

**FINANCIAL SERVICES COMPENSATION SCHEME LIMITED**

**DIRECTORS' REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2007**



Registered no 3943048

## **FINANCIAL STATEMENTS**

of Financial Services Compensation Scheme Limited for the year ended 31 March 2007

### **Directors' report**

The directors of Financial Services Compensation Scheme Limited (FSCS) present their seventh report, together with the audited financial statements of the company and its Sub-schemes for the year ended 31 March 2007

### **Principal activities**

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

### **Review of activities and future outlook**

Since receiving its powers under FSMA and the integration of the former compensation schemes at N2, FSCS has continued to fulfil its responsibilities throughout the year. Future outlook matters are referred to in the Chairman's report

### **Business Review**

The company's results show an excess of income over expenditure of £408,000 (2006: excess £382,000), as shown on page 8, and a net actuarial loss arising on the final salary pension scheme assets and liabilities movements of £440,000 (2006: £311,000) in the Statement of Total Recognised Gains and Losses

Management expenses of £27,183,000 (2006: £22,595,000) were incurred in the year of which £26,516,000 (2006: £22,595,000) have been recovered from the Scheme's Sub-schemes, comprising Accepting Deposits, Insurance Business, Designated Investment Business, Mortgage Advice and Arranging and General Insurance Mediation, as shown on pages 25 to 28. A balance of management expenses in the year of £667,000 (2006: £nil) relates to costs of handling Split Capital Investment Trust claims, which is carried forward as a receivable, until such time as cases are handled and the costs allocated fairly to relevant contribution groups for funding purposes, likely to be in 2007/08

A more detailed review of the performance of the company can be found in section 4 of the Annual Report

### **Fixed assets**

The movements in fixed assets during the year are set out in Note 10 to the financial statements

## The directors

Details of the directors all of whom are non-executive unless stated, in the year to 31 March 2007 are as follows

David Hall (Chairman)  
 Loretta Minghella (Chief Executive, and Executive Director)  
 Ronald Devlin, OBE – appointed 1 October 2006 (Executive Director)  
 Sarah Brown, OBE – retired 28 February 2007  
 Terence Connor  
 Alexandra Kinney  
 Richard Pratt  
 Catherine Williams  
 Christopher Woodburn  
 Anthony Ashford – appointed 1 February 2007  
 Rosalind Reston – appointed 1 February 2007

## Directors' emoluments

Total emoluments paid to directors are as follows

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Aggregate emoluments	423	335
Pension contributions	44	33
	<b>467</b>	<b>368</b>

The highest paid director, the current Chief Executive, received aggregate emoluments in the year of £189,118 (comprising basic salary of £180,000 and other emoluments of £9,118 (2006 current Chief Executive £160,000 and £10,443 respectively), and contributions to a defined benefit arrangement under the company's pension scheme have been made of £27,367 (2006 £32,928) The Chief Executive did not receive additional remuneration in respect of the role as director £72,500 was paid to the other executive director since his appointment on 1 October 2006

At the end of the year retirement benefits were accruing for the Chief Executive as a result of participation in the defined benefit scheme from her date of appointment on 6 December 2004, as follows

	Accrued Pension at 1 April 2006 (£ pa)	Accrued Pension at 31 March 2007 (£ pa)	Increase in Accrued Pension (in excess of inflation) (£ pa)	Transfer value of increase £
L C R Minghella	2,220	4,073	1,794	18,175

The pension entitlement is that which would have been paid annually on retirement based on service to the end of the year, on the assumption that the director left service on that date and this excludes any increase for inflation

The fees paid to the Chairman are set at £55,000 per annum (2006 £55,000) and the fees paid to the non-executive directors are set at £17,000 per annum (2006 £17,000). Additional fees paid to the Chairmen of the Audit Committee and Finance and Administration Committee were set at £4,000 per annum (2006 £4,000). The Chairman and the non-executive directors are not entitled to a pension funded by the company.

### **Liability insurance**

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

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the income and expenditure for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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 confirm that the financial statements comply with these requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable it to ensure that the financial statements comply with the Companies Act 1985. 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.

Under Section 234ZA(2) of the Act each of the directors confirm that, insofar as they are aware, there is no relevant audit information for which the Company's and the Scheme's auditors are unaware and that all reasonable steps have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's and the Scheme's auditors are aware of that information.

The maintenance and integrity of FSCS's website is the responsibility of the directors. The directors recognise that uncertainty regarding legal requirements may be compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website, and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

### **Corporate governance and Financial Risk Management**

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained in FSCS's Annual Report on pages 46 to 51.

## **Auditors**

A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as auditors will be put to members at the Annual General Meeting

**By order of the Board**

M Thomas  
Secretary  
22 May 2007

A handwritten signature in black ink, appearing to read 'M Thomas', with a long horizontal stroke extending to the right.

## **Report of the Auditors**

### **Independent auditors' report to the members of Financial Services Compensation Scheme Limited for the year ended 31 March 2007**

We have audited the financial statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2007, which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its result and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' Report is consistent with the financial statements

*PricewaterhouseCoopers W*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
22 May 2007

## FINANCIAL STATEMENTS

for the year ended 31 March 2007

### INCOME AND EXPENDITURE ACCOUNT

	Note	Year ended 31 March 2007	Year ended 31 March 2006
		£'000	£'000
Administrative expenses	3	(26,816)	(22,218)
Interest payable	4	(62)	(72)
Other operating income, comprising		27,309	22,697
Interest receivable and other income	8	126	102
Management expenses recoverable from Sub-schemes	9	26,516	22,595
Other management expenses receivable	11	667	-
<b>Excess of income over expenditure on ordinary activities before tax</b>		<b>431</b>	<b>407</b>
Taxation	8	(23)	(25)
<b>Excess of income over expenditure on ordinary activities after tax</b>		<b>408</b>	<b>382</b>

All the company's operations were continuing. There is no difference between the gains and losses shown above and those prepared under the historical cost basis.

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

	Note	Year ended 31 March 2007	Year ended 31 March 2006
		£'000	£'000
Excess of income over expenditure		408	382
Actuarial loss on pension scheme liabilities	6	(440)	(311)
Total recognised (losses) and gains relating to the year		(32)	71
Prior year adjustment – adoption of FRS 17	6	-	(682)
<b>Total losses recognised since last annual report</b>		<b>(32)</b>	<b>(611)</b>

The Notes on pages 11 to 22 form part of these financial statements

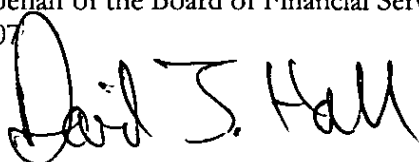


# **BALANCE SHEET AS AT 31 MARCH 2007**

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>	10	<b>2,647</b>	<b>1,711</b>
<b>Current assets</b>			
Debtors amounts falling due within one year	11	14,663	11,319
Cash at bank and short term deposit	12	2,017	2,677
<b>Total current assets</b>		<b>16,680</b>	<b>13,996</b>
<b>Creditors, amounts falling due within one year</b>			
Sub-scheme borrowings	12	(164)	(165)
Creditors and accruals	13	(18,611)	(14,431)
Bank overdraft	12	(182)	(594)
<b>Total current liabilities</b>		<b>(18,957)</b>	<b>(15,190)</b>
<b>Total assets less current liabilities</b>		<b>370</b>	<b>517</b>
<b>Creditors amounts falling due after one year</b>			
Sub-scheme borrowings	12	(199)	(363)
Provision for liabilities and charges	14	(154)	(122)
Amounts payable under finance leases	15	(17)	(32)
		(370)	(517)
<b>Total net assets excluding pension liability</b>		<b>-</b>	<b>-</b>
Pension liability	6	(1,377)	(1,345)
<b>Total net liabilities including pension liability</b>		<b>(1,377)</b>	<b>(1,345)</b>
<b>Reserves</b>	16	<b>(1,377)</b>	<b>(1,345)</b>

Approved for and on behalf of the Board of Financial Services Compensation Scheme  
Limited on 22 May 2007

DAVID HALL  
CHAIRMAN



The Notes on pages 11 to 22 form part of these financial statements

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
31 MARCH 2007**

	<b>Note</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
<b>Net cash inflow from operating activities</b>	17	1,518	1,760
<b>Returns on investment and servicing of finance</b>	18	(64)	(30)
		<b>1,454</b>	<b>1,730</b>
<b>Taxation paid</b>		<b>(26)</b>	<b>(24)</b>
<b>Capital expenditure and financial investments</b>			
Payments to acquire tangible fixed assets		(1,511)	(235)
<b>Net cash outflow from investing activities</b>		<b>(1,511)</b>	<b>(235)</b>
<b>Financing activities</b>			
Sub-scheme borrowings		(165)	(170)
Capital element of finance lease payments		-	(2)
<b>Net cash outflow from financing activities</b>		<b>(165)</b>	<b>(172)</b>
<b>(Decrease)/increase in cash</b>	19	<b>(248)</b>	<b>1,299</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2007

### 1 Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member.

FSCS was formed to be the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA). Its full powers were assumed following the coming into force of powers of the Financial Services Authority (FSA), under FSMA, at midnight on 30 November 2001.

### 2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions, COMP and Fees Rules and applicable accounting standards, on a going concern basis. As shown on the balance sheet, FSCS has negative reserves and an excess of liabilities over assets that arise due to the inclusion of the pension liability and the FSCS pension scheme valued in accordance with the principles set out in FRS 17. This liability is not expected to crystallise for many years and as FSCS has statutory levy raising powers it will be able to meet its liabilities as they fall due. Therefore the directors believe that preparation of the financial statements on a going concern basis is appropriate.

The principal accounting policies are set out below:

#### *a) Administrative expenses*

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

#### *b) Pension scheme payments*

FSCS operates both a defined benefit pension scheme and a money purchase scheme. The costs of the money purchase scheme are charged to the Income and Expenditure Account as incurred. The aggregate pension scheme liability recognised in the balance sheet is the excess present value of the scheme's liabilities over the value of the assets in the scheme. Further details are contained in Note 6.

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

#### *Current service costs*

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

#### *Past service costs*

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

#### *Settlements or curtailments*

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

#### *Net expected return on pension asset*

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

#### *Actuarial Gains and Losses*

The actual return less expected return on pension scheme assets and actuarial movements in pension schemes net of tax which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are shown in the Statement of Total Recognised Gains and Losses.

#### *c) Fixed assets*

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

Computers	60% per annum (reducing balance basis)
Furniture & equipment	33 1/3% per annum (reducing balance basis)
Building improvements	straight-line basis over the periods of the leases, commencing on occupancy

Computer software is expensed when incurred.

#### *d) Levies, compensation costs and other items handled on behalf of Sub-schemes*

The Scheme Manager raises levies which are reflected as amounts due to the relevant Sub-schemes, and receivable from their contribution groups. Compensation offers are accrued at the balance sheet date if they have been made, accepted, and, for re-instatement cases, fully valued. Recoveries notified before the year-end, but not received by that date, are accrued by the Scheme Manager and reflected as amounts payable to, or receivable from, the relevant Sub-scheme and their contribution group(s) in accordance with FSMA and the Fees Rules.

Management expenses comprise base costs, being the costs of running the Scheme, specific costs, which are the remaining costs which cover the handling and payment of compensation costs. These expenses are allocated by the Scheme Manager to each Sub-scheme and contribution group in accordance with the levy principles contained within Fees rules 6.4.5, 6.4.6 and 6.4.7.

#### *e) Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Income and Expenditure Account.

#### *f) Operating leases*

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

*g) Finance leases*

Costs incurred under leases which meet the definition of finance leases are capitalised and depreciated in accordance with the policies shown under (c) above. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Income and Expenditure Accounts, and the capital element, which reduces the outstanding obligation for future instalments.

*h) Provisions*

A provision is recognised in the balance sheet when there is a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cashflows 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.

*i) Legal challenges and costs*

On occasion, legal proceedings are threatened or initiated against FSCS. Provision is made for the estimated full cost in respect of any such challenges 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.

**3 Administrative expenses**

The following amounts are included within administrative expenses

	Note	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Depreciation			
Owned assets		555	427
Assets held under finance leases		20	28
Auditor's fees			
Audit work		84	80
Operating lease rentals	15	1,079	746

**4 Interest payable**

Interest payable comprises

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Sub-scheme interest	21	28
Finance lease interest	41	44
	<b>62</b>	<b>72</b>

## 5 Staff costs

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Aggregate gross salaries, including the Executive Directors together with costs of seconded, contract and long term temporary staff	7,898	6,607
Employer's national insurance contributions	795	658
Employer's pension contributions	1,290	968
	<b>9,983</b>	<b>8,233</b>

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

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

	Year ended 31 March 2007	Year ended 31 March 2006
Administration and Finance	42	33
Claims	161	145
	<b>203</b>	<b>178</b>

## 6 Retirement Benefits

FSCS operates both a money purchase scheme and a defined benefits pension scheme, which is closed to new staff

The non-contributory money purchase pension scheme, for permanent staff, was set up with effect from 1 February 2001. FSCS makes contributions of 5%, with potential increments of 2% after 2 years' service, and a further 2% after 5 years. The staff member may make voluntary contributions, which, to a further 3%, will be matched by the company.

Amounts paid by the employer into the money purchase scheme amounted to £296,000 and £30,000 was outstanding to be paid at 31 March 2007 (2006 £223,000 and £22,000 respectively).

The company operates a funded scheme of the defined benefit type with assets held in separate trustee administered funds. The most recent actuarial valuation of the defined benefits pension scheme was at 31 March 2007. The valuation used the projected unit method and was carried out by Buck Consultants, professionally qualified actuaries.

Scheme assets are stated at their market value at 31 March 2007. The principal assumptions used were:

	31 March 2007	31 March 2006	31 March 2005
Discount rate	5.40%	5.00%	5.40%
Inflation rate	3.00%	3.00%	2.90%
Increases to pensions in payment	3.00%	3.00%	2.90%
Rate of increase in salaries	4.00%	4.00%	4.00%

The assets in the scheme and the expected rate of return were

	Long term rate of expected return at			Value		
	31 March 2007 %	31 March 2006 %	31 March 2005 %	31 March 2007 £'000	31 March 2006 £'000	31 March 2005 £'000
Equities	8.00	7.50	7.50	5,488	4,811	3,391
Property	7.25	7.50	7.50	757	569	432
Corporate bonds	5.00	4.70	5.25	970	950	694
Cash	4.50	4.00	4.00	485	287	103
<b>Overall expected rate of return, and total market values of assets</b>	<b>7.33</b>	<b>6.95</b>	<b>7.08</b>	<b>7,700</b>	<b>6,617</b>	<b>4,620</b>

The following amounts at 31 March 2007, 31 March 2006 and 31 March 2005 were measured in accordance with the requirements of FRS17

	31 March 2007 £'000	31 March 2006 £'000	31 March 2005 £'000
Total market value of assets	7,700	6,617	4,620
Present value of insured annuity policies	-	-	-
Present value of Scheme liabilities	(9,077)	(7,962)	(6,036)
Deficit in the Scheme	(1,377)	(1,345)	(1,416)
Related deferred tax liability	-	-	-
<b>Net pension liability</b>	<b>(1,377)</b>	<b>(1,345)</b>	<b>(1,416)</b>

Analysis of the amount charged to operating profit	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Current service cost	606	513
Past service cost	-	-
<b>Total operating charge</b>	<b>606</b>	<b>513</b>

Analysis of amount credited to interest receivable and other income	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Expected return on pension scheme assets	474	340
Interest on pension scheme liabilities	(424)	(323)
<b>Net return</b>	<b>50</b>	<b>17</b>

<b>Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL):</b>	<b>Year ended 31 March 2007</b>	<b>Year ended 31 March 2006</b>
	£'000	£'000
Actual return less expected return on assets	(113)	858
Experience gains and losses arising on Scheme liabilities	(231)	(114)
Changes in assumptions underlying the present value of the Scheme liabilities	(96)	(1,055)
<b>Actuarial loss recognised in STRGL</b>	<b>(440)</b>	<b>(311)</b>

<b>Movement in deficit during the year</b>	<b>Year ended 31 March 2007</b>	<b>Year ended 31 March 2006</b>
	£'000	£'000
Deficit in scheme at beginning of the year	(1,345)	(1,416)
Movement in the year		
Current service cost	(606)	(513)
Contributions	964	878
Other finance income	50	17
Actuarial loss	(440)	(311)
<b>Deficit in scheme at end of the year</b>	<b>(1,377)</b>	<b>(1,345)</b>

#### Five year history of experience gains and losses

	<b>31 March 2007</b>		<b>31 March 2006</b>		<b>31 March 2005</b>		<b>31 March 2004</b>		<b>31 March 2003</b>	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Difference between expected and actual return on Scheme assets	(113)		858		197		515		(1,228)	
Percentage of Scheme assets		(1.5)		13.0		4.3		13.2		(45.3)
Experience gains and (losses) on Scheme liabilities	(231)		(114)		(624)		10		55	
Percentage of present value of the Scheme liabilities		(2.5)		(1.4)		(10.3)		0.2		1.4
Total amount recognised in statement of total recognised gains and (losses)	(440)		(311)		(707)		508		(1,706)	
Percentage of the present value of Scheme liabilities		(4.8)		(3.9)		(13.4)		11.1		(42.7)

The valuation at 31 March 2007 showed a small increase in the deficit in the scheme from £1,345m at 31 March 2006 to £1,377m. No additional improvements in benefits were made in either 2007 or 2006. As a result of the deficit at 31 March 2007, it was agreed with the actuaries and trustees of the pension scheme that from 1 April 2007 contributions would continue to be made to the pension scheme at a rate of 27.3% of pensionable salaries (2006 25.8%). It has been agreed with trustees that contributions will remain at that level for the next three years.

The mortality assumptions adopted for the disclosures as at 31 March 2007 have been updated, as advised by our independent external actuaries, to reflect improvements in members' expected longevity. The impact of this change is reflected in the change in assumptions underlying the present value of the Scheme liabilities item of £96,000, shown



within the Actuarial loss recognised in the STRGL of £440,000 above. The mortality assumption change contributes a loss of £1,241,000 to this item, offset by a gain of £1,118,000, mainly as a result of the higher discount rate.

## 7 Directors' emoluments

Details of directors' emoluments are shown in the directors' report (pages 3 and 4).

## 8 Interest receivable and other income

During the year, FSCS received interest of £76,000 less tax of £23,000 at 30% and £50,000 relating to the expected return on pension scheme assets less the interest on pension scheme liabilities (2006 interest of £85,000 less tax of £25,000 at 30%, £17,000 net return on pension scheme assets).

## 9 Management expenses recoverable from Sub-schemes

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Management expenses allocated to Sub-schemes, and recoverable from them were		
Accepting Deposits	1,523	645
Insurance Business	1,969	1,932
Designated Investment Business	22,283	19,392
Mortgage Advice and Arranging	145	90
General Insurance Mediation	596	536
	<b>26,516</b>	<b>22,595</b>

## 10 Fixed Assets

	Computers £'000	Furniture & Equipment £'000	Building improvements £'000	Total £'000
<b>Cost</b>				
Opening balance	1,560	760	1,817	4,137
Additions in the year	212	344	955	1,511
<b>At 31 March 2007</b>	<b>1,772</b>	<b>1,104</b>	<b>2,772</b>	<b>5,648</b>
<b>Accumulated depreciation</b>				
Opening balance	(1,217)	(476)	(733)	(2,426)
Charge for the year	(210)	(134)	(231)	(575)
<b>At 31 March 2007</b>	<b>(1,427)</b>	<b>(610)</b>	<b>(964)</b>	<b>(3,001)</b>
<b>Net book value at 31 March 2007</b>	<b>345</b>	<b>494</b>	<b>1,808</b>	<b>2,647</b>
<b>Net book value at 31 March 2006</b>	<b>343</b>	<b>284</b>	<b>1,084</b>	<b>1,711</b>

The tangible fixed assets includes an amount of £49,000 (2006 £69,000) in respect of furniture and equipment held under finance leases, as follows

Assets held under finance leases	Year ended 31 March 2007	Year ended 31 March 2006
	£'000	£'000
Cost	69	97
Depreciation	(20)	(28)
<b>Net book value</b>	<b>49</b>	<b>69</b>

#### 11 Debtors: amounts falling due within one year

	Note	31 March 2007	31 March 2006
		£'000	£'000
Amount due from the FSA	21	24	92
Levies receivable, net of provision			
Insurance Business		5	1
Designated Investment Business		209	199
Mortgage Advice and Arranging		2	11
General Insurance Mediation		1	1
Recoverable costs		667	-
Net amounts due from Sub-schemes			
Accepting Deposits		737	162
Designated Investment Business		6,887	9,992
General Insurance Mediation		-	221
Amounts due in respect of recoveries		5,150	43
Other debtors		117	115
Prepayments		864	482
		<b>14,663</b>	<b>11,319</b>

Recoverable costs relate to amounts incurred on Split Capital Investment Trust claims of £667,000 management expenses costs, (2006 £nil) This amount will be funded once the related contribution groups are identified, which is likely to take place in 2007/08

#### 12 Cash at bank, overdraft, facilities and Sub-scheme borrowings

As at 31 March 2007 the company had negotiated facilities for business purposes of £52m, comprising a 364 day revolving credit facility of £50m, repayable over 5 years, at a floating rate of interest based on LIBOR, and an overdraft facility of £2m at a fixed margin above base rate

	31 March 2007	31 March 2006
	£'000	£'000
Cash at banks	-	-
Cash on short term deposit	2,017	2,677
	2,017	2,677
Overdraft	(182)	(594)
	<b>1,835</b>	<b>2,083</b>

Sub-scheme borrowings		
Amounts falling due within one year	(164)	(165)
Amounts falling due		
Between one and two years	(199)	(363)
	<b>(363)</b>	<b>(528)</b>
	<b>1,472</b>	<b>1,555</b>

Cleared money at banks is placed on term-deposits for periods ranging from overnight to 6 months, to maximise available interest returns, but within strict limits and procedures as laid down and reviewed regularly by FSCS's Board

Due to this management of available cash, cash book balances which include cheques or other effects which are drawn but not presented appear to be in debit, and are shown as bank overdrafts, above. Cash balances are monitored daily, so, in effect, no overdraft is actually shown in the books of FSCS's bankers

As permitted by Fees rule 6.3.18, which came into force on 1 March 2003, a bank loan and related interest was fully repaid on 17 March 2003, and substituted, in part, by Sub-scheme borrowings of £1,885,000 from the Insurance Business Sub-scheme. Of the balance at 1 April 2006 of £528,000, £165,000 was repaid during the year (2006 £698,000 and £170,000 respectively). Interest is payable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies

### 13 Creditors and accruals

	Note	31 March 2007 £'000	31 March 2006 £'000
Compensation payable		2,717	8,795
Net amounts due to Sub-schemes			
Insurance Business		10,608	1,400
Mortgage Advice and Arranging		211	70
General Insurance Mediation		92	-
Corporation taxation		14	17
Other taxation & social security costs		248	218
Accruals		3,330	2,611
Other creditors		1,372	1,311
Finance leases	15	19	9
		<b>18,611</b>	<b>14,431</b>

### 14 Provisions for liabilities and charges

Provision is made for dilapidations under the full repairing lease (see Note 15), as follows

	31 March 2007 £'000	31 March 2006 £'000
Opening balance	122	90
Increase in the year – charged to Income and Expenditure account	32	32
<b>Amounts falling due after one year</b>	<b>154</b>	<b>122</b>

## 15 Payments under lease agreements

### Future minimum payments

Finance leases	31 March 2007 £'000	31 March 2006 £'000
Amounts payable		
Within one year	46	46
Between one and five years	26	72
	72	118
Less Finance charges allocated to future periods	(36)	(77)
	36	41
Shown as		
Due within one year	19	9
Due after more than one year but not more than five years	17	32
	36	41

Operating leases	Two to five years £'000	Leases expiring over five years £'000	Total £'000
Amounts payable in year to 31 March 2007			
Office rental	-	1,043	1,043
Equipment rental	36	-	36
Total	36	1,043	1,079

The lease for the premises at 7<sup>th</sup> Floor, 1 Portsoken Street, London, is from 13 February 2001 to 21 June 2018, but FSCS has the right to break the lease on 24 June 2012. The lease for the premises at 5<sup>th</sup> Floor, 1 Portsoken Street, London, is from 1 February 2006 to 23 June 2018, but FSCS has the right to break the lease on 30 June 2012.

## 16 Reserves

	31 March 2007 £'000	31 March 2006 £'000
Excess of income over expenditure on ordinary activities after tax	408	382
Amount recognised in STRGL	(440)	(311)
	(32)	71
Brought forward	(1,345)	(1,416)
Reserves carried forward	(1,377)	(1,345)

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

The statement set out below relates cash flows to items shown in the Income and Expenditure account, and balance sheet movements

	Year ended 31 March 2007		Year ended 31 March 2006	
	£'000	£'000	£'000	£'000
Excess of income over expenditure on ordinary activities before interest and tax		367		377
Interest transfer from Sub-schemes		21		28
Corporation tax charge		23		25
		411		430
Depreciation		575		455
Compensation paid	(154,745)		(195,984)	
Recoveries received	34,870		108,644	
Levies received	73,104		95,395	
Funds transferred from / (to) Sub-schemes	46,771	-	(8,055)	-
Increase in debtors		(3,344)		(3,141)
Increase in creditors		3,876		4,016
<b>Net cash inflow from operating activities</b>		<b>1,518</b>		<b>1,760</b>

**18 Returns on investments and servicing of finance**

	Year ended 31 March 2007	Year ended 31 March 2006
	£'000	£'000
Gross interest received	76	85
Net return on pension scheme assets less liabilities	50	17
	126	102
Interest paid (see Note 4)	(62)	(72)
	<b>64</b>	<b>30</b>

**19 Reconciliation of net cash flow to movement in net debt**

	Year ended 31 March 2007	Year ended 31 March 2006
	£'000	£'000
Decrease/(increase) in cash and short term deposits in the year	248	(1,299)
Cash used to repay Sub-scheme borrowings	(165)	(170)
Increase/(reduction) in net debt	83	(1,469)
Net funds at 31 March 2006	(1,555)	(86)
<b>Net funds at 31 March 2007</b>	<b>(1,472)</b>	<b>(1,555)</b>

## 20 Analysis of change in net funds

	Opening balance	Cash inflows/(out flows)	At 31 March 2007
	£'000	£'000	£'000
Sub-scheme borrowings	(528)	165	(363)
Cash and short term deposits	2,677	(660)	2,017
Bank overdraft	(594)	412	(182)
	<b>1,555</b>	<b>(83)</b>	<b>1,472</b>

## 21 Transactions with related parties

During the year, the company entered into transactions with the Financial Services Authority (FSA) as a related party

The FSA appoints, and has the right to remove, directors to the Board of FSCS and it establishes the rules under which the Scheme became operative as from midnight on 30 November 2001. It is considered that the FSA is a related party but not a controlling party.

During the year, the FSA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes were raised for £73,109,000 and related collections were received of £73,125,000 (2006 £95,123,000 and £95,195,000 respectively). The charge for the service was £235,000 (2006 £226,000), and no other costs were invoiced by FSCS to the FSA.

Overall, payments, less receipts of £73,193,000 (2006 £95,694,000) were made by the FSA to FSCS, leaving amounts due by the FSA to FSCS at 31 March 2007 of £24,000 (2006 £92,000).

The FSA is a party to the lease agreement for the company's premises at 1 Portsoken Street, London (see Note 15) as guarantor of performance of the lease.

## 22 Capital commitments

No capital commitments were authorised and contracted for but not provided in the financial statements (2006 £nil).

## FINANCIAL SERVICES COMPENSATION SCHEME

### Sub-schemes and Contribution Groups

#### Financial Statements to 31 March 2007

As explained in Chapter 6 of the Fees rules of the FSA's Handbook, for funding purposes FSCS is split into Sub-schemes, comprising the Accepting Deposits Sub-scheme, the Insurance Business Sub-scheme, the Designated Investment Sub-scheme, the Mortgage Advice and Arranging Sub-scheme and General Insurance Mediation Sub-scheme (Fees 6 1 7G). Within each Sub-scheme, there is one or more contribution group (Fees 6 1 8G). The FSCS must keep accounts which show (1) the funds held to the credit of each Sub-scheme and relevant contribution group, and (2) the liabilities of that Sub-scheme and relevant contribution group (Fees 6 3 14R, COMP 13 4 12R).

The powers of the FSA under FSMA became effective as at midnight on 30 November 2001. The financial statements for FSCS' Sub-schemes and contribution groups are for the year ended 31 March 2007, with comparatives for the year ended 31 March 2006, as set out as follows:

	Page
Statement of directors' responsibilities in respect of the financial statements	24
Summary of Sub-schemes	25
Accepting Deposits (Including its contribution group A1 – Deposit takers)	25
Insurance Business (Including its contribution group A3 – Insurance activities – General Insurance, and A4 – Insurance activities – Life Insurance)	26
Designated Investment Business (Including IFA pensions review claims, and the non-pensions contribution groups)	27 and 28
Mortgage Advice and Arranging (and its contribution group A18)	25
General Insurance Mediation (and its contribution group A19)	25
Notes to the financial statements	29 to 31
Report of the auditors	32 and 33

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

The directors are required to prepare financial statements for each financial year, in accordance with the Requirements, set out below -

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in business

The directors confirm that the financial statements comply with these Requirements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme and to enable it to ensure that the financial statements comply with the Requirements. They are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The maintenance and integrity of the FSCS website is the responsibility of the directors. The directors recognise that uncertainty regarding legal requirements may be compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website, and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction

**By order of the Board**



M Thomas  
Secretary  
22 May 2007



**SUB-SCHEME ACCOUNTS - Summary**  
Financial statements for the year ended 31 March 2007

Fund movements	Note	Total	Accepting Deposits		Insurance Business		Investment Business		Mortgage Advice & Arranging		General Insurance Mediation	
		2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000
Compensation costs	2	(149 470)	(201 215)	(1 208)	(86)	(66 060)	(93 188)	(82 093)	(107 936)	0	0	(5)
Recoveries receivable		39 977	108 687	317	368	35 522	106 671	4 138	1 648	0	0	0
Exchange (loss)/gain		(124)	52	0	0	(124)	52	0	0	0	0	0
		(109 617)	(92 476)	(891)	282	(30 662)	13 535	(77 955)	(106 288)	0	(109)	(5)
Management expenses	3	(3 628)	(2 248)	(793)	(476)	(817)	(488)	(1 461)	(920)	(138)	(419)	(274)
Base costs		(22 888)	(20 347)	(730)	(169)	(1 152)	(1 444)	(20 822)	(18 472)	(7)	(177)	(252)
Specific costs		(26 516)	(22 595)	(1 523)	(645)	(1 969)	(1 932)	(22 283)	(19 392)	(145)	(596)	(336)
Interest receivable	4	9 677	11 881	301	320	8 356	8 029	990	3 510	7	23	17
Taxation		(2 897)	(3 580)	(90)	(96)	(2 500)	(2 416)	(298)	(1 062)	(2)	(7)	(5)
		6 780	8 301	211	224	5 856	5 613	692	2 448	5	16	12
Net management expenses		(19 736)	(14 294)	(1 312)	(421)	3 887	3 681	(21 591)	(16 944)	(140)	(580)	(524)
Levy received		(129 353)	(106 770)	(2 203)	(139)	(26 775)	17 216	(99 546)	(123 232)	(140)	(689)	(529)
Net in / (out) flow in the fund	5	73 104	95 395	0	0	4	10 298	72 374	83 658	246	480	1 080
Funds at start of year		(56 249)	(11 375)	(2 203)	(139)	(26 771)	27 514	(27 172)	(39 574)	106	(209)	551
Funds at end of year		195 335	206 710	6 636	6 775	164 455	136 941	23 566	63 140	219	459	(92)
		139 086	195 335	4 433	6 636	137 684	164 455	(3 606)	23 566	325	250	459
<b>Statement of assets and liabilities at 31 March 2007</b>												
Current assets		2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000
Interest receivable	7	1 031	1 279	1	6	1 022	1 132	8	141	0	0	0
Net amounts due from FSCS		11 274	1 998	0	0	10 971	1 928	0	0	211	92	0
Term deposits and cash at banks	8	151 143	214 408	5 240	6 857	132 248	166 713	13 372	39 993	117	166	684
		163 448	217 685	5 241	6 863	144 241	169 773	13 380	40 134	328	258	684
Current liabilities		(1 786)	(2 401)	(56)	(65)	(1 540)	(1 623)	(185)	(712)	(1)	(4)	(3)
Taxation payable	7	(7 841)	(10 587)	(737)	(162)	(5)	(1)	(7 096)	(10 191)	(2)	(1)	(222)
Net amounts due to FSCS		(14 735)	(9 362)	(15)	0	(5 012)	(3 694)	(9 705)	(5 665)	0	(3)	0
Bank overdrafts	8	(24 362)	(22 350)	(808)	(227)	(6 557)	(5 318)	(16 986)	(16 568)	(3)	(8)	(225)
		139 086	195 335	4 433	6 636	137 684	164 455	(3 606)	23 566	325	250	459

Approved for and on behalf of the Financial Services Compensation Scheme Limited on 22 May 2007 David Hall Chairman

*David S. Hall*

The notes on pages 29 to 31 form part of these financial statements

**SUB-SCHEME ACCOUNTS - Insurance and Investment business**  
**Financial statements for the year ended 31 March 2007**

Fund movements	Note	Total Insurance Business		General Insurance A3		Life Insurance A4	
		2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000	2005/6 £'000
Compensation costs	2	(66 060)	(93 188)	(65 901)	(92 849)	(159)	(339)
Recoveries receivable		35 522	106 671	35 472	106 671	50	0
Exchange (loss)/gain		(124)	52	(124)	52	0	0
		(30 662)	13 535	(30 553)	13 874	(109)	(339)
Management expenses	3	(817)	(488)	(221)	(129)	(596)	(359)
Base costs		(1 152)	(1 444)	(1 146)	(1 436)	(6)	(8)
Specific costs		(1 969)	(1 932)	(1 367)	(1 565)	(602)	(367)
Interest receivable	4	8 356	8 029	8 316	7 937	40	92
Taxation		(2 500)	(2,416)	(2 488)	(2,388)	(12)	(28)
		5 856	5 613	5 828	5 549	28	64
Net management expenses		3 887	3 681	4 461	3 984	(574)	(303)
		(26,775)	17 216	(26,092)	17,858	(683)	(642)
Levy received less insurance sub scheme repayment of £42 000 000	5	4	10 298	4	10 298	0	0
Net in / (out) flow in the fund		(26,771)	27,514	(26 088)	28 156	(683)	(642)
Funds at start of year		164 455	136 941	163,394	135,238	1 061	1 703
Funds at end of year		137,684	164 455	137 306	163,394	378	1,061

**Statement of assets and liabilities at 31 March 2007**

Current assets	2005/6		2005/6	
	£'000	£'000	£'000	£'000
Interest receivable	1 022	1 132	1 017	1 119
Net amounts due from FSCS	10 971	1,928	10 971	1 928
Term deposits and cash at banks	132 248	166 713	131 864	165 641
	144 241	169 773	143 852	168 688
Current liabilities				
Taxation payable	(1,540)	(1,623)	(1 533)	(1 604)
Net amounts due to FSCS	(5)	(1)	(5)	(1)
Bank overdrafts	(5,012)	(3 694)	(5 008)	(3 689)
	(6 557)	(5 318)	(6 546)	(5 294)
Total net assets	137 684	164 455	137 306	163 394

The notes on pages 29 to 31 form part of these financial statements

**SUB-SCHEME ACCOUNTS - Investment business Contribution Groups**  
**Financial statements for the year ended 31 March 2007**

Fund movements	Note	Total Investment Business		IFA pensions review claim- (Formerly A16)		Other Designated Investment contribution groups		Fund managers holding client money / asset		Managers of an AUT ACD- and depositaries	
		2005/6 £000	2005/6 £000	2005/6 £000	2005/6 £000	2005/6 £000	2005/6 £000	2005/6 £000	2005/6 £000	2005/6 £000	2005/6 £000
Compensation costs	2	(82 093)	(107 936)	(50 296)	(69 747)	(31 797)	(38 189)	0	0	0	(50)
Recoveries receivable		4 138	1 648	4 070	1 452	68	196	0	0	0	0
Exchange (loss)/gain		0	0	0	0	0	0	0	0	0	0
		(77 955)	(106 288)	(46 226)	(68 295)	(31 729)	(37 993)	0	0	0	(50)
Management expenses	3	(1 461)	(920)	0	0	(1 461)	(920)	(364)	(225)	(67)	(43)
Base costs		(20 822)	(18 472)	(2 267)	(4 096)	(18 555)	(14 376)	0	0	(48)	(2)
Specific costs		(22 283)	(19 392)	(2 267)	(4 096)	(20 016)	(15 296)	(364)	(225)	(115)	(43)
Interest receivable / (payable)	4	990	3 510	279	2 676	711	834	3	3	7	13
Taxation		(298)	(1 062)	(84)	(811)	(214)	(251)	(1)	(1)	(2)	(4)
		692	2 448	195	1 865	497	583	2	2	5	9
Net management expenses		(21 591)	(16 944)	(2 072)	(2 231)	(19 519)	(14 713)	(362)	(223)	(110)	(36)
Levy received	6	(99 346)	(123 232)	(48 298)	(70 526)	(51 248)	(52 706)	(362)	(223)	(110)	(86)
Net in / (out) flow in the fund		72 374	83 658	24 580	34 120	47 794	49 538	365	207	0	0
Fund at start of year		(27 172)	(39 574)	(23 718)	(36 406)	(3 454)	(3 168)	3	(16)	(110)	(86)
Fund at end of year		23 566	63 140	14 712	51 118	8 854	12 022	29	45	123	209
		(3 606)	23 566	(9 006)	14 712	5 400	8 854	32	29	13	123

Statement of assets and liabilities at 31 March 2007											
		2005/6		2005/6		2005/6		2005/6		2005/6	
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Current assets</b>											
Interest receivable		8	141	0	107	8	34	0	0	0	1
Net amounts due from FSCS	7	0	0	0	0	0	0	0	0	0	0
Term deposits and cash at banks	8	13 372	39 993	0	25 047	13 372	14 946	70	49	28	209
		13 380	40 134	0	25 154	13 380	14 980	70	49	28	210
<b>Current liabilities</b>											
Taxation payable		(185)	(712)	0	(543)	(185)	(169)	(1)	(1)	0	(3)
Net amounts due to FSCS	7	(7 096)	(10 191)	0	(6 362)	(7 096)	(3 829)	(37)	(12)	(15)	(54)
Bank overdrafts	8	(9 705)	(5 665)	(9 006)	(3 537)	(699)	(2 128)	0	(7)	0	(30)
		(16 986)	(16 568)	(9 006)	(10 442)	(7 980)	(6 126)	(38)	(20)	(15)	(87)
<b>Total net assets</b>		(3 606)	23 566	(9 006)	14 712	5 400	8 854	32	29	13	123

The notes on pages 29 to 31 form part of these financial statements

**SUB-SCHEME ACCOUNTS - Investment business Contribution Groups - continued**  
**Contribution Groups - continued**

Financial statements for the year ended 31 March

Fund movements	Dealers as principal		Brokers holding client money / assets		Brokers - not holding client money / assets		Corporate advisers	
	A10	2005/6	A12	2005/6	A13	2005/6	A14	2005/6
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation costs	0	0	(4 800)	(4 621)	(26 997)	(33 518)	0	0
Recoveries receivable	0	0	0	0	68	196	0	0
Exchange (loss)/gain	0	0	0	0	0	0	0	0
Management expenses	0	0	(4 800)	(4 621)	(26 929)	(33 322)	0	0
Base costs	(193)	(113)	(246)	(154)	(513)	(331)	(78)	(54)
Specific costs	0	0	(2 843)	(2 149)	(15 664)	(12 225)	0	0
	(193)	(113)	(3 089)	(2 303)	(16 177)	(12 556)	(78)	(54)
Interest receivable / (payable)	2	6	236	218	459	592	4	2
Taxation	(1)	(3)	(71)	(65)	(138)	(177)	(1)	(1)
	1	3	165	153	321	415	3	1
Net management expenses	(192)	(110)	(2 924)	(2 150)	(15 856)	(12 141)	(75)	(53)
	(192)	(110)	(7 724)	(6 771)	(42 785)	(45 463)	(75)	(53)
Levy received	186	0	1 525	12 246	45 669	36 988	49	97
Net in / (out) flow in the fund	(6)	(110)	(6 199)	5 475	2 884	(8 475)	(26)	44
Fund at start of year	27	137	5 500	25	3 125	11 600	50	6
Fund at end of year	21	27	(699)	5 500	6 009	3 125	24	50

Statement of assets and liabilities at 31 March 2007		2005/6	2005/6
	£'000	£'000	£'000
<b>Current assets</b>			
Interest receivable	0	0	0
Net amounts due from FSCS	0	0	0
Term deposits and cash at banks	46	46	85
	46	9 244	53
<b>Current liabilities</b>			
Taxation payable	0	0	(1)
Net amounts due to FSCS	(25)	(2 378)	(22)
Bank overdrafts	0	(699)	0
	(25)	(3 744)	(35)
<b>Total net assets</b>	21	5 500	50

## Notes to the Sub-scheme Financial Statements for the year to 31 March 2007

### 1 Accounting policies

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

*a) Basis of accounting*

The financial statements have been prepared under the historical cost convention and on the basis that FSCS Limited, as Scheme Manager, will exercise its responsibilities under FSMA and the Fees rules to recover management expenses and compensation costs

*b) Compensation costs*

These costs, which include interest paid to claimants, comprise payments made to claimants and amounts for offers which have been made 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 received, and when notified, in respect of Scheme dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries, which have not been received by the balance sheet date.

*d) Management expenses*

Management expenses comprise base costs, being the costs of running the Scheme, specific costs, which are the remaining costs which cover the handling and payment of compensation and establishment costs, which relate to the set-up costs of FSCS prior to 1 December 2001. These expenses are allocated by the Scheme Manager to each Sub-scheme and contribution group in accordance with the levy principles contained within Fees rules 6.4.5, 6.4.6 and 6.4.7.

*e) Levies*

Levies raised are credited on receipt.

*f) Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Income and Expenditure Account.

*g) Legal challenges and costs*

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

*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 statements of Fund movement, and assets and liabilities.

## **2 Compensation costs**

Payments to valid claimants are made in accordance with the Fees rules and are summarised within Sub-scheme records by type of claim and defaulting firm. Extracts from these summaries are shown within FSCS' Annual Report and further details may be obtained from FSCS' Company Secretary and from its website. A number of claims relate to firms which were handled previously by the former schemes and details of these are also available from FSCS' Company Secretary.

## **3 Management expenses**

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

As stated above, (Note 1d), management expenses are allocated to contribution groups under the rules within Fees, chapter 6.

## **4 Interest receivable**

Interest receivable comprises

		<b>Year ended</b>	<b>Year ended</b>
		<b>31 March 2007</b>	<b>31 March 2006</b>
		<b>£'000</b>	<b>£'000</b>
Term-deposits	Rates Available money-market rates	8,707	11,537
Other bank accounts	Available rates	949	316
Sub-scheme borrowings	Bank of England's repo rate	21	28
		<b>9,677</b>	<b>11,881</b>

## **5 Levy received**

Levy invoice amounts and cash receipts arise mainly from the transactions carried out under agreement for FSCS by the FSA. Further similar transactions are dealt with directly by the Scheme Manager, which explains why amounts on Sub-scheme accounts summary (pages 25-28) do not agree directly with Note 21 - Transactions with related parties.

## **6 Loans receivable and Sub-scheme borrowings**

Sub-scheme borrowings of £1,885,000 were made under Fees rule 6.3.18R from the Insurance business Sub-scheme to FSCS in March 2003. Of the balance at 1 April 2006 of £528,000, £165,000 was repaid during the year (2005 £698,000 and £170,000 respectively). Interest is receivable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies.

## **7 Term-deposits and cash at banks**

Cleared money at banks is placed on term-deposits for periods ranging from overnight to 6 months for each Sub-scheme, to maximise available interest returns, but within strict limits and procedures as laid down and reviewed regularly by FSCS's Board

Due to this management of available cash, cashbook balances which include cheques or other effects which are drawn but not presented appear to be in debit, and are shown as bank overdrafts within the statement of Sub-scheme assets and liabilities. Cash balances are monitored daily, so, in effect no overdraft is actually shown in the books of the Sub-scheme bankers

As at 31 March 2007, FSCS is a party to various joint accounts with claims administration companies involved with the Insurance Business Sub-scheme to make payments to policyholders. The balances of these accounts at 31 March 2007 of £199,000 (2006 £1,685,000) are included within Term-deposits and cash at banks in the Insurance Business Sub-scheme statement of assets and liabilities

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

We have audited the financial statements of Financial Services Compensation Scheme for the year ended 31 March 2007 which comprise the Movement in the Sub-schemes Funds, the Statements of Assets and Liabilities, and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities, the Scheme Manager is responsible for the preparation of the financial statements in accordance with applicable law.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Financial Services Authority in accordance with:

- Section 218 of the Financial Services and Markets Act 2000,
- The FSA Handbook (in particular rule COMP 2.2.5), and
- The FSA-FSCS Memorandum of Understanding (section 24 to 26)

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000,
- The FSA Handbook (in particular rule COMP 2.2.5),
- The FSA-FSCS Memorandum of Understanding (section 24 to 26),
- The accounting policies set out on page 29

We also report to you if, in our opinion, the Scheme Manager has not kept proper accounting records for the Scheme, or if we have not received all the information and explanations we require for our audit.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



## Opinion

In our opinion the financial statements for the year ended 31 March 2007 have been properly prepared in accordance with

- Section 218 of the Financial Services and Markets Act 2000,
- The FSA Handbook (in particular rule COMP 2.2.5),
- The FSA-FSCS Memorandum of Understanding (section 24 to 26),
- The accounting policies set out on page 29

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
22 May 2007