FCA classes it is the amount of the relevant FCA retail pool.

FSCS pursues recoveries from the estates of failed firms and third parties where it is reasonable and cost-effective to do so, in order to reduce the cost to levy payers. In the class accounts, recoveries are credited when notification is received in respect of dividends from insolvency practitioners, or notified and agreed in respect of other recoveries which have not been received by the reporting date. Where no notification is received, recoveries are credited in the class accounts on receipt. In FSCS's accounts, where no notification is received or agreed, recoveries are also recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors).

FSCS's costs are made up of compensation payments and management expenses (see Note 1 (b) and (d) of the class accounts). FSCS makes compensation payments funded by the classes, which are shown in both the FSCS and class accounts. Compensation offers are accrued at the reporting date if they are due and have been made, accepted and fully valued.

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

Levy income comprises a compensation cost levy and management expenses levy. The compensation cost levy is used to fund payments made to or on behalf of claimants and is allocated to the relevant funding class. Firms in each class contribute to the related compensation costs in line with their PRA or FCA tariff data. The management expenses levy is used to fund FSCS's overheads and is split between base costs, and specific costs. All firms contribute to the base costs, which are the costs of running FSCS that are not dependent on levels of activity. Specific costs are the costs of assessing claims and making payments. The specific costs are allocated by FSCS to each class in accordance with the principles contained within the FEES rules. The base costs are not allocated to classes but are allocated against the FCA/PRA fee blocks by which they are levied.

Under the powers provided by FSMA, FSCS has continued to fulfil its responsibilities throughout the year. The Annual Report includes commentary on FSCS's key performance targets as described in Section 5.

## Results and performance

FSCS's income comprises levy income from regulated firms and recoveries from firms in default. Levy income is recognised net of any surplus against expenditure in the year in the Statement of Comprehensive Income. Any surplus or deficit against levy income in the year will be held as a payable or receivable in the Statement of Financial Position as the intention is to refund any surplus, or claim any deficit in the following financial years. This results in a net nil total comprehensive income for the year.

FSCS's results show a surplus after tax of £5,447,000 (2013: £1,163,000), as shown on page 124, and a net actuarial loss arising on the final salary pension scheme assets and liabilities movements of £5,447,000 (2013: £1,163,000) in the statement of comprehensive income. A more detailed review of the performance of FSCS can be found in Section 7. Administration expenses and interest payable of £502,213,000 (2013: £492,388,000) in the year includes a net credit of £1,639,000, which is the defined benefit pension scheme contributions of £1,906,000 less the current service cost of £267,000 (see Note 26) (2013: £365,000, £649,000 and £284,000 respectively).

Other operating income includes the gross amount of management expenses and interest payable recoverable from levy payers (see Note 9), and base cost levies from firms within the FCA and PRA fee blocks of £503,852,000 (2013: £492,753,000).

From 25 March 2014 FSCS entered into a £750,000,000 revolving syndicated loan facility at a floating rate of interest linked to LIBOR.

The provision brought forward from last year of £540,000,000 relating to Dunfermline Building Society (DBS) has been increased to £552,000,000 based on the best information available to the directors. However, the outcome could yet be different and the final amounts, once agreed, may potentially result in a further adjustment to the provision (see Notes 4 and 16).

During the year, FSCS received recoveries of £292,408,000 (2013: £713,484,000) from the 2008 banking defaults, also referred to as the Specified Deposit Defaults (SDDs), and this was set off against loans (see Note 15). A further £16,488,921,000 (2013: 16,653,452,000) is expected is expected based on the best information available to the directors at 31 March 2014 (see Note 12). The loans continue to accrue interest, with £445,719,000 (2013: £429,421,000) charged during the year (see Note 15). This amount will be levied to firms in the Deposits class before 1 September 2014.

A more detailed review of the performance of FSCS can be found in Section 7.

### Future developments

Further matters relating to FSCS's future outlook are referred to in Section 3, Section 6 and Section 8, including the importance for FSCS to remain independent, continue to engage in resolution planning and increase awareness of FSCS and the protection it offers.

## Principal risks and uncertainties

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

The principal risks and uncertainties identified in the financial statements are:

- funding of borrowings, which is referred to in Note 15 and in Section 7;
- recoveries through dividends from the estates of the SDDs, as explained in Note 15 and in Section 7;
- the net costs of the failure of DBS, as explained in Note 16 and in Section 7; and
- the defined benefit pension deficit, as explained in Note 26.

By order of the Board

**Mark Neale**
*Chief Executive*
30 June 2014

# Directors' Report for the year ended 31 March 2014

The directors of Financial Services Compensation Scheme Limited (FSCS) present their report, together with the audited financial statements of FSCS, on pages 124 to 164 and its classes on pages 165 to 177 for the year ended 31 March 2014.

The directors have chosen to prepare these financial statements in accordance with International Financial Reporting Standards (IFRS). This has been done to enhance the quality of the financial information, with the aim of making the financial statements easier to compare and understand internationally. This is also to enhance transparency for the benefit of users.

These financial statements, for the year ended 31 March 2014, are the first the company has prepared in accordance with IFRS. For periods up to and including the year ended 31 March 2013, the company prepared its financial statements in accordance with UK generally accepted accounting principles (UK GAAP).

Accordingly, the company has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 March 2014, together with the comparative period data as at and for the year ended 31 March 2013, as described in the accounting policies. In preparing these financial statements, the company's opening statement of financial position was prepared as at 1 April 2012, the company's date of transition to IFRS. The principal adjustments made by the company in restating its UK GAAP financial statements are explained in Note 3, including the statement of financial position as at 1 April 2012 and the financial statements as at and for the year ended 31 March 2013.

As part of the transition to IFRS, the directors have taken the opportunity to re-assess the basis of preparation of the financial statements. As part of this re-assessment the directors have decided to include compensation costs, recoveries and levy income within these financial statements. This provides better transparency and information to the users of the accounts. These transactions are shown in the statement of comprehensive income and statement of financial position and are accounted for in line with the appropriate accounting policies set out in Note 2. These transactions continue to be included within the financial statements of the classes and are presented on a consistent basis as in the previous year.

## Future developments

The future developments of the organisation are discussed in the Strategic Report.

## The directors

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

Margaret (Liz) Barclay

Katherine (Kate) Bartlett – Executive Director

Lawrence Churchill

Marian Glen

Aleksander (Alex) Kuczynski – Executive Director

Charles McKenna

Mark Neale – Chief Executive and Executive Director

Caroline (Jayne) Nickalls

Rommel Pereira – Executive Director – resigned 31 May 2014

Robert (Paul) Stockton

John (Max) Taylor – retired 31 August 2013

Philip Wallace

David Weymouth.

## Directors' remuneration

Details of directors' remuneration are shown in the Remuneration Report and in Note 7.

## Liability insurance

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

## Statement of disclosure of information to auditors

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

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

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the income or expenditure of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained in Section 10. Information on the use of financial instruments by the company is disclosed in Note 17. In particular, the company's exposure to credit risk, liquidity risk and interest rate risk are separately disclosed in that note.

## Going concern

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

## Independent Auditors

The Financial Services Act 2012 has been implemented with the effect that FSCS will no longer be audited in accordance with Part 16 of the Companies Act 2006, but will be subject to public audit requirements. The Financial Services Act 2012 appointed the Comptroller and Auditor General to be the FSCS's external auditors from the financial year ended 31 March 2014.

By order of the Board

**Mark Neale**
*Chief Executive*
30 June 2014

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Financial Service Compensation Scheme Limited's (FSCS) affairs as at 31 March 2014 and of the result for the year then ended; and
- the financial statements have been properly prepared in accordance with the Financial Services and Markets Act 2000 and HM Treasury directions issued thereunder.

## 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.

## Basis of opinions

I certify that I have audited the financial statements of the FSCS for the year ended 31 March 2014 under the Financial Services and Markets Act 2000. The financial statements comprise: the Statement of Comprehensive Income, Financial Position, 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.

## Overview of my audit approach

### Application of materiality

I applied the concept of materiality both in planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements.

The choice of materiality requires professional judgement and for the FSCS financial statements was set at £90m, which is approximately 0.5% of total assets, a benchmark that I consider to be the principal consideration for users in assessing the financial performance of the entity. I applied a lower level of materiality to the income and compensation payments because my assessment is that users of the accounts are more sensitive to errors in these areas. This lower materiality was set at £14.7m which is 1% of the income received by the Scheme.

As well as quantitative materiality there are certain matters that, by their very nature, would influence the decisions of users if not corrected. These included, for example, the Remuneration Report and the disclosures of exit packages. My assessment of any such misstatements would take into account these qualitative aspects as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity, and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £250,000 as well as differences below that threshold that in my view, warranted reporting on qualitative grounds, including irregular transactions.

## The scope of my audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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.

## Risks significant to my audit

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year:

- *First time adoption of International Financial Reporting Standards (IFRS)*: With the first time adoption of IFRS, the accounting treatment for all of the FSCS's transactions and balances needed to be re-assessed under this new accounting framework. There was a risk that the FSCS would not identify all of the required adjustments to materially comply with IFRS or that these adjustments would not be accurate.

  I considered the FSCS's assessment of the impact of IFRS across material account areas, and observed the Audit Committee's scrutiny of these proposals. I tested the resulting adjustments to both the opening balances and transactions in year. I considered the completeness of these adjustments with reference to audit knowledge and relevant accounting standards. I concluded that FSCS's financial statements are materially compliant with IFRS.

- *Presentation of the accounts*: Historically, the accounts of the FSCS and classes were prepared under different accounting frameworks. The FSCS under the UK Companies Act 2006 and the classes under the accounting policies selected by the FSCS. Given the unique presentation of the accounts, I considered there was a risk that the accounts were not presenting the most usable and relevant information for users.

  As part of the transition to IFRS, the FSCS re-assessed the basis of preparation of the financial statements. As part of this re-assessment, the FSCS decided to include the transactions and balances of the classes within the FSCS. I consider the revised presentation provides better transparency and information to the users of the accounts. I have carried out testing of management's assumptions with reference to the relevant accounting standards under IFRS to determine whether the revised accounting treatment presents a true and fair view of the FSCS.

- *Impairment of specified deposit default loans*: I identified a risk to the recoverability of the specified deposit defaults loans because they are recoverable from various sources including insolvent estates. I gained evidence which supported management assumptions about the recoverability from the relevant financial institutions and the levy payers. Specifically, I tested the most recent projected cash flows provided by UK Asset Resolution Ltd. as the largest entity from which recoveries are due.

  I concluded that the economic reality of the loans is that they are fully recoverable through recoveries, or if there is shortfall, future levies. As such, I agreed that no impairment was required.

- *The risk of fraud in revenue recognition*: I focussed on this area because ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition as a result of the potential for management bias in order to achieve planned results. I reviewed the accounting policy for levy recognition, particularly areas where management expressed judgement in recognising revenue and am satisfied that this risk has not materialised.
- *The risk of management override of control*: I identified a risk because ISAs (UK & Ireland) require that we consider the risk of management override of internal controls. I reviewed a sample of journals for appropriateness and considered accounting estimates and significant judgements for indication of bias, to test the risk of fraud arising from management override of control. I am satisfied that this risk has not materialised.

## 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 Financial Services and Markets Act 2000; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I am required to report by exception

### Adequacy of accounting records and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

## My duty to read other information in the Annual Report

Under the ISAs (UK and Ireland), I am required to report to you if, in my opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, I am required to consider whether I have identified any inconsistences between my knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which I consider should have been disclosed.

I confirm that I have not identified any such inconsistencies or misleading statements.

## Respective responsibilities of the directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets 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.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**
*Comptroller and Auditor General*
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP
3 July 2014

# Financial statements of FSCS for the year ended 31 March 2014

## Statement of Comprehensive Income

| | *Note* | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 *(Restated)* |
|---|---|---|---|
| Income: | | | |
| Levy income in respect of compensation costs | *9* | (4,514) | 197,694 |
| Recoveries | *9* | 247,876 | 127,887 |
| Compensation costs | | (243,362) | (325,581) |
| | | – | – |
| Other operating income: | | 507,660 | 493,551 |
| Levy income in respect of base costs | *9* | 17,735 | 23,599 |
| Levy income in respect of specific costs | *9* | 40,398 | 39,733 |
| Levy income in respect of SDD loan interest | *9* | 445,719 | 429,421 |
| Levy income in respect of pension obligations | *9* | 3,979 | 965 |
| Net interest on the net defined benefit obligation/(asset) | *26* | (171) | (167) |
| Administrative expenses | *5* | (56,494) | (62,967) |
| Interest payable | *8* | (445,719) | (429,421) |
| **Surplus before tax** | | **5,447** | **1,163** |
| **Surplus after tax** | | **5,447** | **1,163** |
| **Other comprehensive income** | | | |
| Remeasurements on defined benefit pension scheme | *26* | (5,447) | (1,163) |
| **Total comprehensive result for the year** | | – | – |

All of FSCS's operations are continuing.

A Statement of Changes in Equity has not been presented as there were no equity balances brought forward or any changes in equity balances during the year.

The Notes on pages 127 to 164 form part of these financial statements.

## Statement of Financial Position of the Scheme Manager as at 31 March 2014

| ASSETS | Note | 2014 £'000 | 2013 £'000 (Restated) | As at 1 April 2012 £'000 (Restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | *11* | 988 | 1,163 | 687 |
| Other non-current financial assets | *12* | 16,749,042 | 17,476,010 | 18,069,132 |
| | | **16,750,030** | **17,477,173** | **18,069,819** |
| **Current assets** | | | | |
| Trade and other receivables | *12* | 943,600 | 889,162 | 955,846 |
| Cash and cash equivalents | *13* | 306,173 | 159,704 | 114,029 |
| | | **1,249,773** | **1,048,866** | **1,069,875** |
| **Total assets** | | **17,999,803** | **18,526,039** | **19,139,694** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Reserves | | – | – | – |
| **Total equity** | | – | – | – |
| **Non-current liabilities** | | | | |
| Interest bearing loans and borrowings | *15* | 16,590,877 | 17,246,285 | 17,954,032 |
| Other non-current financial liabilities | *14* | 55,460 | 57,760 | 73,580 |
| Provisions | *16* | 552,112 | 540,000 | 505,000 |
| Employee benefit liability | *26* | 8,566 | 4,587 | 3,622 |
| | | **17,207,015** | **17,848,632** | **18,536,234** |
| **Current liabilities** | | | | |
| Bank overdraft | *13* | 962 | 1,413 | – |
| Trade and other payables | *14* | 346,107 | 241,115 | 229,451 |
| Loan interest payable | *15* | 445,719 | 429,421 | 370,166 |
| Provisions | *16* | – | 5,458 | 3,843 |
| | | **792,788** | **677,407** | **603,460** |
| **Total liabilities** | | **17,999,803** | **18,526,039** | **19,139,694** |
| **Total equity and liabilities** | | **17,999,803** | **18,526,039** | **19,139,694** |

The financial statements on pages 124 to 126 were approved by the Board of Financial Services Compensation Scheme Limited (Registered Number 3943048) on 17 June 2014 and signed on its behalf on 30 June 2014 by:

**Lawrence Churchill**
*Chairman*

The Notes on pages 127 to 164 form part of these financial statements.

## Statement of Cash Flows of FSCS for the year ended 31 March 2014

| | Note | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Net cash generated from operations | *19* | 1,231,879 | 1,123,436 |
| **Net cash flows from operating activities** | | **1,231,879** | **1,123,436** |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | *11* | (131) | (1,261) |
| **Net cash flows used in investing activities** | | **(131)** | **(1,261)** |
| **Financing activities** | | | |
| Decrease in loans | *21* | (655,407) | (707,747) |
| Returns on investments and servicing of finance | *20* | (429,421) | (370,166) |
| **Net cash flows used in financing activities** | | **(1,084,828)** | **(1,077,913)** |
| Net increase/(decrease) in cash and cash equivalents | | 146,920 | 44,262 |
| Cash and cash equivalents at 1 April | *22* | 158,291 | 114,029 |
| **Cash and cash equivalents at 31 March** | *22* | **305,211** | **158,291** |

# Notes to the financial statements for FSCS for the year ended 31 March 2014

## 1 Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member. FSCS has no share capital and no ultimate controlling party.

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). Its full powers were assumed following the coming into force of the powers of the Financial Services Authority (FSA), under FSMA, at midnight on 30 November 2001. FSCS, as Scheme Manager, operates eight broad funding classes based on identifiable industry sectors – Deposits, Life and Pensions Provision, General Insurance Provision, General Insurance Intermediation, Life and Pensions Intermediation, Investment Provision, Investment Intermediation and Home Finance Intermediation.

The registered office is 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU.

## 2 Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006, International Financial Reporting Standards (IFRS) as adopted by the European Union, and the directions issued by HM Treasury on a going concern basis. The directors are satisfied that FSCS is in a position to meet its obligations as they fall due given its statutory rights to raise levies on FCA/PRA-authorised firms. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention.

The company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was 1 April 2012. In accordance with IFRS, the company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented; and
- retrospectively applied all effective IFRS standards as of 31 March 2014, as required.

As part of the transition to IFRS, the directors have taken the opportunity to re-assess the basis of preparation of the financial statements. As part of this re-assessment the directors have decided to include compensation costs, recoveries and levy income within these financial statements. This provides better transparency and information to the users of the accounts. These transactions are shown in the statement of comprehensive income and statement of financial position and are accounted for in line with the appropriate accounting policies set out in this note. These transactions continue to be included within the financial statements of the classes and are presented on a basis consistent with the previous year.

The FEES rules require FSCS to keep accounts which show the funds held to the credit of each class and the liabilities of that class. These accounts are set out on pages 165 to 177.

The principal accounting policies are set out below.

### a) Revenue recognition

*Compensation cost levy*

FSCS recognises revenue in respect of compensation costs on an accruals basis to match any difference between the compensation costs which FSCS has incurred and the recoveries it has recognised as income during the period.

This reflects that any excess funds are ultimately repayable to the levy payer (and shortfalls similarly recoverable from the levy payer), by way of a return or a reduction in next year's levy, in accordance with FSCS's funding rules.

*Recoveries*

Recoveries are credited to funds when notification is received in respect of dividends from insolvency practitioners, or notified and agreed in respect of other recoveries which have not been received by the reporting date. Where no notification is received or agreed, recoveries are recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors).

*Other operating income*

FSCS recognises revenue in respect of management fees levied on authorised persons to cover the administration costs of FSCS. The management expenses levy is used to fund FSCS's overheads and is split between base costs and specific costs. All firms contribute to the base costs, which are the costs of running FSCS and are not dependent on levels of activity. Specific costs are the costs of assessing claims and making payments.

The pension deficit due to the defined benefit plan will be funded through future levies on levy paying firms. An asset and accrued levy income in respect of the pension deficit has been recognised in these financial statements.

**b) Compensation costs**

These costs, which include interest paid to claimants, comprise deemed compensation, payments made to claimants and amounts for offers which have been made, are due and accepted and, for reinstatement cases, fully valued, but which have not been paid at the reporting date. Compensation costs paid under various Orders are referred to as deemed compensation.

Compensation costs are not recognised in respect of claims received which are still being assessed or pending a decision. There is no demonstrable commitment until an offer is made because the eligibility and quantum of the claim cannot be known until the claim is assessed.

**c) Financial instruments**

*Trade and other receivables*

Receivables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset's carrying value and the estimated future cash flows deriving from the continued use of that asset, discounted if the effect is material.

As a result of the bank and building society failures in 2008 and 2009 – known as Specified Deposit Defaults – arrangements were made during 2008/09 to obtain unsecured loans with the Bank of England and HM Treasury. The facilities with the Bank of England were subsequently refinanced to cover accumulated interest and principal by HM Treasury. The outstanding principal under these facilities will be repaid through recoveries from the estates of defaulted firms with any shortfall raised through levies on levy paying firms. Financial assets have been included within 'Trade and other receivables' (Note 12) to reflect the estimated recoveries from the estates of defaulted firms and the estimated shortfall receivable through levies on levy paying firms.

Following notice served by HM Treasury, FSCS has an obligation to contribute to the costs of resolution of Dunfermline Building Society, plus interest, but after recoveries, which will be financed through levies. A financial asset has been recognised in respect of amounts due from levy payers in the Deposits class to fund the costs of resolution. This is in line with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – which states that if some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised as a separate asset, and not as a reduction of the required provision, when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

*Trade and other payables*

Payables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Borrowings*

Borrowings are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Borrowings are measured initially at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method.

Interest is charged to the statement of comprehensive income over the term of the borrowings. Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans.

**d) Special Resolution Regime**

The Banking Act 2009 created a Special Resolution Regime (SRR), which gives the Authorities a statutory framework providing tools for dealing with distressed banks and building societies. Under the Act, and its regulations, FSCS may be required to contribute to the costs of the SRR, but no more than the cost FSCS would have incurred if the relevant institution had been subject to insolvency and an FSCS depositor payout. Any such costs, although initially obligations on FSCS, are recoverable from the relevant levy payers. FSCS's obligation is accounted for in accordance with IAS 37 as set out above and a provision recognised when it is probable that an economic outflow will be required and the outflow can be measured reliably; otherwise such amounts are disclosed as a contingency.

**e) Welcome Financial Services Limited (Welcome)**

FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of Payment Protection Insurance policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims. Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome. Such payments are shown in the statement of financial position of FSCS as an asset and in 'Trade and other payables (current liabilities)' since any excess payments will ultimately be repaid to Welcome. Compensation costs and recoveries are shown in the FSCS statement of comprehensive income. The costs associated with the handling of claims are shown in the FSCS statement of comprehensive income under administrative expenses and are recovered from the General Insurance Intermediation class.

**f) Provisions, legal challenges and costs**

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

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

**g) Interest payable**

Loan interest payable is charged to the statement of comprehensive income in the period according to the terms of the loans, as described in Note 15.

**h) Interest receivable**

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

**i) Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Property, plant and equipment are capitalised and depreciated over their estimated useful lives at the following rate:

- computers: 60 per cent per annum (reducing balance basis);
- furniture and equipment: 33$^1/_3$ per cent per annum (reducing balance basis); and
- leasehold improvements: straight-line basis over the periods of the leases, commencing on occupancy.

**j) Administrative expenses**

These costs are included in the statement of comprehensive income on an accruals basis.

**k) Operating leases**

Rentals on assets held under operating leases are charged to the statement of comprehensive income in equal annual amounts during the term of the lease.

**l) Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the reporting date. All differences are charged to the classes.

**m) Third party arrangements as agent**

FSCS works for and makes compensation payments on behalf of third parties, as agent; these are recoverable from such parties. Any amounts so due from third parties are shown in the statement of financial position.

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

**n) Taxation**

FSCS is only liable to pay corporation tax on investment income.

### o) Pension scheme

FSCS operates both a defined benefit pension scheme (the Pension Scheme) and a money purchase scheme. The aggregate pension scheme asset/liability recognised in the statement of financial position is the excess or deficit of the present value of the Pension Scheme's assets over the value of the Pension Scheme's liabilities. The deficit will be funded by future levies. Further details are contained in Note 26.

*Money purchase scheme*

The costs of the money purchase scheme are charged to the statement of comprehensive income as incurred.

*Defined benefit scheme*

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

- Current service cost
  The current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. This item is recognised as an expense in the statement of comprehensive income.
- Past service costs
  Past service costs comprise costs relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, and are recognised in the statement of comprehensive income on a straight-line basis over the period in which the increase in benefits vests. Any such items would be recognised as an expense in the statement of comprehensive income.
- Settlements or curtailments
  Settlements or curtailments are recognised in the statement of comprehensive income to the extent that they are not allowed for in the actuarial assumptions. Losses on settlements or curtailments are measured at the date on which the employer becomes demonstrably committed to the transaction. Gains on settlements or curtailments are measured at the date on which all parties whose consent is required are irrevocably committed.
- Net expected return on the pension assets
  Net expected return on the pension assets comprises the expected return on the Pension Scheme assets less interest on Pension Scheme liabilities. This item is recognised in the statement of comprehensive income.
- Actuarial gains and losses
  The actual return less expected return on Pension Scheme assets and actuarial gains/losses net of tax which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the reporting date are shown within other comprehensive income in the statement of comprehensive income.

### p) Changes in accounting policy

- *New and amended standards adopted by the FSCS:*
  There were no IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations effective for the first time in the financial year beginning on or after 1 April 2013 that have a material impact on the company.
- *New standards, amendments and interpretations issued but not effective for the financial year 1 April 2013 and not early adopted:*
  There are no IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the company.

## 3 First-time adoption of IFRS

These financial statements, for the year ended 31 March 2014, are the first the company has prepared in accordance with IFRS. For periods up to and including the year ended 31 March 2013, the company prepared its financial statements in accordance with UK generally accepted accounting principles (UK GAAP).

Accordingly, the company has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 March 2014, together with the comparative period data as at and for the year ended 31 March 2013, as described in the accounting policies. In preparing these financial statements, the company's opening statement of financial position was prepared as at 1 April 2012, the company's date of transition to IFRS. This note explains the principal adjustments made by the company in restating its UK GAAP financial statements, including the statement of financial position as at 1 April 2012 and the financial statements as at and for the year ended 31 March 2013.

The principal IFRS adjustment is limited to accounting for the defined benefit pension scheme under IAS 19 – Employee Benefits (revised). All other adjustments relate to the change in basis of preparation of the financial statements, which includes compensation costs, recoveries and levy income within these financial statements. These transactions are shown in the statement of comprehensive income and statement of financial position and are accounted for in line with the appropriate accounting policies set out in Note 2.

## Reconciliation of equity as at 1 April 2012 (date of transition to IFRS)

| | Note | UK GAAP £'000 | Remeasurements £'000 | IFRS as at 1 April 2012 £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 687 | – | 687 |
| Other non-current financial assets | *A,C,D* | 18,408,060 | (338,928) | 18,069,132 |
| | | **18,408,747** | **(338,928)** | **18,069,819** |
| **Current assets** | | | | |
| Trade and other receivables | *A,C* | 523,376 | 432,470 | 955,846 |
| Cash and cash equivalents | | 114,029 | – | 114,029 |
| | | **637,405** | **432,470** | **1,069,875** |
| **Total assets** | | **19,046,152** | **93,542** | **19,139,694** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Reserves | *D* | (3,622) | 3,622 | – |
| **Total equity** | | **(3,622)** | **3,622** | **–** |
| **Non-current liabilities** | | | | |
| Interest bearing loans and borrowings | | 17,954,032 | – | 17,954,032 |
| Other non-current financial liabilities | *A* | – | 73,580 | 73,580 |
| Provisions | *E* | 508,844 | (3,844) | 505,000 |
| Employee benefit liability | *D* | 3,622 | | 3,622 |
| | | **18,466,498** | **69,736** | **18,536,234** |
| **Current liabilities** | | | | |
| Bank overdraft | | – | – | – |
| Trade and other payables | *A* | 213,110 | 16,341 | 229,451 |
| Loan interest payable | | 370,166 | – | 370,166 |
| Provisions | *E* | – | 3,844 | 3,844 |
| | | **583,276** | **20,184** | **603,460** |
| **Total liabilities** | | **19,049,774** | **89,920** | **19,139,694** |
| **Total equity and liabilities** | | **19,046,152** | **93,542** | **19,139,694** |

## Reconciliation of equity as at 31 March 2013

| | Note | UK GAAP £'000 | Remeasurements £'000 | IFRS as at 31 March 2013 £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 1,163 | – | 1,163 |
| Other non-current financial assets | *A,C,D* | 17,720,853 | (244,843) | 17,476,010 |
| | | **17,722,016** | **(244,843)** | **17,477,173** |
| **Current assets** | | | | |
| Trade and other receivables | *A,C* | 571,062 | 318,100 | 889,162 |
| Cash and cash equivalents | | 159,704 | – | 159,704 |
| | | **730,766** | **318,100** | **1,048,866** |
| **Total assets** | | **18,452,782** | **73,257** | **18,526,039** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Reserves | *D* | (4,587) | 4,587 | – |
| Total equity | | (4,587) | 4,587 | – |
| **Non-current liabilities** | | | | |
| Interest bearing loans and borrowings | | 17,246,285 | – | 17,246,285 |
| Other non-current financial liabilities | *A* | – | 57,760 | 57,760 |
| Provisions | *E* | 545,458 | (5,458) | 540,000 |
| Employee benefit liability | *D* | 4,587 | – | 4,587 |
| | | **17,796,330** | **52,302** | **17,848,632** |
| **Current liabilities** | | | | |
| Bank overdraft | | 1,413 | – | 1,413 |
| Trade and other payables | *A* | 230,205 | 10,910 | 241,115 |
| Loan interest payable | | 429,421 | – | 429,421 |
| Provisions | *E* | – | 5,458 | 5,458 |
| | | **661,039** | **16,368** | **677,407** |
| **Total liabilities** | | **18,457,369** | **68,670** | **18,526,039** |
| **Total equity and liabilities** | | **18,452,782** | **73,257** | **18,526,039** |

## Reconciliation of total comprehensive income for the year ended 31 March 2013

| | Note | UK GAAP £'000 | Remeasurements £'000 | IFRS for the year ended 31 March 2013 £'000 |
|---|---|---|---|---|
| Income: | | | | |
| Levy income in respect of compensation costs | *A* | – | 197,694 | 197,694 |
| Recoveries | *A* | – | 127,887 | 127,887 |
| Compensation costs | *A* | – | (325,581) | (325,581) |
| | | – | – | – |
| Other operating income: | | 492,885 | 666 | 493,551 |
| Levy income in respect of base costs | *B* | | 23,599 | 23,599 |
| Levy income in respect of specific costs | *B* | | 39,733 | 39,733 |
| Levy income in respect of SDD loan interest | *B* | | 429,421 | 429,421 |
| Levy income in respect of pension obligations | | | 965 | 965 |
| Interest receivable and other income | *D* | 132 | (299) | (167) |
| Management expenses recoverable: | | | | |
| From classes | *B* | 39,733 | (39,733) | – |
| In respect of base costs | *B* | 23,599 | (23,599) | – |
| Interest payable recoverable: | | | | |
| From classes | *B* | 429,421 | (429,421) | – |
| Administrative expenses | *D* | (62,967) | | (62,967) |
| Interest payable | | (429,421) | | (429,421) |
| **Surplus before tax** | | **497** | **666** | **1,163** |
| **Surplus after tax** | | **497** | **666** | **1,163** |
| **Other comprehensive income** | | | | |
| Remeasurements on defined benefit pension scheme | *D* | (1,462) | 299 | (1,163) |
| **Total comprehensive result for the year** | | **(965)** | **965** | – |

# Notes to the reconciliation of equity as at 1 April 2012 and 31 March 2013 and total comprehensive income for the year ended 31 March 2013

**A – Recoveries receivable and payable to the levy payers**

As part of the transition to IFRS, the directors have taken the opportunity to re-assess the basis of preparation of the financial statements. As part of this re-assessment the directors have decided to include compensation costs, recoveries and levy income within these financial statements. This provides better transparency and information to the users of the accounts. These transactions are shown in the statement of comprehensive income and statement of financial position and are accounted for in line with the appropriate accounting policies set out in Note 2.

In previous years, recoveries notified before the year-end in respect of dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries but not received by that date, were accrued by FSCS and reflected as amounts payable to the levy payers in the relevant class.

The recognition of recoveries has been extended to include recoveries where no notification is received or agreed, when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). When a reasonable estimate cannot be made recoveries are not recognised in the statement of financial position or statement of comprehensive income. Adjustments have been made to reflect recoveries which have not yet been notified or agreed when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably. A corresponding entry has been made to reflect a payable to the levy payers in the relevant class.

**B – Reclassification of base cost levies and specific cost levies**

Reclassification because of base cost levies, specific cost levies, and compensation cost levies have been identified as revenue of FSCS rather than management expenses recoverable from the FCA/PRA (previously the FSA) fee blocks/classes as previously reported.

**C – Recoveries in respect of Specified Deposit Defaults**

In previous years, an amount due from the Deposits class was recognised in respect of Specified Deposit Defaults to reflect that the outstanding principal will be repaid through recoveries from the estates of defaulted firms, with any shortfall raised through levies on levy paying firms of the Deposits class. This amount has been disaggregated to show separately the estimated recoveries from the estates of defaulted firms and the estimated shortfall receivable through levies on levy paying firms (see Note 12).

**D – Defined benefit plans**

The revised version of IAS 19 has been adopted by FSCS in the preparation of the 2014 financial statements. It has been implemented in the 2014 results, and both the 2013 results and opening balances have been restated retrospectively. Among other matters, the revised version of IAS 19 – Employee Benefits – includes the following changes to the previous version of the standard and UK GAAP:

- Eliminating the option to defer the recognition of actuarial gains and losses from defined benefit post-employment plans, known as the 'corridor method'. FSCS has not previously applied this option, but rather used the option to recognise such gains and losses in other comprehensive income. The option previously applied by FSCS will henceforth be a requirement under the revised standard and therefore this change in the new standard has no impact on FSCS's financial statements.
- The previous method of including the expected income from the plan assets at an estimated asset return is replaced by using the discount rate that is used to discount the defined benefit obligation. In the restated results this gives rise to a reduction in net financial income of £299,000 for the year ended 31 March 2013. The ongoing impact for 2014 and beyond is expected to be of a similar magnitude. There was no impact on FSCS's total comprehensive results for the year or net assets from this change.

- Past service cost is recognised in the income statement in the period of a plan amendment instead of deferring the portion related to unvested benefits. There were no unrecognised past service costs reported in the previous years, and so this change in the new standard has no impact on FSCS's financial statements.

The pension deficit due to the defined benefit plan will be funded through future levies on levy paying firms. An asset and accrued levy income in respect of the pension deficit has been recognised in these financial statements.

### E – Reclassification of provisions

Provisions relating to restructuring, levy and dilapidations have been reclassified from non-current liabilities to current liabilities.

### F – Statement of cash flows

The transition from UK GAAP to IFRS has no impact on the statement of cash flows.

## 4 Accounting judgements and key estimation uncertainties

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

As explained in Note 15, FSCS refinanced the loans with HM Treasury relating to the Specified Deposit Defaults with effect from 1 April 2012. FSCS and HM Treasury have agreed that the period of the loans will reflect the expected timetable to realise assets from the estates of each default. The loans have target repayment dates of 29 February 2024 for Bradford & Bingley plc and 31 March 2016 for the remainder. The expected timing of repayments from the estates of each default remains uncertain but FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks.

Following notice served by HM Treasury, FSCS has an obligation to contribute to the costs of resolution of Dunfermline Building Society, plus interest, but after recoveries, which will be financed through levies.
The FSCS figure for the total amount of the protected deposits, less the valuation of the total FSCS recoveries, in an insolvency counterfactual, will provide the cap on the FSCS contribution. HM Treasury appointed an independent valuer to work out what recoveries FSCS would have received had there been a payout by FSCS to Dunfermline Building Society's approximately 260,000 depositors in the event of insolvency. We have increased the provision in the financial statements for the year ended 31 March 2014 to £552,000,000 (2013: £540,000,000) based on the best information available to the directors at this time, in accordance with our accounting policy of discounting the expected future cash flows at a pre-tax rate that reflects the current time value of money and the risks specific to the liability. However, the final outcome may be different and the final amounts, once agreed, may potentially result in a significant adjustment to the provision being required (see Note 16). When FSCS is notified by HM Treasury of the final agreed contribution required, the payable amount will be updated accordingly and the corresponding change made to the compensation cost.

## 5 Administrative expenses

| | Note | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|
| Staff costs | *6* | 15,051 | 12,651 |
| Outsourcing costs | | 11,584 | 14,563 |
| Welcome costs | | 1,739 | 3,552 |
| Change programme costs | | 5,820 | 9,796 |
| Depreciation – owned assets | *11* | 306 | 464 |
| Auditors' remuneration | | | |
| Statutory audit of the financial statements | | 276 | 230 |
| Other services | | – | 154 |
| Legal and professional fees | | 6,638 | 12,457 |
| Bank charges | | 4,475 | 4,154 |
| Operating lease rentals | *18* | 536 | 1,000 |
| Other | | 10,069 | 3,946 |
| | | **56,494** | **62,967** |

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

## 6 Staff costs

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| Wages and salaries, including the executive directors | 10,448 | 9,585 |
| Social security costs | 1,265 | 1,167 |
| Other pension costs | 3,338 | 1,899 |
| | **15,051** | **12,651** |

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

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

| | Year ended 31 March 2014 | Year ended 31 March 2013 |
|---|---|---|
| Executive Committee and Internal Audit | 7 | 7 |
| Operations | 103 | 102 |
| Central Services | 57 | 48 |
| Corporate Affairs | 24 | 21 |
| Other | 1 | 1 |
| | **192** | **179** |

### Exit packages

FSCS is required to disclose summary information of its use of exit packages, in accordance with the accounts direction issued by HM Treasury. The following table includes exit packages as they relate to all employees. Exit packages are accounted for in full in the year of departure.

| Exit package cost band | Number of compulsory redundancies Year ended 31 March 2014 | Number of other departures agreed Year ended 31 March 2014 | Total number of exit packages by cost band Year ended 31 March 2014 | Total number of exit packages by cost band Year ended 31 March 2013 |
|---|---|---|---|---|
| < = £10,000 | – | 2 | 2 | 4 |
| £10,001–£25,000 | – | – | – | – |
| £25,001–£50,000 | – | – | – | 1 |
| £50,001–£100,000 | – | – | – | 1 |
| £100,001–£150,000 | – | – | – | – |
| £150,001–£200,000 | – | – | – | – |
| Over £200,001 | – | – | – | – |
| Total number of exit packages by type | – | 2 | 2 | 6 |
| **Total resource cost (£'000)** | – | **5** | **5** | **108** |

FSCS is not required to follow the provisions of the Civil Service Compensation Scheme as its principal governance arrangement is with the FCA/PRA. Any FSCS exit packages are approved in line with its own internal procedures.

**Special severance payments**

There was one special severance payment paid out during the year to 31 March 2014 totalling £3,500 (2013: one payment totalling £32,750).

## 7 Directors' remuneration

During the year, there were a total of nine independent non-executive directors (2013: 11) and four executive directors (2013: four). As at 31 March 2014 there were eight independent non-executive directors (2013: nine) and four executive directors (2013: four). Total remuneration paid to directors is as follows:

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| Aggregate remuneration | 1,187 | 1,186 |
| Pension contributions – money purchase | 125 | 121 |
| | **1,312** | **1,307** |

Retirement benefits during the year accrued to one director (2013: one) under FSCS's defined benefit scheme and to four directors under the money purchase scheme (2013: four).

The highest-paid director, the Chief Executive (2013: the Chief Executive), received aggregate remuneration of £290,463 (comprising basic salary of £246,891, bonus of £43,206 and other emoluments of £366) (2013: £278,443 (comprising basic salary of £242,050, bonus of £36,308 and other emoluments of £85)). Contributions to a money purchase arrangement under FSCS's pension scheme have been made of £32,096 (2013: £31,075). The Chief Executive did not receive additional remuneration in respect of his role as director.

The fees paid to the Chairman are set at £75,000 per annum (2013: £75,000) and the fees paid to the independent non-executive directors or their employers are set at £24,500 per annum (2013: £24,500). Additional fees paid to the Chairmen of the Audit Committee, Remuneration Committee and Contingencies Planning Committee were set at £5,000 per annum (2013: £5,000). In addition, business-related expenses totalling £11,171 (2013: £18,388) were reimbursed to the independent non-executive directors. The Chairman and the other independent non-executive directors are not entitled to a pension funded by FSCS.

## 8 Interest payable

| | *Note* | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|
| **Loan interest – HM Treasury** | 6 | **445,719** | **429,421** |

## 9 Income from levy payers and recoveries

In FSCS's financial statements, levies are recognised on an accruals basis, taking into account the costs which have been incurred and any recoveries it has made. In the financial statements of the classes, levies are recognised on a cash received basis. The table below reconciles the levy income in the FSCS and the class financial statements.

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| **Levy income recognised by FSCS** | | |
| Levy income in respect of compensation costs | (4,514) | 197,694 |
| Levy income in respect of base costs | 17,735 | 23,599 |
| Levy income in respect of specific costs | 40,398 | 39,733 |
| Levy income in respect of SDD loan interest | 445,719 | 429,421 |
| Levy income in respect of pension obligations | 3,979 | 965 |
| **Total levy income recognised by FSCS** | **503,317** | **691,412** |
| Add: | | |
| Exchange (gains)/loss, interest received and tax | 866 | (1,127) |
| Other income | – | (13) |
| Net change in funds carried forward as shown in the financial statements of the classes | 714,168 | 683,985 |
| Less: | | |
| Net change in recoveries accrued | (104,786) | (648,890) |
| Base cost related management expenses | (17,735) | (23,599) |
| Pension obligations | (3,979) | (965) |
| **Levies received from levy payers as shown in the financial statements of the classes** | **1,091,851** | **700,803** |

The levies received from levy payers as shown in the financial statements of the classes include £363,000,000 which was used to repay loans with HM Treasury (see Note 15).

In FSCS's financial statements, recognition of recoveries has been extended to include recoveries where no notification is received or agreed, when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). The table overleaf reconciles the recoveries in the FSCS and the class financial statements.

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| **Recoveries recognised by FSCS** | 247,846 | 127,887 |
| Net change in recoveries accrued | 104,786 | 648,890 |
| **Recoveries as shown in the financial statements of the classes** | **352,662** | **776,777** |

In general, recoveries income represents an increase in the amount we expect to recover from failed estates, being either income actually received in the year or an increase in the amount we expect to receive in the future. Following a judgement of the Icelandic Supreme Court on 24 September 2013, our future recoveries for LBI hf are affected by the exchange rate of a number of currencies, including the Icelandic krona. This has led to recognition of an exchange gain of £32,524,000 using the year-end exchange rates, although this may be reversed in future periods depending on movement in exchange rates.

### Management expenses and interest payable

Management expenses and interest payable which are recoverable from the levy payers in each class were as follows:

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| Deposits | 454,177 | 433,525 |
| General Insurance Provision | 2,466 | 2,286 |
| General Insurance Intermediation | 12,682 | 14,258 |
| Life and Pensions Provision | 167 | 110 |
| Life and Pensions Intermediation | 4,595 | 3,156 |
| Investment Provision | 417 | 388 |
| Investment Intermediation | 10,912 | 14,320 |
| Home Finance Intermediation | 701 | 1,111 |
| **Amount recoverable – specific costs and interest** | **486,117** | **469,154** |
| **Amount recoverable – base costs** | **17,735** | **23,599** |

The amounts recoverable from levy payers of £486,117,000 (2013: £469,154,000) comprise management expenses (specific costs) of £40,398,000 (2013: £39,733,000) and interest payable of £445,719,000 (2013: £429,421,000), both recoverable from levy payers in the classes as shown in the statement of comprehensive income.

## 10 Compensation payments relating to Specified Deposit Defaults

During the year, FSCS has made compensation payments for HM Treasury's own account and to the account of HM Treasury for amounts otherwise payable by the Icelandic Depositors' and Investors' Guarantee Fund (DIGF).[1] Compensation payments include the adjustments resulting from the validation process as described in Notes 2 and 3 to the class accounts. Compensation payments made for HM Treasury are treated as amounts paid as agent and do not pass through the statement of comprehensive income.

As at 31 March 2014, compensation payments in the year in respect of the Specified Deposit Defaults[2] and their allocation for funding responsibility were:

| | HM Treasury £'000 | HM Treasury, for DIGF £'000 | FSCS £'000 | Year ended 31 March 2014 Total £'000 | Year ended 31 March 2013 Total £'000 |
|---|---|---|---|---|---|
| Bradford & Bingley plc | – | – | – | – | – |
| Heritable Bank Plc | – | – | – | – | – |
| Kaupthing Singer & Friedlander Limited | (1) | – | 101 | 100 | 125 |
| LBI hf – Icesave | – | 34 | – | 34 | 44 |
| London Scottish Bank Plc | – | – | 38 | 38 | 9,342 |
| **Year ended 31 March 2014** | **(1)** | **34** | **139** | **172** | – |
| **Year ended 31 March 2013** | **2,216** | **34** | **7,261** | – | **9,511** |

1 *Aðilar að Tryggingasjóði innstæðueigenda og fjárfesta* – established pursuant to Act No. 98/1999 of the Icelandic Parliament

2 Bradford & Bingley plc, Heritable Bank Plc, LBI hf and its UK branch and brand Icesave, Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc

## 11 Property, plant and equipment

| | Computers £'000 | Furniture and equipment £'000 | Leasehold improvements £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2013 | 1,919 | 405 | 779 | 3,103 |
| Additions in the year | 100 | 31 | – | 131 |
| Disposals | – | – | – | – |
| At 31 March 2014 | 2,019 | 436 | 779 | 3,234 |
| **Accumulated depreciation** | | | | |
| At 1 April 2013 | (1,765) | (111) | (64) | (1,940) |
| Charge for the year | (124) | (104) | (78) | (306) |
| Disposals | – | – | – | – |
| At 31 March 2014 | (1,889) | (215) | (142) | (2,246) |
| **Net book value at 31 March 2014** | **130** | **221** | **637** | **988** |
| **Net book value at 31 March 2013** | **154** | **294** | **715** | **1,163** |
| **Net book value at 1 April 2012** | **301** | **243** | **143** | **687** |

## 12 Receivables

**Trade and other receivables: amounts falling due within one year**

| | Note | 31 March 2014 £'000 | 31 March 2013 £'000 *(Restated)* | As at 1 April 2012 £'000 *(Restated)* |
|---|---|---|---|---|
| Amounts due from the FCA | *23* | 402 | 818 | – |
| Levies receivable, net of provision | | | | |
| Deposits | | – | 18 | – |
| General Insurance Provision | | 22 | 10 | 34 |
| General Insurance Intermediation | | 62 | 15,698 | 44 |
| Life and Pensions Intermediation | | 13 | 50 | 95 |
| Investment Provision | | 47 | 144 | 844 |
| Investment Intermediation | | 823 | 23,030 | 60,779 |
| Home Finance Intermediation | | 1 | 5 | 2 |
| In respect of base costs | | 21 | 625 | 6 |
| Net amounts due from levy payers in the following classes | | | | |
| Deposits | | 444,729 | 430,285 | 381,870 |
| Investment Intermediation | | – | – | 10,123 |
| Home Finance Intermediation | | – | – | 743 |
| Recoveries receivable in respect of other defaults | | 13,140 | 10,910 | 16,340 |
| Recoveries receivable in respect of Specified Deposit Defaults | | 481,012 | 404,402 | 483,982 |
| Other receivables | | 116 | 142 | 126 |
| Prepayments | | 3,212 | 3,025 | 858 |
| | | **943,600** | **889,162** | **955,846** |

The amounts relating to levies receivable, net of provision, do not appear in the class accounts as these are recognised on a cash basis.

The recoveries receivable in respect of Specified Deposit Defaults of £481,012,000 (2013: £404,402,000; 1 April 2012: £483,982,000) include dividends receivable from Kaupthing Singer & Friedlander Limited and LBI hf (formerly Landsbanki Íslands hf). As at 31 March 2014, £37,396,000 (2013: £35,698,000; 1 April 2012: £30,401,000) was held in an Icelandic Escrow account, and classified as a receivable (falling due within one year) as opposed to cash and cash equivalents. This is due to restrictions on foreign exchange transactions imposed by the Icelandic authorities. The currency restrictions were introduced as a temporary protective measure, although at this time it is not known when the restrictions will be lifted.

Recoveries receivable in respect of other defaults of £13,140,000 (2013: £10,910,000; 1 April 2012: £16,340,000) include £2,430,000 (2013: £10,910,000; 1 April 2012: £15,470,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class, £10,710,000 (2013: £nil; 1 April 2012: £480,000) from firms declared in default in the Investment Intermediation class, and £nil (2013: £nil; 1 April 2012: £390,000) from firms declared in default in the Life and Pensions Intermediation class. These are estimated based on the best information available to the directors at 31 March 2014, although the timing of the final outcome is uncertain. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable (see Note 14).

**Other non-current financial assets: amounts falling due after more than one year**

| | *Note* | 31 March 2014 £'000 | 31 March 2013 £'000 *(Restated)* | As at 1 April 2012 £'000 *(Restated)* |
|---|---|---|---|---|
| Amounts due from levy payers of the Deposits class in respect of Dunfermline Building Society | *16* | 552,000 | 540,000 | 505,000 |
| Amounts due from levy payers of the Deposits class in respect of Specified Deposit Defaults | | 125,107 | 624,613 | 719,180 |
| Amounts due from levy payers in respect of Pension Deficit | | 8,566 | 4,587 | 3,622 |
| Recoveries receivable in respect of Specified Deposit Defaults | | 16,007,909 | 16,249,050 | 16,767,750 |
| Recoveries receivable in respect of other defaults | | 55,460 | 57,760 | 73,580 |
| | | **16,749,042** | **17,476,010** | **18,069,132** |

Recoveries receivable of £16,007,909,000 (2013: £16,249,050,000; 1 April 2012: £16,767,750,000) relate to the 2008 banking defaults. Recoveries receivable in respect of other defaults of £55,460,000 (2013: £57,760,000; 1 April 2012: £73,580,000) include £55,460,000 (2013: £57,760,000; 1 April 2012: £73,580,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class. These are estimated based on the best information available to the directors at 31 March 2014. However, the timing of the final outcome is uncertain, although it is not expected to be within 12 months of the reporting date. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable (see Note 14).

## 13 Cash and cash equivalents, overdraft, facilities and class borrowings

As at 31 March 2014, FSCS had facilities for business purposes of £770m, comprising a 364-day Sterling revolving credit facility of £750m expiring on 24 March 2015 and an overdraft facility of £20m at a fixed margin above bank rate. Any usage of the revolving credit facility would be subject to Board approval.

| | 31 March 2014 £'000 | 31 March 2013 £'000 *(Restated)* | As at 1 April 2012 £'000 *(Restated)* |
|---|---|---|---|
| Cash at bank | 306,173 | 159,704 | 109,944 |
| Cash on short-term deposit | – | – | 4,085 |
| | **306,173** | **159,704** | **114,029** |
| Bank overdraft | (962) | (1,413) | – |
| | **305,211** | **158,291** | **114,029** |

Cash book balances, which include cheques or other effects which are drawn but not presented, are shown as bank overdrafts above, and presented within trade and other payables on the statement of financial position. The cash at bank includes £45,394,000 (2013: £46,830,000; 1 April 2012: £52,972,000) received from Welcome Financial Services Limited, referred to in Note 2(e). This sum is ring-fenced and can only be used to pay costs relating to Welcome.

The remaining cash at bank balance includes funds received by FSCS by way of levy or otherwise for the purposes of the compensation scheme, which are to be managed as FSCS considers appropriate. FSCS holds any amount collected from a specific costs levy or compensation costs levy to the credit of the classes.

## 14 Payables

**Trade and other payables: amounts falling due within one year**

| | Note | 31 March 2014 £'000 | 31 March 2013 £'000 *(Restated)* | As at 1 April 2012 £'000 *(Restated)* |
|---|---|---|---|---|
| Compensation payable | | 2,997 | 1,810 | 1,364 |
| Amounts due to FCA | *23* | – | – | 96 |
| Levies accrued | | | | |
| General Insurance Provision | | – | – | 115 |
| General Insurance Intermediation | | – | – | 21 |
| Life and Pensions Intermediation | | – | – | 200 |
| Investment Intermediation | | – | – | 31 |
| Home Finance Intermediation | | – | – | 1 |
| Net amounts due to levy payers | | | | |
| General Insurance Provision | | 84,417 | 47,514 | 47,422 |
| General Insurance Intermediation | | 18,269 | 17,025 | 27,177 |
| Life and Pensions Provision | | 586 | 752 | 854 |
| Life and Pensions Intermediation | | 16,319 | 26,152 | 1,568 |
| Investment Provision | | 29,595 | 4,685 | 27,737 |
| Investment Intermediation | | 83,337 | 27,042 | – |
| Home Finance Intermediation | | 249 | 2,107 | – |
| Social security and other taxes | | 372 | 351 | 409 |
| Due to claimants and/or Welcome | | 46,285 | 44,927 | 54,088 |
| Accruals | | 7,866 | 7,457 | 10,645 |
| Deferred income in respect of base costs | | 11,767 | 10,518 | 8,280 |
| Amounts due to HM Treasury | *23* | 28,581 | 37,343 | 30,214 |
| Net amounts due to levy payers in respect of recoveries receivable | *12* | 13,140 | 10,910 | 16,340 |
| Other payables | | 2,326 | 2,522 | 2,887 |
| | | **346,107** | **241,115** | **229,451** |

The £28,581,000 due to HM Treasury (2013: £37,343,000; 1 April 2012: £30,214,000) includes an amount of £3,125,000 (2013: £3,158,000; 1 April 2012: £2,337,000) that relates to loans drawn down in advance of compensation payments.

The £46,285,000 (2013: £44,927,000; 1 April 2012: £54,088,000) due to claimants and/or Welcome relates to payments received from Welcome. As explained in 'Accounting policies' (Note 2(e)), payments from Welcome are only used to pay compensation and other costs relating to Welcome and any excess amount will ultimately be repaid to Welcome.

**Non-current liabilities: amounts falling due after more than one year**

| | Note | 31 March 2014 £'000 | 31 March 2013 £'000 *(Restated)* | As at 1 April 2012 £'000 *(Restated)* |
|---|---|---|---|---|
| Amounts due to HM Treasury | | | | |
| Loans | *15* | 16,590,877 | 17,246,285 | 17,954,032 |
| Net amounts due to levy payers in respect of recoveries receivable | *12* | 55,460 | 57,760 | 73,580 |
| | | **16,646,337** | **17,304,045** | **18,027,612** |

## 15 Loans

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

**Loans**

| | Principal outstanding as at 1 April 2012 £'000 | Principal outstanding as at 31 March 2013 £'000 | Drawdown from (and repayment to) HM Treasury £'000 | Recoveries £'000 | Compensation payments on behalf of HM Treasury £'000 | Principal outstanding as at 31 March 2014 £'000 |
|---|---|---|---|---|---|---|
| Loan in respect of: | | | | | | |
| Bradford & Bingley plc | 15,654,509 | 15,654,509 | – | – | – | 15,654,509 |
| Heritable Bank Plc | 149,237 | 104,310 | (7,058) | (76,870) | – | 20,382 |
| Kaupthing Singer & Friedlander Limited | 954,490 | 601,831 | (132,848) | (137,030) | – | 331,953 |
| LBI hf – Icesave | 1,008,922 | 727,844 | (183,265) | (73,735) | – | 470,844 |
| London Scottish Bank Plc | 186,874 | 157,791 | (39,829) | (4,773) | – | 113,189 |
| | **17,954,032** | **17,246,285** | **(363,000)** | **(292,408)** | – | **16,590,877** |

**Loan interest payable**

| | Facility £'000 | Interest outstanding as at 31 March 2014 £'000 | Interest outstanding as at 31 March 2013 £'000 | Interest outstanding as at 1 April 2012 £'000 |
|---|---|---|---|---|
| Loan in respect of: | | | | |
| Bradford & Bingley plc | 15,654,509 | 422,187 | 386,433 | 315,421 |
| Heritable Bank Plc | 20,382 | 1,049 | 2,880 | 3,573 |
| Kaupthing Singer & Friedlander Limited | 331,953 | 8,656 | 16,337 | 21,077 |
| LBI hf – Icesave | 470,844 | 11,261 | 19,435 | 26,029 |
| London Scottish Bank Plc | 113,189 | 2,566 | 4,336 | 4,066 |
| | **16,590,877** | **445,719** | **429,421** | **370,166** |

**Principal terms and conditions**

FSCS has loan facilities agreed with HM Treasury for each default. The outstanding principal under these facilities is only repayable through recoveries from the estates of defaulted firms and levies on levy paying firms. Under the terms of the original facilities, as the loans were not repaid by the target repayment date of 31 March 2012, FSCS refinanced the agreement with HM Treasury with effect from 1 April 2012. FSCS and HM Treasury have agreed that the period of the loans will reflect the expected timetable to realise assets from the estates of each default. The loans have target repayment dates of 29 February 2024 for Bradford & Bingley and 31 March 2016 for the remainder. FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks.

Under the terms of The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008, FSCS shall not recover less than it would have recovered if that Order had not been made and Bradford & Bingley had gone into liquidation. This will entail comparing the value realised by the existing run-down of the Bradford & Bingley estate with the value that would have been realised in the event of liquidation and may affect the amounts ultimately payable by levy payers in respect of Bradford & Bingley.

**Interest**

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

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

The loan interest of £445,719,000 is recoverable from levy payers in the Deposits class by way of a compensation costs levy, and is payable to HM Treasury on 1 October 2014.

## 16 Provisions

| | As at 1 April 2012 £'000 | As at 31 March 2013 £'000 | Change in the year £'000 | Utilised in the year £'000 | Unwinding of discount £'000 | As at 31 March 2014 £'000 |
|---|---|---|---|---|---|---|
| Restructuring | 198 | – | – | – | – | – |
| Levy provision | 3,190 | 5,032 | – | (5,032) | – | – |
| Dilapidations | 456 | 426 | 112 | (426) | – | 112 |
| Dunfermline Building Society | 505,000 | 540,000 | (4,500) | – | 16,500 | 552,000 |
| **Total provisions** | **508,844** | **545,458** | **(4,388)** | **(5,458)** | **16,500** | **552,112** |
| Current | 3,844 | 5,458 | – | (5,458) | – | – |
| Non-current | 505,000 | 540,000 | (4,388) | – | 16,500 | 552,112 |
| | **508,844** | **545,458** | **(4,388)** | **(5,458)** | **16,500** | **552,112** |

### Restructuring

FSCS has undertaken a major restructuring of the organisation. This resulted in some redundancies and the restructuring provision was fully utilised by 31 March 2013.

### Levy provision

In prior years, a number of firms applied for a reduction of the amount levied and requests for refunds were received from levy payers due to errors in the tariff data submitted by them to the FCA.

Based on the best information available to the directors, a provision of £nil (2013: £5,032,000; 1 April 2012: £3,190,000) has been made in the accounts for credit notes to be raised.

### Dilapidations

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

### Dunfermline Building Society

Following notice served by HM Treasury, FSCS has an obligation under the Special Resolution Regime to contribute to the costs of resolution of Dunfermline Building Society, plus interest, but after recoveries, which will be discharged through levies. Based on the best information available to the directors, the brought-forward provision has been increased by £12,000,000 in the financial statements for the year ended 31 March 2014. The estimate of this provision is based on an insolvency counterfactual.

This amount will be due to HM Treasury and, as shown in Note 12, recoverable from the levy payers in the Deposit class. However, the timing of the final outcome is uncertain, although it is not expected to be within 12 months of the reporting date. The final amount may be different and, once agreed, may potentially result in a significant adjustment to the provision being required (see Note 4).

## 17 Financial risk management

The company's financial risk management policy is disclosed below.

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss to FSCS by failing to discharge an obligation. FSCS's principal financial assets are cash deposits and cash, together with levies and other receivables.

FSCS's credit risk falls into two main categories:

i. the collection of levies from the financial services industry: the FCA, which collects the levies on behalf of FSCS, has a strong record in collecting levies; and

ii. the placement of those levies as deposits with various counterparties: FSCS only invests with those financial institutions that meet its minimum credit rating as assigned by credit rating agencies.

The table below shows the credit rating and exposure of FSCS's most significant counterparties at the reporting date. These credit ratings are produced by Moody's. The credit ratings of amounts due from levy payers have been approximated using the weighted average credit rating of the top 10 levy payers in each class. This is on the basis that any shortfall in the administration process will be met by levying the financial services industry in each class.

Any credit risk to FSCS is mitigated by the ability to raise levies on the financial services industry, meaning that any loss due to credit risk will be absorbed by the levy payers.

| | As at 31 March 2014 | | As at 31 March 2013 | | As at 1 April 2012 | |
|---|---|---|---|---|---|---|
| | Credit rating | Exposure £'000 | Credit rating | Exposure £'000 | Credit rating | Exposure £'000 |
| Trade and other receivables: amounts falling due within one year: | | | | | | |
| Amounts due from the FCA | Not rated | 402 | Not rated | 818 | – | – |
| Levies receivable, net of provision | Not rated | 989 | Not rated | 39,579 | Not rated | 61,803 |
| Net amounts due from levy payers of the following classes: | | | | | | |
| Deposits | Baa2 | 444,729 | A3 | 430,285 | A2 | 381,870 |
| Investment Intermediation | – | – | – | – | Aa2 | 10,123 |
| Home Finance Intermediation | – | – | – | – | Baa1 | 743 |
| Recoveries receivable in respect of other defaults | Not rated | 13,140 | Not rated | 10,910 | Not rated | 16,340 |
| Recoveries receivable in respect of Specified Deposit Defaults | Not rated | 481,012 | Not rated | 404,402 | Not rated | 483,982 |
| Other receivables | Not rated | 116 | Not rated | 142 | Not rated | 126 |
| Prepayments | Not rated | 3,212 | Not rated | 3,025 | Not rated | 858 |

| | As at 31 March 2014 | | As at 31 March 2013 | | As at 1 April 2012 | |
|---|---|---|---|---|---|---|
| | Credit rating | Exposure £'000 | Credit rating | Exposure £'000 | Credit rating | Exposure £'000 |
| Trade and other receivables: amounts falling due after one year: | | | | | | |
| Amount due from the levy payers in the Deposits class in respect of Dunfermline Building Society | Baa2 | 552,000 | A3 | 540,000 | A2 | 505,000 |
| Amounts due in respect of Specified Deposit Defaults | Baa2 | 125,107 | A3 | 624,613 | A2 | 719,180 |
| Amounts due from levy payers in respect of pension deficit | Not rated | 8,566 | Not rated | 4,587 | Not rated | 3,622 |
| Recoveries receivable in respect of Specified Deposit Defaults | Not rated | 16,007,909 | Not rated | 16,249,050 | Not rated | 16,767,750 |
| Recoveries receivable in respect of other defaults | Not rated | 55,460 | Not rated | 57,760 | Not rated | 73,580 |
| Cash and short-term deposits | Aa1 | 306,173 | Aa1 | 159,704 | Aaa | 114,029 |

### Liquidity risk

Liquidity risk is the risk that FSCS is unable to meet the payment obligations associated with its financial liabilities as they fall due. FSCS manages its liquidity by carefully monitoring the projected income and expenditure related to its day-to-day business. Each month FSCS identifies liquidity up to the point when it next expects to levy the majority of fees. FSCS also has available to it for liquidity purposes £770m in facilities, comprising a 364-day Sterling revolving credit facility of £750m expiring on 24 March 2015 and an overdraft facility of £20m at a fixed margin above bank rate. Any usage of the revolving credit facility would be subject to Board approval.

### Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's exposure to the risk of changes in market interest rates relates primarily to the company's long-term debt obligations with floating interest rates (see Note 15).

The interest payable on these loans is dependent on the timing of recoveries obtained from the estates of defaulted firms relating to Specified Deposit Defaults, as these would be used to repay the principal of the HM Treasury loans. The interest payable in any given period is uncertain because the amount and timing of recoveries are uncertain. However, the interest rate risk is ultimately passed on to and absorbed by the levy payers.

The table opposite summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments.

### Currency risk

The FSCS is recovering funds from a number of institutions where the recoveries will be in foreign currencies. Changes in the exchange rates for Icelandic Krona, US Dollars or Euros may affect the value recovered.

| As at 31 March 2014 | On demand £'000 | Less than 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | > 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Interest bearing loans and borrowings | – | – | – | 936,368 | 15,654,509 | 16,590,877 |
| Trade and other payables | – | – | 346,107 | 55,460 | – | 401,567 |
| Loan interest payable | – | – | 445,719 | 2,848,146 | 3,829,907 | 7,123,772 |
| | – | – | 791,826 | 3,839,974 | 19,484,416 | 24,116,216 |

| As at 31 March 2013 | On demand £'000 | Less than 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | > 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Interest bearing loans and borrowings | – | – | – | 1,591,776 | 15,654,509 | 17,246,285 |
| Trade and other payables | – | – | 241,115 | 57,760 | – | 298,875 |
| Loan interest payable | – | – | 429,421 | 2,624,556 | 4,499,215 | 7,553,192 |
| | – | – | 670,536 | 4,274,092 | 20,153,724 | 25,098,352 |

| As at 1 April 2012 | On demand £'000 | Less than 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | > 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Interest bearing loans and borrowings | – | – | – | 2,299,523 | 15,654,509 | 17,954,032 |
| Trade and other payables | – | – | 229,451 | 73,580 | – | 303,031 |
| Loan interest payable | – | – | 370,166 | 2,443,843 | 5,109,350 | 7,923,359 |
| | – | – | **599,617** | **4,816,946** | **20,763,859** | **26,180,422** |

**Fair values**

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, other current assets and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, loans from HM Treasury and the associated financial assets recoveries receivable in respect of Specified Deposit Defaults is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Set out below is a comparison by class of the carrying amounts and fair values of the company's financial instruments that are carried in the financial statements. Financial assets and financial liabilities which have a fair value that approximately equals their carrying amounts are not disclosed in the table below.

| | Carrying amount | | | Fair values | | |
|---|---|---|---|---|---|---|
| | As at 31 March 2014 £'000 | As at 31 March 2013 £'000 | As at 1 April 2012 £'000 | As at 31 March 2014 £'000 | As at 31 March 2013 £'000 | As at 1 April 2012 £'000 |
| **Financial assets** | | | | | | |
| Recoveries receivable in respect of Specified Deposit Defaults | 16,451,520 | 16,556,240 | 17,183,880 | 13,137,975 | 13,298,535 | 13,537,246 |
| **Financial assets** | | | | | | |
| Loans | 16,590,877 | 17,246,285 | 17,954,032 | 18,390,626 | 17,577,355 | 18,056,098 |

The difference between the fair values of recoveries receivable in respect of the SDDs and loans is predominantly attributable to the present value of the interest payable on the loans, which will be paid by levy payers in the Deposits class.

## 18 Payments under lease agreements

| Year ended 31 March 2014 | Less than 1 year £'000 | Between 2 and 5 years £'000 | Greater than 5 years £'000 | Total £'000 |
|---|---|---|---|---|
| **Future minimum rentals payable under non-cancellable operating leases are as follows:** | | | | |
| Land and buildings | 797 | 3,187 | 2,191 | 6,175 |
| Other | 33 | 15 | – | 48 |
| | **830** | **3,202** | **2,191** | **6,223** |

| Year ended 31 March 2013 | Less than 1 year £'000 | Between 2 and 5 years £'000 | Greater than 5 years £'000 | Total £'000 |
|---|---|---|---|---|
| **Future minimum rentals payable under non-cancellable operating leases are as follows:** | | | | |
| Land and buildings | 199 | 3,187 | 2,987 | 6,373 |
| Other | 33 | 48 | – | 81 |
| | **232** | **3,235** | **2,987** | **6,454** |

| Year ended 31 March 2012 | Less than 1 year £'000 | Between 2 and 5 years £'000 | Greater than 5 years £'000 | Total £'000 |
|---|---|---|---|---|
| **Future minimum rentals payable under non-cancellable operating leases are as follows:** | | | | |
| Land and buildings | 739 | 1,992 | 3,781 | 6,512 |
| Other | 44 | 98 | – | 142 |
| | **783** | **2,090** | **3,781** | **6,654** |

The lease for the former premises at 5th and 7th Floors, 1 Portsoken Street, London was from 1 February 2006 to 23 June 2018, but on 21 December 2011 FSCS exercised its right to break the lease on 24 June 2012.

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

## 19 Reconciliation of the profit/(loss) on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the statement of comprehensive income and statement of financial position movements:

| | Note | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 *(Restated)* | As at 1 April 2012 £'000 *(Restated)* |
|---|---|---|---|---|
| Surplus on ordinary activities before interest and tax | | 451,166 | 430,584 | 372,091 |
| Depreciation | *11* | 306 | 464 | 809 |
| Loss on disposal | | – | 322 | – |
| Decrease in receivables | | 672,530 | 659,806 | 675,461 |
| Increase/(Decrease) in payables | | 102,692 | (4,156) | 6,789 |
| Difference between pension charge and cash contributions | | (1,468) | (198) | (1,154) |
| Increase in provisions for liabilities and charges | | 6,653 | 36,614 | 28,298 |
| **Net cash inflow from operating activities** | | **1,231,879** | **1,123,436** | **1,082,294** |

## 20 Returns on investments and servicing of finance

| | Note | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 *(Restated)* | As at 1 April 2012 £'000 *(Restated)* |
|---|---|---|---|---|
| Interest paid | *8, 15* | (429,421) | (370,166) | (334,414) |
| | | **(429,421)** | **(370,166)** | **(334,414)** |

## 21 Reconciliation of net cash flow to movement in net debt

| | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 | As at 1 April 2012 £'000 |
|---|---|---|---|
| (Increase)/Decrease in cash at bank and short-term deposits in the year | (146,921) | (44,262) | 103,444 |
| Decrease in loans | (655,407) | (707,747) | (851,233) |
| Decrease in net debt | (802,328) | (752,009) | (747,789) |
| Net funds at 1 April | 17,087,994 | 17,840,003 | 18,587,792 |
| **Net funds at 31 March** | **16,285,667** | **17,087,994** | **17,840,003** |

## 22 Analysis of change in net funds

| | As at 1 April 2012 £'000 | Cash inflows/ (outflows) £'000 | As at 31 March 2013 £'000 | Cash inflows/ (outflows) £'000 | As at 31 March 2014 £'000 |
|---|---|---|---|---|---|
| Cash at bank and short-term deposits | 114,029 | 45,675 | 159,704 | 146,469 | 306,173 |
| Bank overdraft | – | (1,413) | (1,413) | 451 | (962) |
| | **114,029** | **44,262** | **158,291** | **146,920** | **305,211** |

## 23 Transactions with related parties

During the year, FSCS entered into transactions with the FCA (previously the FSA) as a related party. The FCA appoints, and has the right to remove, directors to the Board of FSCS and it establishes the rules under which FSCS operates. The FCA was considered to be a related party but not a controlling party during the year.

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £1,072,848,000 (2013: £703,465,000; 2012: £576,944,000), including £790,718,000 raised as a levy for the interest and capital repayment on the loans relating to the Specified Deposit Defaults on 25 July 2013. Related collections of £1,111,438,000 (2013: £725,670,000; 2012: £535,270,000) were received. The agency fee for the service was £294,000 (2013: £420,000; 2012: £336,000).

Overall, payments less receipts of £1,111,855,000 (2013: £724,756,000; 2012: £536,933,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2014 of £402,000 (2013: £818,000; 1 April 2012: £(96,000)).

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

All loan drawdowns, repayments and interest fees in the year as well as the balance owed at the year-end are disclosed in Note 15. During the year commitment fees of £nil (2013: £8,000; 2012: £33,000) and administration fees of £9,000 (2013: £42,000; 2012: £144,000) were paid to HM Treasury.

At 31 March 2014 FSCS owed HM Treasury £3,125,000 (2013: £3,158,000; 1 April 2012: £2,337,000) due to loans drawn down in advance of compensation payments (see Note 14).

During the year FSCS made compensation payments on behalf of HM Treasury of £(1,000) (2013: £2,216,000; 2012: £11,259,000) and on behalf of HM Treasury, for DIGF, of £34,000 (2013: £34,000; 2012: £10,097,000) (see Note 10).

FSCS has also made a provision at 31 March 2014 of £552,000,000 (2013: £540,000,000; 1 April 2012: £505,000,000) for amounts owed to HM Treasury as a result of FSCS's obligation under the Special Resolution Regime to contribute to the net costs of resolution of Dunfermline Building Society (see Note 16).

## 24 Contingent liabilities

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

On 31 March 2014, FSCS announced voluntary redundancy plans affecting the Operations division and is currently engaged in a consultation process. There is a significant degree of uncertainty about the number of staff that will be affected, the timing, and amounts of redundancy compensation costs. It is not anticipated that any material liabilities will arise from the redundancy plans.

## 25 Going concern

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

## 26 Retirement benefits

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

### Money purchase scheme

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

Amounts paid by FSCS into the money purchase scheme amounted to £1,519,000, and £130,000 was outstanding to be paid at 31 March 2014 (2013: £1,505,000 and £120,000 respectively).

### Defined benefit pension scheme with money purchase underpin (hybrid pension scheme)

FSCS operates a funded scheme with defined benefits payable that are underpinned by the value of notional money purchase units allocated to members in respect of service prior to 1 April 2002. Assets are held in separate Trustee-administered funds. An actuarial valuation of the pension scheme was carried out as at 1 April 2012. The valuation used the projected unit method and was carried out by Buck Consultants Limited, professionally qualified actuaries.

The Trustees have the primary responsibility for governance of the Pension Scheme. Benefit payments are from Trustee-administered funds and the Trust is governed by UK regulation. Responsibility for governance of the Pension Scheme, including investment decisions and contribution rates, lies jointly with the company and the Trustees. The Trustees comprise representatives of FSCS and members in accordance with the Trust deed and rules.

Principal actuarial assumptions at the statement of financial position date are:

| | 31 March 2014 % (p.a.) | 31 March 2013 % (p.a.) |
|---|---|---|
| Discount rate | 4.50 | 4.70 |
| Salary increase rate | N/A | N/A |
| Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.) | 3.30 | 3.45 |
| Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.) | 2.10 | 2.15 |
| RPI inflation assumption | 3.50 | 3.70 |
| CPI inflation assumption | 2.30 | 2.50 |

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

Pre- and post-retirement: 100 per cent S1PMA light for males and 75 per cent S1PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation mortality projections model 2011, with a 1.25 per cent p.a. long-term trend rate from 2008 onwards, allowing for individual members' year of birth. This assumption has been revised from last year, which was as follows: PCMA00 for males and PCFA00 for females, with future improvements to mortality projected in line with the long cohort projection methodology, with a minimum improvement of one per cent p.a. from 2000 onwards, allowing for individual members' year of birth.

For the 31 March 2014 disclosures, 75 per cent of members are assumed to exercise their option to commute the maximum amount of their pension for a pension commencement lump sum using the cash commutation factors in place as at 31 March 2014. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2014 disclosures, 80 per cent of male and 70 per cent of female members are assumed to be married, with males assumed to be three years older than females. The assumption is consistent with last year's proportion married assumption.

The assumptions were chosen by FSCS, with professional advice.

At 31 March 2014 the pension scheme's assets were invested in a diversified portfolio that consisted primarily of equities.

The fair value of the Pension Scheme's assets are set out below:

| As at 31 March 2014 | Quoted £'000 | Unquoted £'000 | Total £'000 |
|---|---|---|---|
| Global equities | 10,316 | – | 10,316 |
| Property | – | 1,372 | 1,372 |
| Indexed linked gilts | 2,643 | – | 2,643 |
| UK corporate bonds | 2,052 | – | 2,052 |
| Hedge funds | – | 1,376 | 1,376 |
| Cash and net current assets | 427 | – | 427 |
| **Total assets** | **15,438** | **2,748** | **18,186** |

| As at 31 March 2013 | Quoted £'000 | Unquoted £'000 | Total £'000 |
|---|---|---|---|
| Global equities | 10,703 | – | 10,703 |
| Property | – | 1,237 | 1,237 |
| Indexed linked gilts | – | – | – |
| UK corporate bonds | 1,347 | – | 1,347 |
| Hedge funds | – | 1,336 | 1,336 |
| Cash and net current assets | 791 | – | 791 |
| **Total assets** | **12,841** | **2,573** | **15,414** |

| As at 1 April 2012 | Quoted £'000 | Unquoted £'000 | Total £'000 |
|---|---|---|---|
| Global equities | 9,339 | – | 9,339 |
| Property | – | 1,334 | 1,334 |
| Indexed linked gilts | – | – | – |
| UK corporate bonds | 1,334 | – | 1,334 |
| Hedge funds | – | 1,334 | 1,334 |
| Cash and net current assets | 103 | – | 103 |
| **Total assets** | **10,776** | **2,668** | **13,444** |

The assets as at 31 March 2014 are consistent with the Pension Scheme's investment strategy as set by the Trustees. As the Pension Scheme matures, it is intended to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. This involves an asset liability modelling framework that has been developed to achieve long-term investments that are in line with the obligations under the Pension Scheme. Within this framework the objective is to match assets to the pension obligations by investing in long-term fixed interest and index-linked securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The first stage of this process was completed in the 2014 financial year with the sale of a number of equity holdings. FSCS actively monitors the duration and the expected yield of the investments are matching the expected cash flows arising from the pension obligations.

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

The amounts recognised in the statement of financial position are as follows:

| | 31 March 2014 £'000 | 31 March 2013 £'000 | 1 April 2012 £'000 |
|---|---|---|---|
| Fair value of assets | 18,186 | 15,414 | 13,444 |
| Present value of obligations | (20,443) | (20,001) | (17,066) |
| **Funded status** | **(2,257)** | **(4,587)** | **(3,622)** |
| Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling') | (6,309) | – | N/A |
| **Net defined benefit asset/(obligation)** | **(8,566)** | **(4,587)** | **(3,622)** |

| **Movement in net defined benefit asset/(obligation) over the year** | 31 March 2014 £'000 | 31 March 2013 £'000 |
|---|---|---|
| Net defined benefit asset/(obligation) at beginning of the year | (4,587) | (3,622) |
| Employer contributions | 1,906 | 649 |
| Expense recognised in income statement | (438) | (451) |
| Remeasurement gain/(loss) recognised in other comprehensive income | (5,447) | (1,163) |
| Net defined benefit asset/(obligation) at end of the year | (8,566) | (4,587) |

| Changes in effect of the asset ceiling over the year | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 | Year ended 31 March 2012 £'000 |
|---|---|---|---|
| Adjustment at beginning of the year | 0 | 0 | N/A |
| Interest income | 0 | 0 | N/A |
| Change in adjustment in excess of interest | (6,309) | 0 | N/A |
| **Adjustment at end of the year** | **(6,309)** | **0** | **N/A** |

| Changes in present value of the defined benefit obligation | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 | Year ended 31 March 2012 £'000 |
|---|---|---|---|
| Opening defined benefit obligation | 20,001 | 17,066 | 15,670 |
| Interest cost | 939 | 860 | 800 |
| Distributions | (75) | (88) | 128 |
| Experience (gains)/losses | – | 369 | 39 |
| Losses (gains) on curtailments | – | – | (382) |
| Actuarial (gains)/losses | (422) | 1,794 | 811 |
| **Closing defined benefit obligation** | **20,443** | **20,001** | **17,066** |

**Sensitivity analysis of the Pension Scheme liabilities**

The sensitivity of the principal assumptions used to measure the Pension Scheme liabilities is set out below:

| | Change in assumption | Impact on Scheme liabilities £'000 |
|---|---|---|
| Discount rate reduced by | 0.25% | 21,724 |
| Discount rate increased by | 0.25% | 19,263 |
| Inflation and associated pension increases reduced by | 0.25% | 19,452 |
| Inflation and associated pension increases increased by | 0.25% | 21,483 |
| Life expectancy decreased by | one year | 19,940 |

**Description of risks to which the Pension Scheme exposes FSCS**

If the Pension Scheme assets do not move in line with Pension Scheme liabilities then a deficit may arise. As the Pension Scheme matures, FSCS intends to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). Increases in life expectancy will increase Pension Scheme liabilities, and the inflation linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

| **Changes in fair value of the Pension Scheme assets** | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 | Year ended 31 March 2012 £'000 |
|---|---|---|---|
| Opening fair value of assets | 15,414 | 13,444 | 12,819 |
| Contributions paid by employer | 1,906 | 649 | 965 |
| Interest income | 768 | 693 | 982 |
| Return on Scheme assets excluding interest income | 440 | 1,000 | (1,075) |
| Distributions | (75) | (88) | 128 |
| Administration expenses | (267) | (284) | (375) |
| **Closing fair value of assets** | **18,186** | **15,414** | **13,444** |

| **Expenses recognised in the income statement** | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| Administration expenses | 267 | 284 |
| Net interest on the net defined benefit obligation/(asset) | 171 | 167 |
| **Total expense/(income)** | **438** | **451** |

| **Remeasurement effects recognised in other comprehensive income** | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|
| Return on Scheme assets excluding interest income | 440 | 1,000 |
| Experience (losses) arising on the Pension Scheme liabilities | – | (369) |
| Changes in financial assumptions underlying the present value of the Pension Scheme liabilities | (101) | (1,794) |
| Changes in demographic assumptions underlying the present value of the Pension Scheme liabilities | 523 | – |
| Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling') in excess of interest | (6,309) | – |
| **Net actuarial losses recognised in the period** | **(5,447)** | **(1,163)** |

| | £'000 |
|---|---|
| Best estimate of employer contributions to be paid over following year | 1,611 |
| **Expected future benefit payments** | |
| Year ending 31 March 2015 | 178 |
| Year ending 31 March 2016 | 70 |
| Year ending 31 March 2017 | 112 |
| Year ending 31 March 2018 | 218 |
| Year ending 31 March 2019 | 148 |
| Year ending 31 March 2020 | 238 |

As required by IAS 19, the projected unit method has been used to determine the liabilities.

FSCS has agreed with the Trustees that the funding objective is to ensure the Pension Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the Scheme Specific Funding regulations (the Pension Scheme operates under the Pensions Act 2004 regulatory framework).

The latest triennial actuarial valuation was as at 1 April 2012. On completion of the 2012 valuation, FSCS agreed to pay contributions of £1.5m per annum from November 2013 onwards to eliminate the deficit by 31 October 2020.

The valuation of the Pension Scheme's liabilities for accounting purposes has been carried out at a different date from when the Pension Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions. Therefore the figures quoted in this note are different from those disclosed in the last actuarial valuation report, as would usually be expected. The figures set out in this note are calculated according to the requirements of the accounting standard IAS 19. Separate calculations will be carried out for the Trustees and possibly the sponsor, to monitor and control the funding of the Pension Scheme using assumptions selected by the Trustees.

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

# Financial Services Compensation Scheme: Classes

## Financial statements for the year ended 31 March 2014

The powers of the FCA/PRA (previously the FSA) under FSMA became effective as at midnight on 30 November 2001.

As explained in Chapter 6 of the FEES rules of the FCA/PRA Handbook, for funding purposes, and effective from 1 April 2013, FSCS is split into broad classes, comprising: Deposits; Life and Pensions Provision; General Insurance Provision; General Insurance Intermediation; Life and Pensions Intermediation; Investment Provision; Investment Intermediation; and Home Finance Intermediation (FEES 6 Annex 3). FSCS must keep accounts which show:

1) the funds held to the credit of each class; and

2) the liabilities of that class.

The financial statements for FSCS's classes for the year ended 31 March 2014, with comparatives, including the equivalent fund balances for the year ended 31 March 2013, are set out as follows:



### Statement of disclosure of information to auditors

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the classes' transactions and disclose with reasonable accuracy at any time the financial position of the classes and enable them to ensure that the financial statements comply with the requirements. They are also responsible for safeguarding the assets of the classes and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

**Mark Neale**
*Chief Executive*
30 June 2014

# FSCS classes:

# Statement of Fund Movements for the year ended 31 March 2014

| Funding sub-class code | Total | | Compensation costs net of recoveries relating to SDDs | | Deposits SA01 | | General Insurance Provision SB01 | |
|---|---|---|---|---|---|---|---|---|
| | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 |
| Compensation and interest | **(243,362)** | (325,581) | (39) | (7,261) | (15,669) | (38,527) | (89,992) | (80,045) |
| Exchange gain/(loss) | **(958)** | 980 | – | 740 | 59 | (16) | – | 2 |
| Other income | – | 13 | – | – | – | – | – | – |
| Recoveries received | **352,662** | 776,777 | 241,261 | 728,728 | 822 | 3,646 | 14,744 | 18,908 |
| | **108,342** | 452,189 | 241,222 | 722,207 | (14,788) | (34,897) | (75,248) | (61,135) |
| | | | | | | | | |
| Attributable management costs: | | | | | | | | |
| Specific costs | **(40,398)** | (39,733) | – | – | (8,458) | (4,104) | (2,466) | (2,286) |
| Specified Deposit Defaults interest | **(445,719)** | (429,421) | – | – | (445,719) | (429,421) | – | – |
| | **(486,117)** | (469,154) | – | – | (454,177) | (433,525) | (2,466) | (2,286) |
| | | | | | | | | |
| Interest received | | | | | | | | |
| Gross before tax | **116** | 82 | – | – | 116 | 48 | 2 | 50 |
| Tax at 20% | **(24)** | 65 | – | – | (23) | 38 | – | 40 |
| | **92** | 147 | – | – | 93 | 86 | 2 | 90 |
| | | | | | | | | |
| Levies received | **1,091,851** | 700,803 | 363,000 | – | 434,719 | 379,381 | 114,891 | 61,576 |
| Cross-subsidy transfer | – | – | – | – | – | – | – | – |
| Repayment of recoveries | – | – | – | – | – | – | – | – |
| Funds brought forward | **(18,050,340)** | (18,734,325) | (17,180,853) | (17,903,060) | (950,420) | (861,465) | 44,071 | 45,826 |
| | | | | | | | | |
| **Funds carried forward** | **(17,336,170)** | **(18,050,340)** | **(16,576,632)** | **(17,180,853)** | **(984,573)** | **(950,420)** | **81,251** | **44,071** |

| | General Insurance Intermediation SB02 | | Life and Pensions Provision SC01 | | Life and Pensions Intermediation SC02 | | Investment Provision SD01 | | Investment Intermediation SD02 | | Home Finance Intermediation SE02 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 |
| | (46,382) | (69,565) | – | (1) | (18,716) | (24,308) | (41) | (65) | (71,286) | (105,287) | (1,237) | (522) |
| | – | – | – | – | – | (1) | – | (2) | (1,017) | 256 | – | 1 |
| | – | – | – | – | – | – | – | – | – | 13 | – | – |
| | 7,888 | 17,415 | – | – | 207 | 965 | 25,369 | 3,652 | 62,346 | 3,452 | 25 | 11 |
| | (38,494) | (52,150) | – | (1) | (18,509) | (23,344) | 25,328 | 3,585 | (9,957) | (101,566) | (1,212) | (510) |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | (12,682) | (14,258) | (167) | (110) | (4,595) | (3,156) | (417) | (388) | (10,912) | (14,320) | (701) | (1,111) |
| | – | – | – | – | – | – | – | – | – | – | – | – |
| | (12,682) | (14,258) | (167) | (110) | (4,595) | (3,156) | (417) | (388) | (10,912) | (14,320) | (701) | (1,111) |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | (4) | 18 | – | 1 | 1 | 10 | – | 30 | 1 | (74) | – | (1) |
| | 1 | 14 | – | 1 | – | 8 | – | 24 | – | (59) | – | (1) |
| | (3) | 32 | – | 2 | 1 | 18 | – | 54 | 1 | (133) | – | (2) |
| | | | | | | | | | | | | |
| | 69,045 | 40,674 | – | 7 | 13,763 | 50,892 | 96 | 16,354 | 96,285 | 147,446 | 52 | 4,473 |
| | – | – | – | – | – | – | – | (16,396) | – | 16,396 | – | – |
| | – | – | – | – | – | – | – | (28,324) | – | 28,324 | – | – |
| | (67) | 25,636 | 752 | 854 | 25,158 | 748 | 4,541 | 29,656 | 4,380 | (71,767) | 2,097 | (753) |
| | | | | | | | | | | | | |
| | **17,800** | **(67)** | **586** | **752** | **15,818** | **25,158** | **29,548** | **4,541** | **79,797** | **4,380** | **236** | **2,097** |

# FSCS classes:
# Statement of Assets and Liabilities at 31 March 2014

| Funding sub-class code | Total | | Compensation costs net of recoveries relating to SDDs | | Deposits SA01 | | General Insurance Provision SB01 | |
|---|---|---|---|---|---|---|---|---|
| | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 |
| Current assets | | | | | | | | |
| Net amounts due from FSCS | **231,803** | **91,373** | – | – | – | – | 84,395 | 47,503 |
| Taxation | – | **(1)** | – | – | – | – | – | – |
| Term deposits and cash at bank | **12,710** | **20,351** | – | – | 12,376 | 19,974 | 334 | 377 |
| | **244,513** | **111,722** | – | – | 12,376 | 19,974 | 84,729 | 47,880 |
| | | | | | | | | |
| Current liabilities | | | | | | | | |
| Net amounts due to FSCS | **(444,729)** | **(430,303)** | – | – | (444,729) | (430,303) | – | – |
| Taxation | **(17)** | **2** | – | – | (17) | 1 | – | 1 |
| Bank overdrafts | **(7,304)** | **(10,909)** | – | – | (203) | (92) | (3,480) | (3,811) |
| | **(452,050)** | **(441,210)** | – | – | (444,949) | (430,394) | (3,480) | (3,810) |
| | | | | | | | | |
| Long-term liabilities | | | | | | | | |
| Net amounts due to FSCS | **(17,128,632)** | **(17,720,853)** | (16,576,632) | (17,180,853) | (552,000) | (540,000) | – | – |
| | | | | | | | | |
| **Total net assets/ (liabilities)** | **(17,336,170)** | **(18,050,340)** | **(16,576,632)** | **(17,180,853)** | **(984,573)** | **(950,421)** | **81,249** | **44,070** |

| | General Insurance Intermediation SB02 | | Life and Pensions Provision SC01 | | Life and Pensions Intermediation SC02 | | Investment Provision SD01 | | Investment Intermediation SD02 | | Home Finance Intermediation SE02 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2012/13 £'000 |
| | | | | | | | | | | | | |
| | 18,207 | 1,328 | 586 | 752 | 16,306 | 25,926 | 29,548 | 4,541 | 82,514 | 9,220 | 248 | 2,102 |
| | 1 | – | – | – | – | | – | – | – | (1) | – | – |
| | – | – | – | – | – | – | – | – | – | – | – | – |
| | 18,208 | 1,328 | 586 | 752 | 16,305 | 25,926 | 29,548 | 4,541 | 82,514 | 9,219 | 248 | 2,102 |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | – | – | – | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – | – | – | – | – | – |
| | (407) | (1,394) | – | – | (487) | (768) | – | – | (2,717) | (4,839) | (11) | (5) |
| | (407) | (1,394) | – | – | (487) | (768) | – | – | (2,717) | (4,839) | (11) | (5) |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | – | – | – | – | – | – | – | – | – | – | – | – |
| | | | | | | | | | | | | |
| | **17,800** | **(66)** | **586** | **752** | **15,818** | **25,158** | **29,548** | **4,542** | **79,797** | **4,380** | **236** | **2,097** |

# FSCS classes:
# Statement of Base Costs and Related Levies at 31 March 2014

| Base Cost Fund Account | FCA fee block (previously FSA fee block 2012/13) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | | Minimum fee A000 | | FCA prudential fee AP00 | | Deposit takers A001 | | Home finance providers A002 | | General insurance A003 | | Life insurance A004 | |
| | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 |
| Levies received | 6,004 | 25,217 | 188 | 692 | 355 | – | (235) | 8,434 | 328 | 428 | 286 | 1,643 | 596 | 3,027 |
| Base costs allocated | (8,867) | (23,599) | (400) | (849) | (245) | – | (1,334) | (7,728) | (345) | (618) | (491) | (1,756) | (829) | (2,672) |
| Balance at 1 April 2013 | 9,889 | 8,271 | 447 | 604 | – | – | 2,360 | 1,654 | 205 | 395 | 497 | 610 | 736 | 381 |
| **Funds carried forward** | **7,026** | **9,889** | **235** | **447** | **111** | – | **790** | **2,360** | **189** | **205** | **292** | **497** | **503** | **736** |

| Base Cost Fund Account | PRA fee block | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | | Deposit takers PA01 | | General insurance PA03 | | Life insurance PA04 | | Society of Lloyd's PA06 | |
| | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 |
| Levies received | 13,583 | – | 9,923 | – | 1,601 | – | 1,961 | – | 97 | – |
| Base costs allocated | (8,867) | – | (6,411) | – | (1,066) | – | (1,325) | – | (66) | – |
| Balance at 1 April 2013 | – | – | – | – | – | – | – | – | – | – |
| **Funds carried forward** | **4,715** | – | **3,512** | – | **536** | – | **636** | – | **31** | – |

| | FCA fee block (previously FSA fee block 2012/13) | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Society of Lloyd's A006 | | Fund managers A007 | | Operators/ trustees collective investment schemes A009 | | Firms dealing as principal A010 | | Advising/ arranging (holding client money) A012 | | Advising/ arranging (not holding client money) A012 | | Corporate finance advisers A014 | | Home finance mediation A018 | | General insurance mediation A019 | |
| | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 | 2013/ 2014 £'000 | 2012/ 2013 £'000 |
| | (23) | – | 677 | 1,764 | 339 | 434 | 2,112 | 2,963 | 1,100 | 2,053 | 99 | 1,398 | 258 | 551 | 153 | 419 | (230) | 1,411 |
| | (7) | (72) | (863) | (1,630) | (240) | (483) | (1,087) | (2,171) | (989) | (1,742) | (871) | (1,675) | (271) | (519) | (338) | (632) | (558) | (1,052) |
| | 35 | 107 | 688 | 554 | 45 | 94 | 773 | (19) | 656 | 345 | 1,628 | 1,905 | 187 | 155 | 374 | 587 | 1,258 | 899 |
| | **5** | **35** | **503** | **688** | **144** | **45** | **1,798** | **773** | **767** | **656** | **856** | **1,628** | **173** | **187** | **189** | **374** | **470** | **1,258** |

The financial statements on pages 166 to 177 were approved by the Board of Financial Services Compensation Scheme Limited, as designated Scheme Manager of the classes, on 17 June 2014 and signed on its behalf on 30 June 2014 by:

**Lawrence Churchill**
*Chairman*

# Notes to the classes financial statements for the year ended 31 March 2014

## 1 Accounting policies

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

### a) Basis of accounting

The FEES rules require FSCS to keep accounts which show the funds held to the credit of each class and the liabilities of that class.

The financial statements have been prepared under the historical cost convention and on the basis that Financial Services Compensation Scheme Limited, as the designated Scheme Manager, will exercise its responsibilities under FSMA and the FEES rules to recover management expenses and compensation costs on behalf of the classes, as defined for funding purposes in the FCA/PRA Handbook. The financial statements have been prepared on a going concern basis in accordance with Note 10 of the classes financial statements and Note 15 and Note 25 of FSCS's financial statements and:

- Section 218 of FSMA 2000;
- the Combined FCA/PRA Handbook (in particular rule COMP 2.2.5);
- the FCA–FSCS Memorandum of Understanding (Section 27 to 28);
- the PRA–FSCS Memorandum of Understanding (Section 34 to 35); and
- the accounting policies set out here and overleaf.

The eight classes are classified based on identifiable industry sectors:

- Deposits;
- Life and Pensions Provision;
- General Insurance Provision;
- General Insurance Intermediation;
- Life and Pensions Intermediation;
- Investment Provision;
- Investment Intermediation; and
- Home Finance Intermediation.

The first three classes are referred to as the PRA classes, while the last five are referred to as the FCA classes.

The accounting policies have been selected by the designated Scheme Manager.

### b) Compensation costs

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

### c) Recoveries

Recoveries are credited to funds when notification is received in respect of dividends from insolvency practitioners, or notified and agreed in respect of other recoveries, which have not been received by the balance sheet date. Where no notification is received, recoveries are credited on receipt.

**d) Management expenses**

Management expenses comprise base costs, being the costs of running the classes, and specific costs, which are the remaining costs which cover the handling and payment of compensation. The specific costs are allocated by FSCS to each class and in accordance with the levy principles contained within FEES rules 6.4.5, 6.4.6 and 6.4.7. The base costs are not allocated to classes but are shown against the FCA/PRA fee blocks by which they are levied (FEES rules 6.1.10).

**e) Interest receivable**

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

**f) Levies**

The classes are funded by levies on firms authorised by the FCA/PRA. The FCA raises levies, on behalf of the classes, which are credited to the classes on a cash received basis. Levies refunded are accounted for on payment. Where requests for the remission or rebate of a levy have been made, this is only recognised in the classes when the payment is made. Under the previous FEES rules, once a sub-class reached its annual compensation costs levy limit, the connected sub-class in the broad class (the 'receiving sub-class') was required to contribute to any further compensation costs levy (again up to an annual limit). Levies received during the year from a receiving sub-class were shown as levies received in the sub-class accounts of the receiving sub-class, together with a corresponding transfer out to the connected sub-class. Under the new funding arrangements which took effect on 1 April 2013, the amount that can be raised by levy in the year will vary, depending on the funding class. Only FCA classes will receive support from other classes and so for PRA classes the amount that FSCS can levy in any year is the individual class limit. For FCA classes it is the amount of the relevant FCA retail pool. Levies received during the year from a receiving FCA class are shown as levies received in the class accounts of the receiving FCA class, together with a corresponding transfer out to the relevant FCA class. Any provision or contingent liability recognised in FSCS for levy rebates is only recognised in the class accounts when cash payment is actually made.

**g) Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Statement of Fund Movements.

**h) Cash flow**

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

**i) Taxation**

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

**j) Special Resolution Regime**

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

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

**k) Welcome Financial Services Limited (Welcome)**

FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of PPI policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims. Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome. Such payments are shown in the statement of financial position of FSCS as an asset and in 'Trade and other payables (current liabilities)', since any excess payments will be repaid to Welcome. Compensation costs and recoveries are shown in the class accounts only and ultimately the costs associated with the handling of claims are shown in FSCS's statement of comprehensive income under administrative expenses and are recovered from the Insurance Intermediation class. An equivalent amount is then released from FSCS to the class to fund these costs.

**l) Accounting judgements and key estimation uncertainties**

As designated Scheme Manager, FSCS is required to prepare class financial statements. In relation to these financial statements, drawn up in accordance with the accounting policies above, there are no areas of key estimation uncertainty, beyond those described in Note 4 of FSCS's financial statements.

## 2 Compensation costs

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

A summary of compensation costs for the Specified Deposit Defaults of £139,000 (2013: £7,261,000) is shown below.

| | Year ended 31 March 2013 £'000 | FSCS manual payments £'000 | Year ended 31 March 2014 £'000 |
|---|---|---|---|
| Bradford & Bingley plc | 15,654,509 | – | 15,654,509 |
| Heritable Bank Plc | 464,676 | – | 464,676 |
| Kaupthing Singer & Friedlander Limited | 2,589,149 | 101 | 2,589,250 |
| LBI hf – Icesave | 1,434,144 | (0) | 1,434,144 |
| London Scottish Bank Plc | 238,827 | 38 | 238,865 |
| | **20,381,305** | **139** | **20,381,444** |

## 3 Deemed compensation costs

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

Recoveries are accounted for within the classes financial statements in accordance with Note 1(c).

As explained in Notes 10 and 15 to the FSCS financial statements, the Specified Deposit Defaults compensation costs, including net deemed compensation costs, are funded through borrowings. The principal is repayable through recoveries, with any remaining balance levyable. FSCS refinanced the agreement with HM Treasury with effect from 1 April 2012. FSCS and HM Treasury have agreed the period of the loans will reflect the expected timetable to realise assets from the estates of each default. The loans have target repayment dates of 29 February 2024 for Bradford & Bingley plc and 31 March 2016 for the remainder. FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks.

## 4 Management expenses

Management expenses charged by FSCS to the classes include payments made in the year for the FSCS Pension Scheme. Administrative expenses of FSCS, however, reflect IAS 19 adjustments with a charge for the current service cost in the year. This treatment ensures current funding of the payments as and when they are made.

As stated above (Note 1d), management expenses are allocated to classes and FCA/PRA fee blocks under the rules within the FEES Manual, chapter 6.

## 5 Interest received

Interest received comprises:

| | Rate | Year ended 31 March 2014 £'000 | Year ended 31 March 2013 £'000 |
|---|---|---|---|
| Term deposits | Available money market rates | 1 | 19 |
| Other bank accounts | Available rates | 115 | 24 |
| Loan interest | | – | 39 |
| | | **116** | **82** |

## 6 Levies received

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

## 7 Term deposits and cash at banks

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

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

As at 31 March 2014, FSCS is a party to various joint accounts with claims administration companies and 'run-off agents' engaged by the insolvency practitioners involved with the General Insurance Provision class to make payments to policyholders. The balances of these accounts at 31 March 2014 of £334,000 (2013: £377,000) are included within term deposits and cash at banks in the General Insurance Provision class Statement of Assets and Liabilities.

## 8 Special Resolution Regime – Dunfermline Building Society

On 30 March 2009, the Bank of England exercised 'stabilisation powers' under the Banking Act 2009 in respect of Dunfermline Building Society including through the Dunfermline Building Society Property Transfer Instrument 2009 by which certain property, rights and liabilities of Dunfermline Building Society were transferred to the Nationwide Building Society. HM Treasury had served notice on FSCS, revised during 2011/12, placing an obligation on FSCS to contribute to the costs of the resolution, plus interest, but after recoveries, which will be discharged by FSCS through levies.

Based on the best information available to the directors, the brought forward provision has been increased by £12,000,000 in the financial statements of FSCS for the year ended 31 March 2014, and is recoverable from the Deposits class. In the financial statements of the classes, this amount has been shown as a creditor in the Deposit class, due to FSCS after more than one year, and charged to compensation costs in the same class.

However, the final outcome may be different and the final amounts, once agreed, may result in a further adjustment to the provision. When FSCS is notified by HM Treasury of the final agreed contribution required, the creditor amount will be updated accordingly and the corresponding change made to the compensation cost.

## 9 Welcome Financial Services Limited (Welcome)

Compensation costs of £5,496,000 (2013: £13,182,000) and management expenses of £1,405,000 (2013: £3,552,000) relating to Welcome PPI payments were incurred in the year. In addition, compensation costs of £2,000 (2013: £nil) and management expenses of £767,000 (2013: £nil) relating to Welcome non-PPI payments were incurred in the year. This is shown under the General Insurance Intermediation class in the Statement of Fund Movements for the year ended 31 March 2014. These amounts have been recovered from FSCS.

## 10 Going concern

At 31 March 2014 the classes had a total deficit of £17,336,170,000 (2013: £18,050,340,000) as a result of compensation costs and management expenses being paid out in advance of levies being received.

At 31 March 2014 the total deficit included current liabilities of £452,050,000 of which £444,729,000 was due to FSCS (2013: £441,210,000 and £430,303,000 respectively). The amount due to FSCS is due to compensation costs and management expenses being paid in advance of levies being received. Levies are recognised in the class accounts on a cash received basis, in accordance with the accounting policies, and so future levies that will be raised to settle this liability are not recognised.

At 31 March 2014 the classes had a long-term liability of £17,128,632,000 (2013: £17,720,853,000) due to FSCS. The amount due to FSCS is due to compensation costs being paid in advance of levies and recoveries being received. This liability has been funded by the loan facilities with HM Treasury, taken out by FSCS to fund the compensation costs relating to the Specified Deposit Defaults of 2008/09 (see Note 15 to the FSCS financial statements). This liability will only be repayable through recoveries or dividends from the estates of defaulted firms, and to the extent there is a shortfall, levies from levy paying firms. In accordance with the accounting policies of the classes, recoveries are only credited to funds when notification is received in respect of dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries, which have not been received by the balance sheet date. Therefore there is no recognition for future recoveries or levies that will be used to pay the liability.

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

# Report of the Independent Auditors of the Financial Services Compensation Scheme: Classes to the Directors of the Financial Services Compensation Scheme

I have audited the financial statements of the Financial Services Compensation Scheme: Classes for the year ended 31 March 2014 which comprise the Statement of Fund Movements, the Statement of Assets and Liabilities, the Statement of Base Costs and Related Levies, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, set out on page 165, the Directors of the FSCS are responsible for the preparation of the financial statements and for being satisfied that they have been properly prepared. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practice Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Directors of the FSCS, in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA/PRA Handbook (in particular rule COMP 2.2.5); and
- the FCA-FSCS Memorandum of Understanding (Section 27 & 28)

I report to you my opinion as to whether the financial statements are properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA/PRA Handbook (in particular rule COMP 2.2.5);
- the FCA-FSCS Memorandum of Understanding (Section 27 & 28); and
- the accounting policies set out on pages172–174.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In my opinion the financial statements for the year ended 31 March 2014 have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA/PRA Handbook (in particular rule COMP 2.2.5);
- the FCA-FSCS Memorandum of Understanding (Section 27 & 28); and
- the accounting policies set out on pages 172–174.

**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.

**Matters on which I report by exception**

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

- Adequate accounting records have not been kept for the Classes, and proper returns adequate for the audit have not been received from any third parties; or
- I have not received all of the information and explanations I require for my audit.

**Sir Amyas C E Morse**
*Comptroller and Auditor General*
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP
3 July 2014

# List of acronyms

| | |
|---|---|
| B&B | Bradford & Bingley plc |
| BACS | Bankers' Automated Clearing Services |
| BAU | Business as usual |
| BCI | Best Companies Index |
| BRRD | Bank Recovery and Resolution Directive |
| CASS | Client Asset Sourcebook |
| CETV | Cash Equivalent Transfer Value |
| CIIA | Chartered Institute of Internal Auditors |
| CSR | Corporate social responsibility |
| DBS | Dunfermline Building Society |
| DGSD | Deposit Guarantee Schemes Directive |
| DIGF | Iceland Depositors' and Investors' Guarantee Fund |
| DMO | Debt Management Office |
| EDRM | Electronic Document and Records Management |
| EFDI | European Forum of Deposit Insurers |
| FCA | Financial Conduct Authority |
| FSA | Financial Services Authority |
| FSCS | Financial Services Compensation Scheme |
| FSMA | Financial Services and Markets Act 2000 |
| FTP | Finance Transformation Programme |
| IADA | International Association of Deposit Insurers |
| IFA | Independent Financial Adviser |
| IFRS | International Financial Reporting Standards |
| IP | Insolvency practitioner |
| KSF | Kaupthing Singer & Friedlander Limited |
| LCD | Lead Case Defendant |
| LIBOR | London Inter-Bank Offer Rate |
| MELL | Management Expenses Levy Limit |
| NAO | National Audit Office |
| PPI | Payment Protection Insurance |
| PRA | Prudential Regulation Authority |
| SAR | Special Administration Regime |
| SDDs | Specified Deposit Defaults (also referred to in this report as the major banking failures of 2008/09) |
| SIPP | Self-Invested Personal Pension |
| SQA | Service quality assurance |
| SRR | Special Resolution Regime |
| VFM | Value for money |

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

## How to contact us

By phone on:
0800 678 1100 or  020 7741 4100

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

Email:
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Online enquiry form

By post to:
Financial Services Compensation Scheme
10th Floor, Beaufort House, 15 St Botolph Street
London EC3A 7QU