Financial Services Compensation Scheme

Annual Report and Accounts

2015/16

Financial Services Compensation Scheme

Annual Report and Accounts 2015/16

Presented to Parliament
by the Economic Secretary to the Treasury
by Command of Her Majesty

July 2016

CM 9281

Any enquiries related to this publication should be sent to us at enquiries@fscs.org.uk

This publication is available at: www.gov.uk/government/publications

Print ISBN 9781474133517
Web ISBN 9781474133524

Printed in the UK by the Williams Lea Group on behalf of the Controller of
Her Majesty's Stationery Office

ID 25051611 06/16

Printed on paper containing 75% recycled fibre content minimum

FSCS Contacts

This document can be found on our website at: www.fscs.org.uk

General enquiries should be addressed to:

The Financial Services Compensation Scheme
10th Floor
Beaufort House
15 St Botolph Street
London
EC3A 7QU

Email: enquiries@fscs.org.uk

Company number 3943048

Contents

Mission and Role

Our mission

The mission of the Financial Services Compensation Scheme (FSCS) is to provide a trusted compensation service for customers, which raises public confidence in the financial services industry.

Our aims

The FSCS is the UK's statutory fund of last resort for customers of authorised financial services firms. This means that FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. FSCS is a non-profit-making independent body, created under the Financial Services and Markets Act 2000 (FSMA). It is funded by levies on authorised financial services firms. FSCS does not charge individual consumers.

The Year in Summary

The main figures and events of the 2015/16 year. Click on the headings to find out more.

£7,773

The average compensation payment was £7,773, compared with £8,855 in 2014/15.

31%

The increase in average compensation payment for a Self-Invested Personal Pension-related claim was £38,609, up from £29,505 in 2014/15.

46,896

We received 46,896 new claims during 2015/16, 13% fewer than the 53,662 received in the previous year.

£740m

Final dividend payment recovered by FSCS (of which £236m came to FSCS and £504m to HM Treasury) from the estate of the Icelandic bank LBI hf (Icesave) in January 2016, bringing the total recovered to more than 100% of the total £4.5bn compensation paid out.

£271m

Total compensation in 2015/16 was £271m, down from £327m in 2014/15.

£66m

Management expenses for the year were £66m, compared with £71.5m in 2014/15.

£1.09bn

The levies received this year totalled £1.09bn, compared with £1.08bn in 2014/15. This figure includes the interest cost and capital repayment levy for the banking failures of 2008/09.

£331m[1]

During 2015/16, our recoveries for the industry exceeded £331m. This figure includes £294m from the estates of the 2008 major banking failures.

1. Levies and recoveries figures referred to in Sections 1 to 7 of this report are based on when we have received any cash in the financial year and will be different to the equivalent figures in FSCS's financial statements, which are based on accounting principles. The presentation in Sections 1 to 7 removes the uncertainty that may arise from the use of estimates and assumptions when matching income and costs, and is aligned to how we calculate the annual, and any interim, levies. It is also the same basis which we use in our industry newsletter Outlook. This format makes it easier for users to understand how much each class owes to, or is owed by, FSCS.

Section 2

Chairman's Statement

Lawrence Churchill, Chairman, reports on how a modernisation of protection limits would boost consumer confidence and financial stability.

Financial protection, as represented by a compensation system, is fundamental to financial stability. But consumers must know about the protection they have to promote the necessary confidence.

Consumer awareness of FSCS, or a protection scheme reached an all-time high of 75 per cent during 2015 – beating our target of 70 per cent.

The case for modernising limits

This excellent level of awareness is not replicated across other product types, and the different limits applying to insurance, investments and pensions now seem to lag developments in the marketplace. The risk is that consumers are confused rather than confident.

This is why I fully support the simplification of our protection limits to provide a sensible and memorable system, which further boosts consumer confidence.

Pulling together

The past year has been challenging operationally for FSCS, with the implementation of a major new claims-handling platform. Mark Neale talks about this in his CEO's report.

As usual, I would like to express my thanks to the staff for their support throughout the last year. Despite the changes in the year, it was especially pleasing to see the engagement scores continue to nudge forward in the People Survey.

We look forward to completing the remaining years of our five-year strategic plan set out in 2013. There is a great sense of forward momentum and a deep commitment, as always, to provide consumers with a first-class compensation service and to be accountable to our stakeholders in industry and the authorities.

I would like to record my thanks to Kate Bartlett, who left the Board in August, for her years of service as Operations Director, and to welcome to the Board Mark Adams, as Non-Executive Director, Kathryn Sherratt, as Chief Financial Officer and Jimmy Barber as Chief Operating Officer.

Lawrence Churchill
Chairman

Consumer awareness of FSCS, or a protection scheme reached an all-time high of 75%

" I fully support the simplification of our protection limits to provide a sensible and memorable system, which further boosts consumer confidence

Chief Executive's Report

Mark Neale reports on how FSCS is improving operational capacity to offer delivery of protection for consumers and greater value for levy payers.

FSCS has two major responsibilities to the public: one is to ensure that we provide a good service to the people who need our protection now. The other is to ensure that FSCS has the necessary capability to protect consumers in the event of a major crisis.

Wider financial stability depends on FSCS performing as effectively in a crisis, when we might expect to deal with millions of claims, as in a more typical year, like 2015/16, when we handled nearly 47,000 new claims.

Enhancing this capability depends on investing in our claims-handling systems and in our own people. In doing so, we must retain the confidence of the industry that funds us. This confidence rests heavily on widespread acceptance of the fairness of our funding arrangements.

2015/16 has seen much progress in all these respects, but has also seen challenges and lessons learned.

Strengthening change capacity

The year saw the introduction of a new system for our handling of non-deposit claims – Connect. This continues our investment in the modernisation of claims handling, which began with the introduction in 2011 of seven-day payouts for depositors in failed banks, building societies and credit unions.

Once working to full potential, Connect will markedly improve our day-to-day service and ability to respond to major failures. The next stage of our new digital service will enable customers to claim online through this portal. Our outsource partners, who handle the great majority of claims on our behalf, now share the same claims-handling platform, facilitating the secure and efficient electronic transmission of claims and supporting evidence. I'm pleased to say that claims are flowing through the system from submission to payment.

> "
>
> FSCS achieved full recovery of the compensation paid following the failure of Icesave in 2008, bringing the total recovery retained by FSCS for levy payers from Icelandic banks to £3.65bn

Wider financial stability depends on FSCS performing as effectively in a crisis, when we might expect to deal with millions of claims

However, the new service is not yet fully bedded down. Its costs also exceeded the original budget set in 2010. Because of this, we commissioned an independent review from KPMG during 2015, which has helped us to learn important lessons for the future.

Specifically, it is clear that, though a small organisation of roughly 200 permanent staff, FSCS needs to strengthen its capacity to deliver change successfully and to manage a claims-handling system much more dependent than before on the supporting IT and data infrastructure. FSCS now provides an IT-enabled service both to customers and outsource partners.

To meet this challenge, FSCS's senior structure now includes a Chief Operating Officer (COO) team, which brings together responsibility for our service to consumers, for change and for the supporting IT/data infrastructure. Reporting to the COO is a new Chief Information Officer (CIO) team.

After open competition, Jimmy Barber was appointed COO. He took up the post on 4 January 2016 and has also joined the FSCS Board. Paul Brocklehurst was, appointed CIO and took up the position on 4 April 2016. We welcome both Jimmy and Paul warmly.

We are also reducing our dependence on external contractors and, where appropriate to do so, replacing them with permanent staff.

Protection for deposits

2015 also saw important changes to our deposit protection. In line with the requirements of the EU Deposit Guarantee Schemes Directive (DGSD), FSCS now also safeguards temporary high balances in deposit accounts arising from certain life events, such as the sale of a house. We also brought in-house and improved our capacity to verify the Single Customer View files maintained by banks, building societies and credit unions, which enable us to return the vast majority of people's savings within seven days of a failure. From January 2016, our protection for deposits is £75,000.

Funding

Our improved capability should give the industry confidence that FSCS is fulfilling its role of underpinning trust in financial services. But I also recognise that many firms who pay our levies have continuing concerns about the fairness of our funding arrangements.

I therefore look forward to the Financial Conduct Authority (FCA) review of FSCS funding for FCA funding classes, which is now under way, and the FCA continuing in the year ahead to engage actively with the industry in the debate on the funding model, building on the Financial Advice Market Review.

Drawing a line under major recoveries

Meanwhile, I can report further strong progress in 2015/16 in returning money to the industry through our work on recoveries. FSCS achieved full recovery of the compensation paid following the failure of Icesave in 2008, bringing the total recovery retained by FSCS for levy payers from Icelandic banks to £3.65bn. We are now working with our partners to realise value from the Bradford & Bingley estate, in order to repay the sole remaining borrowing from 2008/09 of £15.7bn.

Integrating value for money

As Accounting Officer I have duties to manage public money. With this in mind we are also pushing ahead with our focus on promoting value for money – reflected in the £1.7m fall in our budget for 2016/17 – and I am delighted that the architect of this strategy, Kathryn Sherratt, was successful in the open competition to become FSCS's Chief Financial Officer and a member of the Board.

Delivering service

Despite major changes to our systems, FSCS largely met service standards in 2015/16. We paid out the vast majority of deposit claims arising from the failure of six credit unions in under seven days and turned round 93 per cent of other claims within our published target. FSCS handled 42,111 other claims. These claims, mostly from the general public, underline the topicality and importance of FSCS's role in supporting financial confidence.

People

Our service levels reflect the continuing commitment and professionalism of our people. We ensure that all our people make a difference and invest in their development. This was reflected in the award of Investors in People status.

With strong contributions from all our people, we have also redefined our values during 2015/16 to emphasise the three key qualities we believe define FSCS: *accountability* – taking responsibility to meeting the needs of our stakeholders; *collaboration* – working together; and *challenge* – pushing ourselves to do better.

I should like to pay tribute to the contribution of Kate Bartlett, who left FSCS in August following the reorganisation which removed the role of Director of Operations. Kate had been Director of Operations for more than five years and oversaw the major investments in our claims handling, which are transforming FSCS's ability to protect consumers.

Mark Neale
Chief Executive

Section 3
Strategy

FSCS's mission is to: provide a trusted compensation service for customers, which raises public confidence in the financial services industry.

To provide a trusted compensation service and raise public confidence, we must:

- provide a professional compensation service day-to-day which meets consumers' reasonable expectations;
- be able to adapt the service to rapid changes in demand, such as another crisis;
- ensure that the service is known to and understood by consumers generally, because an unknown or misunderstood service can't reassure; and
- ensure that FSCS also retains the trust of the industry by providing value for money and maximising recoveries.

In the following sections, we report on how we performed against our mission as the fund of last resort.

In line with these obligations, we continue to take forward the five-year strategy: *Vision for a Confident Future* – adopted in 2014 and now in its third year.

The key imperatives of the strategy are, by 2019, to:

- modernise our service: following our investment in a new claims-handling system, we want to handle deposit claims in seven days, all non-deposit claims within three months, with 60 per cent of the latter handled online;

"

We want 70 per cent of adults to be aware of our protection for deposits

- diversify compensation routes: wherever possible we want to offer continuity of service as well as compensation;
- raise awareness: we want 70 per cent of adults to be aware of our protection for deposits and are keen to support measures to simplify our protection limits, where possible, for other products;
- improve value for money: we want to be able to scale up and down our claims-handling capacity efficiently, working in partnership with outsourcers who handle most claims;
- achieve excellence as a creditor: we want to resolve the 'legacy' deposit issues from 2008/09 – now just from Bradford & Bingley;
- deepen contingency planning: we aim to have in place tested plans for all major contingencies; and
- engage our people: we want to achieve Investors in People and Best Companies accreditation.

We are measuring progress in delivering these imperatives against the following key outcomes:

- proportion of deposit claims resolved within seven days;
- proportion of non-deposit claims resolved within our service levels;
- proportion of claims handled online;
- proportion of UK adults aware of deposit protection;
- our value for money, particularly our productivity in handling a varying volume and mix of claims;
- the amount we recover relative to the costs of those recoveries – we aim to maximise this surplus;
- the cycle of resilience and planning tests completed, and the satisfaction of our stakeholders within the industry and among the regulators, as measured by our annual survey; and
- the engagement of our own people, as measured by the annual People Survey.

We report on our performance in 2015/16 in the next section.

Principal risks to our strategy

There are a number of principal risks to our strategy, including those that would threaten the organisation's business model, future performance, solvency or liquidity. These are that:

- the claims-handling service cannot respond efficiently and effectively to big increases in demand, such as another crisis in the financial services industry, and so we fail to meet service standards and maintain public confidence;
- we pay the wrong amounts of compensation to the wrong people;

- the claims-handling service doesn't deliver value for money because costs do not flex efficiently in response to changes in demand, or we carry too much fixed cost;
- FSCS is ineffective in maximising recoveries;
- FSCS protection is insufficiently well-known or is misunderstood, so that consumers lack confidence, do not buy financial products which would meet their needs and needlessly withdraw money or liquidate investments in a financial crisis; and
- FSCS's money and/or data are subject to fraudulent attack.

We discuss how we manage these and other risks in Section 8.

Section 4

Performance

We report on compensation payments, claims and modernising our service.

Overview

We made a big stride forward in modernising our service in 2015/16 with the introduction in May 2015 of our new process for handling non-deposit claims – Connect. Despite this major change, we turned around 93 per cent of non-deposit claims within our target service levels. However, we also experienced challenges bedding in the new process, particularly in gathering the full range of evidence needed to assess claims at the beginning of the process. This caused some delays in claims handling, which resulted in higher levels of enquiries and some temporary deterioration in the responsiveness of our call handling.

Compensation payments

There was a decline in the number of failed firms in 2015/16, which is reflected in the decrease in the number of claims handled and in the total amount of compensation paid out by FSCS to eligible claimants compared with 2014/15.

Between 1 April 2015 and 14 March 2016, FSCS declared 125 firms in default compared with 193 in 2014/15.

We received 46,896 new claims from customers during 2015/16, which was 12.6 per cent fewer compared with the 53,662 received in 2014/15. We reached decisions on a total of 51,112 claims in 2015/16, compared with 61,327 claims the previous year. The average payment was £7,773.16 (excluding General Insurance Provision payments).

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

We made total compensation payments of £271m in 2015/16, compared with £327m in 2014/15.

Key points

- Total compensation payments of £271m were made in 2015/16 compared with £327m in 2014/15.
- We received 46,896 new claims from customers during 2015/16.
- We turned round 93% of non-deposit claims within our target service levels.
- Average compensation payment for a SIPP-related claim increased from £29,505 to £38,609.
- The amount of time spent handling a telephone enquiry was 4 minutes 48 seconds in 2015/16, compared with 3 minutes 22 seconds in the previous year, reflecting the more complex nature of enquiries.

Compensation payments by class

Funding class	2015/16 £m	2014/15 £m
Deposits (excluding the major banking failures and Dunfermline Building Society (DBS))	10.1	4.1
General Insurance Provision	87.6	85.0
General Insurance Intermediation (excluding Welcome)	6.7	18.7
Life and Pensions Provision	0.0	0.0
Life and Pensions Intermediation	83.8	35.2
Investment Provision	1.6	0.2
Investment Intermediation	77.1	183.1
Home Finance Intermediation	3.1	1.7
Sub-total (excluding major banking failures)	**270.0**	**328.0**
Major banking failures of 2008/09	0.0	0.0
DBS	(1.5)	(4.0)
Sub-total	**268.5**	**324.0**
Welcome	2.4	2.6
Total	**270.9**	**326.6**

Claims, decisions and average payments by class

	New claims received		Total decisions		Uphold rate		Average paid	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Deposits (SA01)	4,785	7,460	4,530	7,466	100%	99.87%	£2,304.81	£544.61
General Insurance Int. (SB02) (All)	7,456	5,644	5,702	6,239	75%	80.30%	£2,548.49	£3,738.37
Welcome	N/A	4,631	N/A	4,525	N/A	87%	N/A	£1,395
Life and Pensions Provision (SC01)	1	1	1	1	0%	100%	£0.00	£15,725.21
Life and Pensions Intermediation (SC02)	3,948	4,442	4,294	4,629	60%	42.99%	£34,254.16	£16,375.22
Investment Fund Management (SD01)	159	4	63	5	63%	80%	£33,575.47	£22,097.33
Investment Intermediation (SD02)	16,256	9,049	16,912	10,093	90%	83.14%	£6,832.58	£19,450.20
Home Finance Intermediation (SE02)	380	531	446	477	14%	7.13%	£51,899.09	£53,166.39
Total	**32,985**	**31,762**	**31,948**	**33,435**	**N/A**	**N/A**	**£7,773.16**	**£8,855.34**
Home Finance (SE01)	None							

	New claims received		Payments made		Claims closed		Average paid	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
General Insurance Provision (SB01)[1]	13,911	21,900	19,164	27,892	12,395	17,951	£4,578	£3,026

1 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.

Modernising our service

While the volume of claims fell in 2015/16, the complexity and cost of claims rose

The majority of claims we received and decided in 2015/16 were handled through our new process for non-deposit claims. In our five-year strategy: *Vision for a Confident Future*, we stated that we planned to overhaul our claims-handling processes and system to provide a single, consistent well-controlled platform to be used by both FSCS and our outsource partners, which handle the majority of our claims. We said we would also enable our customers to claim online.

The Connect claims-handling platform was deployed in May 2015, when we also successfully migrated from our old system. From this point on, all of the claims dealt with by our outsource partners have been processed on the new platform. Roughly 95 per cent of claims are handled this way.

We now have a single platform which is shared by all claims handlers and a front-end scanning service that allows us, if necessary, to ramp up to deal with large numbers of claims.

We ran a pilot of the online portal between September 2015 and February 2016 to gather feedback from claimants. The pilot yielded useful lessons which will enable us to launch the portal for general use.

However, we have also experienced some challenges with embedding this new end-to-end system, which means that it is not yet working to its full potential. Specifically, we now aim to collect the evidence needed to assess claims at the beginning of the process rather than reverting to customers while the claim is under assessment. Many customers struggled to provide the necessary supporting evidence because of lack of clarity in our application forms and supporting guidance. This resulted in some initial delays in handling claims and backlogs in claim flows. In April 2016, we launched much clearer and shorter application forms and better guidance, which we expect to improve customers' experience. We are also tackling other process inefficiencies that emerged in the first few months of the operation of the new system.

Mix of claims

While the volume of claims fell in 2015/16, the complexity and cost of claims rose. This is apparent in the experience of claims for bad advice on investments held in Self-Invested Personal Pensions (SIPPs) and also claims under general insurance employers' liability policies.

General Insurance Provision claims

New claims in the General Insurance Provision sector fell to 13,911, compared with 21,900 received in 2014/15. While FSCS does not directly handle the processing of claims under the policy terms for insurance provision, we are closely involved in protecting policyholders, determining eligibility for compensation and payment.

We do this in a number of ways:

- we make decisions on whether claims are eligible for protection; and
- we work with the nominated Run-Off Agents (ROAs) who handle aspects of the claim on behalf of the insurance estate, including:
  - auditing the suitability of the ROA's process for assessing claims;
  - signing off high-value claims ourselves; and
  - agreeing the strategic approach to take on claims-handling issues with ROAs.

The major exception to this approach is for claims made by protected policyholders of Independent Insurance Company Limited. From January 2016, FSCS took over direct processing of these claims under insurance policies from the insolvency practitioners.

The majority of the insurance compensation spend for the year fell against employers' liability policies issued by:

- Builders Accident Insurance Limited (BAI), £12.9m;
- Chester Street Insurance Holdings Limited (Chester Street), £49.5m; and
- Independent Insurance Company Limited (IICL), £6.2m.

The total compensation paid across all General Insurance Provision firms was £87.6m.

Noise-induced hearing loss (NIHL) claims
New claim notifications for this type of employers' liability claim fell slightly from last year to 9,584, but it remains the most prevalent type of claim in the insurance class. This is consistent with the experience in the UK insurance market and we paid out £16m in respect of NIHL claims in 2015/16. The defence of these claims incurs considerable time and expense, even though very often compensation is not payable.

Mesothelioma claims
Mesothelioma is a fatal asbestos-related condition and claims for this devastating disease are often brought by employees many years after exposure to asbestos has taken place in the workplace. Although there has been a slight decline in the number of mesothelioma claims, the £39m compensation paid in respect of mesothelioma still represents the most significant area of insurance compensation for FSCS.

BVAG Berliner Versicherungs AG
Berliner is a German firm that passported-in to the UK to provide liability and property insurance policies. Berliner was declared in default by the FSCS in July 2015. It was the first and only failure to date under the Prudential Regulation Authority's new Policyholder Protection rules that came into force in July 2015.

The firm was very small, was in run-off in the UK and had no live policies. There are likely to be fewer than 150 protected claims and to date we have paid out £340,197 in compensation. Estimated liabilities are expected to be less than £2m.

Investment Intermediation

FSCS responded to the failure of three investment firms which had been placed into the Special Administration Regime during the course of the year, paying £28.8m in relation to claims against Alpari (UK) Limited, £1.2m in relation to claims against LQD Markets (UK) Limited and £3.1m in relation to claims against Hume Capital Securities PLC. These defaults highlight the need for FSCS to respond to sudden and unexpected firm failures quickly, returning client funds to customers through a streamlined payments process.

In addition to dealing with continuing high volumes of investment claims in relation to advice to invest in non-standard asset classes, including unregulated collective investment schemes, FSCS began to see increasing numbers of claims concerning advice to participate in tax avoidance schemes linked to film partnerships or environmental plans. Although a relatively modest category of claim – with around 250 claims seen to date – the claims do present complex legal issues relating to the liability of financial advisers and quantification of losses. Decisions issued in the year found claims ineligible for compensation, but further claims remain outstanding.

Life and Pensions Intermediation

FSCS continued to see high volumes of SIPP-related claims, involving advice given by financial advisers to invest in SIPPs and to hold within these SIPPs, investments in high-risk, non-standard asset classes, which have often become illiquid. This trend began in 2014/15, but continued during 2015/16, with claims against an increasing population of failed adviser firms. Over the year, FSCS paid compensation of just under £77m.

FSCS's experience of SIPP-related claims against advisers is consistent with alerts previously published by the Financial Conduct Authority (FCA) in connection with the conduct of some firms involved in advising on pensions.

Alpari: an innovative approach

The case of the sudden failure of Alpari, the foreign exchange services firm, in January 2015 presented unique challenges. Our relations with industry practitioners stood us in good stead and we worked together to protect consumers by adapting an existing website into a claims and compensation portal. It was a good example of modernising and diversifying our compensation channels.

Alpari was a UK-based, FCA-authorised foreign exchange broker which was placed into special administration on 19 January 2015, with KPMG LLP (the insolvency practitioner company) appointed as Joint Special Administrators. Alpari was declared in default for the purposes of FSCS on the same day. The firm failed following the Swiss National Bank's decision on 15 January to remove the informal peg between the Swiss franc and the euro, which prompted volatility across foreign exchange markets and caused many companies and clients to suffer losses.

Around 57,000 clients were owed approximately £76m by the firm following its insolvency. Many of these clients were based overseas and were owed very small sums.

This presented an unusual administrative burden that would have strained our usual paper and cheque-based compensation system.

Alpari's website and digital records were in good order. FSCS worked with KPMG to adapt the website into a claims portal that we could use to collect information and make payments. By working in this way, we were able to ensure that payments were turned around almost immediately.

To date, FSCS has paid compensation of around £28.8m to around 9,000 clients of the firm (and recovered £14.5m net, with further recoveries to follow).

Claims through Claims Management Companies (CMCs)[1]

Claims made through CMCs account for 35 per cent of all claims, excluding those from the insurance provision class. This figure is lower than the 55 per cent of claims last year because of the large number of Alpari claims (which did not come through CMCs). If Alpari claims are excluded, the claims made through CMC support accounts for 53 per cent of claims, compared with just over 55 per cent in 2014/15. Noticeable areas of activity through CMCs continued to be PPI and Investment Intermediation.

FSCS's responsiveness: handling customer enquiries and complaints

During 2015/16, we received more than 153,982 telephone calls; an increase of 56 per cent compared with 2014/15 (98,565). This reflected the growing complexity of our workload, but also a rise in calls seeking information about the progress of claims following the introduction of our new claims-handling process.

The complexity of calls is also reflected by the increase in year-on-year call durations. The amount of time spent handling a telephone call was 4 minutes 48 seconds in 2015/16, compared with 3 minutes 22 seconds in 2014/15.

Complaints rate

The total number of complaints increased to 1,235; a 28 per cent increase on the 968 complaints received in 2014/15.

There has been a shift in the type of complaint, from those about decisions to complaints about handling. There was a 47 per cent increase in complaints about handling and a 23 per cent increase in complaints about decisions.

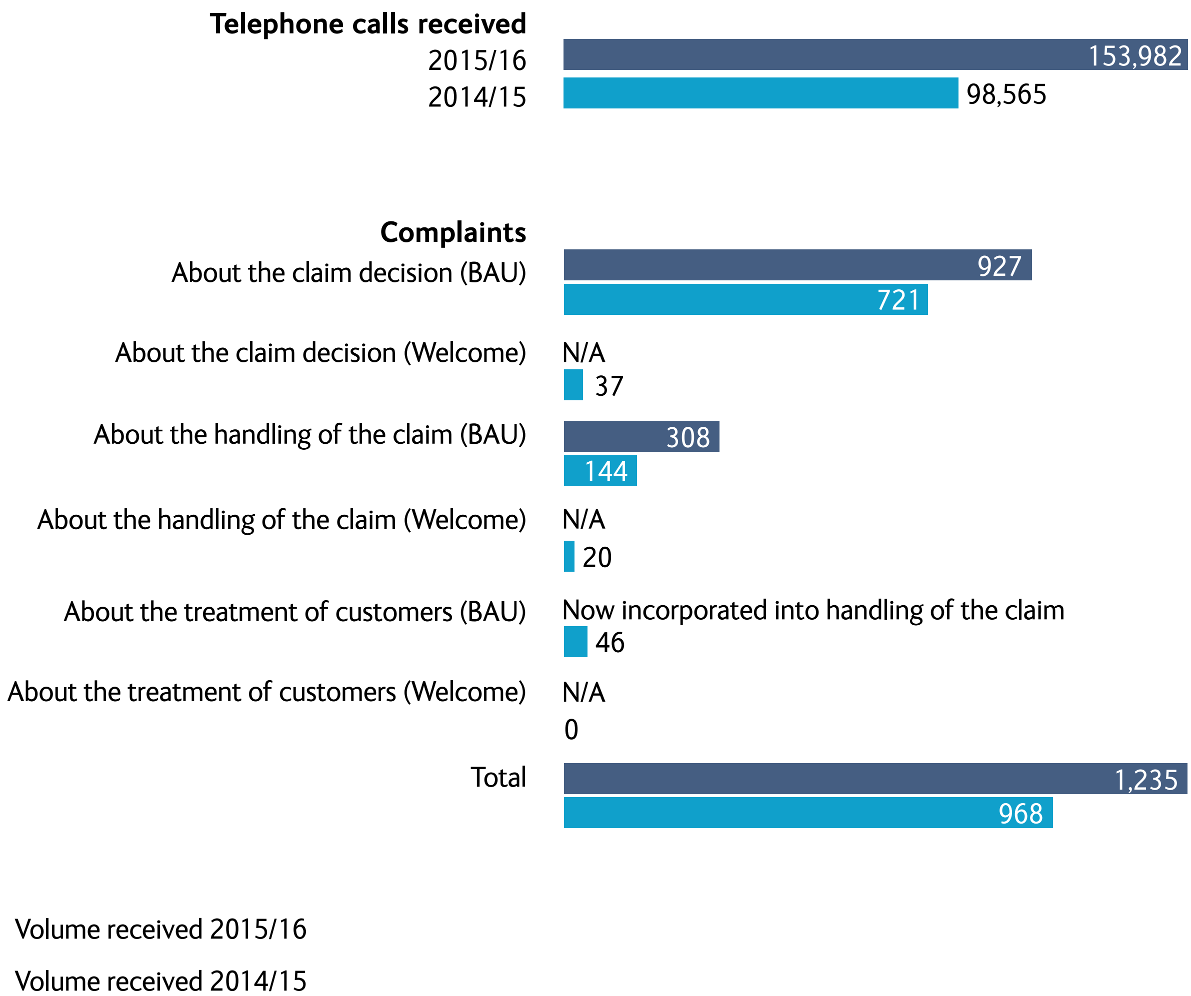
Handling complaints mostly related to delays following the introduction of the Connect system. However, once bedded down, we expect this new system to deliver improvements to our turnaround times and customer experience during 2016/17.

Complaints are dealt with by complaints officers within the Customer Escalation Team, which is separate from the teams responsible for assessing claims. A complaints officer carries out a review of the decision that has been 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. One complaint was referred to the Independent Investigator during 2015/16. The Independent Investigator always makes a separate report.

Our target is to respond to 90 per cent of complaints within 20 working days, which we have achieved once a complaint is received into the Escalation team, but the complaint may have been received by FSCS sometime earlier.

1 CMCs can include solicitors and other independent financial advisers.

Customer enquiries and complaints

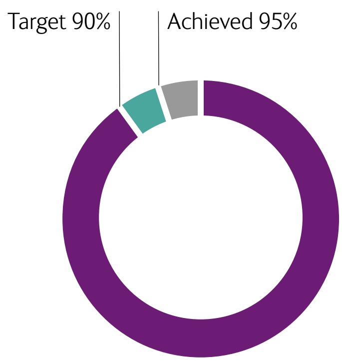


1 FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of Payment Protection Insurance and other insurance policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims. Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome.

How we performed against our service standards

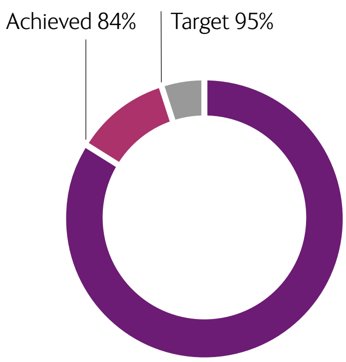
Target:
To answer 90 per cent of complaints within 20 working days.

Performance:
We answered 95 per cent of complaints within 20 working days.



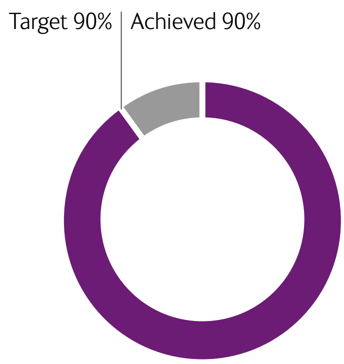
Target:
To answer 95 per cent of calls within 90 seconds.

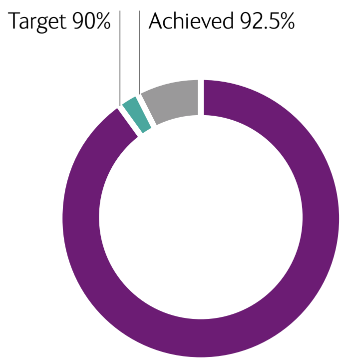
Performance:
We answered 84 per cent of calls within 90 seconds.



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 90 per cent of claims within the target.

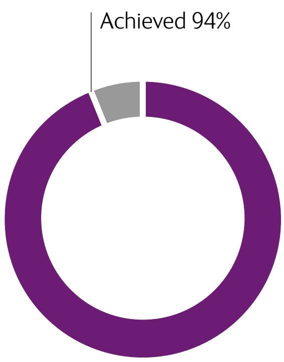




Target:
To confirm a compensation decision to 90 per cent of all other claims within six months of receiving a completed application form. Of the remaining 10 per cent, no claims should be older than 12 months, unless exceptional circumstances apply.[1]

Performance:
We confirmed decisions for 92.5 per cent of claims.

1 We measure this from the latest of one of three start points: 1) the date a claim is received, 2) the date a default is declared, or 3) the date a claim is reopened. We might also apply a 'target resolution date' once a claim moves from thematic status to BAU.



Target:
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.)

Performance:
In 2015/16, 94 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.)

Report from the Independent Investigator 2015/16

This is my eighth and final report, relating to the period 1 April 2015 to 30 September 2015.

I demitted office from that latter date, and, following an open and competitive selection process, David Bland was appointed as my successor in office with effect from 1 October 2015.

My role was to review how FSCS administers claims, which involved examining how a claim had been dealt with by FSCS, with regard to administration and procedure.

I did not investigate disagreements or disputes about the merits of a decision made on a claim. It is made clear to complainants that the Independent Investigator will not adjudicate on decisions made on claims.

After investigating a complaint, I provided a written report to the FSCS Board, giving my findings on a case. Where I considered it appropriate, I brought to the Board's attention broader issues that the Board might wish to consider.

A copy of my report was provided to the complainant in all cases I adjudicated upon.

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

In the reporting period referred to, I investigated and reported on one case. I found the complaint partially justified, noting the apology and redress provided to the complainant by FSCS prior to the complainant bringing the complaints made to me. I found the complainant's assertions of purported dishonesty and untruthfulness manifestly ill-founded.

I note there were no further complaints referred for investigation in the remainder of the reporting year.

I note that FSCS dealt with 46,896 claims in this reporting year.

I was fully satisfied that FSCS signposted complainants to me if a complainant was dissatisfied with how their claim was administered.

John Hanlon
Independent Investigator to 30 September 2015

I am pleased to be following my distinguished predecessor in a role which I expect to find interesting and useful. As the developer of the Financial Planning Certificate and a founder member of what is now the Personal Finance Society, I have been involved with the sector for more than a quarter of a century, noting with pride its maturation while retaining a querulous attitude to constant changes in regulation. I have not yet been presented with any work in the new role, and will report on my full first year as Independent Investigator in next year's Annual Report.

David Bland
Independent Investigator from 1 October 2015

Public awareness

We report on how we build confidence, trust and awareness among consumers.

Consumer awareness is important to our vision because building confidence and trust is essential to healthy financial services and to financial stability. Research shows the more aware people are of us, the more confident they are and the more likely they are to buy products. Our work to increase consumer awareness spans all our communications. The focus for marketing in 2015/16 continued to be on deposits. Our target is 70 per cent total awareness by 2019. Only deposit takers pay the £3.3m cost of the programme; the same budget as the year before. Awareness of FSCS has risen over the past year, in part because of the change in the deposit limit. This, alongside our PR and industry work, raised total awareness to 75 per cent in February 2016 (Ipsos MORI); our highest level ever, which is around a 10-point increase on the start of the year. However, we expect this to reduce as the impact of the deposit limit change recedes.

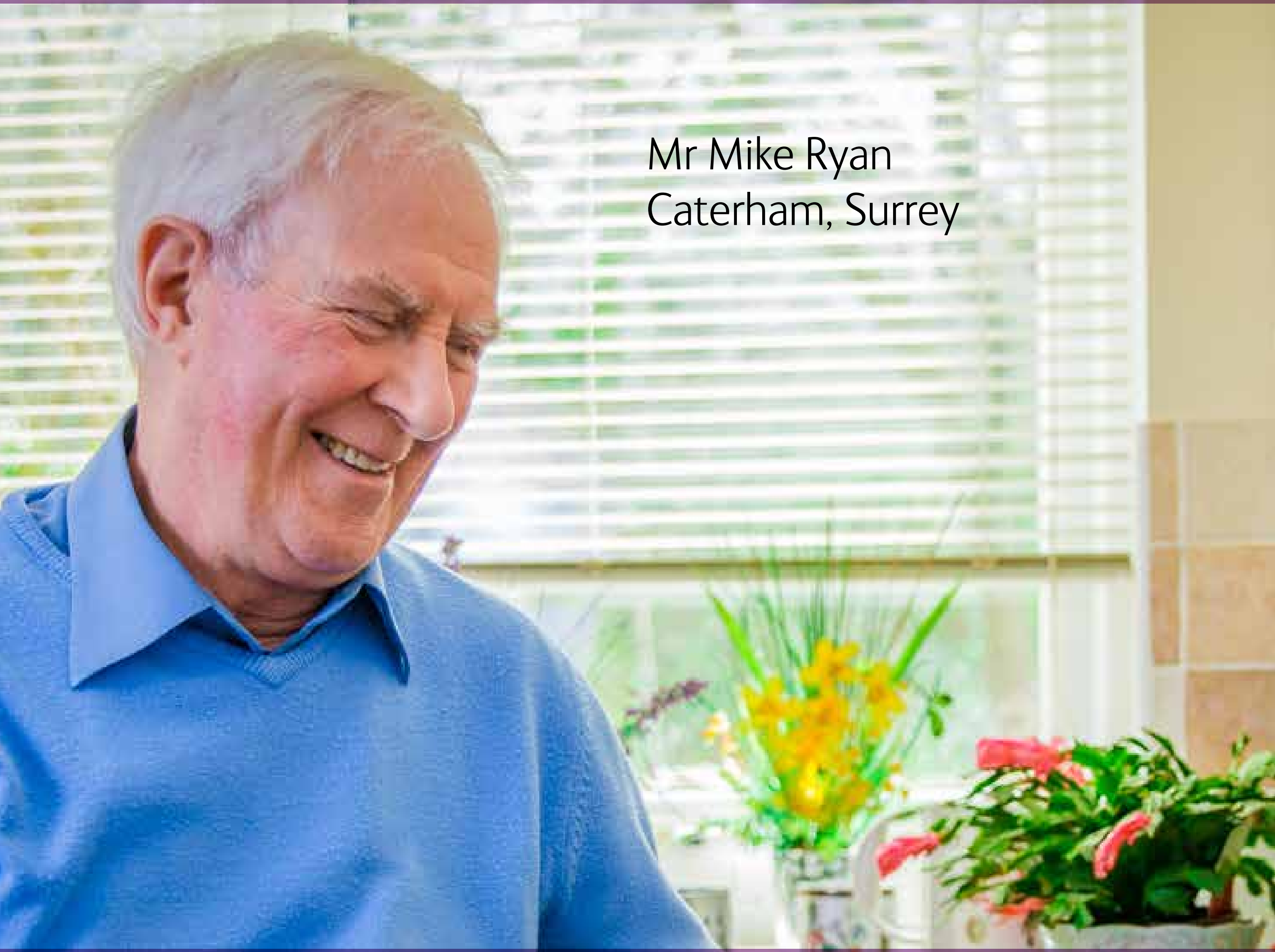
Working with banks, building societies and credit unions is a key plank in our strategy. They, and the wider industry, do much to make people aware of FSCS. During 2015/16, we worked closely with firms to promote our 'FSCS protected' badge in their communications on the new limit and on training their staff.

FSCS tracks and evaluates all its communications. We work with independent agencies to do this and report to the Board on our progress on several key performance indicators. Our Consumer Awareness Advisory Panel, which includes all the main trade and consumer organisations, also plays a part in our strategy and receives reports on the results.

Summary of activities and results during the year

Our work and results in 2015/16 included:

- achieving 75 per cent awareness of FSCS or a protection scheme;
- featuring in nearly 5,000 stories in the media and more than 11,000 social media/ online posts, reaching people of all socio-demographic groups – the overwhelming majority of mentions are positive or neutral, with less than 15 per cent negative in tone across the year in mainstream media;
- continuing our advertising programme on radio, print and digital channels with a message of 'whatever you're saving for, your money is FSCS protected';
- producing a major report on trust in financial services working with the Warwick University Business School;
- reaching 92 per cent of our target audience, 25 million people, through our marketing;
- running a content programme working with influential people online to target the FSCS to our audiences using their personal interests as a hook;
- conducting an annual stakeholder audit which shows high satisfaction scores for the FSCS;
- working closely with the regulators and HM Treasury on the new limit and producing bespoke advertising and information to promote the change;
- producing all-new in-branch materials for deposit takers using the 'FSCS protected' badge;
- doubling the number of MPs aware of FSCS deposit protection limit; and
- winning a silver medal in the prestigious Digital Impact Awards.



Mr Mike Ryan
Caterham, Surrey

Retiree Mike Ryan, 72, first had dealings with The Rainbow Credit Union Limited in 2009, when he transferred his wife's account into his name after she passed away. He decided to continue banking with it, seeing it as a viable alternative to payday lending organisations for borrowers.

He received notification about The Rainbow Credit Union Limited going into default on 16 September 2015 and was assured about the protection in place from FSCS and the compensation that would be provided within seven days.

Mike already knew about FSCS and he explained: "I had been aware of the Scheme for a number of years, as the ISAs I have money in are protected by FSCS, so I knew I was eligible for compensation."

What impressed Mike was the speed and efficiency of the service and he said: "They were swift and efficient in compensating me and helping me to transfer over to London Capital Credit Union."

He felt relieved when told he would be compensated: "I was very happy. The amount I had deposited was not a large sum, but any loss would have impacted me and affected my level of trust in financial products had I not been protected."

After being compensated, Mike told other people about the Scheme, in particular his son. "I made my son aware of FSCS and how it compensated me when The Rainbow Credit Union Limited went into default. He is not particularly financially savvy and had not previously heard of FSCS. I have since guided him towards investments protected by the Scheme," he recalled.

He thought it was important for people to know that the FSCS exists and concluded: "I think it is crucial people know when they are protected, so they can put their trust in organisations when investing or opening an account. Awareness of the FSCS badge and the protection available can be a great help when making financial decisions."

Summary of awareness activities and results during the year

Online

Running a content programme working with influential people online to target the FSCS to our audiences using their interests

Trust

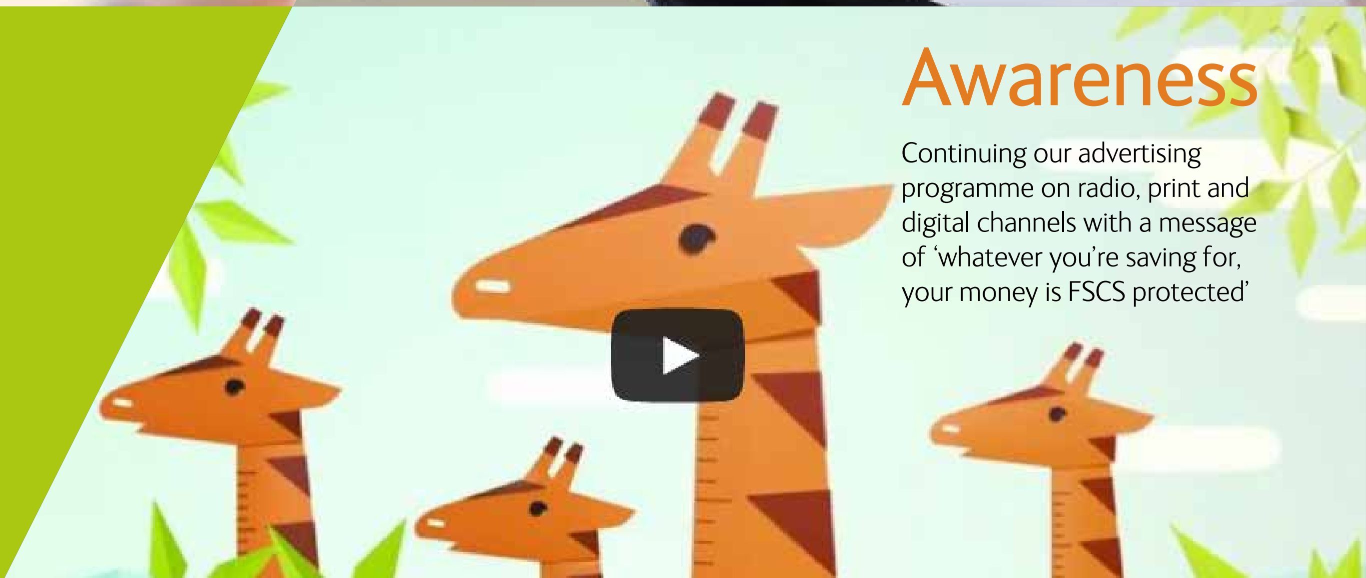
Producing a major report on trust in financial services working with the Warwick University Business School

75%

Achieving 75% awareness of FSCS or a protection scheme

11,000

Featuring in nearly 5,000 stories in the media and more than 11,000 social media/online posts, reaching people of all socio-demographic groups



Awareness

Continuing our advertising programme on radio, print and digital channels with a message of 'whatever you're saving for, your money is FSCS protected'

25m

Reaching 92% of our target audience, 25m people, through our marketing

Silver

Winning a silver medal in the prestigious Digital Impact Awards

Audit

Conducting an annual stakeholder audit which shows high satisfaction scores for FSCS

Change

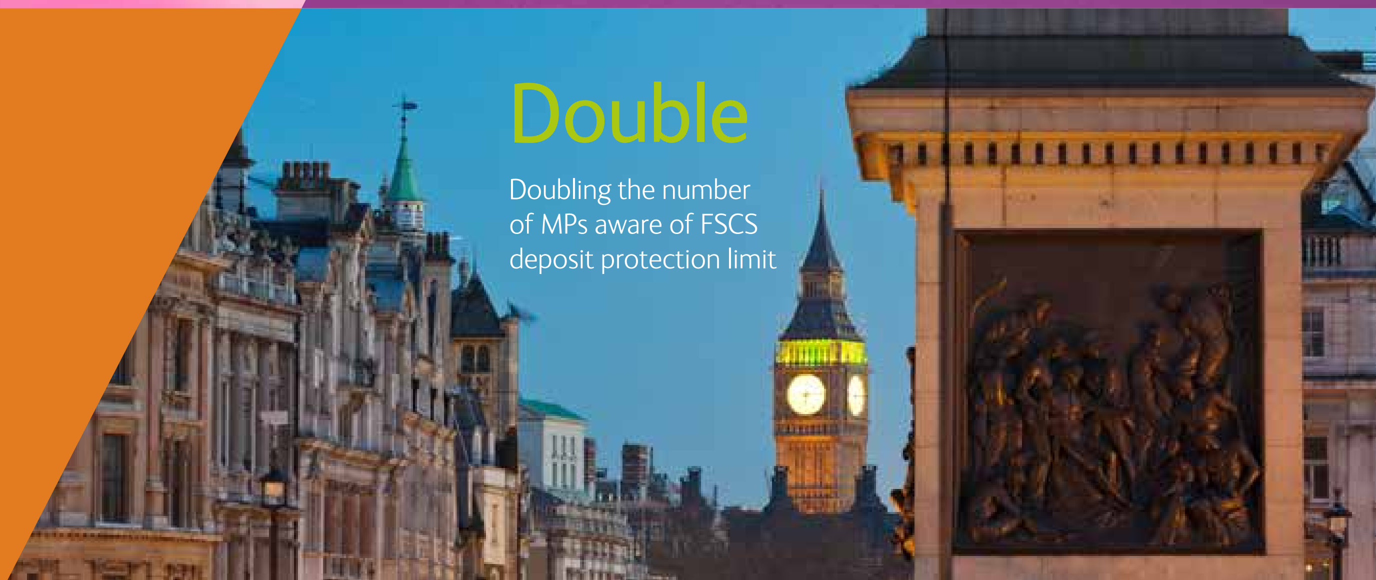
Working closely with the regulators and HM Treasury on the new limit and producing bespoke advertising and information to promote the change

New

Producing all-new in-branch materials for deposit takers using the 'FSCS protected' badge

fscs

Protected



Double

Doubling the number of MPs aware of FSCS deposit protection limit

Section 5

Levy Payers and Stakeholders

We report on value for money, levies, management expenses and recoveries.

FSCS is funded through a pay-as-you-go system that allocates large and unpredictable costs on the industry. We therefore constantly strive to improve value for money, maximise recoveries and bring down running costs. We made progress on all three fronts in 2015/16 and are viewed positively by our stakeholders.

Levy payers will note the major recoveries achieved to their benefit: a more than 100 per cent recovery from LBI (Icesave); £130m in total (including past years) in respect of Keydata, and an announcement in the Budget of plans for UKAR to explore possible sales of Bradford & Bingley (B&B) assets, to accelerate the repayment of FSCS's debt owed by B&B. Apart from the relatively modest, final payment to the cost of resolving Dunfermline Building Society (DBS), the B&B loan is the only material item outstanding from the 2008/09 crisis.

We also successfully renewed our credit facility with a syndicate of major banks – to provide access to immediate liquidity of up to £1.1bn. Although not drawn on, this is an important feature of FSCS's readiness to respond to unexpected failures.

What FSCS levied in 2015/16

In 2015/16, 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.

During 2015/16, FSCS received £1,088m in levies. Of this total, £750m were levies on banks, building societies and credit unions in relation to the costs of the legacy banking failures. 2015/16 was the final of three years of capital levies; as at 31 March 2016, all loans, except for the loan in respect of B&B, had been fully repaid. Also, FSCS has now paid £500m on account towards the final costs of DBS and so does not expect to need to raise any further levies for this default.

Key figures

- Compensation paid was £271m
- Management expenses were £66m
- Recoveries[1] were £331m
- Total levies were £1,088m

1 Levies and recoveries figures referred to in Sections 1 to 7 of this report are based on when we have received any cash in the financial year and will be different to the equivalent figures in FSCS's financial statements, which are based on accounting principles. The presentation in Sections 1 to 7 removes the uncertainty that may arise from the use of estimates and assumptions when matching income and costs and is aligned to how we calculate the annual, and any interim levies. It is also the same basis which we use in our industry newsletter *Outlook*. This format makes it easier for users to understand how much each class owes to, or is owed by, FSCS.

> It is extremely important that consumers understand fully the choices involved in accessing their pensions savings

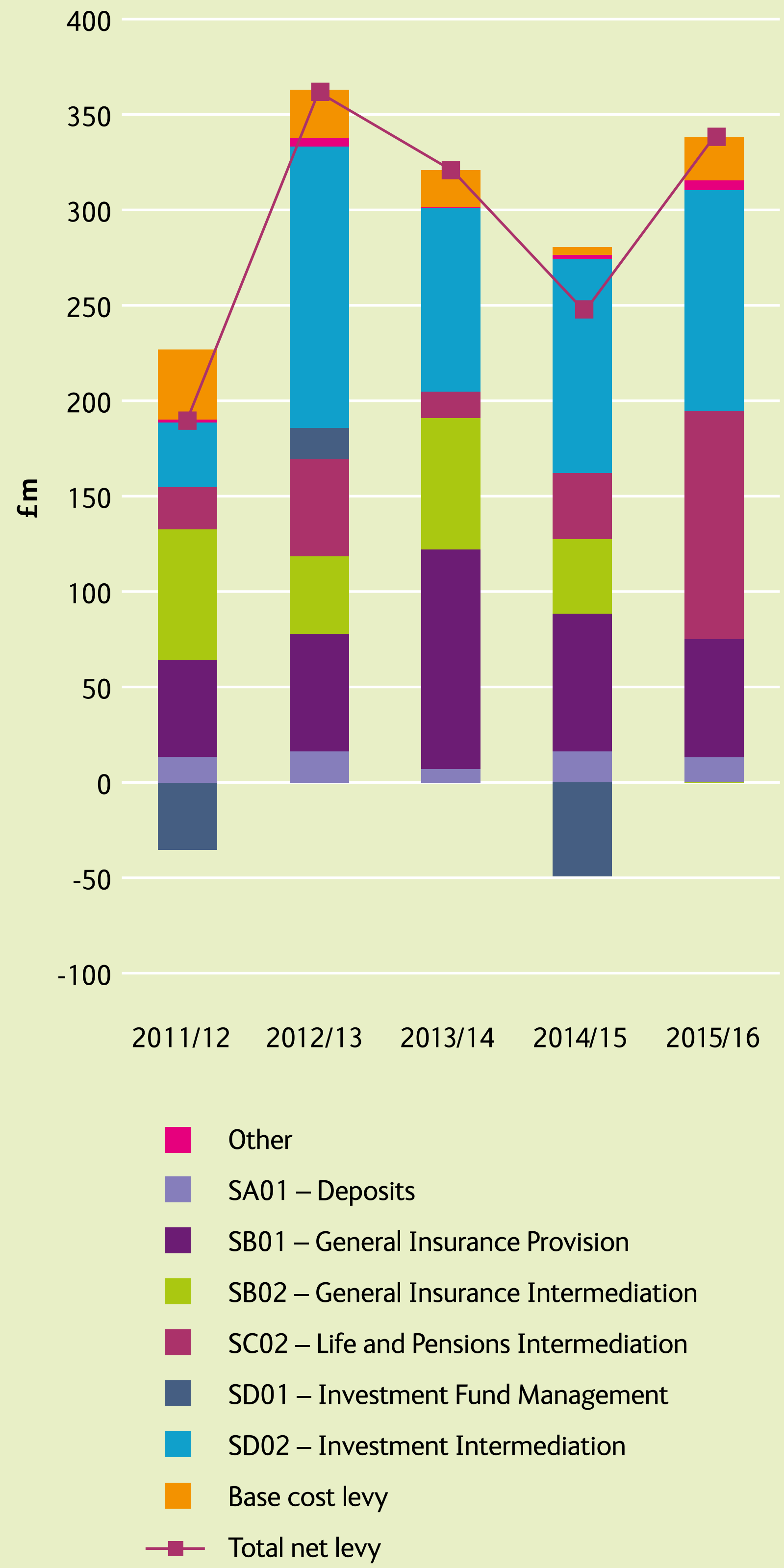
The graph on the next page shows the last five years' levies, excluding those for the major banking failures. It shows that the total levies in 2015/16 came to £338m, an increase of £107m. The increase is mainly because of a rise in the levies on the Life and Pensions Intermediaries of £85m, as a result of the increase in SIPP claims. FSCS also repaid £50m of Keydata recoveries to investment providers who paid our 2010/11 levy.

Reducing the volatility of annual levies

The 36-month funding model was introduced in 2013 to help reduce the volatility of annual levies and the likelihood of interim levies while also giving the industry greater certainty. From 1 April 2014, except in the case of the Deposits class, FSCS levies have been 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 greater.

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 as we did in March 2015 on the Life and Pensions Intermediaries.

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



Value for money

Value for money (VFM) is one of FSCS's seven imperatives and a theme that runs through all its activities. During the year, we have continued to focus on VFM across the themes of Efficiency, Effectiveness and Economy.

Efficiency

FSCS outsources the vast majority of its claims, which enables us to transfer the risk of volatile claim volumes to organisations better able to manage it efficiently. We have introduced our new claims-handling process, Connect, this year, which, once bedded down, will allow us to work more efficiently with our outsource partners.

Effectiveness

The effective management of our processes is an essential component of our VFM strategy. Our approach is to ensure processes are owned and documented with clear customer objectives and requirements. This year, our core claims processes have been re-engineered to improve efficiency, enhance control and report key metrics through the improved management of information.

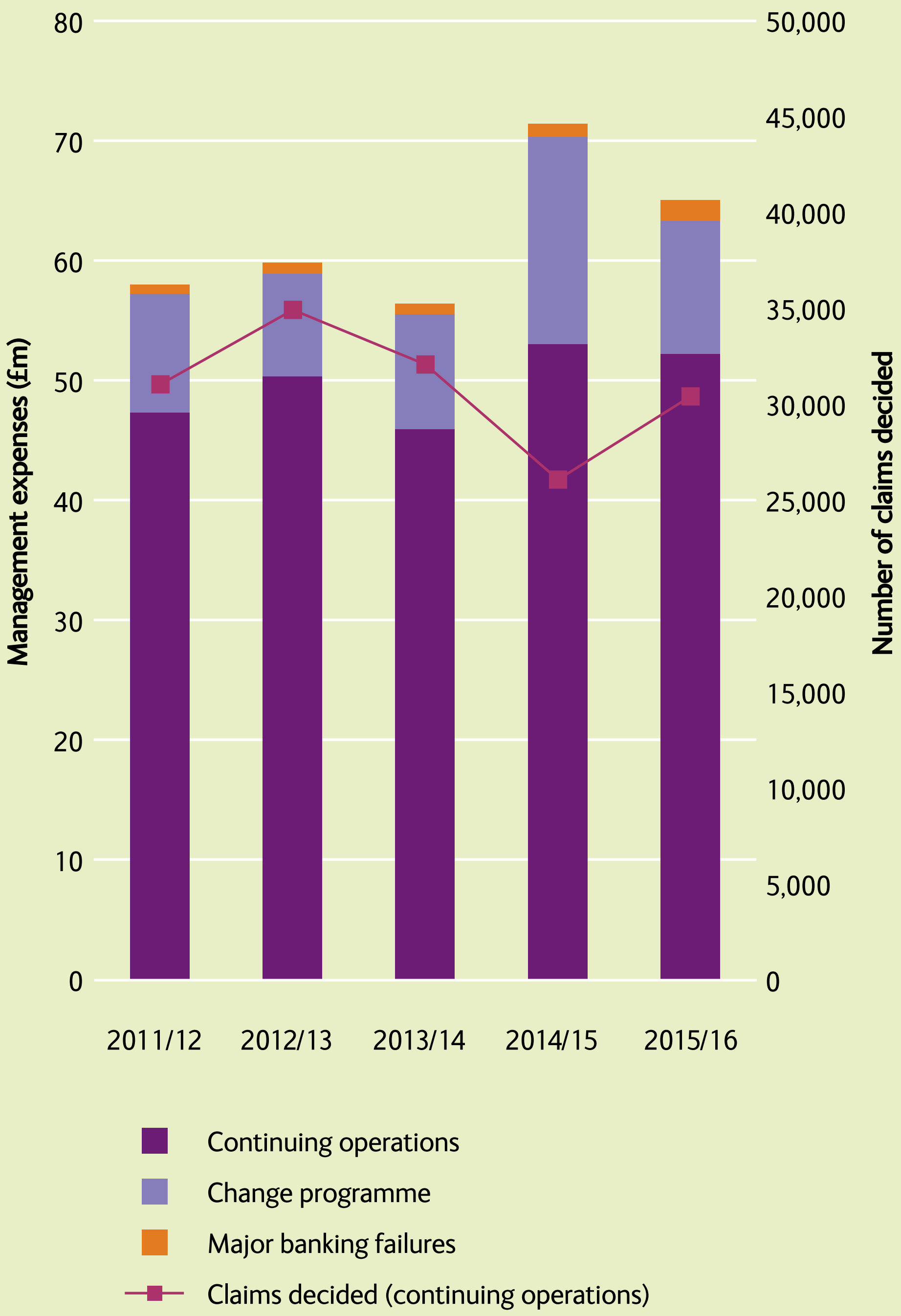
Economy

We have also re-examined the balance of capacity and capability between permanent and contractor staff. Our intention is to continue to increase in-house expertise in areas where our business model requires us to have available continuing skills. In particular, we are boosting in-house IT and data skills because our compensation service is now more dependent than in the past on our IT infrastructure.

Annual buying plans for each key area of FSCS's expenditure (more than £1m) are in place, which contribute to our three-year strategic planning procurement pipeline. Our increased focus on planning and market engagement with suppliers helps to maximise value from contracts. The introduction of a new electronic tender process in spring 2016 will improve the efficiency and auditability of our procurement process.

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

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



As noted in our publication *Outlook* in April 2014, FSCS reclassified £3.5m of communications costs relating to our consumer awareness programme from being a 'change' activity in 2013/14 to a 'business-as-usual' activity for 2014/15, to reflect better the awareness programme's ongoing nature. The reclassification means that the table above is not exactly like-for-like between years prior to 2013/14 and 2014/15 and subsequent years.

Management expenses

What our stakeholders think

FSCS works hard to be accessible and open with its stakeholders. We meet colleagues from the UK authorities on a frequent basis and on a wide range of issues. We meet trade bodies representing levy payers on a regular basis throughout the year – and provide industry updates in our *Outlook* bulletin. We consult on our plan and budget each year and host an open meeting for stakeholders to coincide with its publication.

Each year, we carry out a survey of our stakeholders. This year's feedback was favourable, with no unfavourable responses. Nonetheless, there are areas for further work, in particular greater transparency on costs and certain decision making such as recoveries, and greater responsiveness on technical issues and through our website.

FSCS aims to reduce the costs we impose on the industry.

Our management expenses are subject to the Management Expenses Levy Limit (MELL), which is set annually by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) after consultation. The MELL for 2015/16 was set at £74.4m and included £5.3m of non-levied reserve funding for major failures. The actual total MELL expenses for 2015/16 were £66.4m and a comparison against budget is presented in the table below.

There has been a continued fall in our management expenses, which comprise:

- business as usual (BAU) 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 that share responsibility for claimants' losses – FSCS only spends on recoveries where it is cost-effective and reasonable to do so; and
- management expenses associated with the loans from HM Treasury to cover the costs of the major banking failures of 2008/09.

Administrative expenses as shown within the statement of comprehensive income are £66m. The difference between £66m and the total MELL expenses of £66.4m relates to two adjustments, which are presented in the table below. The first relates to a reclassification of the defined benefit pension scheme credit to the Balance Sheet. The second removes costs associated with the Welcome estate, as these are not borne by the levy payer and therefore are not included in the MELL.

The money not spent in 2015/16 is accounted for to levy payers in the relevant industry sector through a reduced levy for that sector in 2016/17. The FSCS Board has approved a plan with a budget of £67.4m for 2016/17, which is £1.7m lower than the 2015/16 budget of £69.1m (including £1.8m and £1.6m respectively for defined benefit pension deficit contributions, not included in the statutory accounts).

Management expenses: comparison of actual with budget

	2015/16 Actual	2015/16 Budget	Variance
	£m	£m	£m
Employment costs	16.2	17.0	(0.8)
Other staff costs	4.2	2.6	1.6
Total staff costs	**20.4**	**19.6**	**0.8**[1]
Outsourcing	13.9	12.1	1.8[2]
Other expenses	19.2	22.0	(2.8)[3]
Change programme	11.1	12.4	(1.3)[4]
Sub-total running costs	**64.6**	**66.1**	**(1.5)**
Management expenses related to 2008/09 major banking failures	1.8	3.0	(1.2)[5]
Total management expenses (excluding non-levied reserve)	**66.4**	**69.1**	**(2.7)**
Contingency reserve for major failures	0.0	5.3	(5.3)
Total MELL	**66.4**	**74.4**	**(8.0)**
Less: Defined Benefit Pension Deficit contribution	(1.2)	(1.6)	0.4[6]
Add: Expenses relating to Welcome	0.8	1.0	(0.2)
Management (admin) expenses per statutory accounts Note 9	**66.0**	**73.8**	**(7.8)**

Notes

1 'Total staff costs' were higher than budget as a result of increased contractor, recruitment and redundancy costs, following the restructure undertaken in response to the Connect programme.

2 'Outsourcing' costs were higher than budget as lower PPI claims volumes were more than offset by higher general investment and SIPPs claims.

3 'Other expenses' were lower than budget due to a lower spend on legal and professional costs, including on the Keydata recovery, which is now complete.

4 'Change programme' costs were below budget because of unused contingencies and the rephasing of certain projects into 2016/17.

5 'Management expenses related to 2008/09 major banking failures' was below budget due to some of the resolution efforts being taken internally, rather than using external advisers.

6 'Defined Benefit Pension Deficit contribution' is the statutory credit adjustment (moving the costs from the statement of comprehensive income to the Balance Sheet) for costs associated with funding the Defined Benefit Pension Scheme deficit (£1.23m Actual, £1.61m Budget).

Recoveries

During 2015/16, our recoveries work delivered more than £331m for levy payers. This figure includes £294m from the major banking failures of 2008/09.

Pursuing recoveries is a core statutory obligation and ultimately benefits levy payers and customers. FSCS is alert to recovery opportunities, whether through insolvency proceedings and 'exit' options, or for particular products or circumstances where third parties may share responsibility for claimants' losses. We actively pursue recoveries where 'reasonably possible and cost-effective' and engage with insolvent estates and third parties to do so.

Key recoveries

- £740m total dividend from the estate of Icesave
- £130m recovered in respect of Keydata Investment Services

At the start of the year, a loan of £143m was due to HM Treasury in respect of KSF. This was fully repaid in the year using recoveries and levies. As a result, the only remaining loan relates to B&B.

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

FSCS played a key role in protecting more than four million bank customers when five banks failed in 2008. Those banks were:

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

FSCS has paid £23bn to compensate eligible customers of these banks, including £3bn paid on behalf of HM Treasury. FSCS borrowed around £20bn from HM Treasury to fund the payments on its account, £15.7bn of which was for B&B.

The cost of borrowing was previously agreed with HM Treasury at the higher of the 12-month London Interbank Offer Rate (LIBOR) plus 100 basis points and the relevant Debt Management Office (DMO) rate. Following a planned review as part of the terms of the agreement, HM Treasury set a new rate effective from 29 March 2015 – the higher of LIBOR plus 111 basis points and the DMO rate. We have also agreed to a change in the relevant DMO rate to reflect the expected profile of repayment, not the date of the final repayment.

Interest was charged at an average of 2.13 per cent during the year, resulting in a cost of £337m. These costs will be levied in summer 2016 for payment to HM Treasury by 1 October 2016.

Bradford & Bingley plc

The winding down of B&B's business continues. As previously reported, this is overseen by UK Asset Resolution (UKAR) on behalf of HM Treasury. FSCS maintains a regular dialogue with both UKAR and HM Treasury to explore options which may speed up the repayment of B&B's debt to FSCS. The debt remains unchanged at £15.7bn. We continue to forecast full repayment of that debt, although the timing of repayment has not yet been determined. In March, the Budget announced plans by HM Treasury for UKAR to explore possible sales of B&B assets, designed to raise sufficient proceeds for B&B to repay the debt to FSCS and from which FSCS will repay the loan to HM Treasury.

Icesave

In January 2016, FSCS received a final £740m dividend from the estate of Icesave (of which FSCS's share was £236m).

This landmark event means that FSCS has recovered more than 100 per cent of the total £4.5bn UK payout (due to interest and currency fluctuations).

Making a full recovery for levy payers and taxpayers is the result of nearly eight years' work. FSCS pursued recoveries on behalf of itself (and also HM Treasury for money put in by taxpayers) to help protect Icesave depositors back in 2008. FSCS also agreed a settlement of its claims against the Icelandic Depositors and Investors Guarantee Fund, realising further recoveries for FSCS and HM Treasury.

Dunfermline Building Society

Dunfermline Building Society (DBS) was the first financial institution to be resolved under the Banking Act 2009 when it failed in March 2009. Deposits were transferred to Nationwide Building Society. Under the Banking Act, FSCS funds can be used towards the cost of resolution, up to a cap. The cap is set at the cost FSCS would have incurred if DBS had gone into insolvency back in 2009.

FSCS's liability to HM Treasury will not be finalised until the end of the resolution process. The FSCS provision for DBS brought forward of £448m decreased to £47m as at 31 March 2016, following two interim payments made during the year. FSCS made a payment of £235m on 1 October 2015 and paid a further £165m in January 2016, funded by FSCS's share of the Icesave recoveries.

While the final amount due may differ from the provision, FSCS currently expects to meet the remaining cost from recoveries made from Icesave and other estates. There is therefore currently no expectation of a levy to fund this resolution.

Update on Keydata Investment Services and Lifemark

We have successfully concluded the significant litigation this year against a large number of Independent Financial Adviser firms arising from the sale of Keydata's financial products. Keydata was an extremely complex, high profile case involving multiple defendants and foreign jurisdictions.

The linked case of Lifemark also reached final distribution in late 2015. These cases are the culmination of a number of years of perseverance and an innovative approach from our legal team and external advisers. FSCS has secured more than £130m in recoveries from Keydata, incurring £20m in costs.

PPI and other insurance recoveries

Recoveries in the context of PPI mis-selling following the Supreme Court's decision in the case of *Plevin v Paragon Personal Finance Ltd 2014 UKSC 61* are still at an early stage. These relate to potential claims FSCS may have against those lenders whose credit agreements were the subject of PPI policies that FSCS has determined were mis-sold by brokers to consumers (who FSCS has compensated accordingly) and where the non-disclosure of the commission paid by the consumer gives rise to an unfair relationship for the purposes of the Consumer Credit Act 1974.

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

Firm	Total compensation paid to 31 March 2016	Recoveries received to date	Prospects of future recoveries
B&B	£15,655m	Nil	B&B's management forecast full repayment of FSCS's loan but timing remains uncertain. FSCS is working with B&B, UK Asset Resolution and HM Treasury.
Heritable	£465m	Received dividends of £456m (98%)	Estimated total dividends between 98% and 100%.
KSF	£2,589m	Received dividends of £2,173m (84%)	Estimated total dividends between 85.5% and 86.5%.
Icesave	£1,441m	Received dividends of £1,478m (103%)	Claim now fully recovered.
London Scottish	£239m	Received dividends of £118m (49%)	Estimated total dividends between 57% and 59%.
DBS	N/A	N/A	Recoveries are paid to HM Treasury and FSCS pays any shortfall in resolution costs (subject to a £578m cap). Provision: £47m, after three interim payments totalling £500m.

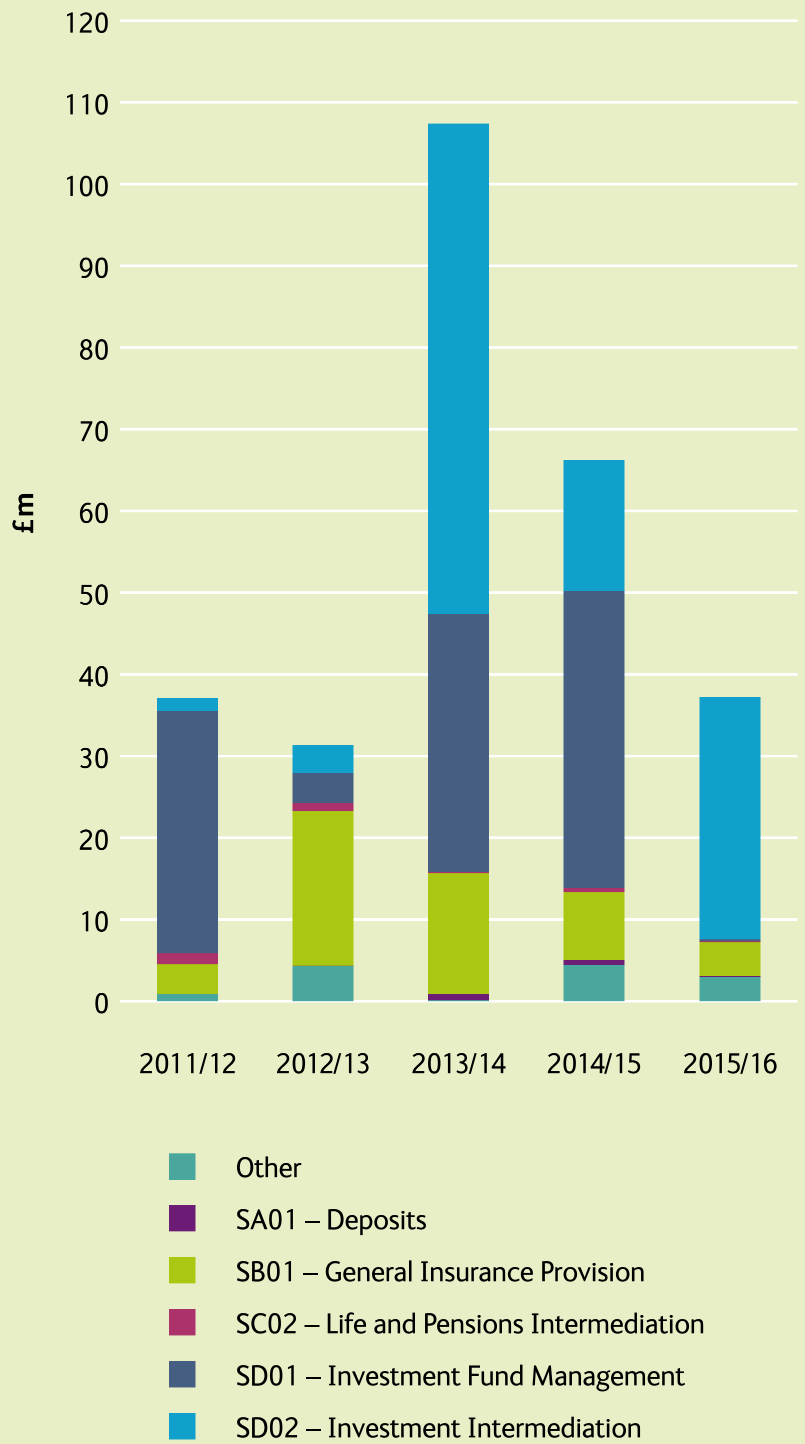
We have made further recoveries on a number of long-running insurance estates, with £4m received in the year. Half of this came from Chester Street Insurance Holdings, where claims related to asbestos-related illnesses. The Scheme of Arrangement for Independent Insurance Company Limited was also approved in this year – we look forward to receipt of the distribution to creditors next year.

Investment intermediary recoveries

During 2015/16, we recovered £29m from a number of investment intermediary failures. The two largest of these were Alpari (£14.5m) and Lehman-related entities (£8m).

> “These cases are the culmination of a number of years of perseverance and an innovative approach from our legal team and external advisers

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



Section 6

Preparedness for the Future

We report on testing responsiveness and security.

Maintaining core capabilities

FSCS needs to be able to gear up rapidly to deal with major failures in the event of a crisis. This means we must maintain a core capability to run a claims-handling system and to have in place up-to-date and well-practised contingency plans. We must also ensure that FSCS conforms to new regulatory requirements and contributes constructively to the development of policy where our expertise in protecting consumers is relevant.

An important part of preparedness is FSCS's ability to upgrade its claims-handling capacity to respond to changing customer expectations, new regulatory requirements and technology opportunities. The implementation of Connect revealed that FSCS needed to strengthen its capability in this respect (see lessons learned from Connect).

Deepening contingency planning

Alongside its day-to-day service, FSCS continues to prepare for major failures of financial institutions. It is in these circumstances that FSCS's ability to protect consumers and to underpin financial stability will be most needed and tested to the full. There are a number of elements to this work:

- testing our capability to respond to disruptive operational events and industry events;
- collaborating with regulatory bodies to practise acting upon shared responsibilities in the event of crises;
- testing Board-level responsiveness to complex default scenarios; and
- acquiring a new disaster recovery site in a high security national infrastructure location to enhance and ensure the resilience of FSCS even in extreme circumstances.

Lessons learned from Connect

Connect was a major investment to modernise FSCS's claims handling. The investment aimed to improve service to customers, to enable FSCS to respond more efficiently to major failures and to cut claims-handling costs. It did so by establishing a modern claims-handling platform that is shared by FSCS and its outsource partners, as well as an online claims application and tracking facility for customers.

The initial cost estimate in 2010 was £20.75m, with delivery in 2015. The claims-handling platform went live in May 2015 at a cost of £21.75m, and is now bedding down.

In light of this cost overrun, the Chief Executive commissioned an independent 'lessons learned' review from KPMG, which had played no part in the design or delivery of the project. KPMG reported to the Board in October 2015.

KPMG identified a number of things that went well with the project, including a successful business transformation, effective supplier management in the later stages of the project and progress with the implementation of an IT strategy.

The KPMG review also identified things which FSCS needed to improve. These included: FSCS's capacity to manage a complex project of significant scale; the engagement of FSCS's own people and outsource partners with the design and delivery of the project; a more coherent IT and data architecture to guide design; and more robust change management.

FSCS has addressed these weaknesses.

The Chief Executive has reorganised the senior structure to enhance business ownership of change and to strengthen FSCS's change capacity. A new Chief Operating Officer team is in place, under Jimmy Barber, to bring together operational responsibility and change management. Within this team, we have created a new Chief Information Officer role, held by Paul Brocklehurst, to establish an IT/data architecture for the organisation and to enhance our ability to develop, test and implement changes to our systems.

FSCS has also implemented the reforms to its governance recommended by KPMG and is forging a closer partnership with outsourced claims-handling partners.

Testing recovery and response scenarios

FSCS continues to test a range of scenarios that have the potential to disrupt or challenge our service to consumers and stakeholders.

Testing our ability to deal with a terrorist incident

In recent months, an exercise tested FSCS's ability to continue delivering compensation services in the immediate aftermath of a hypothetical terrorist incident. Independent expert facilitators validated that our levels of preparedness and responsiveness remain fit for purpose.

Testing our ability to recover from disaster

In April 2016, FSCS's disaster recovery arrangements were enhanced through the implementation of a long lease of a secure facility outside London, shared with another member of the regulatory family.

Testing Board-level responsiveness

A scenario designed specifically to test Board-level decision making during a time of crisis was played out with the full Board. This successfully tested the Board's decision-making pace and strategic insight and illustrated the importance of close communications management with regulatory stakeholders.

Risk management

Enterprise-wide approach to risk

To maintain our resilience to risk, 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. The Risk Committee meets quarterly and assesses the performance of the risk function.

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. These and other robust processes ensure that we can identify, assess and deal with all risk types throughout the organisation.

Review and oversight

All risks are kept under active management and are subject to frequent review by FSCS's Executive. They are also subject to quarterly oversight and challenge by the Risk Committee and at least annually at 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 and to the scale and severity of the potential impact. We test our judgments in these respects by submitting them to the challenge of the Risk Committee. We also work closely with our regulatory colleagues in this regard.

Policy

We report on our response to the Financial Advice Market Review (FAMR), including a review of FSCS funding, and other policy changes in UK financial services.

The Connect claims-handling platform went live in May 2015 at a cost of £21.75m

During the year, we responded to the FAMR. FCA's review of FSCS's funding commenced in April 2016.

Alongside the various FSCS funding options that the review will explore, the authorities will consider the scope of protection and whether it remains appropriate, as well as affordable and sustainable. FSCS protection needs to be readily understood by consumers and aligned to market developments (such as for pensions and retirement savings).

FSCS encourages the industry to engage with the funding review.

FAMR and FSCS funding review

The recommendations from the FAMR, jointly led by HM Treasury and the Financial Conduct Authority (FCA), were published on 14 March 2016. The recommendations outlined in the report are aimed at providing affordable advice to consumers, increasing the access to advice and addressing industry concerns relating to future liabilities and redress, without watering down levels of consumer protection.

The recommendations fall into three key areas:

- Affordability – this includes proposals to make the provision of advice and guidance to the mass market more cost-effective.
- Accessibility – this is aimed at increasing consumer engagement and confidence in dealing with financial advice.
- Liabilities and consumer redress – some industry stakeholders suggested that concerns about future liability (including FSCS levies) are preventing them giving advice today. FAMR has made a number of recommendations intended to increase the availability of advice while ensuring consumers have adequate protection.

A number of recommendations require a further review of areas in the financial services sector, including two recommendations relating to FSCS: funding and professional indemnity insurance (PII).

The FAMR recommends that the FCA's review into FSCS funding should explore:

- risk-based levies;
- reforming the FSCS funding classes; and
- whether contributions from firms could be smoothed by making more extensive use of the credit facility available to the FSCS.

Following the FCA's review of FSCS funding and in light of evidence from that review, the FAMR proposed that the FCA should consider whether to look further at the PII market in relation to the suitability and availability of cover for smaller advice firms. There are concerns that inadequate PII leaves the industry unable to absorb liabilities, leading to higher numbers of firms failing and greater reliance on the FSCS.

The FAMR stated it is important to establish the relationship between PII and FSCS claims before carrying out a review of whether the PII market is fit for purpose.

The Government and the FCA have accepted all of the FAMR's recommendations for which they are responsible, including those set out above.

FSCS works closely with our regulatory counterparts when policy decisions are made that impact on FSCS and will do so in the funding review.

Deposit Guarantee Schemes Directive (DGSD)

In line with the Directive, FSCS has updated its systems and processes to accommodate the changes to eligibility and scope, and has put in place a process with counterpart EU schemes for payouts to EU branch customers of UK deposit takers. Working with the authorities, the Directive requirements were implemented on time. Work is continuing to improve and streamline the arrangements for cross-border payouts and to fine-tune some of the processes, for example the method of paying temporary high balance claims.

Under the DGSD, Deposit Guarantee Schemes are required to raise levies from deposit-taking firms using a risk-based calculation. The European Banking Authority issued guidelines for calculating such contributions and, on 4 March 2016, the Prudential Regulation Authority (PRA) published a consultation paper outlining the UK's intended approach to implementing risk-based levies.

The PRA announced a change to the limit of deposit protection to £75,000

To assist smaller deposit takers to understand the implications of the DGSD, FSCS hosted five seminars on DGSD changes for credit unions around the UK. These proved to be very popular and well-attended events in all regions. FSCS also published a Single Customer View guide for all deposit firms when making the changes needed to meet the new formatting requirements by 1 December 2016.

To ensure the UK's compensation limit was equivalent to the EU harmonised level of €100,000, the PRA also announced a change to the limit of deposit protection to £75,000. The new limit came into effect on 1 January 2016. There was a six-month transitional period from July 2015 when previously eligible depositors remained protected to £85,000. In the event, this was not triggered. Additional coverage for temporary high balances, usually up to £1 million, was also introduced.

EU referendum

As the Chancellor has said, until the process to leave the EU begins and during the negotiations that will follow, there will be no change to how the financial system is regulated. This means the FSCS's scope and coverage remain unchanged.

Section 7

Engaging our People

We report on building a committed workforce.

A key element of our resilience and value for money strategies is to have a professional and engaged workforce which, though small, can perform a range of roles. FSCS is an organisation that makes a difference and in which everyone can make a difference.

accountancy. Our continuing commitment is to create and maintain an attractive and professionally stimulating work environment. By harnessing the energy, enthusiasm and engagement of our people, we believe we can make the FSCS even more agile and responsive.

Our commitment to our people

The FSCS is committed to the development and well-being of its employees. Our reputation and success rely on our ability to initiate, implement and sustain effective people management strategies across all areas and at all levels of our business.

FSCS has a permanent staff of 196 people as at 31 March 2016. Our people have a wide range of high-level professional skills, including data management and claims processing through to law and accountancy.

Diversity and inclusion

Over the past year, we have increased our involvement with a number of programmes: Opportunity Now, Race for Opportunity, Stonewall Diversity Champions, 30% Mentoring Club, Business Disability Forum and Interbank LGBT Network.

In March 2016, our commitment to diversity and inclusion was externally benchmarked by Business in the Community. We achieved silver accreditation for our position on gender and race.

Key points

There were a number of important developments over the year that showed we were making good progress in our engagement strategy:

- employee engagement, as measured by our People Survey 2015, increasing by a further 22 engagement points compared with 2014/15;
- we continued to be recognised as ‘Ones to Watch’ by Best Companies;
- the launch of *Newsweaver* – our new internal communications channel and our new internal brand;
- the launch of our Foundations for Outstanding Leadership programme for new and emerging leaders;
- the launch of our Moving into Management and Moving up in Management programmes in partnership with the Institute of Leadership and Management; and
- delivery of more than 1,500 learning opportunities through our Learning and Development Programme.

Section 8

Governance Report

The Board, directors' remuneration and risk

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 the UK Corporate Governance Code issued in September 2014 (the Code).

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.

The Board

1. Composition of the Board

The FSCS Board consists of 12 directors, eight of whom are non-executive directors, including the Chairman. The four executive directors are the Chief Executive, the Director of Corporate Affairs, the Chief Operating Officer and the Chief Financial Officer.

The Financial Services Authority appointed all directors until 1 April 2013; the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are responsible for appointments and re-appointments thereafter.

HM Treasury must also approve the appointment, re-appointment and removal of both the Chairman and the Chief Executive. All appointments and re-appointments of directors are for periods of no more than three years.

Re-appointments

The process for re-appointing directors is:

- the Nomination and Governance Committee holds initial discussions on Board size, mix of skills and experience on the Board, diversity and the phasing of directors' periods of appointment;
- consideration is given to the performance reviews of the directors concerned, which assess continued effectiveness and commitment to the role; and
- the FCA and PRA receive the Committee's recommendations for consideration and approval.

New appointments

The process for making new appointments is:

- the Nomination and Governance Committee holds initial discussions on Board size, mix of skills and experience on the Board, diversity and the phasing of directors' periods of appointment;
- an external search consultancy is engaged and the positions are made available through open advertising; and
- a selection panel, which includes representatives from the FCA and the PRA, carries out the selection exercise, following which the panel's recommendations for Board appointments are put to the FCA and PRA for approval (in the case of the Chairman and Chief Executive, with the approval of HM Treasury).

Following a review of the company's executive structure in 2015, FSCS removed the role of Director of Operations and introduced two new executive director posts – Chief Operating Officer and Chief Financial Officer.

During 2015/16, the following changes were made to the FSCS Board:

- Lawrence Churchill *(non-Executive Director – Chairman)* was re-appointed for a further period to 31 March 2018;
- Philip Wallace *(non-Executive Director)* retired from the

Board on 31 May 2015, having served for six years;

- Mark Adams *(non-Executive Director)* was appointed to the Board for a period of three years to 31 May 2018;
- Charles McKenna *(non-Executive Director)* was re-appointed for a further three-year period to 31 January 2019;
- Marian Glen *(non-Executive Director)* was re-appointed for a further three-year period to 31 January 2019;
- Kate Bartlett *(Executive Director)* left FSCS and resigned from the Board on 31 August 2015;
- Kathryn Sherratt *(Executive Director – Chief Financial Officer)* was appointed to the Board for a period of three years to 14 December 2018;
- Jimmy Barber *(Executive Director – Chief Operating Officer)* was appointed to the Board for a period of three years to 3 January 2019;
- Alex Kuczynski *(Executive Director – Director of Corporate Affairs)* was re-appointed for a further three-year period to 31 January 2019; and
- Mark Neale *(Executive Director – Chief Executive)* – was re-appointed for a further three years to 3 May 2019.

Directors' independence

The biographical details of the directors on pages 70 to 73 demonstrate the range of experience and expertise they bring to the Board.

FSCS places a high value on the contribution of its non-executive directors. Their presence is essential in exercising independent judgment on Board matters and in the decision-making process, challenging the Executive and ensuring that stakeholders' views are taken into consideration.

As shown in their biographical details, FSCS's non-executive directors may also hold directorships or positions in other organisations, which may, for example, include authorised financial services firms that contribute towards the FSCS levy. Moreover, directors are subject to a conflict of interest policy to prevent any potential interference with the independence of their judgment on Board matters.

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

Senior Independent Director

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 concerns raised through the normal channels of 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. Philip Wallace was Deputy Chairman and Senior Independent Director up until 31 May 2015. Liz Barclay was appointed Deputy Chairman and Senior Independent Director on 1 June 2015.

Board diversity

FSCS actively seeks diversity on the Board consistent with its skill 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 to the Board, while also having due regard to the benefits of diversity on the Board.

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

2. Induction, appraisals, training and development

On appointment, all new directors receive an FSCS-delivered induction. This includes a briefing by the executive and management team on FSCS operations and the various functions within the organisation. There were three new appointments to the Board in 2015/16. Appropriate inductions were given.

Both new and existing directors take the opportunity to 'sit in' with some of the claims teams to experience certain aspects of the claims-handling process. Claims briefings are given to directors to refresh their knowledge of practices and explain new or revised processes. Similar briefings are given occasionally to directors on other aspects of FSCS operations. Individual directors can also request information or briefings on topics outside formal Board/Committee meetings to maintain their knowledge and understanding of relevant issues.

Newly appointed directors are also offered training, usually from external providers, on their duties and responsibilities as directors and corporate governance. Such training is also offered to the Board on an occasional basis as a way of maintaining and refreshing knowledge. Training is sometimes delivered to individual directors and sometimes to the whole Board in external workshops. An external Board refresher on corporate governance and directors' duties was delivered in April 2015, covering recent developments and current thinking on corporate governance issues. The continuing professional development framework for directors was reviewed and revised to provide a better way to help directors record and regularly refresh their skills and knowledge. The directors' annual performance reviews are also designed to capture individual training and development needs.

There were three new appointments to the Board in 2015/16

Directors keep up to date with developments in the financial services industry by way of 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, senior officials from HM Treasury, regulatory bodies and trade organisations. The Chairman, Chief Executive and other FSCS officials continued to meet the appropriate authorities (HM Treasury, the PRA and the FCA) and trade bodies on a regular basis during the year.

Annual performance reviews

The Chairman and each of the non-executive directors met individually to carry out an annual review of their contribution to the Board in 2015/16. This involved obtaining feedback on performance from all other directors using an online feedback form.

The Deputy Chairman similarly assessed the Chairman's own performance in his annual review on behalf of the Board. The Chairman maintained 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, met the non-executive directors from time to time without the executive directors present.

3. Operation of the Board

The Board met 14 times during the year. A formal schedule of matters provides a framework for 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 not specifically reserved to the Board for decision are delegated to the Chief Executive, who may delegate further to other officers or employees of the company under an agreed delegations framework. The schedule of matters reserved to the Board was revised following a wider review of the delegated authorities framework in mid-2015. This review also resulted in formalising a new Delegation of Authority by the Board document and revising some of the terms of reference for Committees of the Board.

The Board held two strategy days, which gave directors the opportunity to consider the key priorities for the organisation and also to review FSCS's key risks and strategic direction.

Relevant and timely information

The Board believes that it receives and has access to, on a timely basis, the relevant information needed to make appropriate decisions. Directors review this on an ongoing basis to ensure that the Board continues to receive sufficient accurate, timely and clear information. In 2015/16, further improvements were made to the way in which certain operational and financial information was reported to the Board.

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

Review of Board performance

The Board carries out a formal and rigorous evaluation of its own performance, and that of its committees, on an annual basis. In late 2015, the Board conducted this exercise through 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 and the balance of skills, experience, independence, knowledge of the company and Board diversity (including gender diversity). FSCS's approach to Board diversity is also explained further on page 58.

Each director was invited to comment on the performance and operation of the Board and each of its Committees using the pre-defined criteria, and directors discussed the results of this exercise and the implications for the Board at its December 2015 strategy day, in a session facilitated by the Company Secretary. The Board took the opportunity to review actions arising from the previous year's Board evaluation.

In summary, the Board felt that positive progress had been made on the key actions taken forward from the 2014 evaluation. Having reviewed the results of the 2015 evaluation, directors felt that FSCS's Board and committees were effective and working well on many fronts and that the Board continued to be well placed to address the challenges that lay ahead. The Board did consider a number of suggestions in the following areas:

- although the quality of Board papers presented to the Board had improved, there was scope to enhance this;
- changes have been made to the frequency of certain reports to the Board, and attention has been given to ensuring that the Board receives relevant, clear and timely information;
- the shape of the Board agenda was revised following the previous evaluation, but further refinements during the course of the year have provided a better focus;
- the provision of more opportunities for the Board to meet outside formal meetings, both for the Board as a whole and for non-executive directors only; and
- the provision of more opportunities for Board members to engage with managers outside formal meetings.

Committees of the Board

The Board has charged its 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.

Following a Board review in 2015, minor changes were made to the terms of reference for the Audit Committee, the Nomination and Governance Committee and the Remuneration and Human Resources Committee.

1. Audit Committee

The Committee met four times during the year. It consists of four independent non-executive directors, one of whom is the Chairman of the Risk Committee (who cannot be the Audit Committee Chairman). The Board must ensure 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 engagement director and/or audit manager at the National Audit Office and representatives from FSCS's internal auditors, Grant Thornton, attended most of the Audit Committee meetings in 2015/16 at the request of the Committee Chairman.

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 changes in legislation, 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 external audit work.

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

- the annual accounts and accounting policies;
- the financial reporting system;
- the system of internal control;
- the appointment and performance of internal and external auditors;
- the audit processes and results (for both the internal audit and external audit);
- any non-audit services carried out by the external auditor;

- compliance with laws and regulations;
- whistleblowing arrangements; and
- arrangements for promoting health and safety at work.

The Committee also considered:

- internal audit reports, audit plan, audit policy and charter;
- external audit plan and reports;
- company insurances and director indemnities;
- claims and compensation processes, records management, directors' expenses;
- health and safety; and
- data protection, fraud and money laundering.

In reviewing matters relating to the financial statements, the Committee considered:

- the preparation of the accounts, including the accounting treatment for Dunfermline Building Society;
- pension scheme disclosures; and
- accounting relating to the Deposit Guarantee Schemes Directive.

The Committee also advised the Board on its review of the Annual Report and Accounts. The directors concluded that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable, and provided sufficient information to enable the company's performance, business model and strategy to be assessed.

As part of its annual cycle of reviews, the Committee carried out a review of the effectiveness of the external audit process and had separate discussions with both the internal and external auditors, without the Executive.

The new Head of Internal Audit, who was appointed in 2015, had separate discussions with the Audit Committee, without the Executive, and initiated a review of the internal audit function, engaging with directors where necessary. This included a re-procurement of the internal audit services and resulted in Grant Thornton LLP being re-engaged as providers of internal audit services to FSCS.

Some of these matters are also reported under Internal Controls on page 66.

2. Risk Committee

The Committee's role is to recommend to the Board a risk appetite/tolerance statement covering enterprise-wide risks, and to review FSCS's risk management approach to identifying and managing risks in achieving FSCS's aims, including FSCS's contingency planning arrangements and disaster recovery plans.

In carrying out its oversight functions, the Committee advises the Board on whether FSCS is operating within acceptable risk tolerances and whether its level of readiness to respond to significant events is appropriate to the likelihood and impact of those events.

The Committee met four times during the year. It is made up of five independent non-executive directors, one of whom is the Chairman of the Audit Committee (who cannot be the Risk Committee Chairman). 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 Committee considered the following matters:

- the organisation's risk profile and the key risk exposures affecting the achievement

of FSCS's aims (this is considered at each meeting);

- the Risk Management Policy;
- the annual review of the Committee's effectiveness;
- contingency planning arrangements for large business failures in the financial services industry;
- disaster recovery arrangements; and
- papers and reports on other matters with risk implications, including the changes made to pension freedoms and flexibilities.

Some of these matters are reported further under Internal Controls on page 66.

3. Remuneration and Human Resources Committee

The Committee's role is 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;
- review executive and employee benefit structures; and
- oversee a range of human resources issues linked to FSCS's People Strategy.

Its responsibilities are to:

- oversee the development, performance and use of human resources within FSCS, assist in and monitor the ongoing development of the People Strategy and the desired culture for the organisation;
- oversee organisational development and the setting out of standards of organisational performance;
- monitor corporate responsibility; and
- oversee diversity and inclusion.

The Remuneration and Human Resources 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, the Committee.

During the year, the Committee considered an analysis of current and forecast market conditions in the UK economy to help inform the proposed salary budget. The Committee also reviewed FSCS's performance as part of its determination of the size of the bonus pool and also considered FSCS's framework for remuneration and reward for employees, including the bonus arrangements and other employee benefits.

A new Head of Internal Audit was appointed in 2015

The Committee will continue this review of remuneration and reward in 2016/17, and will also take into account the revised principles contained in the UK Corporate Governance Code that relate to executive remuneration. Other matters considered by the Committee were the effects of changes in pensions and a review of the Committee's effectiveness.

The 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 executive directors, performance and market data provided by external consultants are taken into account and remuneration incorporates a performance-related element.

Remuneration for non-executive directors is determined by the FCA and the PRA (prior to 1 April 2013, this was done by the Financial Services Authority). A fuller report on directors' remuneration is given in the Directors' Remuneration Report on page 74.

4. Nomination and Governance Committee

The Committee's role is to:

- review the structure, size and composition of the Board (including the balance of skills, knowledge and experience) together with Board diversity;
- make recommendations to the FCA and the PRA with regard to any changes;
- review succession planning for both executive and non-executive directors;
- ensure there is appropriate liaison with the FCA and the PRA with regard to appointments and re-appointments of Board members;
- keep the membership of the Board committees under review;
- oversee the Board's governance arrangements and consider current and evolving best practice corporate governance standards;
- oversee Board and director evaluation; and
- oversee the application of the conflicts of interest policy.

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

This Committee met once formally during the year, but also had other discussions and informal meetings regarding appointments and re-appointments of directors. The Committee reviewed the Board's composition, including Board size, mix of skills and experience and diversity, as part of its consideration of the specific re-appointments of two non-executive directors and two executive directors as well as the appointment of two new executive directors. These Board changes, together with details of the process for appointing and re-appointing directors, are described in more detail on page 57 under Composition of the Board. In addition, the Committee considered the changes made to the UK Corporate Governance Code in September 2014.

5. Claims Decisions Committee

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

Working 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.

Committee memberships, appointment terms, re-appointment dates and attendance at Board and committee meetings

	Board	Audit Committee[1]	Remuneration and Human Resources Committee[1]	Nomination and Governance Committee[1]	Risk Committee[1]	Appointment date	Expiry of term
No. of meetings held	**14**	**4**	**4**	**1**	**4**		
Non-executive directors:							
Mark Adams	11/12	3/3				1 Jun 2015	31 May 2018
Margaret (Liz) Barclay	13/14		4/4		3/4	1 Jul 2011	30 Jun 2017
Lawrence Churchill	13/14		4/4	1/1		1 Apr 2012	31 Mar 2018
Marian Glen	13/14	4/4	4/4			1 Feb 2013	31 Jan 2019
Charles McKenna	14/14		3/4		4/4	1 Feb 2013	31 Jan 2019
Caroline (Jayne) Nickalls	14/14			1/1	4/4	1 Jul 2011	30 Jun 2017
Robert (Paul) Stockton	12/14	4/4		1/1	2/3	1 Dec 2011	30 Nov 2017
Philip Wallace	2/2	1/1			0/1	1 Jun 2009	31 May 2015
David Weymouth	10/14	4/4			4/4	1 Jul 2011	30 Jun 2017
Executive directors:							
Jimmy Barber	5/5					4 Jan 2016	3 Jan 2019
Kate Bartlett	4/5					1 Feb 2010	31 Aug 2015[2]
Alex Kuczynski	14/14					1 Feb 2010	31 Jan 2019
Mark Neale	14/14			1/1		4 May 2010	3 May 2019
Kathryn Sherratt	6/6					15 Dec 2015	14 Dec 2018

1 Attendance shown only for committee members.
2 Date of resignation from Board before end of appointment term.

Committee membership during the year

Audit Committee
Mark Adams – from 1 June 2015
Marian Glen
Robert (Paul) Stockton – Chairman with effect from 1 May 2015
Philip Wallace – Chairman until 30 April 2015, and member up to 31 May 2015
David Weymouth
Risk Committee
Margaret (Liz) Barclay
Charles McKenna
Caroline (Jayne) Nickalls
Robert (Paul) Stockton – from 1 May 2015
Philip Wallace – up to 31 May 2015
David Weymouth (Chairman)
Remuneration and Human Resources Committee
Margaret (Liz) Barclay (Chairman)
Lawrence Churchill
Marian Glen
Charles McKenna
Nomination and Governance Committee
Lawrence Churchill (Chairman)
Caroline (Jayne) Nickalls
Robert (Paul) Stockton
Mark Neale

Internal controls

The Board is responsible for FSCS's risk management and internal control systems and for reviewing their effectiveness. It recognises that a sound system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

The internal control framework has been in place throughout the year and is kept under regular review by the Board. The Audit Committee assists the Board in its oversight responsibilities by reviewing the effectiveness of the internal control arrangements, which includes an annual review, and the Risk Committee reviews the risk management arrangements and advises the Board accordingly. The work of these committees is described in more detail on pages 61 to 64.

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 from 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 to review its controls:

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 Risk Register changing over time in line with changes in FSCS's priorities, activities and exposure to risk.

The Risk Register continued to be reviewed and updated monthly by the Executive Committee. 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 from time to time, which is also made available to all directors on an electronic portal.

2. The Head of Risk attended Audit Committee meetings, Risk Committee meetings and those Board meetings at which risk issues are discussed. This is so that the Head of Risk can have the opportunity to report directly to satisfy Board and committee members that risks and controls are being appropriately managed by the Executive and management of the company. The risk management function is also subject to internal audit.

3. The Audit Committee continued to ensure that the Internal Audit Plan was appropriate to the needs of the organisation, including reprioritising 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 Plans 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 normally attends Audit Committee meetings together with the internal auditors, Grant Thornton LLP, planned and oversaw the development and delivery of the Internal Audit Plan, reporting to the Audit Committee on the progress of that plan, presenting the key results of Internal Audit reports and reporting on management's progress in completing remedial actions arising from Internal Audit activity. 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. 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 the Scheme. A report is submitted annually to the Audit Committee on any non-audit work carried out by the external auditors. Neither the Comptroller and Auditor General nor the National Audit Office carried out any non-audit services for FSCS in 2015/16.

Principal risks

We explain our principal risks on page 83 of Section 9.

Financial risk management

Interest rate risk is presently considered to be low

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's 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 UK Corporate Governance Code (the Code) issued in September 2014, with the exception of the following:

- B.2.1 (making recommendations for Board appointments);
- C.2.2 (viability statement);

- D.1.1 (certain provisions for executive directors' performance-related remuneration);
- 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 (which, at FSCS, is called the Nomination and Governance Committee) should lead the process for Board appointments and make recommendations to the Board. As all FSCS's directors are appointed by the FCA and the PRA, with HM Treasury approval also required for the appointment of the Chairman and Chief Executive, FSCS's Nomination and Governance Committee makes its recommendations to the FCA and the PRA.

C.2.2 – The Code contains a provision suggesting that directors should, after taking account of the company's position and principal risks, explain how they have assessed the company's prospects, over what period and why they consider that period to be appropriate. FSCS's Audit Committee considered this issue and reached the conclusion that, given the nature of FSCS as an organisation and having taken into account the way it is funded, it would not be appropriate for FSCS to produce a viability statement under this Code provision.

D.1.1 – The Code suggests that performance-related remuneration schemes for executive directors should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so. FSCS's Remuneration and Human Resources Committee reviewed FSCS's remuneration and reward structure during 2015/16 and is continuing this review into 2016/17. The review will include consideration of this issue so that FSCS can reach a conclusion on the most appropriate approach.

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 PRA, with appropriate input from FSCS. The Code also recommends that the Remuneration Committee (which, at FSCS, is called the Remuneration and Human Resources Committee) should have delegated responsibility for setting executive directors' remuneration. FSCS's Remuneration and Human Resources 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 and Human Resources Committee.

Section E, and other provisions relating to shareholders – As FSCS does not have shareholders, those provisions of the Code that refer to shareholders have been interpreted as referring to an equivalent body or bodies, or have been treated as not 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 appointed by the Financial Services Authority until 1 April 2013, and thereafter by the FCA and the PRA.

Executive Directors

Mark Neale
(Chief Executive)
Appointed 4 May 2010

Formerly Director General at HM Treasury responsible for Budget, Tax and Welfare until May 2010, Mark spent four years leading 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. Mark has also been an independent member of the Council of the University of Roehampton since 2010.

Alex Kuczynski
(Director of Corporate Affairs)
Appointed 1 February 2010

Alex Kuczynski 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 from March to May 2010. He is the co-ordinator of the EU Committee of the European Forum of 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 also attends HM Treasury's statutory Banking Liaison Panel.

Kathryn Sherratt
(Chief Financial Officer)
Appointed 15 December 2015

Kathryn joined FSCS in 2012 and has been the driving force behind our cross-business value for money strategy. Kathryn's career started with Deloitte in Manchester and London before relocating to Australia. There, Kathryn built up the practice responsible for delivering innovative commercial solutions to clients. Upon returning to the UK, Kathryn spent six years within the UK retail business of Barclays Bank, latterly as its Financial Controller. Her responsibilities included off-shoring, acquisitions/integrations and reorganisations across a number of countries. As CFO, Kathryn will continue to be a powerful advocate for value for money in addition to her responsibilities around commercial and financial strategies and resolution.

Non-Executive Directors

Jimmy Barber
(Chief Operating Officer)
Appointed 4 January 2016

Jimmy joined FSCS in January 2016 in a critical role bringing together the delivery of our service to consumers and the IT and data architecture which supports that service. He worked as the Operations Development Director and (before this) as the Commercial Operations Director at the RSA Insurance Group from 2007. In these roles, Jimmy was responsible for business transformation and improvement and for the delivery of shared services across the UK. Before the RSA, Jimmy held major operational roles at Capital One and at Ladbrokes.

Lawrence Churchill CBE
(Chairman)
Appointed 1 April 2012

Lawrence is currently Senior Independent Director at Bupa, Chairman of the Independent Governance Committee at Prudential, Chairman of Applegate Marketplace, a Trustee of Age UK and the International Longevity Centre (UK) and a Governor of the Pensions Policy Institute. His executive career included being Chief Executive of UK, Irish and International Life at Zurich Financial, Executive Chairman of Unum and Chief Executive of NatWest Life and Investments.

Other non-executive roles have included Chairman of NEST Corporation, Chairman of the Pension Protection Fund, Member of the Actuarial Standards Board and Director of the Financial Ombudsman Service and the Personal Investment Authority. Lawrence brings more than 30 years of board experience in insurance and investments, as well as a deep interest in governance and risk management, driven by a passion for ensuring the right outcomes for consumers.

Margaret (Liz) Barclay
(Deputy Chairman and Senior Independent Director from 1 June 2015)
Appointed 1 July 2011

Liz is a writer, presenter and contributor for a number of programmes and documentaries for BBC Radio, as well as a personal finance and consumer rights commentator for newspapers and magazines. She is the author of several business books, runs MoneyAgonyAunt.com, a consumer and personal finance website, and chairs national and international conferences. Additionally, Liz is a member of the Financial Services Consumer Panel and the Equity Release Council Standards Board, a Trustee of the Credit Union Foundation, Chair of Camden Citizens Advice Bureaux Service, an ambassador for the Money Advice Trust and an honorary member of the Trading Standards Institute. Liz also trains in presentation, communication and interview skills.

Caroline (Jayne) Nickalls
Appointed 1 July 2011

Jayne is an experienced leader of transformational business change in both the public and private sectors, with a particular focus on digital service delivery in complex environments. 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 with large consumer bases, particularly financial services. Jayne is also a non-executive director of Jadu Limited.

Robert (Paul) Stockton
Appointed 1 December 2011

Paul has been Group Finance Director at Rathbone Brothers plc, a FTSE 250 company, for more than six years. He has worked in the insurance sector and, in his current role, has gained considerable experience of private client investment management and asset management. Through his work in the industry he has developed a strong understanding of issues relating to financial services, sales, consumer issues, corporate governance and regulatory compliance.

David Weymouth
Appointed 1 July 2011

David has recently retired from RSA Insurance Group plc where he held several roles on the Executive Committee during his seven years with the firm, most recently as Chief Risk Officer. His career included 27 years with Barclays Bank, the last five as member of the Executive Committee and Global Chief Information Officer. David has had extensive experience in a range of leadership roles in risk, technology and operations. He spent several years consulting at board level to a number of blue chip organisations and government departments. He currently has non-executive roles with Bank of Ireland UK; Royal London Group, where he chairs the Risk Committee; Mizuho International plc, where he also chairs the Risk Committee; and FIL Holdings (UK) Limited. He has held a number of non-executive roles, notably with Chordiant Inc (a Nasdaq business), the Charities Aid Foundation and the former Department of Trade and Industry. As both an executive and non-executive, his focus has been on supporting businesses and their people in the delivery of sustainable, complex, large-scale change.

Marian Glen
Appointed 1 February 2013

As a former solicitor, Marian brings a wealth of experience to the Board, having worked for more than 25 years in private practice and senior leadership positions with a focus on the financial services sector, especially asset management and insurance. She was formerly the General Counsel of Aegon UK and a member of its Executive Committee and Aegon's Global Leadership Team. Marian gained extensive experience in corporate finance at Linklaters. She joined Shepherd and Wedderburn where she became Head of Funds and Financial Services. Marian is a non-executive director and audit committee member of Shires Income plc, an investment trust managed by Aberdeen Asset Managers and is an external member of the Audit Committee of the Water Industry Commission for Scotland.

Charles McKenna
Appointed 1 February 2013

Charles has a background in law and spent more than 30 years with law firm Allen & Overy, including 22 years as a partner specialising in corporate, financial services and regulation. He has an extensive understanding of international business activity and challenges, including strategy development, corporate governance, risk management, corporate finance, restructuring and insolvency, joint ventures and other commercial arrangements. Charles also has a wealth of experience and expertise in the financial services sector where he advised banks, investment managers and brokers, financial institutions and regulatory bodies. 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 rulebook. He served for three years on the board of Hart Citizens Advice Bureau.

Mark Adams
Appointed 1 June 2015

Mark is a chartered accountant and retired as a partner at Deloitte LLP and insolvency practitioner in 2013. For 25 years, he has been at the centre of resolving many of the major financial services sector failures, including insurance sector failures in the UK, Japan, Bermuda and the Channel Islands, and more recently the banking sector failures in Iceland. Mark also has extensive experience resolution planning with the UK authorities in the banking and building society sector. In addition, Mark has expertise in advising bank and bondholder lenders to financial institutions experiencing stress or undergoing restructuring processes. Mark has been a provisional liquidator, scheme administrator or administrative receiver to various financial institutions.

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. FSCS is responsible for setting the remuneration for executive directors. The Remuneration and Human Resources 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 and Human Resources Committee. A fuller description of the work of the Remuneration and Human Resources Committee is given on page 63.

Directors' remuneration table for 2015/16

Audited section	2015/16				
	Fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000
Non–executive					
Mark Adams[1]	**20–25**	**1.9**	–	–	**20–25**
Margaret (Liz) Barclay	**25–30**	**0.1**	–	–	**25–30**
Lawrence Churchill	**75–80**	**5.0**	–	–	**75–80**
Marian Glen	**20–25**	**10.4**	–	–	**30–35**
Charles McKenna	**20–25**	**0.1**	–	–	**20–25**
Caroline (Jayne) Nickalls	**20–25**	**0.6**	–	–	**25–30**
Robert (Paul) Stockton[5]	**0**[5]	**0.2**	–	–	**0–5**[5]
Philip Wallace[1]	**0–5**	–	–	–	**0–5**
David Weymouth	**25–30**	**0.2**	–	–	**25–30**
Executive					
Jimmy Barber[1]	**55–60**	–	–	**6**	**60–65**
Kate Bartlett[1,6]	**180–185**	**0.6**	–	**8**	**190–195**
Alex Kuczynski	**215–220**	**2.0**	**30–35**	**50**	**300–305**
Mark Neale	**255–260**	**0.3**	**30–35**	**38**	**325–330**
Kathryn Sherratt[1]	**45–50**	**0.2**	**5–10**	**6**	**55–60**
Highest paid director's total remuneration[7] (£'000)					**285–290**
Median total remuneration for FSCS staff[7] (£)					**45,590**
Remuneration ratio[7]					**6.3**

2014/15				
Fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000
–	–	–	–	–
25–30	0.2	–	–	25–30
75–80	3.8	–	–	75–80
20–25	10.5	–	–	30–35
20–25	0.2	–	–	20–25
20–25	0.6	–	–	25–30
0[5]	0.2	–	–	0–5[5]
25–30	0.2	–	–	25–30
25–30	–	–	–	25–30
–	–	–	–	–
180–185	1.6	5–10	15	205–210
210–215	2.2	25–30	40	280–285
250–255	0.4	15–20	33	300–305
–	–	–	–	–
				270–275
				45,889
				5.9

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 and relate to each director's period of appointment. All directors were in their post for the 2015/16 year, with the exception of the following: Philip Wallace retired on 31 May 2015; Mark Adams was appointed on 1 June 2015; Kate Bartlett resigned on 31 August 2015; Kathryn Sherratt was appointed on 15 December 2015; and Jimmy Barber was appointed on 4 January 2016. 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. The figures in this column include any taxable expenses directly and properly incurred in the performance of FSCS duties. For the Board as a whole, these taxable expenses amounted to £18,900 in 2015/16 (2014/15: £16,500) (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 & Customs. For executive directors, the figures in this part of the table also include private medical cover and travel insurance.

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, together with the relevant proportion of the £5,000 per annum additional fee payable to the Chairman of the Audit Committee, 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 2015/16 was £34,400 (2014/15: £29,400). No part of this benefit passes to Mr Stockton.

6 Kate Bartlett resigned from the Board on 31 August 2015 and left FSCS on the same date. Remuneration is reflected accordingly in the table and under 'Payments for loss of office' below. The salary figure given in the table for Ms Bartlett comprises basic salary plus payment in lieu of holiday and payment in lieu of notice.

7 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 2015/16 was £285,000–£290,000 (2014/15: £270,000–£275,000). This was 6.3 times (2014/15: 5.9 times) the median remuneration of the workforce, which was £45,590 (2014/15: £45,889). For this purpose, total remuneration includes salary, bonus and taxable benefits. It does not include pension contributions. Full details of the remuneration of the highest paid director are given overleaf under 'Highest paid director' and in Note 11 to the financial statements.

Highest paid director

Audited with the notes to the financial statements

The highest paid director, the Chief Executive (2015: the Chief Executive), received aggregate remuneration of £289,227 (comprising basic salary of £256,865, bonus of £32,108 and other emoluments of £254) (2015: £271,142 (comprising basic salary of £251,828, bonus of £18,887 and other emoluments of £427)). Contributions to a money purchase arrangement under FSCS's pension scheme have been made of £38,102 (2015: £32,738). The Chief Executive did not receive additional remuneration in respect of his role as director.

Payments for loss of office

Because the role of director of Operations was removed as part of a review of the executive structure, Kate Bartlett left FSCS under redundancy terms on 31 August 2015. She received her contractual entitlements and a compensation payment for loss of office of £53,602. She received salary, benefits and payment in lieu of holiday up to 31 August 2015, together with payment in lieu of notice of £92,910, as reflected in the 'Directors' remuneration table for 2015/16' above.

Ms Bartlett's bonus payment in respect of her 2014/15 performance was reported in the 2014/15 report, so is shown in the above table as part of the 2014/15 comparatives. FSCS also agreed to contribute £500 plus VAT towards Ms Bartlett's legal fees in respect of the compensation arrangements and up to £5,904 including VAT in respect of outplacement services.

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 or payable to the Chairman in 2015/16 were set at £75,000 per annum (2014/15: £75,000), and fees paid or payable to other independent non-executive directors or their employers were set at £24,500 per annum (2014/15: £24,500). Additional fees paid or payable to the chairmen of the Audit Committee, Risk Committee and Remuneration and Human Resources Committee, or their employers, were set at £5,000 per annum (2014/15: £5,000). The FSCS Chairman was also the Chairman of the Nomination and Governance Committee but does not receive an additional fee for this additional role. Similarly, there is no additional fee payable to the Deputy Chairman and Senior Independent Director in respect of these roles.

Executive directors
The Remuneration and Human Resources Committee has applied certain principles when reviewing executive remuneration.

First, the salaries of executive directors should be determined on the same basis as for 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 1 per cent for continuing roles, with some additional provision for recruiting and retaining people in certain shortage areas, 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 2015/16. 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.

“

Salaries for executive directors were subject to a market pay review carried out by external consultants in 2015/16

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 (2014/15: one) had a prospective entitlement to a defined benefit pension as well as accruing retirement benefits under the money purchase pension scheme. Three additional directors (2014/15: three) also accrued retirement benefits during the year under the money purchase pension scheme only. The independent non-executive directors are not entitled to a pension funded by FSCS.

The executive directors in post 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, albeit that this increases in line with the Pension Scheme's rules between 31 March 2016 and 8 July 2025 (his normal retirement date). 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 below:

Name of director	Normal retirement date (age 60)	Accrued pension at 31 March 2016 £'000	Real increase in pension £'000	CETV at 31 March 2016 £'000	CETV at 31 March 2015 £'000	Real increase in CETV £'000
Alex Kuczynski	08/07/2025	30	0	1,000	988	12

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the defined benefit 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 if the member chooses to leave a scheme and transfer their accrued benefits. The 'Real increase in CETV' reflects the change in CETV using actuarial factors based on market conditions at the start and end of the period. The 'Real increase in CETV' is net of 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 above 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

Executive directors may hold positions in other organisations as non-executive directors, and decisions on whether the remuneration earned from such appointments may be retained are made on a case-by-case basis. There are no remunerated external non-executive positions held by any of the executive directors.

....

Mark Neale
Chief Executive

Section 9

Strategic Report for the year ended 31 March 2016

The directors of Financial Services Compensation Scheme Limited (FSCS) present their strategic report for the year ended 31 March 2016.

Overview 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 in to force, and has fulfilled those responsibilities throughout the year ended 31 March 2016.

FSCS is funded by levies on firms authorised by the Financial Conduct Authority (FCA) and 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 both for itself and for each of the classes. FSCS's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The class accounts have been prepared on a different basis in accordance with Section 218 of FSMA and the FCA Handbook/PRA Rulebook.

Under the current FCA and PRA rules, 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; 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 reasonably possible and cost-effective to do so. 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 financial statements, 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).

FSCS's costs are made up of compensation payments and management expenses (see Note 1 (b) and (d) of the class accounts on page 138). 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.

In 2008, FSCS 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, making payments, and any other costs which can be directly attributable to a particular class. The specific costs are allocated by FSCS to each class in accordance with the principles contained within the FCA and the PRA 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 indicators as described in Section 4.

Levies of £208m have decreased from £237.1m in 2015

Results and performance

FSCS's income comprises levy income from regulated firms and recoveries from firms in default. Levy income is recognised on an accruals basis within the statement of comprehensive income after taking into account costs which have been incurred and recoveries received. Any surplus or deficit against levy income arising in the year is shown as a payable or receivable in the statement of financial position. Surpluses are refunded by return or by a reduction of future years' levy while a deficit is levied in the following years.

Levies in respect of compensation costs of £208,089,000 (2015: £237,137,000) have decreased during the year. The primary driver of this decrease is a reduction in compensation costs during the year.

Compensation costs amounted to £270,868,000 (2015: £326,589,000). This decrease is as a result of a steady reduction of Payment Protection Insurance (PPI) claims over the year in the General Insurance Intermediation class, and only one major new default – Alpari (UK) Limited; unlike 2014/15, when FSCS paid £68,800,000 on the Catalyst default. Further details can be found in Section 4.

Each year, levies raised reflect our best estimate of future recoveries and any capital shortfall falling due associated with the 2008/09 banking failures. Recoveries of £62,780,000 (2015: £89,452,000) reflect both cash recoveries received during the year of £331,158,000 (as shown in the financial statements of the classes) and the net change in recoveries accrued. This net change of £268,378,000 (2015: £471,000,000) is the difference between each year's best estimate of anticipated recoveries. Additional details can be seen within Note 6 and Note 12.

During the year, recoveries in excess of our estimates were received which provided an opportunity to repay the Kaupthing Singer & Friedlander Limited loan, leaving only the Bradford & Bingley Plc loan outstanding as at 31 March 2016. The loans continue to accrue interest with £336,724,000 (2015: £397,403,000) charged during the year (see Note 15), and relevant amounts to be levied to firms in the Deposits class before 1 September 2016. The receipt of recoveries in excess of those estimated has generated a payable due to levy payers of the Deposit class of £171,549,000 as shown in Note 14.

We also expect that £15,709,406,000 (2015: £16,003,332,000) will be receivable in relation to future recoveries associated with the 2008/09 banking failures. This is based upon the best information available to the directors at 31 March 2016.

FSCS's results show a deficit after tax of £2,319,000 (2015: £43,000 surplus), as shown on page 92, reflecting a net actuarial loss arising on the final salary pension scheme assets and liabilities. A more detailed review of the performance of FSCS can be found in Sections 4 and 5. Administration expenses and interest payable of £402,693,000 (2015: £468,872,000) in the year includes a net credit of £1,232,000 which is the defined benefit pension scheme contributions of £1,634,000 less the current service cost of £402,000 (see Note 21) (2015: £1,291,000, £1,611,000, and £320,000 respectively).

Other operating income includes the gross amount of management expenses and interest payable recoverable from levy payers (see Note 8), and base cost levies from firms within the FCA and PRA fee blocks, of £403,925,000 (2015: £470,163,000).

The principal external risks to FSCS arise from the global financial markets and UK economic outlook

From 22 March 2016, FSCS entered into a £1,100,000,000 revolving syndicated loan facility at a floating rate of interest linked to LIBOR. This was a refinancing of an existing facility and is there to provide short-term liquidity to meet the costs of default in advance of receiving an interim levy.

The provision brought forward from last year of £448,000,000 relating to Dunfermline Building Society has been decreased to £46,500,000 based on the best information available to the directors and reflecting interim payments totalling £400,000,000 which were made to HM Treasury during the year. As noted in Note 16, however, the outcome could yet be different and the final amounts, once agreed, may potentially result in a further adjustment to the provision.

A more detailed review of the performance of FSCS can be found in Sections 1 to 6.

Future developments

Further matters relating to FSCS's future outlook are referred to in Section 3.

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, including its own resourcing through staff and outsourcers. These issues are referred to in this 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:

- the value of recoveries through dividends from the estates of the 2008/09 banking failures, as explained in Note 12;
- the provision for net costs of the failure of Dunfermline Building Society, as explained in Note 16; and
- the current valuation of defined benefit pension deficit, as explained in Note 21.

By order of the Board

Mark Neale
Chief Executive
4 July 2016

Directors' Report for the year ended 31 March 2016

The directors of Financial Services Compensation Scheme Limited (FSCS) present their report, together with the audited financial statements of FSCS on pages 92 to 127 and its classes on pages 128 to 141 for the year ended 31 March 2016.

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 and to increase transparency.

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:

Mark Neale – *Chief Executive and Executive Director*

Aleksander (Alex) Kuczynski – *Executive Director*

Katherine (Kate) Bartlett – *Executive Director* – resigned 31 August 2015

Kathryn Sherratt – *Executive Director* – appointed 15 December 2015

James (Jimmy) Barber – *Executive Director* – appointed 4 January 2016

Margaret (Liz) Barclay

Caroline (Jayne) Nickalls

Robert (Paul) Stockton

Philip Wallace – resigned 31 May 2015

David Weymouth

Lawrence Churchill

Marian Glen

Charles McKenna

Mark Adams – appointed 1 June 2015.

Directors' remuneration

Details of directors' remuneration are shown in the Remuneration Report and in Note 11 on Directors' remuneration.

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 law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with 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 judgments 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 the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Corporate governance and financial risk management

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

Under the Financial Services Act 2012, the Comptroller and Auditor General is the statutory auditor of the FSCS.

By order of the Board

....

Mark Neale
Chief Executive
4 July 2016

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 Services Compensation Scheme Limited's (FSCS's) affairs as at 31 March 2016 and of the result for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

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 FSCS for the year ended 31 March 2016 under the Financial Services and Markets Act 2000. The financial statements comprise: the Statements 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.

The regularity framework that has been applied is the Companies Act 2006 and the articles of association of FSCS, the Financial Services and Markets Act 2000, the Financial Services Act 2012 and the Financial Services (Banking Reform) Act 2013, and HM Treasury authorities to the extent they are applicable to FSCS.

Overview of my audit approach

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.

I have also set out how my audit addressed these specific areas in order to support the opinion on the financial statements as a whole and any comments I make on the results of my procedures should be read in this context.

Risk	My response
Connect FSCS receives claims for compensation from the public; historically, these claims have been made in paper form. During 2015-16, FSCS implemented a new IT system as part of the 'Connect' programme. Connect is a wide-ranging programme aimed at bringing the claim application online and increasing automation. Due to its impact on large volumes of claims data, any weaknesses could lead to material errors in the accounts. I identified the following risks to the financial statements: • errors when data was transferred from FSCS's old to new systems could lead to incorrect balances being used in the accounts or incorrect payments being made to claimants; and • newly established controls not operating effectively and not identifying significant errors.	I tested the controls FSCS had in place to mitigate these risks, including: • testing the reconciliation of data transferred as part of Connect; and • reviewing the findings of internal audit in relation to the operation of controls in the new system and conducting additional assessment of how effective these controls have operated. I also performed a sample test of compensation payments sufficient to ensure they were materially accurate. The results of my testing in this area was satisfactory and I have no matters that I need to raise.

Risk	My response
Completeness and valuation of recovery receivables FSCS recovers funds from the administrators of failed firms' estates to offset compensation that has been paid out to its customers. In line with the accounting standards, an asset must be recognised when there is a realistic expectation that such recoveries will be received from such administrators. I identified the valuation of these assets as a risk because there is a significant degree of judgment and uncertainty in estimating their value and recoverability. In particular, at 1 April 2015, £283m was expected to be received by FSCS from two Icelandic banks (Landsbanki and Kaupthing Singer & Friedlander Limited). The recoveries due from Landsbanki were previously subject to restrictions on the movement of Icelandic króna out of the country.	I tested the controls that FSCS had in place to mitigate these risks, including: • applying professional scepticism in the assessment of the adequacy of management's review of their accounting estimates and assumptions used in calculating the recovery of receivables at the year-end; and • reviewing FSCS's accounting papers to its Audit Committee on the valuation of recoveries. In January 2016, FSCS received £236m from Landsbanki which fully discharged the recoveries due relating to this bank. A further £31m was received from Kaupthing Singer & Friedlander Limited in March 2016. I tested the receipt of these funds and confirmed that they had been correctly accounted for. After accounting for exchange rate fluctuations (the recoveries from Landsbanki were denominated in Icelandic króna), only £43.6m remains outstanding from Icelandic banks at 31 March 2016. In addition, I tested the completeness of other receivables through, for example, trend analysis and comparing to subsequent receipts confirming that these recoveries are materially complete. The results of my testing across these areas were satisfactory and I am comfortable that there is no significant uncertainty regarding the residual balances that the FSCS is still to receive.
Recoveries from Bradford & Bingley In addition to the amounts due from the administrators of failed firms' estates above, £15.7bn was due from Bradford & Bingley plc (B&B). The value of this asset is subject to the winding down of underlying mortgage assets and is therefore sensitive to external factors in the wider economy, such as interest rate rises and movements in house prices. The 2016 Budget confirmed that the holding company of B&B, UK Asset Resolution (UKAR) is exploring a programme of sales designed to raise sufficient proceeds for B&B to repay the £15.7bn debt to FSCS and, in turn, the corresponding loan from HM Treasury.	I tested the controls that FSCS had in place to mitigate these risks, including reviewing management's interaction and scrutiny of information provided to FSCS by UKAR. In addition, I reviewed UKAR's business plan to understanding the forecast winding down of the mortgage book and the book's exposure to credit and other risks. I considered management's assessment of the impact of the proposed sale of the B&B mortgage book. I agreed that this sale did not impact on the valuation of the asset at 31 March 2016. Following this work, I am satisfied that the £15.7bn will be recovered from B&B.

Risk	My response
Revenue recognition Under International Standards on Auditing (UK and Ireland) 240, the Auditor's Responsibility Relating to Fraud in Financial Statements, there is a presumed significant risk of material misstatement owing to fraud arising from revenue recognition. In 2014-15, FSCS recognised a payable for the surplus levy income received compared to the expenditure incurred during the year resulting in a nil result in the performance statement. My work focused on the continued applicability of FSCS's revenue recognition policy rather than a general risk of income manipulation.	I performed procedures to ensure the circumstances and arrangements in place adequately support FSCS's revenue recognition accounting policy. A key component of this is whether the firms to which refunds are owed remain materially stable year on year. I confirmed that the amounts to be returned carried over from 2014-15 were appropriately subtracted from the current year levy. The results of this testing do not indicate any fraud in FSCS's revenue recognition policy.

In addition to these risks I also assessed whether there was any evidence of fraud due to management override of FSCS's control environment, as required by International Standards on Auditing (UK and Ireland). My work in this area did not identify any areas of concern.

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.

Based on my professional judgment, I determined overall materiality for FSCS's financial statements at £86m, which is approximately 0.5% per cent of total assets, a benchmark that I consider to be the principal consideration for users in assessing the financial performance of the entity. I have determined that for income and compensation payments, misstatements of a lesser amount than overall materiality could influence the decisions of users of these financial statements because of an increased sensitivity to misstatements in these areas. I have therefore determined that the level to be applied to these components is £16m which is 1% of the income received by FSCS.

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. 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. Regularity is the principle that income and expenditure should accord with Parliament's intention, whether this be expressed through the relevant legislation, the relevant delegated authority or other aspects of the framework of authorities relevant to the entity.

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.

Total unadjusted audit differences reported to the Audit Committee would have increased expenditure by £0.2 million and decreased net assets by £0.2 million.

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.

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.

Consistency of information in the Annual Report
Under the International Standards on Auditing (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, my knowledge of FSCS 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 that the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee and which I consider should have been disclosed.

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

The directors' assessment of principal risks and future prospects

Under International Standards on Auditing (UK and Ireland), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the directors' disclosures in the Annual Report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least 12 months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters.

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 further 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
5 July 2016

Financial statements of FSCS for the year ended 31 March 2016

Statement of comprehensive income

	Note	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Income:			
Levy income in respect of compensation costs		208,089	237,137
Other levy income		400,599	469,272
Total levy income	*4*	608,688	706,409
Recoveries	*6*	62,780	89,452
Total income		671,468	795,861
Expenditure:			
Compensation costs	*7*	(270,868)	(326,589)
Administrative expenses	*9*	(65,969)	(71,469)
Interest payable	*15*	(336,724)	(397,403)
Net interest on the net defined benefit obligation/(asset)	*21*	(226)	(357)
Total expenditure		(673,787)	(795,818)
Surplus/(deficit) before tax		**(2,319)**	**43**
Surplus/(deficit) after tax		**(2,319)**	**43**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	*21*	2,319	(43)
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 95 to 127 form part of these financial statements.

Statement of financial position of FSCS as at 31 March 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		928	927
Other non-current financial assets	12	15,794,947	16,339,023
		15,795,875	**16,339,950**
Current assets			
Trade and other receivables	12	382,700	615,043
Cash and cash equivalents	13	343,422	232,353
		726,122	**847,396**
Total assets		**16,521,997**	**17,187,346**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		–	–
Non-current liabilities			
Interest bearing loans and borrowings	15	15,654,509	15,654,509
Other non-current financial liabilities	14	58,448	61,645
Provisions	16	211	448,161
Employee benefit liability	21	4,350	7,675
		15,717,518	**16,171,990**
Current liabilities			
Bank overdraft	13	6,959	13,357
Trade and other payables	14	412,711	576,340
Loan interest payable	15	336,724	397,403
Provisions	16	48,085	28,256
		804,479	**1,015,355**
Total liabilities		**16,521,997**	**17,187,346**
Total equity and liabilities		**16,521,997**	**17,187,346**

The financial statements on pages 92 to 94 were approved by the Board of Financial Services Compensation Scheme Limited (Registered Number 3943048) on 14 June 2016 and signed on its behalf on 4 July 2016 by:

....

Lawrence Churchill
Chairman

The Notes on pages 95 to 127 form part of these financial statements.

Statement of cash flows of FSCS for the year ended 31 March 2016

	Note	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Operating activities			
Net cash generated from operations	18	658,468	1,152,715
Net cash flows from operating activities		**658,468**	**1,152,715**
Investing activities			
Purchases of property, plant and equipment		(205)	(236)
Net cash flows used in investing activities		**(205)**	**(236)**
Financing activities			
Decrease in loans	15	(143,393)	(792,975)
Returns on investments and servicing of finance	15	(397,403)	(445,719)
Net cash flows used in financing activities		**(540,796)**	**(1,238,694)**
Net increase in cash and cash equivalents		117,467	(86,215)
Cash and cash equivalents at 1 April	13	218,996	305,211
Net cash and cash equivalents at 31 March	13	**336,463**	**218,996**

Notes to the financial statements for FSCS for the year ended 31 March 2016

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 powers of the Financial Services Authority (FSA), under FSMA, at midnight on 30 November 2001. The FSA was replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) from 1 April 2013. 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 FCA and the PRA 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 128 to 141.

The principal accounting policies are set out below.

a) Revenue recognition

Compensation cost levy

FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match any difference between the compensation costs which FSCS has incurred net of the recoveries it has recognised as income during the period. Any excess funds are ultimately repayable to the levy payer (with 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 deemed receivable 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 levy revenue raised from authorised firms in respect of management fees to cover the administration costs of FSCS when incurred. 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, making payments, and any other costs which can be directly attributable to a particular class.

As the pension deficit due to the defined benefit plan will eventually 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

Compensation costs are only recognised when the eligibility and quantum of the claim is known, or for reinstatement cases when fully valued. In most cases, this is when the claim has been assessed and a decision has been made, as before that point the eligibility and quantum of the claim cannot be known.

In the case of deposit defaults, Special Administration Regime defaults, and return of premium cases; these do not require an application form or decision to be made by FSCS; therefore, the expenditure is recognised when the firm is declared in default. In addition, compensation costs payable under various Orders (referred to as deemed compensation) are recognised when the firm is declared in default.

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.

FSCS has recognised financial assets in respect of the recoveries receivable from the estates of the 2008/09 banking failures. In accordance with IAS 39 – Financial Instruments: Recognition and Measurement, these financial assets are classified in the 'loans and receivables' category. IAS 39 requires financial assets classified as 'loans and receivables' to be initially measured at fair value and subsequently measured at amortised cost using the effective interest method. On initial measurement, the directors have chosen not to discount the expected future cash flows because doing so would create a difference between the value of the receivable and associated liability to HM Treasury and therefore would not provide a faithful representation of the true economic reality.

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 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 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) Welcome Financial Services Limited (Welcome)

FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of Payment Protection Insurance (PPI) and other 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 under agreed terms. Compensation costs and recoveries are shown in FSCS's statement of comprehensive income. The costs associated with the handling of claims are shown in FSCS's statement of comprehensive income under administrative expenses and are recovered from Welcome Financial Services Limited.

e) 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.

f) 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.

g) Interest receivable

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

h) 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.

i) Third party arrangements as agent

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

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

j) Taxation

FSCS is only liable to pay corporation tax on investment income. The related tax on interest income is charged to the classes as shown in the statement of fund movements.

k) 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. The costs of the money purchase scheme are charged to the statement of comprehensive income as incurred. The pension costs for the defined benefit scheme are accounted for in accordance with IAS 19. Further details are contained in Note 21.

l) Changes in accounting policy

i. New and amended standards adopted by 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 2015 that have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2015 and not early adopted:

In May 2014, the International Accounting Standards Board issued IFRS 15 'Revenue from Contracts with Customers'. This standard is effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. FSCS is currently assessing the impact of IFRS 15 and has not quantified the effect as at the date of the publication of these financial statements.

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact on the company.

3 Accounting judgments 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.

The key areas of judgment and uncertainties identified in the financial statements are:

- In preparing these financial statements, a fundamental judgment has been applied to revenue recognition in respect of levy income. Levy income represents fees to which FSCS deemed it was entitled during the financial year, after taking into account costs associated with running the compensation scheme, including compensation costs less recoveries and management expenses incurred. Any surplus or deficit against levy income in the year is therefore held payable or receivable on the statement of financial position as the intention is to return any surplus, by way of a refund or a reduction in next year's levy, or claim any deficit in the following year;
- the value and expected timing of recoveries through dividends from the estates of the 2008/09 banking failures, as explained in Note 12;
- the provision for net costs of the failure of Dunfermline Building Society (DBS), as explained in Note 16; and
- the current valuation of defined benefit pension deficit, as explained in Note 21.

4 Reconciliation of levy income to the class accounts

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 total of all constituent parts of levy income for the year reported in the statement of comprehensive income (SoCI) with the levies received from levy payers as shown in the classes financial statements.

The table below provides an analysis of the cash levies received associated with each funding class:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Levy income recognised in SoCI		
Levy income in respect of compensation costs	208,089	237,137
Other levy income:		
Levy income in respect of base costs	18,639	17,578
Levy income in respect of specific costs	48,561	55,182
Levy income in respect of loan interest	336,724	397,403
Levy income in respect of pension obligations	(3,325)	(891)
	400,599	**469,272**
Total levy income	**608,688**	**706,409**
Add:		
Exchange (gains)/loss, interest received and tax	(649)	325
Other income	–	–
Movement in class funds during the year (Note 5)	745,099	838,950
Less:		
Movements in recoveries receivable	(268,378)	(471,000)
Pension obligations	3,325	891
Levies received from levy payers as shown in the financial statements of the classes (including base cost levies)	**1,088,085**	**1,075,575**

Of the total levies received from levy payers as shown in the financial statements of the classes, £117,180,000 (2015: £299,000,000) was used to repay loans with HM Treasury (see Note 15).

The table below provides an analysis of the cash levies received associated with each funding class:

Funding class	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
2008/09 banking failures	(48,388)	299,000
Deposits (excluding 2008/09 banking failures)	811,384	561,986
General Insurance Provision	61,975	72,250
General Insurance Intermediation	(117)	39,299
Life and Pensions Provision	–	–
Life and Pensions Intermediation	119,446	34,508
Investment Provision	65	(49,776)
Investment Intermediation	115,761	112,180
Home Finance Intermediation	5,076	2,002
	1,065,202	1,071,449
FCA fee block	11,275	997
PRA fee block	11,608	3,129
	1,088,085	**1,075,575**

5 Movement in class funds

The table below provides an analysis of the net change in funds associated with each funding class and fee blocks.

Funding class	Fund balance as at 31 March 2014 £'000	Fund movements during the year £'000	Fund balance as at 31 March 2015 £'000	Fund movements during the year £'000	Fund balance as at 31 March 2016 £'000
2008/09 banking failures	(16,576,632)	793,189	(15,783,443)	245,586	(15,537,857)
Deposits (excluding 2008/09 banking failures)	(984,573)	150,505	(834,068)	449,906	(384,162)
General Insurance Provision	81,251	(7,331)	73,920	(25,269)	48,651
General Insurance Intermediation	17,800	9,679	27,479	(15,220)	12,259
Life and Pensions Provision	586	(313)	273	(85)	188
Life and Pensions Intermediation	15,818	(6,802)	9,016	29,838	38,854
Investment Provision	29,548	(13,825)	15,723	(1,502)	14,221
Investment Intermediation	79,797	(72,054)	7,743	56,221	63,964
Home Finance Intermediation	236	(646)	(410)	1,382	972
	(17,336,169)	852,402	(16,483,767)	740,857	(15,742,910)
Base costs – FCA fee block	7,026	(7,792)	(766)	1,955	1,189
Base costs – PRA fee block	4,715	(5,660)	(945)	2,287	1,342
	(17,324,428)	838,950	(16,485,478)	745,099	(15,740,379)

6 Reconciliation of recoveries income to the class accounts

In FSCS's financial statements, recognition of recoveries includes 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). Recoveries in the class financial statement are recognised when cash or notification is received and agreed in respect of dividends from insolvency practitioners.

Recoveries recognised in the statement of comprehensive income of FSCS is analysed as below:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Other defaults	26,815	79,313
2008/09 banking failures	35,965	10,139
	62,780	**89,452**

The table below reconciles the recoveries in the statement of comprehensive income (SoCI) and class financial statements:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Recoveries as shown in the financial statements of the classes	331,158	560,452
Movements in recoveries receivable	(268,378)	(471,000)
Recoveries recognised in SoCI	**62,780**	**89,452**

The movements in recoveries receivable represents the movement in the estimated amount of recoveries FSCS expects to receive in the future, after taking into consideration the cash distributions received from the estates of firms declared in default and any other relevant information we receive from the administrators of those estates. A detailed breakdown of this can be found in Note 12.

7 Compensation costs

The table below provides an analysis of the compensation cost by funding class.

Funding class	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
2008/09 banking failures	16	44
Deposits (excluding 2008/09 banking failures)	8,632	116
General Insurance Provision	87,586	85,027
General Insurance Intermediation	8,991	21,126
Life and Pensions Provision	(16)	16
Life and Pensions Intermediation	83,810	35,249
Investment Provision	1,637	210
Investment Intermediation	77,108	183,127
Home Finance Intermediation	3,104	1,674
Total compensation cost	**270,868**	**326,589**

8 Management expenses and interest payable

Management expenses and interest payable incurred by FSCS which were specifically levied to levy payers are shown in the table below by levy class:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Deposits – Management expenses	16,303	13,763
Deposits – Interest payable	336,724	397,403
General Insurance Provision	3,851	3,035
General Insurance Intermediation	9,112	12,984
Life and Pensions Provision	101	298
Life and Pensions Intermediation	5,957	6,612
Investment Provision	199	292
Investment Intermediation	12,447	17,224
Home Finance Intermediation	590	974
Amount allocated – specific costs and interest	**385,284**	**452,585**
Amount allocated – base costs	**18,641**	**17,578**
Total management expenses and interest payable	**403,925**	**470,163**

9 Administrative expenses

	Note	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Staff costs	*10*	15,457	15,487
IT maintenance costs		3,195	2,105
Outsourcing costs		14,370	11,188
Welcome costs		751	1,233
Change programme costs		10,998	17,214
Depreciation – owned assets		205	297
Press and communications		4,131	4,108
Auditor's remuneration			
Statutory audit of the financial statements		171	177
Other audit services		–	9
Legal and professional fees		5,898	7,179
Bank charges		3,629	3,953
Operating lease rentals		510	536
Other		6,654	7,983
		65,969	**71,469**

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

10 Staff costs

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Wages and salaries, including the executive directors	10,941	11,170
Social security costs	1,301	1,349
Other pension costs	3,215	2,968
	15,457	**15,487**

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:

Executive Committee and Internal Audit	6
Operations	100
Non-operations	87
Year ended 31 March 2016	**193**
Year ended 31 March 2015	**203**

Non-operations include Corporate Affairs, Customer Team, Finance, People Team, and Facilities.

The overall decrease in headcount is due to the restructure relating to the Connect programme announced last year, the impact of which was observable in the year ending 31 March 2016.

11 Directors' remuneration

During the year, there had been an average of eight independent non-executive directors (2015: eight) and three executive directors (2015: three). As at 31 March 2016, there were eight independent non-executive directors (2015: eight) and four executive directors (2015: three). Total remuneration paid to directors is as follows:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Aggregate remuneration	1,027	1,128
Pension contributions – money purchase	108	95
	1,135	**1,223**

Retirement benefits during the year accrued to one director (2015: one) under FSCS's defined benefit scheme and three under the money purchase scheme (2015: three).

The highest paid director, the Chief Executive (2015: the Chief Executive), received aggregate remuneration of £289,227 (comprising basic salary of £256,865, bonus of £32,108 and other emoluments of £254) (2015: £271,142 (comprising basic salary of £251,828, bonus of £18,887 and other emoluments of £427)). Contributions to a money purchase arrangement under FSCS's pension scheme have been made of £38,102 (2015: £32,738). 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 (2015: £75,000) and the fees paid to the independent non-executive directors, or their employers, are set at £24,500 per annum (2015: £24,500). Additional fees paid to the chairmen of the Audit Committee, Remuneration and Human Resources Committee, and Risk Committee were set at £5,000 per annum (2015: £5,000). In addition, business related expenses totalling £18,499 (2015: £15,687) 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.

12 Receivables

Trade and other receivables: amounts falling due within one year

	Note	31 March 2016 £'000	31 March 2015 £'000
Amounts due from the FCA	19	1,163	1,983
Levies receivable, net of provision			
General Insurance Provision		1,606	153
General Insurance Intermediation		5	307
Life and Pensions Intermediation		864	19,251
Investment Provision		30	46
Investment Intermediation		344	410
Home Finance Intermediation		32	40
In respect of base costs		39	1
Net amounts due from levy payers in the following classes			
Deposit		337,638	386,039
Home Finance Intermediation		–	371
In respect of base costs		–	1,711
Recoveries receivable in respect of other defaults	14	12,892	20,048
Recoveries receivable in respect of the 2008/09 banking failures		23,757	181,629
Other receivables		306	92
Prepayments		4,024	2,962
		382,700	**615,043**

Other non-current financial assets: amounts falling due after more than one year

	Note	31 March 2016 £'000	31 March 2015 £'000
Amounts due from levy payers of the Deposits class in respect of Dunfermline Building Society	*16*	46,500	448,000
Amounts due from levy payers of the Deposits class in respect of the 2008/09 banking failures		–	–
Amounts due from levy payers in respect of pension deficit		4,350	7,675
Recoveries receivable in respect of the 2008/09 banking failures		15,685,649	15,821,703
Recoveries receivable in respect of other defaults	*14*	58,448	61,645
		15,794,947	**16,339,023**

Following notice served by HM Treasury, FSCS has an obligation to contribute to the costs of resolution of Dunfermline Building Society (DBS), plus interest, but after recoveries, which was financed through levies and recoveries received during the year. The remaining balance will be repaid using recoveries already received. A financial asset of £46,500,000 (2015: £448,000,000) 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.

Total recoveries receivable in respect of other defaults of £71,340,000 (2015: £81,693,000) includes £60,432,000 (2015: £55,016,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class, and £10,908,000 (2015: £26,677,000) from firms declared in default in the Investment Intermediation class. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable (see Note 14).

Total recoveries receivable of £15,709,406,000 (2015: £16,003,332,000) relate to the 2008/09 banking defaults, of which £23,757,000 (2015: £181,629,000) is shown within amounts falling due with one year and £15,685,649,000 (2015: £15,821,703,000) is shown within amounts falling due after more than one year.

The timing and value of recoveries receivable is estimated based on information available to the directors at 31 March 2016 including insolvency practioners' statements of estimated outcome, other reports published as part of the various insolvency processes and legal advice on potential recoveries through litigation; however, the timing and final outcome are uncertain.

The movements in recoveries receivable in the statement of financial position is analysed below:

	Receivable at 31 March 2014 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2015 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2016 £'000
Current recoveries receivable:					
Other defaults	13,140	6,908	20,048	(7,156)	12,892
2008/09 banking failures	481,012	(299,383)	181,629	(157,872)	23,757
Less: Amounts held in Icelandic Escrow account	(37,396)	1,495	(35,901)	35,901	–
Non-current recoveries receivable:					
Other defaults	55,460	6,185	61,645	(3,197)	58,448
2008/09 banking failures	16,007,909	(186,205)	15,821,703	(136,054)	15,685,649
	16,520,125	**(471,000)**	**16,049,124**	**(268,378)**	**15,780,746**

As at 31 March 2016, Bradford & Bingley plc (B&B) owed FSCS £15,654,509,000 (2015: £15,654,509,000) as a result of FSCS's contribution to the cost of resolution. It is expected that the amount owed will be repaid out of the cash flows generated by B&B during its wind-down, which is overseen by UK Asset Resolution (UKAR) on behalf of HM Treasury. These cash flows principally comprise interest and redemptions arising on loans to customers, along with proceeds of asset sales. As B&B did not enter an insolvency process, there is no creditors' committee in which FSCS can participate. While B&B forecasts a full repayment of the FSCS claim, the timing remains uncertain. On 16 March 2016, as part of the Budget announcement, HM Treasury announced that UKAR is exploring a programme of possible asset sales of B&B mortgages. This programme will be designed to raise sufficient proceeds for B&B to repay the £15.7bn debt to FSCS and, in turn, the corresponding loan from HM Treasury. The announcement indicated that sales will be subject to market conditions and achieving value for money.

Balances with other government bodies

Amounts falling due within one year	31 March 2016 £'000	31 March 2015 £'000
Balances with other central government bodies	–	–
Balances with public corporations	1,163	1,983
Sub-total: intra-government balances	**1,163**	**1,983**
Balances with bodies external to government	381,537	613,060
Total receivables	**382,700**	**615,043**

Amounts falling due after more than one year	31 March 2016 £'000	31 March 2015 £'000
Balances with other central government bodies	15,654,509	15,654,000
Sub-total: intra-government balances	**15,654,509**	**15,654,000**
Balances with bodies external to government	140,438	685,023
Total receivables	**15,794,947**	**16,339,023**

13 Cash and cash equivalents, overdraft, facilities and class borrowings

As at 31 March 2016, FSCS had facilities for business purposes of £1,120m, comprising a 364-day sterling revolving credit facility of £1,100m expiring on 21 March 2017, and an overdraft facility of £20m. Any usage of the revolving credit facility is subject to Board approval.

	31 March 2016 £'000	31 March 2015 £'000
Cash at bank	343,422	232,353
	343,422	**232,353**
Bank overdraft	(6,959)	(13,357)
	336,463	**218,996**

Cash book balances which include cheques or other effects that 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 £18,630,000 (2015: £30,924,000) received from Welcome Financial Services Limited referred to in Note 2(d). 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 and 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.

The recast Deposit Guarantee Schemes Directive requires FSCS to have ex-ante funding of at least 0.8 per cent of the amount of covered deposits of its members (to be built up by 2024). The Government confirmed its intention to use the existing bank levy to meet this funding requirement. FSCS will access funds from HM Treasury, through the National Loans Fund or any other appropriate source, for a term and at an interest rate to be agreed at the time. The amount of the borrowing facility available to FSCS is determined by HM Treasury. As at 31 March 2016, this facility was not utilised. Any amounts drawn from this facility will be repaid by means of FSCS levies on the Deposits class in subsequent years.

14 Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2016 £'000	31 March 2015 £'000
Compensation payable		671	4,598
Net amounts held on behalf of levy payers			
Deposits		–	–
General Insurance Provision		50,257	74,072
General Insurance Intermediation		12,264	27,786
Life and Pensions Provision		187	274
Life and Pensions Intermediation		39,718	28,265
Investment Provision		14,251	15,768
Investment Intermediation		64,307	8,152
Home Finance Intermediation		1,003	–
Social security and other taxes		379	399
Due to claimants and/or Welcome		16,865	28,893
Accruals		9,132	9,620
Deferred income in respect of base costs		2,569	–
Deferred income in respect Independent Insurance		4,580	–
Amounts due to HM Treasury	19	9,087	27,564
Loans	15	–	143,393
Net amounts due to levy payers in respect of recoveries receivable	12	12,892	20,048
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures		171,549	183,988
Other payables		3,000	3,520
		412,711	**576,340**

Non-current liabilities: amounts falling due after more than one year

	Note	31 March 2016 £'000	31 March 2015 £'000
Amounts due to HM Treasury			
Loans	15	15,654,509	15,654,509
Net amounts due to levy payers in respect of recoveries receivable	12	58,448	61,645
		15,712,957	**15,716,154**

The £9,087,000 (2015: 27,564,000) due to HM Treasury includes an amount of £3,125,000 (2015: £3,125,000) that relates to loans drawn down in advance of compensation payments.

The £16,865,000 (2015: £28,893,000) due to claimants and/or Welcome relates to payments received from Welcome. As explained in accounting policies (Note 2(d)), 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.

The £171,549,000 (2015: £183,988,000) due to levy payers of the Deposits class in respect of the 2008/09 banking failures represents the current fund balance of that class after taking into account the future recoveries FSCS expects to receive from the estates of those firms declared in default (the timing and final outcome is uncertain). Once the final outcome is known and the recoveries have been received, any excess funds will be repayable to the levy payers, by way of a return or a reduction in future years' levy, in accordance with FSCS's funding rules.

Balances with other government bodies

Amounts falling due within one year	31 March 2016 £'000	31 March 2015 £'000
Balances with other central government bodies	9,466	171,356
Sub-total: intra-government balances	**9,466**	**171,356**
Balances with bodies external to government	403,245	404,984
Total payables	**412,711**	**576,340**

Amounts falling due after more than one year	31 March 2016 £'000	31 March 2015 £'000
Balances with other central government bodies	15,654,509	15,654,509
Sub-total: intra-government balances	**15,654,509**	**15,654,509**
Balances with bodies external to government	58,448	61,645
Total payables	**15,712,957**	**15,716,154**

15 Loans

As a result of the 2008/09 banking failures, 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:

	Principal outstanding as at 31 March 2015 £'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 2016 £'000
Loan in respect of:					
Bradford & Bingley Plc	15,654,509	–	–	–	15,654,509
Kaupthing Singer & Friedlander Limited	143,393	(117,180)	(26,213)	–	–
	15,797,902	**(117,180)**	**(26,213)**	–	**15,654,509**

FSCS continues to be an active member of the creditors' committees of the failed banking estates and also continues to receive dividends in respect of these 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. All cash received was used to offset the HM Treasury loans. This has enabled FSCS to pay off the Kaupthing Singer & Friedlander Limited loan during the year ended 31 March 2016, leaving as outstanding only the Bradford & Bingley Plc loan.

Loan interest payable

	Principal outstanding as at 31 March 2016 £'000	Interest outstanding as at 31 March 2016 £'000	Interest outstanding as at 31 March 2015 £'000
Loan in respect of:			
Bradford & Bingley Plc	15,654,509	335,227	384,521
Heritable Bank Plc	–	–	259
Kaupthing Singer & Friedlander Limited	–	1,497	5,043
LBI hf – Icesave	–	–	6,266
London Scottish Bank Plc	–	–	1,314
	15,654,509	**336,724**	**397,403**

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. 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 Bradford & Bingley loan has a target repayment date of 29 February 2024. Under the loan facilities agreed in 2012, FSCS and HM Treasury review the interest rates and target repayment dates 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 original 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. Following a review of the terms and in light of market conditions, the margin on the rate of interest payable for loans outstanding has increased and is calculated at 12 month LIBOR plus 111 basis points, effective from 29 March 2015. 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 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 £336,724,000 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 2016.

16 Provisions

	As at 31 March 2015 £'000	Change in the year £'000	Utilised in the year £'000	Unwinding of discount £'000	As at 31 March 2016 £'000
Compensation cost	27,595	3,162	(29,172)	–	1,585
Dunfermline	448,000	(10,272)	(400,000)	8,772	46,500
Other	822	50	(661)	–	211
Total provisions	**476,417**	**(7,060)**	**(429,833)**	**8,772**	**48,296**
Current	28,256	49,662	(29,833)	–	48,085
Non-current	448,161	(56,722)	(400,000)	8,772	211
	476,417	**(7,060)**	**(429,833)**	**8,772**	**48,296**

Compensation cost provision

Compensation costs include £1,585,000 estimated for Alpari (UK) Limited. This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the amount of these claims using the best information available to the directors at this time. There are significant judgments which had to be made in arriving at this estimate and the final outcome could be significantly different.

Dunfermline Building Society

Following notice served by HM Treasury, FSCS has an obligation to contribute to the costs of resolution of Dunfermline Building Society (DBS), plus interest, but after recoveries, which will be 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 FSCS's contribution. HM Treasury appointed an independent valuer to work out what recoveries FSCS would have received had there been a payout by FSCS to DBS's approximately 260,000 depositors in the event of insolvency. FSCS has decreased the provision in the financial statements for the year ended 31 March 2016 to £46,500,000 (2015: £448,000,000) based on the best information available to the directors at this time. The provision takes account of interim payments totalling £400,000,000 which were made to HM Treasury during the year. In accordance with our accounting policy, the provision has been calculated by 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. The final outcome may be different however, and the final amounts, once agreed, may potentially result in a significant adjustment to the provision being required. When FSCS is notified by HM Treasury of the final agreed contribution required, the provision will be updated accordingly and the corresponding change made to the compensation cost. This amount will be due to HM Treasury and, as shown in Note 12, recoverable from the levy payers in the Deposits class.

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 fail to discharge an obligation or commitment that it has entered into with FSCS, resulting in a financial loss to FSCS. FSCS's principal financial assets are cash and cash equivalents, together with levies and recoveries receivables.

FSCS's credit risk falls into three main categories:

i. the collection of levies from the financial services industry: the FCA, who collect the levies on behalf of FSCS, has a strong record in collecting levies;

ii. the placement of those levies as deposits with various counter-parties: FSCS only invests with those financial institutions that meet its minimum credit rating as assigned by credit rating agencies; and

iii. recoveries receivable from claims against institutions where FSCS has paid compensation (most often made through an insolvency process).

Any credit risk to FSCS is mitigated by the ability to raise levies on the financial services industry as whole, therefore any loss due to credit risk will be absorbed by the levy payers.

FSCS considers its most significant credit risk to be the exposure to Bradford & Bingley plc (B&B) failing to meet its obligations. This risk is monitored on a monthly basis by the Executive Team. Refer to Note 12 for further details.

Liquidity risk

Liquidity risk is the risk that FSCS is unable to meet its 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, £1,120m of facilities, comprising a 364-day sterling revolving credit facility of £1,100m expiring on 21 March 2017, 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.

In the event that FSCS is unable to raise sufficient levies and the facilities mentioned above do not provide adequate funds, FSCS would request a loan from HM Treasury.

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 2008/09 banking failures, 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 onto and absorbed by the levy payers.

The table below summaries the maturity profile of the company's financial liabilities based on contractual undiscounted payments.

As at 31 March 2016	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	–	–	–	–	15,654,509	15,654,509
Trade and other payables	42	12,468	400,201	58,448	–	471,159
Loan interest payable	–	–	336,724	1,750,675	1,402,394	3,489,793
	42	**12,468**	**736,925**	**1,809,123**	**17,056,903**	**19,615,461**

As at 31 March 2015	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	–	–	143,393	–	15,654,509	15,797,902
Trade and other payables	106	13,432	562,801	61,645	–	637,984
Loan interest payable	–	–	397,403	1,996,062	2,011,589	4,405,054
	106	**13,432**	**1,103,597**	**2,057,707**	**17,666,098**	**20,840,940**

Currency risk

FSCS is recovering funds from a number of institutions where the recoveries will be in foreign currencies. Changes in the exchange rate for Icelandic króna, US dollars or euros may affect the value recovered.

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 the 2008/09 banking failures 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 2016 £'000	As at 31 March 2015 £'000	As at 31 March 2016 £'000	As at 31 March 2015 £'000
Financial assets				
Recoveries receivable in respect of the 2008/09 banking failures	15,709,406	15,967,431	15,357,774	13,453,465
Financial liabilities				
Loans	15,654,509	15,797,902	16,910,467	17,124,853

The difference between the fair values of the recoveries receivable in respect of the 2008/09 banking failures and the loans is predominantly attributable to the present value of loan interest payable. This difference is funded by levy payers in the Deposits class.

18 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:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Surplus on ordinary activities before interest and tax	334,405	397,446
Depreciation	205	297
Loss on disposal	–	–
Decrease/(increase) in receivables	776,418	738,576
Increase/(decrease) in payables	(23,433)	93,024
Difference between pension charge and cash contributions	(1,006)	(934)
Increase/(decrease) in provisions for liabilities and charges	(428,121)	(75,694)
Net cash inflow from operating activities	**658,468**	**1,152,715**

19 Transactions with related parties

During the year, FSCS entered into transactions with the FCA as a related party. The FCA and PRA appoint, and have the right to remove, directors to the Board of FSCS and they establish the rules under which FSCS operates. The FCA and PRA are considered to be related parties but not controlling parties 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 £1,070,734,000 (2015: £1,144,345,000) including £749,984,000 raised as a levy for the interest and capital repayment on the loans relating to the 2008/09 banking failures, on 25 July 2015. Related collections of £1,088,020,000 (2015: £1,123,546,000) were received. The agency fee for the service was £294,000 (2015: £354,000).

Overall, payments less receipts of £1,088,840,000 (2015: £1,125,127,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2016 of £1,163,000 (2015: £1,983,000).

During the year, FSCS did not enter into any transactions with the PRA.

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 – Loans. During the year, commitment fees of £nil (2015: £nil) and administration fees of £nil (2015: £9,000) were paid to HM Treasury.

At 31 March 2016, FSCS owed HM Treasury £9,087,000 (2015: £27,564,000) due to loans drawn down in advance of compensation payments of £3,125,000 (2015: £3,125,000) and £5,962,000 (2015: £24,439,000) relating to the HM Treasury share of dividends declared or received from insolvent estates (see Note 14).

FSCS has also made a provision at 31 March 2016 of £46,500,000 (2015: £448,000,000) 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).

20 Contingent liabilities

There are no material contingent liabilities identified at the reporting date.

21 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 £1,635,000 and £121,000 was outstanding to be paid at 31 March 2016 (2015: £1,681,000 and £150,000 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 2016 % (p.a.)	31 March 2015 % (p.a.)
Discount rate	3.30	3.20
Salary increase rate	N/A	N/A
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.10	3.10
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	2.00	2.00
RPI inflation assumption	3.20	3.20
CPI inflation assumption	2.20	2.20

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: 105 per cent S2PMA light for males and 78 per cent S2PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2014, with a 1.50 per cent per annum long-term trend rate for males and 1.25 per cent per annum long-term trend rate for females from 2008 onwards, allowing for individual members' year of birth.

For the 31 March 2016 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 2016. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2016 disclosures, 80 per cent of male and 75 per cent of female members are assumed to have eligible adult dependents of the opposite sex, with males assumed to be three years older than females.

The assumptions were chosen by FSCS, with professional advice.

At 31 March 2016 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 2016	Quoted £'000	Unquoted £'000	Total £'000
Global equities	13,090	–	13,090
Property	–	1,888	1,888
Indexed-linked gilts	3,573	–	3,573
UK corporate bonds	2,391	–	2,391
Hedge funds	–	101	101
Diversified growth funds	–	2,158	2,158
Cash and net current assets	128	–	128
Total assets	**19,182**	**4,147**	**23,329**

As at 31 March 2015	Quoted £'000	Unquoted £'000	Total £'000
Global equities	12,151	–	12,151
Property	–	1,636	1,636
Indexed-linked gilts	3,423	–	3,423
UK corporate bonds	2,312	–	2,312
Hedge funds	–	1,401	1,401
Diversified growth funds	–	–	–
Cash and net current assets	1,412	–	1,412
Total assets	**19,298**	**3,037**	**22,335**

The assets as at 31 March 2016 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 management 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. FSCS actively monitors the duration and the expected yield of the investments that 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 2016 £'000	31 March 2015 £'000
Fair value of assets	23,329	22,335
Present value of obligations	(27,679)	(27,194)
Funded status	**(4,350)**	**(4,859)**
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling')	–	(2,816)
Net defined benefit asset/(obligation)	**(4,350)**	**(7,675)**

Movement in net defined benefit asset/(obligation) over the year	31 March 2016 £'000	31 March 2015 £'000
Net defined benefit asset/(obligation) at beginning of the year	(7,675)	(8,566)
Employer contributions	1,634	1,611
Expense recognised in income statement	(628)	(677)
Remeasurement gain/(loss) recognised in other comprehensive income	2,319	(43)
Net defined benefit asset/(obligation) at end of the year	(4,350)	(7,675)

Changes in effect of the asset ceiling over the year	31 March 2016 £'000	31 March 2015 £'000
Adjustment at beginning of the year	(2,816)	(6,309)
Interest income	(90)	(284)
Change in adjustment in excess of interest	2,906	3,777
Adjustment at the end of the year	–	**(2,816)**

IFRIC 14 is an interpretation of existing paragraph IAS 19.64, which deals with the level of net pension asset recognisable on a company's balance sheet. IFRIC 14 also requires consideration of minimum funding commitments a company has made to its pension scheme and whether this gives rise to an additional balance sheet liability.

During the year, the Pension Scheme's Definitive Trust Deed and Rules was amended which provides FSCS with an unconditional right to a refund of surplus in the context of IFRIC 14 paragraphs 11(b) and 12. The consequent removal of the asset ceiling adjustment has reduced the net benefit obligation by £2,816,000.

Changes in present value of the defined benefit obligation	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Opening defined benefit obligation	27,194	20,443
Interest cost	863	914
Distributions	(440)	(276)
Experience (gains)/losses	630	–
Losses (gains) on curtailments	–	–
Actuarial (gains)/losses	(568)	6,113
Closing defined benefit obligation	**27,679**	**27,194**

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%	29,504
Discount rate increased by	0.25%	25,999
Inflation and associated pension increases increased by	0.25%	29,085
Inflation and associated pension increases reduced by	0.25%	29,159
Life expectancy decreased by	one year	28,510

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. 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 2016 £'000	Year ended 31 March 2015 £'000
Opening fair value of assets	22,335	18,186
Contributions paid by employer	1,634	1,611
Interest income	727	841
Return on Scheme assets excluding interest income	(525)	2,293
Distributions	(440)	(276)
Administration expenses	(402)	(320)
Closing fair value of assets	**23,329**	**22,335**

Expenses recognised in the income statement	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Administration expenses	402	320
Net interest on the net defined benefit obligation/(asset)	226	357
Total expense/(income)	**628**	**677**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Return on Pension Scheme assets excluding interest income	(525)	2,293
Experience (losses) arising on the Pension Scheme liabilities	(630)	–
Changes in financial assumptions underlying the present value of the Pension Scheme liabilities	634	(6,113)
Changes in demographic assumptions underlying the present value of the Pension Scheme liabilities	(66)	–
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling') in excess of interest	2,906	3,777
Net actuarial losses recognised in the period	**2,319**	**(43)**

	£'000
Best estimate of employer contributions to be paid over following year	1,920
Expected future benefit payments	
Year ending 31 March 2016	166
Year ending 31 March 2017	259
Year ending 31 March 2018	258
Year ending 31 March 2019	262
Year ending 31 March 2020	297
Five years ending 31 March 2025	2,957

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 aim 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 2015; however, the actuaries' report on the valuation has not yet been finalised. The latest view of the deficit for the 2015 funding valuation has been calculated on principles consistent with the 2012 valuation, updated for more recent life expectancy information. On the basis of this preliminary valuation, FSCS has agreed to temporarily increase the deficit repair contributions to £1.9m from April 2016. The formal contribution level will be determined when the final valuation report is received, expected in July 2016.

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 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 25 years.

22 Other disclosures

HM Treasury has issued an Accounts Direction requiring FSCS to disclose the following information:

Sickness absence

FSCS actively promotes the health, safety and well-being of its staff, aware this helps to boost morale, staff engagement and, in turn, excellent performance. The average number of working days lost to sickness absence during the year to 31 March 2016 was 7.1 days per person (2015: 5.7 days per person).

Exit packages

FSCS is required to disclose summary information of the 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, and exit packages are accounted for in full in the year of departure.

Exit package cost band	Number of compulsory redundancies Year ended 31 March 2016	Number of other departures agreed Year ended 31 March 2016	Total number of exit packages by cost band Year ended 31 March 2016	Total number of exit packages by cost band Year ended 31 March 2015
<= £10,000	–	–	–	7
£10,001–£25,000	–	1	1	14
£25,001–£50,000	–	1	1	13
£50,001–£100,000	–	3	3	11
£100,001–£150,000	–	1	1	–
£150,001–£200,000	–	–	–	–
Over £200,001	–	–	–	–
Total number of exit packages by type	–	**6**	**6**	**45**
Total resource cost (£'000)	–	**381**	**381**	**1,505**

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 our own internal procedures.

Special severance payments

There were no special severance payments paid out during the year to 31 March 2016 (2015: seven payments totalling £30,900).

Losses and special payments

There were no losses or special payments during the year to 31 March 2016 exceeding £300,000 individually or in total.

Financial Services Compensation Scheme: Classes

Financial statements for the year ended 31 March 2016

The powers of the FCA and the PRA (previously the FSA) under the FSMA became effective as at midnight on 30 November 2001.

Under the relevant rules set out in the FCA Handbook and PRA Rulebook, for funding purposes, and effective from 1 April 2013, FSCS is split into classes, comprising: Deposits (Class A); General Insurance Provision (Class B1); General Insurance Intermediation (Class B2); Life and Pensions Provision (Class C1); Life and Pensions Intermediation (Class C2); Investment Provision (Class D1); Investment Intermediation (Class D2); and Home Finance Intermediation (Class E2). 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 2016, with comparatives, including the equivalent fund balances for the year ended 31 March 2015, 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
4 July 2016

Report of the Independent Auditors of Financial Services Compensation Scheme: Classes to the Directors of Financial Services Compensation Scheme

I have audited the financial statements of Financial Services Compensation Scheme: Classes for the year ended 31 March 2016 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 85, the directors of 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 FSCS, in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Sections 27 to 28); and
- the PRA-FSCS Memorandum of Understanding (Sections 34 to 35).

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 Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Sections 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Sections 34 to 35); and
- the accounting policies set out on pages 138 to 139.

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 2016 have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Sections 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Sections 34 to 35); and
- the accounting policies set out on pages 138 to 139.

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 required for my audit.

....

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP
5 July 2016

FSCS classes:
Statement of fund movements for the year ended 31 March 2016

Funding sub-class code	Total		Compensation costs net of recoveries relating to the 2008/09 banking failures		Deposits SA01		General Insurance Provision SB01	
	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000
Compensation and interest	**(270,868)**	(326,589)	(16)	(44)	(8,632)	(116)	(87,586)	(85,027)
Exchange gain/(loss)	**550**	(452)	–	–	–	(938)	66	210
Other income	–	–	–	–	–	–	–	–
Recoveries received	**331,158**	560,452	293,990	494,233	83	620	4,126	8,268
	60,840	233,411	293,974	494,189	(8,549)	(434)	(83,394)	(76,549)
Attributable management costs:								
Specific costs	**(48,561)**	(55,182)	–	–	(16,303)	(13,763)	(3,851)	(3,035)
Specified Deposit Defaults interest	**(336,724)**	(397,403)	–	–	(336,724)	(397,403)	–	–
	(385,285)	(452,585)	–	–	(353,027)	(411,166)	(3,851)	(3,035)
Interest received:								
Gross before tax	**123**	159	–	–	122	149	1	4
Tax at 20%	**(24)**	(32)	–	–	(24)	(30)	(0)	(1)
	99	127	–	–	98	119	1	3
Levies received	**1,065,202**	1,071,449	(48,388)	299,000	811,384	561,986	61,975	72,250
Cross-subsidy transfer	–	–	–	–	–	–	–	–
Repayment of recoveries	–	–	–		–		–	
Funds brought forward	(16,483,768)	(17,336,170)	(15,783,443)	(16,576,632)	(834,068)	(984,573)	73,920	81,251
Funds carried forward	**(15,742,912)**	**(16,483,768)**	**(15,537,857)**	**(15,783,443)**	**(384,162)**	**(834,068)**	**48,651**	**73,920**

	General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Provision SD01		Investment Intermediation SD02		Home Finance Intermediation SE02	
	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000
	(8,991)	(21,126)	16	(16)	(83,810)	(35,249)	(1,637)	(210)	(77,108)	(183,127)	(3,104)	(1,674)
	22	61	0	1	26	34	37	95	399	85	0	–
	–	–	–	–	–	–	–	–	–	–	–	–
	2,978	4,428	–	–	133	517	232	36,356	29,616	16,030	–	–
	(5,991)	(16,637)	16	(15)	(83,651)	(34,698)	(1,368)	36,241	(47,093)	(167,012)	(3,104)	(1,674)
	(9,112)	(12,984)	(101)	(298)	(5,957)	(6,612)	(199)	(292)	(12,447)	(17,224)	(590)	(974)
	–	–	–	–	–	–	–	–	–	–	–	–
	(9,112)	(12,984)	(101)	(298)	(5,957)	(6,612)	(199)	(292)	(12,447)	(17,224)	(590)	(974)
	–	1	–	0	–	1	–	2	–	2	–	(0)
	–	(0)	–	(0)	–	(1)	–	(0)	–	(0)	–	0
	–	1	–	0	–	0	–	2	–	2	–	(0)
	(117)	39,299	–	–	119,446	34,508	65	(49,776)	115,761	112,180	5,076	2,002
	–	–	–	–	–	–	–	–	–	–	–	–
	–		–		–		–		–		–	
	27,479	17,800	273	586	9,016	15,818	15,723	29,548	7,743	79,797	(410)	236
	12,259	**27,479**	**188**	**273**	**38,854**	**9,016**	**14,221**	**15,723**	**63,964**	**7,743**	**972**	**(410)**

FSCS classes:

Statement of assets and liabilities at 31 March 2016

Funding sub-class code	Total		Compensation costs net of recoveries relating to the 2008/09 banking failures		Deposits SA01		General Insurance Provision SB01	
	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000
Current assets								
Net amounts due from FSCS	**183,926**	145,859	–	–	–	–	50,645	80,115
Taxation	–	–	–	–	–	–	–	–
Term deposits and cash at bank	**134,035**	13,570	–	–	133,960	13,230	74	340
	317,961	159,429	–	–	133,960	13,230	50,719	80,455
Current liabilities								
Net amounts due to FSCS	**(470,614)**	(398,771)	–	–	(470,614)	(398,568)	–	–
Taxation	**(24)**	(32)	–	–	(24)	(30)	(0)	(1)
Bank overdrafts	**(5,878)**	(12,952)	–	–	(984)	(700)	(2,068)	(6,534)
	(476,516)	(411,753)	–	–	(471,622)	(399,298)	(2,068)	(6,535)
Long-term liabilities								
Net amounts due to FSCS	**(15,584,357)**	(16,231,443)	(15,537,857)	(15,783,443)	(46,500)	(448,000)	–	–
Total net assets/ (liabilities)	**(15,742,912)**	**(16,483,768)**	**(15,537,857)**	**(15,783,443)**	**(384,162)**	**(834,067)**	**48,651**	**73,919**

General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Provision SD01		Investment Intermediation SD02		Home Finance Intermediation SE02	
2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000
12,284	27,681	188	273	39,780	10,738	14,375	15,723	65,626	11,330	1,029	
–	–	–	–			–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
12,284	27,681	188	273	39,780	10,738	14,375	15,723	65,626	11,330	1,029	–
–	–	–	–	–	–	–	–	–	–	–	(202)
–	(0)	–	(0)	–	(1)	–	(0)	–	(0)	–	0
(25)	(202)	(0)	–	(926)	(1,721)	(154)	(0)	(1,662)	(3,587)	(57)	(208)
(25)	(202)	(0)	(0)	(926)	(1,722)	(154)	(0)	(1,662)	(3,587)	(57)	(410)
–	–	–	–	–	–	–	–	–	–	–	–
12,259	**27,479**	**188**	**273**	**38,854**	**9,016**	**14,221**	**15,721**	**63,964**	**7,743**	**972**	**(410)**

FSCS classes:

Statement of base costs and related levies at 31 March 2016

Base cost fund account	FCA fee block													
	Total		Minimum fee A000		FCA prudential fee AP00		Deposit takers A001		Home Finance providers A002		General Insurance A003		Life Insurance A004	
	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000
Levies received	**11,275**	997	500	114	427	199	1,749	390	446	119	643	141	1,080	229
Base costs allocated	**(9,320)**	(8,789)	(399)	(384)	(357)	(333)	(1,418)	(1,329)	(363)	(341)	(519)	(486)	(874)	(821)
Balance at 1 April 2015	**(766)**	7,026	(35)	235	(23)	111	(149)	790	(33)	189	(53)	292	(89)	503
Funds carried forward	**1,189**	**(766)**	**66**	**(35)**	**47**	**(23)**	**182**	**(149)**	**50**	**(33)**	**71**	**(53)**	**117**	**(89)**

Base cost fund account	PRA fee block									
	Total		Deposit takers PA01		General Insurance PA03		Life Insurance PA04		Society of Lloyd's PA06	
	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000
Levies received	**11,607**	3,129	7,975	1,397	1,587	806	1,950	886	94	40
Base costs allocated	**(9,320)**	(8,789)	(6,425)	(6,091)	(1,249)	(1,144)	(1,570)	(1,482)	(76)	(71)
Balance at 1 April 2015	**(945)**	4,715	(1,182)	3,512	198	536	40	636	(0)	31
Funds carried forward	**1,342**	**(945)**	**368**	**(1,182)**	**536**	**198**	**420**	**40**	**18**	**(0)**

	FCA fee block																	
	Society of Lloyd's A006		Fund managers A007		Operators/ trustees collective investment schemes A009		Firms dealing as principal A010		Advising/ arranging (not holding client money) A013		Corporate Finance advisers A014		Home Finance mediation A018		General Insurance mediation A019		Firms holding client money or assets, or both A021	
	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000	2015/ 16 £'000	2014/ 15 £'000
	8	2	1,202	365	242	139	1,341	(1,021)	1,857	575	323	100	458	109	709	19	289	(482)
	(6)	(6)	(943)	(926)	(273)	(286)	(1,052)	(985)	(1,573)	(1,450)	(288)	(269)	(357)	(335)	(590)	(552)	(307)	(286)
	1	5	(58)	503	(3)	144	(208)	1,798	(19)	856	4	173	(37)	189	(63)	470	(1)	767
	3	**1**	**201**	**(58)**	**(34)**	**(3)**	**81**	**(208)**	**265**	**(19)**	**39**	**4**	**64**	**(37)**	**56**	**(63)**	**(19)**	**(1)**

The financial statements on pages 132 to 137 were approved by the Board of Financial Services Compensation Scheme Limited, as designated Scheme Manager of the classes, on 14 June 2016 and signed on its behalf on 4 July 2016 by:

....

Lawrence Churchill
Chairman

FSCS: Notes to the classes financial statements for the year ended 31 March 2016

1 Accounting policies

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

a) Basis of accounting

FSCS must to keep accounts which show:

1) the funds held to the credit of each class; and

2) 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 FCA and PRA rules to recover management expenses and compensation costs on behalf of the classes. The financial statements have been prepared on a going concern basis in accordance with Note 2 of FSCS's financial statements and:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Sections 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Sections 34 to 35); and
- the accounting policies set out here and overleaf.

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, 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 management expenses not attributable to any particular class, and specific costs, which are the remaining costs which cover the handling, payment of compensation, and any other costs which can be directly attributable to a particular class. The specific costs are allocated by FSCS to each class and in accordance with the levy principles contained within the relevant rules of the FCA Handbook and PRA Rulebook. The base costs are not allocated to classes but are shown against the FCA and PRA fee blocks by which they are levied.

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 and/or the 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 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 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) Welcome Financial Services Limited (Welcome)

FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of Payment Protection Insurance (PPI) and other 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 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.

k) Accounting judgments 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 3 of FSCS's financial statements.

2 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 and PRA fee blocks under the FCA and the PRA rules.

3 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 2016, 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 2016 of £74,000 (2015: £340,000) are included within term deposits and cash at banks in the General Insurance Provision class statement of assets and liabilities.

4 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 reduced by £401,500,000 in the financial statements of FSCS for the year ended 31 March 2016, and is recoverable from the Deposits class. In the financial statements of the classes, this amount has been shown as a creditor in the Deposits 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.

5 Welcome Financial Services Limited (Welcome)

Compensation costs of £2,358,000 (2015: £2,487,000) and management expenses of £452,000 (2015: £1,213,000) relating to Welcome PPI payments were incurred in the year. In addition, compensation costs of £19,000 (2015: £107,000) and management expenses of £113,000 (2015: £232,000) relating to Welcome non-PPI payments were incurred in the year. This is shown under the Insurance Intermediation class in the statement of fund movements for the year ended 31 March 2016. These amounts have been recovered from Welcome Financial Services Limited.

By phone on:
0800 678 1100 or
020 7741 4100

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

By post to:
Financial Services
Compensation Scheme
10th Floor
Beaufort House
15 St Botolph Street
London EC3A 7QU

Online enquiry form

Email:
enquiries@fscs.org.uk

ISBN 978-1-4741-3351-7

Design: Rob Levison

Photography: Jody Kingzett

Production: Loveurope

Proofreading: Accuracy Matters

Print: Williams Lea