Company Number: 3943048

Financial Services Compensation Scheme Limited

Annual Report and Accounts 2010/11

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

Financial Services Compensation Scheme

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Annual Report and Accounts 2010/11

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Our Role, Mission and Aims

Our role

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

The 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.

The FSCS does not charge individual consumers for using its service

Our mission

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

Our aims

In taking forward our mission we aim to

- respond quickly efficiently and accurately to consumer claims for compensation,
- raise public awareness of the role of the FSCS
- ensure that the FSCS operates as cost-efficiently as possible and maximises recoveries from the estates of failed providers
- be ready to respond to defaults in the financial services industry to protect consumers and financial stability and
- enhance the capability of the FSCS by enabling the people who work for us to develop their skills knowledge and professionalism

How to contact us

By phone on

- 0800 678 1100 or
- 020 7741 4100

Lines are open from 8 30am to 5 30pm (Mondays to Fridays)

email enquiries@fscs org uk

online enquiry form

or by post to
The Financial Services Compensation Scheme
7th Floor
Lloyds Chambers
1 Portsoken Street
London E1 8BN

1 Executive Summary

A brief summary of the main points contained in the FSCS Annual Report and Accounts 2010/11

Context

Our annual report for 2010/11 describes how the FSCS has transformed its capability as an organisation We have strengthened our systems and processes to enable us to deal with a greater complexity and volatility of claims across all sectors while building consumer confidence in the financial services industry

We have crystallised the five aims which drive our organisation and this year s report is structured around each of those aims

Responding to consumers

- We received 39 499 new claims from consumers during 2010/11 – an increase of 25% on last year We decided a total of 47 055 claims more than double the number in 2009/10
- We paid a total of £535 36m in compensation in 2010/11 to consumers (not including compensation paid on behalf of HM Treasury and the Icelandic Depositors and Investors Guarantee Fund)
- The failure of Keydata Investment Services Limited (Keydata) and stockbroking firms resulted in 60% of the new claims being in the Investment sector
- We also saw an increase in Payment Protection Insurance (PPI) claims which accounted for just over 20% of new claims
- 95% of all claims were completed within the target timeframe
- Following the defaults of three credit unions between January and March 2011 the great majority of claimants were paid compensation within the new seven-day target

95% of all claims were completed within the target timeframe

- We handled 167 600 enquiries from consumers in 2010/11 an increase of 75% on last year
- The complaints rate halved representing just 1% of the total number of claims decisions (down from 2% last year) The Independent Investigator considers the "negligible number of complaints should give a high degree of reassurance to the FSCS Board"

Raising public awareness

- The FSCS launched its first consumer awareness campaign in January 2011 across a wide range of media including print the web and TV
- We also delivered a comprehensive stakeholder engagement programme aimed at securing continuing support from the industry for the campaign and agreement to carry campaign messages
- Our research shows a link between awareness of the FSCS and confidence in financial products
- The early evidence is that, although well received by the public the campaign has not yet had the impact on awareness for which we were hoping
- The results from a mystery shopping exercise suggest that, while support from financial services firms for the awareness-raising has been good more support is required to ensure that all financial services customers are aware of the FSCS in order to help increase consumer confidence and maintain market stability

Operating efficiently and maximising recoveries

Levies

- The levies we received totalled £919m in 2010/11

Compensation

- The costs from the failure of Keydata triggered the first cross-subsidy between different industry sectors We paid out a total of £714m in compensation to consumers for Keydata claims
- We have worked hard to find new and innovative ways of getting compensation to consumers in ways that reduce costs to the industry For example in the case of Welcome Financial Services Limited (Welcome) we arranged to use Welcome s claims handling resources The financial arrangements reached by Welcome s creditors also provide for a significant payment to the FSCS to offset PPI liabilities
- We came to an agreement with Her Majesty s Revenue and Customs (HMRC) in relation to claims for the tax element of various Keydata products which had been mis-sold as ISA-qualifying We paid HMRC direct on behalf of eligible claimants

Recoveries

- We vigorously pursue recoveries from the estates of failed firms when it is reasonably possible and cost-effective to do so We made recoveries of £21m (excluding the banking defaults) in 2010/11
- We made recoveries of £735m from the banking defaults in 2010/11 In total we have recovered £1 79bn from the failed banks which contributes to reducing the principal sums owed on the loan with HM Treasury
- Just after the end of the financial year 2010/11 we announced that the Norwich and Peterborough Building Society (N&P) would pay recoveries to the FSCS of some £28m in respect of the compensation we paid to their customers who had invested in Keydata products These recoveries will help reduce costs to the levy payers In total we will save compensation costs of over £40m

Management expenses

- The cost of running the FSCS in 2010/11 was just under £37m compared with a budget of £32 7m This reflected higher than expected claims during the year The FSCS also invested £18m in strengthening its capability particularly a fast payout facility for depositors compared with a budget of £12 4m

£214m
paid in compensation this year for Keydata claims

Refinancing the banking default loans

- Following the defaults of five banks in 2008 the FSCS borrowed money from HM Treasury so as to be able to act to safeguard the deposits of more than four million consumers Under the terms of the loan agreements only the interest has been payable Any recoveries have been offset against the principal loan amounts From 31 March 2012 we will agree to repay principal amounts We are in dialogue with HM Treasury about the details of the repayment schedule and we will update the industry later in 2011 once the repayment terms are finalised

Being ready to respond

- The FSCS successfully put in place on time by 31 December 2010 a capability to pay out the majority of depositors in a failed bank, building society or credit union within a target of seven days and all depositors within 20 days That capability was used in the first quarter of 2011 to resolve three credit union failures with the great majority of depositors receiving their money within our target of seven days
- Our work continues to be carried out in the wider context of regulatory reform in the UK Establishing the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) will bring new and focused accountabilities to the work of the FSCS We were actively engaged in the debate about the reform The FSCS will be accountable to both the PRA and the FCA because of our key dual roles in resolving failed firms and protecting consumers
- The FSCS will remain a single independent body providing compensation across the full range of financial services.
- The FSCS is actively involved with the UK authorities and its European counterparts on work relating to European Directives, including revised Deposit Guarantee Schemes and Investor Compensation Schemes Directives and a White Paper on a possible Insurance Guarantee Schemes Directive

Enhancing our capability

- The 2010 FSCS Staff Survey showed employee engagement with the organisation of 78% which compares well with an industry benchmark of 76%
- Over the year we have focused on building a high-performance culture through effective leadership and a more robust performance management process
- We are building on in-house and outsourced capabilities to help manage the fluctuating volumes of claims while retaining key skills to deal with complex defaults
- The FSCS Board remains committed to high standards of corporate governance We have made important changes including establishing a Remuneration Committee a Nomination Committee and a Contingencies Planning Committee

2 Chairman's Statement

The FSCS is transforming its capability to respond quickly and effectively to complex defaults while protecting consumers

Our work over the past year has been carried out in the wider context of new regulatory reforms In July 2010 HM Treasury published the consultation paper *A new approach to financial regulation judgement focus and stability* which proposed a new framework of focused responsibilities under two new bodies The Prudential Regulatory Authority (PRA) and the (now to be called) Financial Conduct Authority (FCA) The FSCS was actively engaged in the debate about the reform including appearing before the Treasury Select Committee in November 2010

Under the Government's proposals the FSCS will be accountable to both the PRA and the FCA. We think that is right It reflects our important dual roles in resolving failed firms and protecting consumers We continue to be in close dialogue with HM Treasury about the new arrangements and look forward to working within the new framework when it is introduced

A key focus of the FSCS Board is on our accountability to the industry which funds us We must be accountable for our costs and for the allocation of our costs across the industry The failure of Keydata and other investment businesses gave a new prominence to this accountability in 2010/11

In late 2010 the FSCS was subject to a Judicial Review after a group of independent financial advisers argued that the compensation costs of the Keydata failure should not be allocated to Investment Intermediaries In allocating the costs of compensation the FSCS always seeks to apply the rules within which we operate In January 2011 the High Court ruled that the FSCS had correctly allocated those costs and properly followed the rules set by the Financial Services Authority (FSA) from which the FSCS cannot depart

A cross-subsidy levy was triggered in January 2011 when the FSCS raised an interim levy of £326m on the Investment Intermediaries to pay for the

A key focus of the FSCS Board is on our accountability to the industry which funds us compensation costs of the Keydata failure As a result of the interim levy the annual levy threshold of £100m for Investment Intermediaries was exceeded Under the cross-subsidy rules this meant that compensation costs of £233m were levied on the Investment Fund Managers

Although we had alerted the industry to the strong likelihood of a cross-subsidy and an interim levy we do recognise how important it is to communicate effectively about the costs of a failure so that firms have as much advance warning as possible The Board believes that the publication of Outlook and regular quarterly meetings between the FSCS and industry bodies play a valuable role in this respect but that we should consider what more we and the industry can do to flag such liabilities at an earlier stage

We know that the scale of the Keydata levy presented real difficulties for many businesses and that the industry is keen to see a review of the FSCS funding Any funding structure adopted in the UK will need to be consistent with European requirements At present the FSCS raises levies only in order to pay claims as they arise There is some debate about the possibility of pre-funding the FSCS However this is a decision for the Authorities and will be influenced by the continuing changes to European compensation schemes directives Pre-funding would if adopted give increased predictability and mean that failed businesses would have contributed to the cost of compensating their customers But a pre-fund would also mean taking capital out of the industry ahead of any need to meet compensation costs

Once the formal consultation is announced by the FSA (as the rule-making authority for the FSCS) the industry will be closely involved in the discussions just as it was when the last FSCS funding review took place in 2006/07

In January 2011 we launched our consumer awareness programme and we are extremely grateful to the industry for its continuing support in highlighting the work of the FSCS As we report further on although the campaign was well received there is much more still to be done to raise awareness

A mystery shopping exercise also highlighted the fact that some firms are not promoting the role of the FSCS to their customers nearly as vigorously or as clearly as we would like We will refocus our efforts to encourage industry stakeholders to communicate the benefits of the FSCS to their frontline staff and in turn for that clear message to be passed on to their customers

£1.79bn
in recoveries so far from the banking defaults

Following the defaults of five banks in 2008 the FSCS borrowed money from HM Treasury to safeguard the deposits of more than four million consumers Under the terms of the loan agreements only the interest has been payable and we have been actively pursuing recoveries However from 31 March 2012 we will agree to repay the principal amounts We are in regular dialogue with HM Treasury about the details of the repayment schedule and we are aiming to update the industry later in 2011 once the repayment terms are finalised So far we have made £1 79bn in recoveries from the banking defaults which have made helpful reductions to the loans

The FSCS has to be ready to respond to volatile events and the corresponding unpredictability in the volumes of consumer claims for compensation Over the past 10 years since the FSCS was established we have responded to the major banking failures of 2008 a building society failure and a range of failures in other sectors including extremely complex ones such as Keydata The ability of the FSCS to respond to such volatile events greatly increased during 2010/11 as we make substantial investments in our IT infrastructure to meet the requirements of faster compensation payouts in the event of a deposit-taking firm failing We also focused on strengthening our structure processes and operation through developing teams of highly skilled professional staff and a robust Board which remains committed to high standards of corporate governance

Finally I would like to thank the three retiring Board members Terry Connor Sandy Kinney and Chris Woodburn who have completed their full term for their fortitude and commitment over the past six years and in particular during the unprecedented and demanding times of the last three years Warm thanks too to all the FSCS staff for their continuing hard work during a busy and challenging year when so much has changed within the organisation and the wider context within which we operate I have no doubt that we are more resilient and better prepared than we have ever been for whatever the future holds

David Hall
Chairman

3 Chief Executive's Report

The FSCS continues to be fit for purpose and is a stronger, more resilient organisation

The FSCS's mission is to provide a responsive, well-understood and efficient compensation service for the financial services sector which increases consumer confidence in the industry

The FSCS's fitness for purpose depends therefore, above all, on providing a quick, reliable service to people who make claims But not only that – it also depends on ensuring that the wider public is aware of the compensation service we provide and gains confidence from it, it depends on providing an efficient service and maximising recoveries from failed businesses to keep costs to levy payers in the industry to a minimum, it depends on being ready to rise to the challenge of new failures and, as part of that, on deepening our own professional competence

Tested against these criteria, the FSCS demonstrated in 2010/11 that it continues to be fit for purpose and will be a stronger and more resilient organisation in future

A responsive service to consumers

Our first obligation is to claimants Here, the bare facts are that we decided over 47 000 claims in 2010/11, over double the number in the previous year and paid out over £535m in compensation We handled 167 600 enquiries, an increase of 75 per cent on 2009/10 The rate of complaints (relative to decisions made) halved

However, the bare facts conceal the major challenges we successfully surmounted and important innovations in our service

As the Chairman outlined, one of the most complex and time-consuming defaults we dealt with was Keydata Investment Services Limited (Keydata) More than 60 per cent of the total new claims we handled over the year

We handled 167,000 enquiries, an increase of 75% on 2009/10 related to Keydata some 27 000 *We carried out a number of in-depth* investigations into Keydata considering all the issues in the light of expert legal advice As a result, we paid out £214m in compensation often to elderly investors with all or much of their life savings at stake This is the other side of the coin of the debate about the way in which we are funded (covered in the Chairman s Statement)

Wherever possible the FSCS looks for innovative ways to get compensation to the eligible claimants to ensure that they are paid as quickly and efficiently as possible For Keydata customers who had invested in non-compliant ISAs, the FSCS negotiated with HM Revenue and Customs (HMRC) to pay the tax (now owed by investors) directly to HMRC This meant the process was faster and less arduous for the investors concerned

Another example of the FSCS employing new techniques to provide more effective services was the restructuring agreement reached with the financial services firm Welcome Financial Services Limited for mis-sold Payment Protection Insurance (PPI) claims The agreement means that the firm is acting as the claims handling agent on behalf of the FSCS which nevertheless remains responsible for all decisions on claims and will *closely monitor their handling This is an arrangement that safeguards the* interests of levy payers who will not be levied for the costs of processing claims while ensuring that consumers get a good outcome Welcome s restructuring arrangements also provide for it to make payments to the FSCS to fund compensation costs for eligible PPI claims This has significantly reduced the costs of the default

The FSCS also used its new capability for faster pay-out for depositors to help resolve three failed credit unions in the first quarter of 2011 I am pleased to say that the great majority of depositors received payments well within our target of seven days

Raising awareness

The existence of the FSCS is an important contributor to consumer confidence and financial stability so it is vital that the public is aware of the protection we provide Research shows that, although awareness levels of the FSCS (and the financial regulators/ombudsmen generally) rose during the financial crisis they fell back once the markets began to stabilise

With strong support from the Government, regulators and the industry the FSCS launched a programme in January 2011 to raise awareness of the protection we offer consumers The programme spanned a range of communications channels and received widespread backing within the industry

Addressing industry representatives in April 2011 the Financial Secretary to the Treasury Mark Hoban MP said that we all have an interest in seeing the FSCS as a "badge of trust and that The awareness campaign is something extremely positive that we should all get behind" Other testaments in support of the campaign are included in Section 5 Raising Public Awareness of the FSCS

The early evidence is that although well received by the public the campaign has not yet had the impact on awareness for which we were hoping We shall therefore be reviewing our approach in the early months of 2011/12 There is no doubt of the link between public awareness of the protection we provide and confidence in financial products The FSCS s research confirms that link But working with the industry, we need to look at new ways of engaging consumers to raise awareness

Minimising costs, maximising recoveries

We know the industry recognises the very important role the FSCS plays in underpinning consumer confidence in financial services This is one of the reasons why the industry funds the FSCS The FSCS in turn aims to minimise the costs we impose on the industry

Critical to this is our business model which rests on outsourcing the great majority of claims we receive This enables us to adjust our capacity and costs rapidly in the face of fluctuations in volumes of claims And for any given volume of claims it enables us to keep unit costs low by maintaining competition between our outsource partners

Our commitment is to ensure we have the right people with the right skills in the right roles

The costs of running the FSCS to deliver its 'business as usual' workload in 2010/11 were £37m compared with a budget of £32 7m The difference is accounted for by the higher than expected volume of claims we received

We take our responsibility to pursue recoveries very seriously We have a good track record and in total the FSCS received £756m in recoveries in 2010/11 particularly from the estates of the banks which failed in 2008 and from the winding-up of failed general insurers Together with the FSA we also negotiated with the Norwich and Peterborough Building Society (N&P) full recovery for Keydata claims in which N&P was involved So far we have received a recovery of £28m and in total will save levy payers compensation costs of over £40m

We continue to pursue recoveries wherever reasonably possible and cost-effective to do so and we are confident that we will receive more recoveries in relation to Keydata

Preparedness

The FSCS's work on preparedness in 2010/11 has focused on faster payout for depositors and we have invested £18m over the year in new systems to ensure that customers of failed deposit-taking firms can be guaranteed quick access to their funds This investment was £5 6m more than we had budgeted because of the need to renew and improve the underlying IT

Faster payout is now in place on time and is working well

As part of this process the FSCS has been working with deposit-taking firms in the industry to implement one method of representing customers data across the sector called the single customer view (SCV) This streamlined *approach of representing information means that the FSCS is able to* compensate the majority of customers within a target of seven days in the event of the failure of a deposit taker We are continuing to develop alternative ways of paying compensation to consumers and are working towards an electronic payment mechanism

The SCV project prompted an independent review into our existing IT and revealed the need to improve our systems and controls As a result of this review the FSCS is making important investments to transform and strengthen our structure processes and operations

The investment in our systems and processes across the deposit sector of the industry will, in the longer term enable us to deal with a greater complexity and volatility of claims across all sectors

We have also invested in our contingency plans and we are looking to involve the industry to ensure that these plans are as robust as possible

Professionalism

The FSCS's successes in 2010/11 are down to the many talented and committed people who work in the organisation and I would like to thank them for everything we have achieved in the past year This commitment was reflected in our annual Staff Survey which was completed by 86 per cent of staff and showed a staff engagement score of 78 per cent, two percentage points higher than the industry benchmark

As the FSCS changes and strengthens to meet the demands of the future the organisation will need both to broaden and deepen its professional skills so that our traditional competence in handling claims is supplemented by capabilities in managing outsource partners data management, resilience risk management, project management and many other disciplines

Our commitment as an organisation is to ensure that we have the right people with the right skills in the right roles and to support those colleagues in developing and deepening the professional skills which the FSCS needs

Consistent with our values we also aim to create a working culture in which everyone can contribute to the full by using their skills to make a difference

Mark Neale
Chief Executive

4 Responding to Consumers

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

The past year saw marked increases in the number of consumers who *contacted the FSCS and in the volume of new, often complex, claims*

Context

We are the UK's statutory fund of last resort for customers of authorised financial services firms This means that the FSCS can compensate eligible consumers who lose money when a regulated financial services business fails and is declared in default

There is a list of firms that we declared in default during 2010/11 in Appendix 2

A summary of claims over the past year

We received 39 499 new claims from consumers during 2010/11 which was 25 per cent more than we received during 2009/10 We decided a total of 47 055 claims in 2010/11 which was more than double the number last year

	New claims received		Total decisions	
	2009/10	2010/11	2009/10	2010/11
Deposit	1 112	3 231	1 105	3 127
General Insurance Intermediation	2,513	8,102	1,831	7,875
Life and Pensions Provision	4	2	4	2
Life and Pensions Intermediation	3,427	4,180	3,433	3,573
Investment Fund Management	65	24	124	21
Investment Intermediation	24,301	23,603	15,188	32,196
Home Finance Intermediation	170	357	117	261
Total	**31,592**	**39,499**	**21,802**	**47,055**
General Insurance Provision		**See note**	**14,958**	**10,400**

Note Insurance claims are usually handled by the appointed run-off agent and then presented to the FSCS for checking and payments

We decided a total of 47,055 claims, more than double that of last year

The volume of claims from firms such as Keydata Investment Services Limited (Keydata) and Wills & Co Stockbrokers Limited led to 60 per cent of new claims falling to the Investment Intermediation sub-class for funding purposes

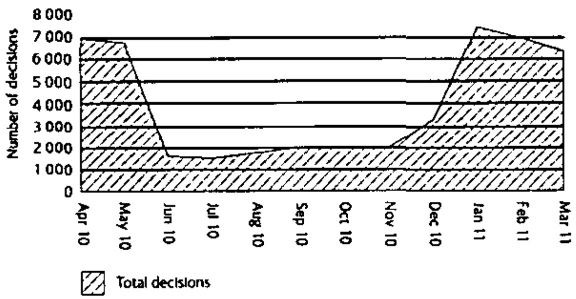
The FSCS continued to receive a high number of claims arising from Investment Intermediation during 2010/11 including claims that related to general investments We saw an increase in new claims related to the mis-selling of Payment Protection Insurance (PPI) This increase meant that just over 20 per cent of new claims related to General Insurance Intermediation

We received some new claims relating to Mortgage Endowments (part of the Life and Pensions Intermediation sub-class) Although the number increased slightly in 2010/11 they still made up only eight per cent of all new claims which is the same as the previous year

Keydata claims increased

We continued to face the challenge of sharp variations in our workload At the start of 2010/11 we processed large volumes of Keydata claims which had been received towards the end of the previous financial year We also handled a major increase in new decisions during the last quarter of 2010/11 after resolving complex technical issues that related to Keydata funds which had been backed by the Luxembourg-based company Lifemark SA

Total decisions



We were able to scale our operations through the effective use of internal resources and our outsourcing partners to complete claims cost-effectively and within the required service standards

There is more detail about the compensation amounts we paid to consumers in different industry sectors in Section 6

Case study

Welcome Financial Services Limited

The FSCS is using the claims-handling resources of a firm in default to handle compensation and save money for levy payers

Welcome Financial Services Limited (Welcome) was declared in default on 2 March 2011 To assist in its handling of claims the FSCS has arranged to use Welcome s claims-handling capabilities Welcome s restructuring arrangements also provide for payments to the FSCS to fund compensation and the associated costs for handling PPI claims in respect of policies sold on or after 14 January 2005

Furthermore, the payments which are received from Welcome will ensure that the levy payer is in a better position than would otherwise be the case had the firm been made formally insolvent

The FSCS will remain responsible for all decisions on claims which will be made in accordance with the rules set by the FSA, and we will closely monitor and oversee all steps in the handling of claims This arrangement will enable claims to be processed as quickly as possible

Due to the substantial number of potential claims against Welcome a contact programme has been established, which launched on 15 March 2011 A small number of claims were processed in the financial year ending 31 March 2011

These arrangements we believe will benefit all our stakeholders consumers with eligible claims will be compensated for mis-sold PPI policies our levy payers will receive a substantial measure of protection against the costs of those claims and the Welcome business will be wound down in an orderly way

We dealt with almost 121,000 telephone calls and 47,000 written enquiries

Faster payouts to consumers for deposit claims

The European Commission amended the Deposit Guarantee Schemes Directive in 2009 The amendments required that deposit guarantee schemes across Europe (i e the FSCS in the UK) must from 31 December 2010 pay out compensation within 20 working days of the default of a deposit taker From that date the FSCS also seeks to pay compensation to the majority of depositors within seven calendar days of the default of a deposit taker

New faster payout benefits credit union claimants

The benefits of the new faster payout arrangements were highlighted within a week of the changes coming into force on 31 December 2010 Three credit unions failed in the first quarter of 2011 one in the first week of January

In each case we were able to act promptly to pay compensation automatically to the vast majority of the credit unions members within seven days and in many cases even more quickly Credit union members did not have to contact the FSCS direct or even fill out an application form

Working with each credit union concerned we accessed all the information we needed about the depositors using the Single Customer View (SCV) files We then wrote to members who received their compensation either in cash from a Post Office or by cheque (for amounts over £1 000) The new faster payout system worked well for the claimants as the following table shows

Credit union	Date of default	Number of customers paid automatically	Date of payment	Remaining customers paid (or closed)	Date paid (or closed)
Havant Area Savers Credit Union	6 January 2011	211	10 January 2011	38	14 January 2011
South East Birmingham Community Credit Union	26 January 2011	710	27 January 2011	20	Within 20 days
Ilfracombe and District Credit Union	30 March 2011	121	1 April 2011	22	Within 20 days

Our contact with consumers

We handle an extremely varied range of telephone email and written enquiries from consumers every day

During 2010/11 we dealt with 167 600 enquiries which is an increase of 75 per cent on the previous year Enquiries covered

- potential claims
- distributing and receiving application forms
- complaints
- Parliamentary correspondence and
- general enquiries about all aspects of our work

Managing our enquiries

Enquiries are split between telephone calls and written enquiries as follows

- 120 672 telephone calls which is 74% more than in 2009/10
- 46 928 written enquiries which is 78% more than in 2009/10

Our volume of written enquiries during 2010/11 included the following

- 229 items of Parliamentary correspondence which is 71% more than in 2009/10 Of these 201 items were received directly from MPs and covered a range of issues and types of claim although the majority related to the defaults of Keydata NDF Administration Limited and Defined Returns Limited HM Treasury also referred 28 items of Parliamentary correspondence to us
- The number of complaints we received decreased We received 548 complaints which represent just 1% of the total number of claims decisions made during 2010/11 (down from 2% in 2009/10)
  - 479 consumers complained about the decision made on their claim while 69 made a complaint about the handling of their claim This represents a change from last year when there was a more even split between decision-based and handling-based complaints
  - During 2010/11 394 of the complaints related to investment claims of which 189 related to Keydata claims.

Virtually 100% of telephone calls were resolved within 48 hours

Performance against our service standards

We set different target service levels for different activities and types of claims

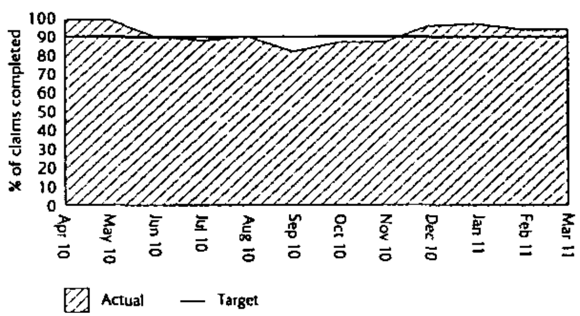
- In 2010/11 our target was to respond to and resolve 90% of all telephone calls within 48 hours and we consistently achieved this every month Over the course of the year virtually 100% of telephone calls were resolved within 48 hours
- We aimed to answer 90% of all MPs letters within 15 working days and to resolve 90% of all written enquiries within 10 working days Both of these service levels were met during 2010/11
- We made 49% of default declarations within six months of the start of our investigations into the firm concerned This was slightly below the target of 50% of default declarations within six months
- Our target was to complete all investigations into the firm concerned within 12 months However during 2010/11 we were unable to complete 8% of our investigations within 12 months

Service levels for claims decisions

We have various service levels for the completion of claims decisions

- With credit union claims where the firm was declared in default before 31 December 2010 we aimed to complete 90% of new claims within eight weeks of receipt of a claim From 31 December 2010 new timescales for the payment of deposit compensation came into force Since that date the FSCS has sought to pay compensation to the majority of a failed deposit taker s customers within seven days of default, and to the remaining customers with more complex accounts which fall outside of the automated (straight through) process within 20 working days of default.
- We aim to complete 90% of other types of claim within six months of receipt of a claim Across all claims areas 95% of claims were completed within the target for the claim type The graph below provides a summary of our performance against this target

Claims decisions turnaround times



- In all cases where an offer of compensation was made we issued compensation payments within 10 days of written acceptance of the offer or on receipt of all necessary information from third parties for claims relating to pension reinstatement and pension loss

Report from the Independent Investigator

This is my third annual report since I took up office, and it covers the period from 1 April 2010 to 31 March 2011

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

My investigation does not cover disagreements or disputes about the merits of a decision made on a claim itself This is made very *clear to claimants who ask for a complaint to be referred to me* Notwithstanding this, some of the complaints referred to me at a complainant s request seek to raise issues about the decision made on a claim to the FSCS I make it clear to complainants that I will not adjudicate on such matters

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

A copy of my report is provided to the complainant and to the Board in every case I adjudicate upon

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

In this reporting period, I investigated and reported on three cases This compares with nine cases referred to me for adjudication last year There are currently no complaints under investigation I upheld none of the three complaints referred to me for adjudication in this reporting year

The cases referred to me for investigation should be seen in the context of the FSCS having dealt with some 40 000 claims received by it in the reporting period Having regard to this the number of cases referred to me is a very small number

Given the negligible number of complaints referred to me in this reporting period and my determination upon those complaints following investigation of the complaints made, I consider this should give a high degree of reassurance to the FSCS Board

John Hanlon
Independent Investigator

Case study

Karen Benjamin, FSCS Senior Claims Officer

Karen Benjamin explains how the FSCS processes consumers claims

I have worked at the FSCS for over 13 years Before that I was in the insurance industry which was useful because it gave me experience in understanding different products At present, I can be working on up to 50 claims at any one time so it is important to keep a close check on what is being done and when on every claim

Over the past year I have mostly worked on mortgage claims also known as Home Finance claims These can arise for a number of reasons for example, it may be that an initial promotional period is coming to an end and affordability becomes an issue or perhaps the claimant feels they were given bad advice or the mortgage adviser might not have fully considered the claimant s financial circumstances There continues to be a steady increase in these claims

By the time I see an application form our Initial Enquiries Team will have already carried out a check on the potential claim to make sure that the firm involved is one where the FSCS may be able to help The next step is to look at what evidence the claimant has provided to support their application If the evidence is sufficient, I will not have to get information from a third party such as solicitors With mortgage claims certain documents are normally given at the same time as the advice for example key facts illustrations and mortgage offers and because the FSA stipulates what information these documents should contain it can make it slightly easier to get to grips with what happened

I have also handled claims to do with investment products but even if we have a high number of complex claims against a particular firm that we deal with on an individual basis we endeavour to find common themes to build a broader picture including how the product was sold The FSCS also has a lot of expertise in-house including a legal team so there is always support on hand

The FSCS aims to put eligible claimants in the position they would have been in had they not received the advice I arrived at work the other morning to get a voicemail from a claimant thanking me for the way I had handled her claim, so that was not only nice to hear but a strong reminder of how we help build confidence in the financial services industry

5 Raising Public Awareness of the FSCS

Our aim is to raise public awareness of the FSCS

We worked with our industry stakeholders to raise public awareness of the FSCS so as to increase consumer confidence and support market stability

Context

The FSCS launched its first consumer awareness campaign in January 2011 This was the first step in a programme expected to develop over the next few years to increase awareness and understanding of the compensation arrangements This ambitious but important objective was supported by and developed with industry and the Tripartite Authorities Initial results confirm the size of the task and the ongoing commitment required The FSCS is now considering the next steps for the campaign in 2011/12

The need for a consumer awareness-raising programme was raised in the January 2008 consultation paper *Financial stability and depositor protection strengthening the framework* by HM Treasury the Bank of England and the Financial Services Authority (FSA) The paper outlined five objectives including having "Effective compensation arrangements in which consumers have confidence" A key proposal for delivering this objective was to "increase consumer awareness of the scope and operation of the [Financial Services] Compensation Scheme"

The House of Commons Treasury Committee favoured a similar approach in its January 2008 report *The run on the Rock* to have the maximum impact in protecting financial stability the details of the scheme must be well-advertised both in national and regional media and through the display of posters in individual bank branches"

The Government fully supports the approach the FSCS has taken and recognises the importance of this awareness-raising campaign

Mark Hoban MP
Financial Secretary to the Treasury

"Deposit protection helps individuals it can also contribute to financial stability by increasing confidence During the last Parliament, the Treasury Committee, chaired by John McFall noted that the FSCS could only protect financial stability effectively if consumers were aware of it I welcome this drive to improve public awareness of the FSCS and hope it will result in the FSCS being advertised in every bank branch as the Committee recommended"

Andrew Tyrie Chairman of the Treasury Select Committee

An FSA-commissioned *research study* among retail consumers and small businesses published in January 2009 found that "knowledge and understanding of the FSCS and how it works is very limited" There was a strong feeling from respondents that the FSCS and its key elements needed to be advertised and that any publicity was "the responsibility of both the providers of banking services and of the FSCS

Tracking research also showed that there is a link between consumer awareness of the FSCS and thinking that now is a good time to take out new financial products Awareness of the FSCS is also linked to confidence in that money held with financial services providers in the UK is safe

Following the Tripartite Authorities consultation and the FSA s subsequent consultation paper (CP 09/03) and policy statement (PS 09/11) we set out our plans to implement a consumer awareness programme for the FSCS The programme is a key component in delivering our stated aim of raising public awareness of the role of the FSCS and has two measurable objectives

- to increase the level of spontaneous awareness of the FSCS by 20 percentage points by 2012 and
- to improve provision of correct information by financial services firms to consumers as measured in mystery shopping research from 30% (measured in 2007) to 60% by 2012

Consumer awareness of the FSCS was last measured in October 2010 at four per cent (unprompted) In total 39 per cent of adults who hold at least one financial product were aware of the existence of the FSCS after prompting

"AIFA is highly supportive of the Compensation Scheme and believes that a fund of last resort is crucial to consumers trust and confidence in the financial services sector"

Andrew Strange Director of Policy

Association of Independent Financial Advisers (AIFA)

Strategy

We defined an integrated communications strategy and channel plan to make the most of the available budget and help the campaign punch above its weight. Advertising appeared on TV on posters in newspapers and online

Throughout the development of the campaign we held regular meetings with an Advisory Panel comprising industry trade bodies and consumer representatives as well as meeting with the Tripartite Authorities This approach gave all our key stakeholders the opportunity to play an active role in shaping our communications strategy and messages and setting the tone and balance

We developed two key messages for consumers firstly that the FSCS can protect money in eligible savings investments and insurance and secondly for consumers to check that they are covered

Our delivery programme comprised two main elements engagement with financial services firms to ensure that they were ready for the campaign launch and running paid-for advertising (also encompassing proactive media relations) This work is underpinned by a continuing research programme

All advertising drove consumers to visit the FSCS website or to talk to their provider The FSCS website featured a three-step guide which launched in an overlay window on the home page to explain to consumers how to check that they are covered

The first tranche of advertising launched on 6 January 2011 and ran to the end of March 2011

"I welcome the FSCS awareness-raising programme – it is imperative that consumers are made aware of the protection the FSCS provides The FSCS plays a vital role in consumer protection and confidence"

Chris Leslie MP Shadow Financial Secretary

Costs

The campaign budget was £4m including all fees and staff time The paid-for media component of the campaign represents approximately 0 15 per cent of the total advertising media investment by the financial services sector as a whole in the year to April 2011 as measured using AdDynamix

"It is important that customers have full confidence in financial institutions and know that their money is protected in the unlikely event that the company they bought a policy from, or started saving with, gets into financial difficulty Raising awareness of the Financial Services Compensation Scheme is a good way to reassure our customers and build trust in financial services"

Maggie Craig Director General of the Association of British Insurers

Engagement with financial services firms

We planned and delivered a comprehensive stakeholder engagement strategy aimed at securing support from the industry for the programme and agreement to carry our messages

To help ensure that consumers receive consistent messages from both the FSCS and firms we created a toolkit comprising

- training materials to help firms brief their staff on the FSCS including the key issues of compensation limits and shared banking authorisation across brands and
- campaign materials so that firms could include either the FSCS corporate identity or campaign identity creating visual synergy with our advertising

In summary support from firms has included promoting the FSCS in the following ways

- on websites – especially in the insurance sector
- stickers in branches – especially in the building societies sector
- in customer advice conversations – especially in the Independent Financial Adviser sector

- In customer letters and statements – especially in the banking sector and
- on literature – *for example key facts and leaflets*

While support from financial services firms has been good more support is required to ensure that all financial services customers are aware of the FSCS to help increase consumer confidence and maintain market stability

"The British Bankers Association believes it is important customers are confident in the banking system and understand there is a compensation scheme they can trust. The industry itself pays for the safety-net and in the unlikely event it is needed our members are committed to making sure people get their money as swiftly as possible We welcome the awareness campaign so people know their savings are safe and that the industry has a system in place to support them"

Angela Knight Chief Executive of the British Bankers Association

Research programme and campaign evaluation

We ran a research programme to

- help ensure that our activity is communicated clearly to consumers and
- measure its impact

Before the launch of the campaign we commissioned an evaluation study A benchmarking survey was carried out in October 2010 and a similar survey was carried out in April 2011 after the campaign ended An interim survey took place three weeks into the campaign when we moved to only advertising on TV on Sundays. The findings which measure the campaign s effect amongst the core target of those aged from 21 to 70 in the UK with at least one financial services product, will assist us in developing recommendations for future phases of the programme

"BIBA supports the FSCS awareness programme We believe that it will help to raise awareness of the protection that the FSCS provides customers of UK financial services firms which in turn contributes to confidence and financial stability"

Eric Galbraith Chief Executive British Insurance Brokers Association (BIBA)

Results to date

Advertising and PR

Following the launch of the advertising visits to the FSCS website doubled to 336 505 compared with 153 281 visits in the previous quarter As the campaign progressed this trend continued with visits tailing off only towards the end of the campaign

Significant work was put in to the media launch of the campaign by our PR agency Hanover working with the FSCS As a result, 261 stories were generated across all media of which all except four trade articles were either positive or neutral in tone This is more than double the target set The coverage generated included national TV with features appearing on BBC News and Newsnight Scotland Pieces were carried on 36 regional radio stations nationally Mark Neale was interviewed on both BBC Radio 5 Live and BBC Radio 4 s Today programme

"The BSA believes that the FSCS campaign will raise awareness of the financial protection provided to customers of UK financial services firms and supports the campaign objectives

"We believe the existence of the Compensation Scheme is a huge reassurance to customers and is fundamental to financial stability It's important customers know what arrangements are in place and what limits apply to them"

Adrian Coles Director General of the Building Societies Association (BSA)

The early evidence is that, although received well by the public the campaign has not yet had the impact on awareness for which we were *hoping The key findings are that*

- there was no significant uplift in awareness of a compensation scheme and total awareness of the FSCS is largely unchanged However it is encouraging that awareness of the FSCS is higher among people who recognised the campaign advertisements
- there is continuing significant misattribution of FSCS protection to the Government,
- we are reaching young people and people from C2DE demographics – 43% and 46% respectively recognised our campaign These audiences are traditionally difficult to reach
- one-third of people surveyed recognised the TV ad Nearly half of those surveyed (43%) recognised at least one element of the campaign and this is spread across the audiences
- 15% of people remember having seen some advertising or publicity about the FSCS – this rises to 32% when prompted with a list of media channels
- 40% of our target audience will act differently in the future as a result of seeing the campaign
- those aware of the FSCS are more likely to think that now is a good time to take out new products
- overall levels of confidence that their money is safe are higher among those aware of the FSCS and
- around half of those who were notified about the FSCS felt that it influenced their decision to take out a product

Engagement with firms

Before the launch of the campaign we completed a benchmarking mystery shopping study investigating firms provision of information about the FSCS The key findings were that

- there was a general lack of understanding about the roles of the FSCS the Financial Ombudsman Service and the FSA
- enquiries via email were much less likely to get a clear response and
- information provided to customers about the FSCS and the role it plays in the financial sector still requires improvement.

Overall 42 per cent of all staff for the institutions assessed spontaneously mentioned the FSCS during the enquiry a welcome increase of 12 per cent from the previous study in 2007 However although this is a good improvement and shows progress towards the 60 per cent target for April 2012 it still represents less than half of all enquiries

The survey will be repeated in 2011/12

Next steps for the programme

We are reviewing the research findings which alongside our previous research and relevant tertiary sources, give us a solid evidence base from which to draw learning and insight and develop a plan for our activity in 2011/12 Our Advisory Panel and the Tripartite Authorities will continue playing a critical role in the programme

About the consumer awareness programme

Q&As about the consumer awareness programme

Interview with Mark Neale FSCS Chief Executive

6 Operating Efficiently and Maximising Recoveries

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

During 2010/11, we continued to handle extremely complex claims in the investment sector, while pursuing recoveries wherever reasonably possible and cost effective

Context

The FSCS plays a vital role in protecting consumers when financial services firms fail This in turn contributes to maintaining consumer confidence in the industry and to financial stability We cannot deliver this role without the support and funding of the industry We are always conscious of the impact that the levies and costs have on the industry and are committed to a continuing review of our assumptions systems and processes to be more responsive to our levy payers We have been working with trade associations on these issues

This section looks in more detail at the following

- Compensation payments
- Recoveries – reducing the costs for levy payers
- Levies raised
- Management expenses
- Update on the five banking defaults (SDDs) and Dunfermline Building Society and
- Compensating consumers a summary by industry sector

See also Section 9 for the full Directors Report and Accounts and accompanying Notes.

Note The term SDDs in the charts and commentary refers to the Specified Deposit Defaults which are the five banking failures of 2008 There is more information about the SDDs later in this section

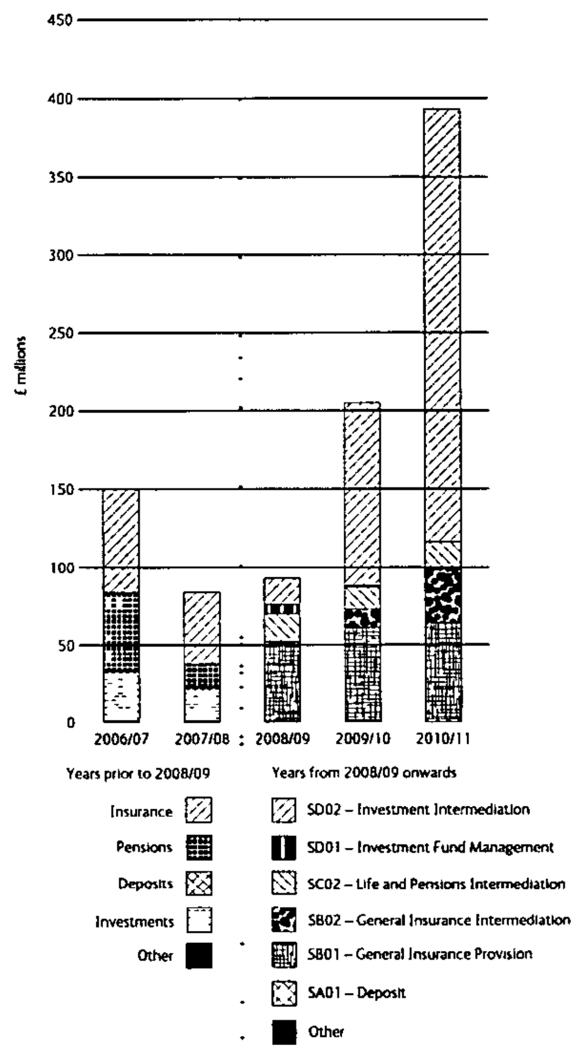
We are always conscious of the impact that the levies and costs have on the industry

Compensation payments

Total compensation payments for 2010/11 amounted to £535 36m (excluding payments made on behalf of HM Treasury and the Icelandic Depositors and Investors Guarantee Fund) The table below shows how much compensation we paid within each specific industry class and sub-class More information about the compensation paid in respect of each industry sector is included at the end of this section

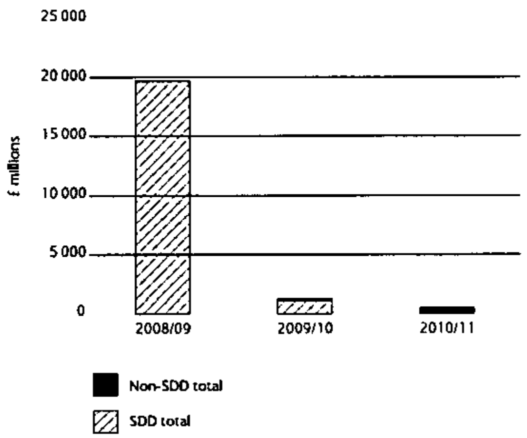
Compensation payments		£m
SA01	Deposit (excluding Dunfermline Building Society)	1 74
SB01	General Insurance Provision	61.65
SB02	General Insurance Intermediation	35 80
SC01	Life and Pensions Provision	0.00
SC02	Life and Pensions Intermediation	16 19
SD01	Investment Fund Management	0.12
SD02	Investment Intermediation	277 15
SE01	Home Finance Provision	0.00
SE02	Home Finance Intermediation	0 29
Sub-total (excluding SDDs)		**392.94**
SA01	Deposit (Dunfermline Building Society)	55 00
SDDs	(after validation adjustments)	87 42
Total		**535.36**

Compensation payments 5-year trend (excluding the SDDs and Dunfermline Building Society)



Note The FSCS moved to a new funding system on 1 April 2008 Under the new system the sub-classes changed so it is not possible to make direct comparisons between the old and new systems The first key refers to the two years before 2008/09 and the old sub-schemes The second key refers to the years 2008/09 onwards and the current sub classes

Total compensation (including SDDs and Dunfermline Building Society)



Note Compensation includes deemed compensation in relation to Bradford & Bingley plc and Dunfermline Building Society

Recoveries – reducing the cost to levy payers

We vigorously pursue recoveries from the estates of failed firms and third parties where it is reasonably possible and cost-effective to do so During 2010/11 the FSCS made recoveries of £21m excluding the SDDs

Recoveries relating to the SDDs amounted to £735m For more information about recoveries from the banking defaults see below

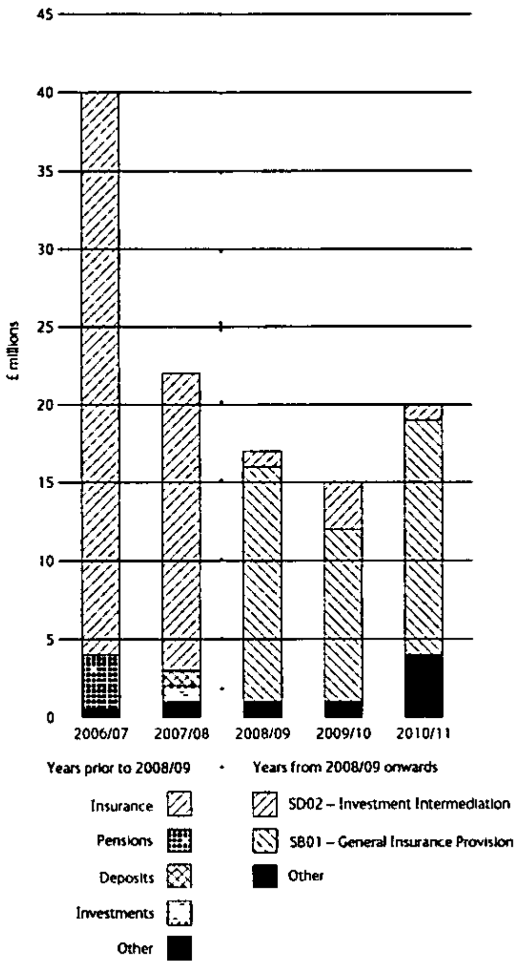
The approach to recoveries varies between industry sectors and is determined in the light of recovery opportunities on the facts of each case In general claims are always pursued with insolvency practitioners such as the liquidators or administrators where there is a prospect of dividends to creditors There is more about the FSCS recovery policy on our website

Keydata recoveries from Norwich and Peterborough Building Society

Just after the end of the financial year 2010/11 we announced that the Norwich and Peterborough Building Society (N&P) would pay recoveries to the FSCS in respect of the compensation we paid to their customers who had invested in products from Keydata Investment Services Limited (Keydata) We have received a recovery of £28m which is not included in the recoveries figures for 2010/11 since it did not fall within the financial year In total this will save levy payers compensation costs of over £40m

In addition N&P s decision to compensate its customers who bought Keydata products on its advice means that the FSCS will now not have to meet a further £22m of potential claims

Recoveries 5-year trend (excluding SDDs) and total recoveries (including SDDs)



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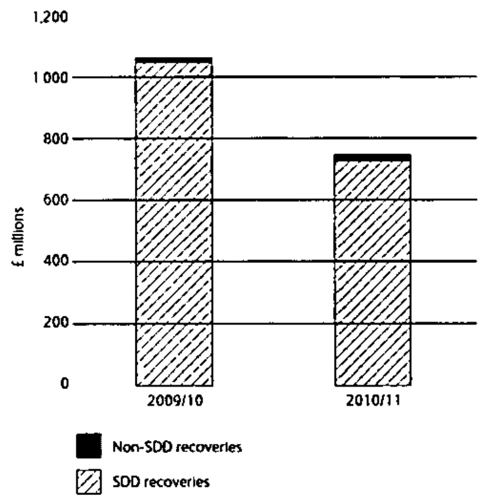
Total recoveries (including SDDs)



The recoveries relating to SDDs amounted to £735m

Levies received

Compensation costs are funded by levies on authorised firms across five broad classes in the financial services industry Four of these five classes are divided into two sub-classes depending on the activity For more information on how we work and are funded see Appendix 1

During 2010/11 the levies received totalled £919m This amount includes the interim levy of £326m raised on 24 January 2011 and the SDD interest cost levy of £380m

Interim levy

As outlined elsewhere in this report and in our communications with the industry throughout the year there were significant numbers of claims for payment that fell into the Investment Intermediation (SD02) sub-class These claims largely arose from the complex and wide-ranging default of Keydata together with claims arising from the defaults of several stockbroking firms

The interim levy of £326m was required to ensure that the FSCS had the funds to pay compensation to July 2011 As our annual levy becomes payable from 1 July the element of our levy which covers compensation costs is based on a 1 July to 30 June year

Cross-subsidy

The Keydata claims fell within the Investment class Investment Fund Management businesses (SD01) were asked to contribute £233m because the £100m annual limit on Investment Intermediation (SD02) had been exhausted There is more on levy limits within the five broad industry sectors in Appendix 1

In order to reach the levy figure the estimated flow of claims and costs was closely analysed and our legal team ensured we worked within the Financial Services Authority (FSA) FEES rules which set out how levies are to be allocated including between each member of the relevant sub-class

Judicial Review

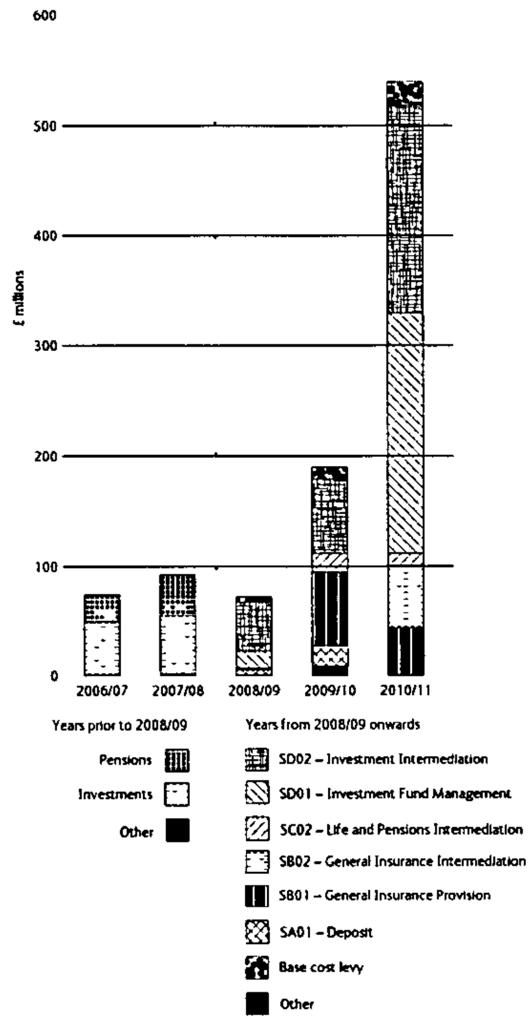
In late 2010 a number of firms in the SD02 sub-class challenged the decision by the FSCS to allocate costs of the Keydata default to that sub-class The matter proceeded to a Judicial Review After trial the claim was dismissed on all counts and the FSCS awarded its costs The judge noted that when dealing with complex economic issues "The primary decision-maker [the FSCS] is likely to have developed an expertise on those issues"

Moreover the judge concluded that even though not required there was adequate consultation and that "The liability of a class or sub-class to be subjected to a levy is one imposed by the rules made by the FSA"

Levies received		£m
SA01	Deposit (excluding SDDs)	0.28
SB01	General Insurance Provision	43.94
SB02	General Insurance Intermediation	57.23
SC01	Life and Pensions Provision	(0.36)
SC02	Life and Pensions Intermediation	10.64
SD01	Investment Fund Management	1.04
SD02	Investment Intermediation*	404.82
SE01	Home Finance Provision	0.00
SE02	Home Finance Intermediation	(0.54)
Sub-total (excluding SDDs and base cost)		**517.05**
Base cost levy		21.84
Sub-total (excluding SDDs)		**538.89**
SDD levy		380.09
Total		**918.98**

*Included in the levies received for the SD02 Investment Intermediation sub-class is £233m that was invoiced to the SD01 Investment Fund Management sub class as part of the cross subsidy arrangement when SD02 reached its levy limit of £100m

Levies received (excluding SDDs) 5-year trend



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Management expenses

The FSCS aims to bear down on its management expenses in order to reduce the costs we impose on the industry Those expenses consist of

- the business as usual costs of running the FSCS including the handling of claims
- our investment in strengthening our future capability and improving our efficiency and
- the interest costs and associated management expenses on the loans from HM Treasury to cover the costs of the 2008 bank failures

All these expenses are governed by a Management Expenses Levy Limit (MELL) which is set annually by the FSA after consultation It limits the amount the FSCS can levy in respect of management costs each year

The MELL for 2010/11 was set at £1bn based on a forecast budget expenditure of £350 36m plus a reserve contingency of £649 64m The actual management expenses amounted to £392 10m This included loan interest costs arising from the loans made by HM Treasury to the FSCS in 2008 to meet the costs of compensating depositors in the SDDs of £334 42m and management expenses (excluding interest) for 2010/11 of £57 68m including an investment in IT systems of £18 00m

Business as usual'

In addition to pursuing recoveries, we constantly look to increase our efficiency and improve the way we minimise the costs to levy payers Key to this is our use of outsource partners to handle the great majority of claims we receive enabling us to flex our capacity and costs quickly in response to fluctuations in our workload The business as usual cost of running the FSCS in 2010/11 was £37m compared with a budget of £32 7m The difference is explained mainly by the higher than expected volume of claims and hence higher outsourcing costs Over the past year we have seen a sharp rise in new claims driven particularly by Payment Protection Insurance (PPI) mis-selling and the steady influx of claims arising from the complexities of the Keydata default The great majority of these claims have been dealt with by the FSCS s outsource partners

Investment in IT systems

To support this outsourced business model we have invested in our IT systems and will continue to do so

The FSCS invested £18m in 2010/11 to strengthen our capability particularly faster payouts for depositors compared with a budget of £12 4m This increase reflected the need to upgrade our supporting IT systems An independent review in 2010 of our existing IT identified the need to improve our systems and controls Moreover the review observed that by not doing so would place our ability to deliver an accurate and efficient service in future at significant risk

In 2010/11 we have focused on getting the basics into good shape We then plan to build on that base to improve our business processes in order to be able to better support eligible compensation claims across all our industry sectors

Management expenses: comparison of actual to budget	2010/11 Actual £m	2010/11 Budget £m	Variance £m
Employment costs	10 58	11 88	(1 30)
Other staff costs	4 60	2 07	2 53
Total staff costs	**15 18**	**13 95**	**1 23**
Outsourcing	13.16	10.16	3.00
Other expenses	8 62	8 57	0 05
Sub-total management expenses excluding change programme and SDDs	**36.96**	**32.68**	**4.28**
Change programme	18 00	12 40	5 60
Sub-total operations and change programme expenses	**54.96**	**45.08**	**9.88**
SDD-related management expenses	2 72	2 58	0 14
Sub-total management expenses (excluding SDD interest)	**57.68**	**47.66**	**10.02**
SDD interest	334 42	302 70	31 72
Total management expenses	**392.10**	**350.36**	**41.74**

Notes

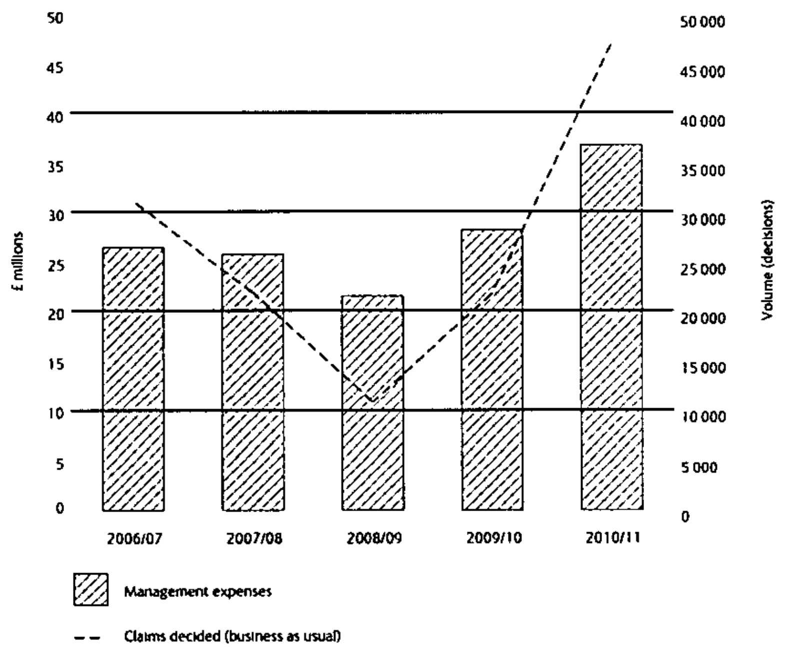
1 Total staff costs were over budget by £1 23m because of the need for temporary and consulting staff support to deal with higher volumes of claims There was a need for temporary and consulting staff to manage the increase in claims arising from an influx of defaults, including Welcome Financial Services Limited (Welcome) and others which resulted in an overspend in other staff costs However we have covered the costs of the temporary staff that were employed to process the Welcome claims and this amount is included in the Recoveries figures

2 The increase in change programme expenses is due to an increase in the amounts we needed to invest to ensure that the FSCS is fully prepared to meet the new regulatory requirements including faster payout and Single Customer View

3 SDD-related management expenses were broadly in line with our forecast and reflect ongoing legal and outsourcing costs for processing claims

4 *SDD interest was higher than budgeted by £31 72m The interest rate is a variable* LIBOR rate and rates rose after October 2009 when the forecast was made

Management expenses (excluding SDDs and change programme expenses) 5-year trend



Update on the banking and building society defaults

The FSCS was instrumental in safeguarding the deposits of more than four million customer accounts following the defaults of five banks in 2008 These were

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

The banks are collectively referred to in our Annual Report and Accounts as SDDs

In 2009 Dunfermline Building Society was the first deposit taker to be dealt with under the Special Resolution Regime (SRR) that was introduced in the Banking Act 2009 The FSCS expects to contribute to the costs of resolution There is more information on Dunfermline Building Society below

Compensation paid to consumers in respect of the SDDs

The FSCS has now paid out compensation of £23bn in respect of the SDDs including approximately £3bn on behalf of HM Treasury

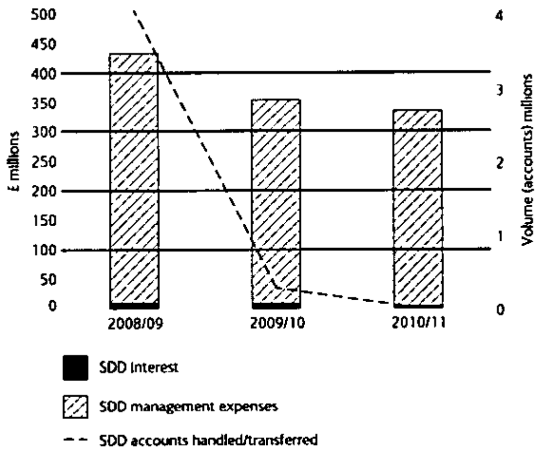
During 2010/11 we continued to make good progress in clearing outstanding claims in particular paying compensation on fixed-term deposits as they matured Compensation for such deposits will continue to be payable until 2013 In 2010/11 the FSCS paid out £143 7m of which £87 4m was paid on the FSCS s own behalf and the remaining £56 3m was paid on behalf of HM Treasury

Cost of funding the banking failures

The FSCS initially borrowed the necessary funds to finance the costs of the SDDs from the Bank of England on an interest-only basis The loan facilities were subsequently refinanced with longer-term loans from HM Treasury The current interest on the existing loans is calculated at 12-month LIBOR plus 30 basis points adjusted monthly The interest payable on the loans for 2010/11 amounted to £334 4m (compared with £348 4m in 2009/10) This reduction was mainly because of lower interest rates in 2010/11 and the recoveries received from KSF and Heritable reducing outstanding principal

The interest on these SDD related borrowings is classed as a specific cost within the FSCS's management expenses which means that the interest payments are funded only by levies on the Deposit class There is more information about how we are funded in Appendix 1 Understanding Our Work

SDD management expenses and SDD interest. 3-year trend



Recoveries from the banking failures

As noted elsewhere in this report the FSCS has a duty to pursue recoveries and does so vigorously wherever it is reasonably possible and cost-effective to do so

During 2010/11 the FSCS received further recoveries relating to the SDDs totalling £735m in the form of dividend payments from the insolvency practitioners as follows

- £99m from Heritable
- £614m from KSF and
- £22m from London Scottish

Bradford & Bingley

B&B was the largest of the banking failures and is in public ownership It continues to run-off its existing mortgage assets Although the precise timing still remains uncertain and could be over many years the B&B management has forecast a full recovery of the principal amount of the FSCS contribution We are closely monitoring the situation and reviewing progress with HM Treasury and UK Financial Investments (UKFI) which was set up to manage the Government s investments in financial institutions When the position becomes clearer we will report promptly to levy payers

Refinancing and repayment of loans arising from banking failures

Notwithstanding the recoveries that we have made so far of £1 79bn the FSCS continues to have significant borrowings in the form of loans from HM Treasury to cover the compensation costs for the banking failures (including the deemed compensation as explained in last year s Annual Report and Accounts – see Section 3 page 20)

The current terms run to 31 March 2012 After that date principal will be repayable We are therefore engaged in an active dialogue with HM Treasury about refinancing these costs Including a repayment schedule This schedule will be agreed taking market conditions into consideration Until a repayment timetable is agreed it is not yet possible to say which class or classes will be levied We will keep levy payers regularly fully and clearly updated on developments

Dunfermline Building Society

As we outlined in our 2009/10 Annual Report Dunfermline Building Society (DBS) was the first deposit taker to be handled under the Special Resolution Regime in the Banking Act 2009 In brief the FSCS expects to contribute to the cost of resolution but this cost will not be more than we would otherwise have paid had DBS gone into liquidation and its depositors paid by the FSCS

The figure for the total amount of the FSCS-protected deposits less the valuation of the total FSCS recoveries in liquidation will provide the cap on the FSCS contribution HM Treasury appointed an independent valuer to work out what recoveries the FSCS would have received had there been a payout by the FSCS to DBS s 260 000 depositors

Based on the best information available to the directors the provision brought forward from 2009/10 of £400m in respect of the DBS resolution is being increased by £55m for the year ended 31 March 2011 thus taking the total provision to £455m to include interest accrued during the year on the balance owing to HM Treasury However the final outcome may be different and the final amounts once agreed may potentially result in a material adjustment to the provision being required

The update table on the banking and building society defaults

The following table includes

- compensation paid to 31 March 2011
- the latest position on our work to validate the amounts the FSCS paid to support the bulk transfer of deposit accounts from B&B KSF and Heritable to other banks
- the position on our work to validate amounts to support the bulk transfer of accounts from DBS to the Nationwide Building Society and
- the recoveries we have made or that we anticipate we will make

Update on the banking defaults and Dunfermline Building Society

Firm	B&B	Heritable	KSF	Icesave	London Scottish	Dunfermline Building Society
Date of default/insolvency	27 September 2008	7 October 2008	8 October 2008	8 October 2008	30 November 2008	30 March 2009
Number of customer deposit accounts at default	All 3 5m accounts transferred to Abbey	22 344 accounts transferred to ING Direct 411 not transferred	c 157 000 accounts transferred to ING Direct 10 058 not transferred	298,414 (no accounts transferred)	11 963 (no accounts transferred)	c 260 000 accounts transferred to Nationwide Building Society
Initial estimate of deemed compensation amounts which the FSCS has contributed to the costs of transferring deposit accounts	£14bn	£500m	2 5bn contributed by the FSCS to cost of transfer less a repayment of £266 5m on 30 March 2009	N/A (no accounts transferred)	N/A (no accounts transferred)	The FSCS contribution will be net i e the costs of resolution are to be calculated only after the level of recoveries is known
Validation of the FSCS deemed compensation amounts for transferring deposit accounts	£15 65bn	£457m	£2 514m	N/A (no accounts transferred)	N/A (no accounts transferred)	In progress The FSCS contribution will be net Provision of £455m has been made in the two years to 31 March 2011
Number of accounts transferred and/or paid at 31 March 2011	All 3 6m accounts transferred to Abbey in September 2008	22 344 accounts transferred to ING Direct in October 2008 Plus 341 accounts paid	c 157 000 accounts transferred in October 2008 Plus 6 891 accounts paid	295 352 accounts paid	11 234 accounts paid	c 260 000 accounts transferred to Nationwide Building Society in April 2009
Value of accounts paid at 31 March 2011 (Note 1)	N/A	£8 1m £7 4m FSCS £0 7m HMT	£34[illegible]m £87 9m FSCS £291 1m HMT	£4 48bn £2 26bn Iceland DIGF £1 43bn FSCS £0 79bn HMT	£252 4m £224 6m FSCS £27 8m HMT	N/A
Number of accounts yet to be paid at 31 March 2011 (Note 2 and table 1 below)	N/A	0	247 accounts (Notes 3 4 and 5)	1 116 accounts (Notes 3 and 4)	639 accounts (Notes 3 and 4)	N/A
Estimated value of accounts yet to be paid (Notes 1 and 2)	N/A	0	£9 87m £1 23m FSCS £8 64 HMT (Note 3)	£25 6m £ 0 1m Iceland DIGF £ 2 9m FSCS £1 7m HMT (Note 3)	£16 4m £12 6m FSCS £3 8m HMT (Note 3	N/A
Estimated total value of compensation liability/cost to FSCS before recoveries	£15 65bn (deemed)	£465m (£457m deemed) (£8m paid direct)	£2 582m (£2 514m deemed) (£68m paid direct)	£ 44bn (paid direct)	£237m (paid direct)	N/A
Recoveries announced at 31 March 2011	N/A	Received dividends totalling 56% and amounting to approximately £0 [illegible]bn	Received dividends totalling 60% and amounting to approximately £1 51bn	N/A	Received dividends totalling 9% and amounting to approximately £22m	N/A
Prospects for future recoveries	B&B s management forecast repayment of the FSCS loan in due course but whose timing remains uncertain We are working with B&B UKFI and HMT on this issue	Anticipated total dividend 79% to 85%	Anticipated total dividend 78% to 86%	The level of recovery depends on the status of the FSCS claims in the Icelandic winding-up proceedings (Note 6)	Anticipated total dividend approximately 27%	Recoveries are paid to HMT and the FSCS pays the shortfall in costs (subject to the statutory cap)

Note 1 Includes amounts paid on behalf of HM Treasury (HMT) and in the case of Icesave Iceland s Depositors and Investors Guarantee Fund as well as compensation under the FSCS rules

Note 2 Includes some accounts where an application form has yet to be received by the FSCS

Note 3 Includes fixed-term deposits that are due to be paid at maturity

Note 4 The difference between the paid outstanding and overall figures are the deposit accounts where no valid claim has been made Please refer to the Accounts rejected or not claimed table below for volumes

Note 5 Includes beneficiaries to a client account

Note 6 The first (and largest) FSCS claim has been upheld by the Winding-Up Board and the Icelandic District Court as a priority claim but this decision has been appealed to the Icelandic Supreme Court

Iceland s Depositors and Investors Guarantee Fund

Accounts rejected or not claimed

Firm	B&B	Heritable	KSF	Icesave	London Scottish	Dunfermline Building Society
Not claimed	N/A	59	2 688	1 936	88	N/A
Rejected	N/A	11	232	10	2	N/A

Compensating consumers a summary of our work by industry sector

The year was dominated by the claims arising from the default of Keydata in the Investment class By March 2011 we had handled over 18 000 such claims highlighting how important our role is in maintaining confidence in the financial services industry when there is a high-profile failure At the same time it is important to emphasise that we only reach decisions about whether or not to compensate in complex failures such as Keydata after full consideration of the issues and with the benefit of expert and legal advice In determining claims we must also adhere to the rules set for us by the FSA which consults with the industry and the FSCS in setting those rules

Deposit (SA01)

The majority of claims in the Deposit class during 2010/11 came from credit union members Eleven credit unions were declared in default, compared with eight in 2009/10

As we outlined in Section 4 we have focused much of our work in 2010/11 on developing systems and processes so that compensation is paid out quickly when a deposit taker (such as a credit union) fails

We have dealt with three failed credit unions since 1 January 2011 when the timescale for dealing with a deposit claim reduced to 20 days but we introduced our own target to complete the majority of claims within seven days The three credit union failures accounted for one-third of new claims within the Deposit class during 2010/11 For these defaults compensation for all claims has been delivered to claimants well within the required timescales

Class totals (excluding the banking defaults and Dunfermline Building Society)

- 3 231 new claims were received in 2010/11 compared with 1 112 in 2009/10
- 3 127 claims were completed in 2010/11 compared with 1 105 in 2009/10
- More than 97% of claims resulted in an offer of compensation slightly higher than 93% in 2009/10
- The average compensation payment for this class was £551 13
- Where a firm was declared in default before the end of 2010 more than 89% of claims received were completed within eight weeks of receipt higher than 85% in 2009/10
- 100% of claims that were eligible for the seven-day payout were completed within that timeframe

General Insurance Provision (SB01)

There were 10 400 compensation payments in 2010/11 a substantially lower number compared with 2009/10 when there were 14 958 Compensation payments totalled £61 65m compared with £59 77m in 2009/10

Sub class totals

- The largest spend was for claims on employers liability insurance policies issued by Chester Street Insurance Holdings Limited The compensation costs of this estate for 2010/11 stand at £39 5m which is marginally higher than £39 1m in 2009/10
- The relatively small increase in total spend from £59 77m in 2009/10 to £61 65m in 2010/11 is due to an increase in the Independent Insurance Company Limited compensation costs when compared with the previous year
- The number of payments decreased in 2010/11 due to the fact that 2009/10 had included exceptional catch-up payments for Chester Street legal defence costs

General Insurance Intermediation (SB02)

We have seen a steady increase during 2010/11 in PPI claims while the number of non-PPI claims remains low As with 2009/10 there have been a number of technical issues to resolve to complete the processing of PPI claims We have also experienced some difficulty in gathering the requisite information from third parties However we have still managed to process the vast majority of claims in a timely manner

The FSCS has also looked at the overall process for handling PPI mis-selling claims and we have made several changes with the aim of making the process clearer for the claimant Previously claimants were returning incomplete application forms so we have emphasised the information that is required before we can consider a claim and simplified the questions. Once this information is supplied we anticipate that the data gathering and quantification processes will be much easier to complete We also expect the clearer processes to result in a faster turnaround time from application to decision for the majority of claimants

Sub class totals

- 8 102 new claims were received in 2010/11 compared with 2 513 in 2009/10
- 7 875 claims were completed in 2010/11 compared with 1 831 in 2009/10
- Of the total number of new claims received 8 001 related to PPI Of these 1 520 related to one firm Picture Financial Services Plc, and 220 related to Welcome Financial Services Limited
- 101 of new claims received were other types of Insurance Intermediation claims compared with 102 in 2009/10 These included claims relating to employers liability and home and motor insurance Of the non-PPI claims **90%** resulted in an offer of compensation The average compensation paid was £1 893
- Of the PPI claims 7 772 were completed and 86% of claims resulted in an offer of compensation The average compensation paid was £5 261

Life and Pensions Provision (SC01)

There were no claims during 2010/11

Life and Pensions Intermediation (SC02)

This sub-class mainly comprises Mortgage Endowments Pensions Review and Free Standing Additional Voluntary Contribution claims (FSAVCs) and other types of Life and Pensions claim We saw about 750 more claims in this sub-class during 2010/11 compared with 2009/10

Sub class totals

- 4 180 claims were received during 2010/11 compared with 3 427 in 2009/10
- 3 573 claims were completed during 2010/11 compared with 3 433 in 2009/10
- **52%** of claims resulted in an offer of compensation
- The average compensation payment was £8 511

Mortgage Endowment claims

- 3 200 new claims were received during 2010/11 compared with 2 673 in 2009/10 an increase of 20%
- 2 761 claims were completed during 2010/11 compared with 2 845 in 2009/10 a reduction of 3%
- **54%** of claims resulted in an offer of compensation
- The average compensation payment was £2 494
- 90% of claims were completed within six months of receipt of an application form against a service standard of **90%**

During the year the focus continued to be on reducing the number of old claims in progress and improving the turnaround time

Pensions Review and FSAVC claims

- 261 claims were received during 2010/11 compared with 221 in 2009/10 an increase of **18%**
- 172 claims were completed during 2010/11 compared with 199 in 2009/10 a reduction of 14%
- **76%** of Pensions Review claims resulted in an offer of compensation as did **71%** of FSAVC claims
- The average compensation payment was £35 566 for Pension Review and FSAVC claims

Other types of Life and Pensions claim

- 719 new claims were received during 2010/11 compared with 533 in 2009/10 an increase of 35%
- 640 claims were completed during 2010/11, compared with 389 in 2009/10 an increase of 65%
- 37% of claims resulted in an offer of compensation
- The average compensation payment was £30 383
- 66% of claims were completed within six months of receipt of an application form against a service standard of 90%

Investment Fund Management (SD01)

Claims in the Investment Fund Management sub-class relate to Split Capital Investment Trusts (splits) and are now at very low volumes Some splits claims also fall into the Investment Intermediation sub-class (SD02)

Sub-class totals

- 24 claims were received during 2010/11 compared with 65 in 2009/10
- 21 claims were completed during the year as the splits workstream comes to an end compared with 124 in 2009/10
- 43% of claims received an offer of compensation
- The average compensation payment was £7 962
- 62% of completed claims were within the agreed service standard This was because we had to process a number of older and more complex claims which required a significant amount of work to bring to a conclusion

Investment Intermediation (SD02)

Much of our overall workload during 2010/11 involved high volumes of claims arising from defaults in this sub-class many of which presented complicated issues which the FSCS needed to resolve particular with regard to Keydata which was declared in default on 8 June 2009 Claims against *Keydata accounted for the largest proportion of new claims in 2010/11* resulting in 18 355 new claims There is additional background about Keydata on the industry section of the FSCS website

The number of claims in respect of Pacific Continental Securities (UK) Limited and Square Mile Securities Limited which accounted for much of the work in this category in previous years reduced significantly These are no longer reported separately and figures are included in the overall figures for stockbroking defaults below

Sub class totals

- 23 603 claims were received during 2010/11 compared with 24 301 in 2009/10
- 32 196 claims were completed during 2010/11 compared with 15 188 in 2009/10 This significant increase in completions during 2010/11 was due to the FSCS being able to resolve a significant number of claims received towards the end of 2009/10 in respect of Keydata
- 90% of claims resulted in an offer of compensation
- The average compensation payment was £9 910
- 97% of claims met the service standard

The larger components making up claims in this sub-class are set out in more detail below

Stockbroking defaults (including Wills & Co Stockbrokers Limited)

During 2010/11 we saw several stockbroking defaults of which the largest was Wills & Co Stockbrokers Limited (Wills & Co) This was a firm of stockbrokers which mis-sold high-risk often penny shares frequently to inexperienced investors without making the risk of these investments clear

- 3 873 stockbroking claims were received during 2010/11 of which 2 392 related to Wills & Co
- 3 025 stockbroking claims were completed during 2010/11 of which 1 945 related to Wills & Co
- 86% of claims resulted in an offer of compensation
- The average compensation payment was £10 322
- 92% of claims met the service standard

Keydata

The FSCS has dealt with three main categories of claim

- Category One Keydata funds backed by SLS Capital SA As we reported last year investors in the Keydata Secure Income Bond issues 1 2 and 3 were told by the firm s administrators that the assets underlying their funds had apparently been misappropriated although by an unknown third party
  It was also confirmed that the funds which had been promoted as being eligible for inclusion in an ISA were not in fact ISA eligible
  - 988 claims were received during 2010/11 compared with 4 841 in 2009/10

Keydata accounted for 18,355 new claims, the largest proportion for 2010/11

- 2 067 claims were completed during 2010/11 compared with 3 595 in 2009/10
- 90% of completed claims resulted in an offer of compensation
- The average compensation payment was £17 078
- 73% of claims met the service standard

• Category Two Keydata tax claims – Lifemark SA These were claims where a potential loss arose as a result of investors needing to account to HMRC for an unexpected tax liability because the underlying investments had been incorrectly treated as being ISA-eligible (i e tax free) The FSCS entered into discussions with HMRC and was able to set up an innovative arrangement whereby the FSCS settled the claimants tax liability by making payments direct to HMRC thus removing the need for the claimant to settle this with HMRC themselves

- 991 claims were received during 2010/11 compared with 12 922 in 2009/10
- 10 560 claims were completed during 2010/11 compared with 3 194 in 2009/10
- 82% of completed claims resulted in an offer of compensation
- In September 2010 and January 2011 payments were made to HMRC totalling £923 839 in respect of the liabilities of 6 641 claimants A number of claimants whose claims were provisionally accepted have yet to incur and may not incur a tax liability
- 99% of claims met the service standard of six months

• Category Three Keydata funds backed by Lifemark SA We were aware that there were many Lifemark investors who might have suffered loss in addition to the tax liability During the course of the year the FSCS investigated the issues surrounding these investments and after seeking legal advice the FSCS was able to step in to deal with claims from eligible investors for capital losses

- 16 376 claims were received during 2010/11
- 15 100 claims were completed during 2010/11
- 100% of claims resulted in an offer of compensation
- The average compensation payment was £12 494
- 99% of claims met the service standard

Home Finance Provision (SE01)

There were no claims during 2010/11

Home Finance Intermediation (SE02)

We continued to see a steady (but slow) increase in the number of new Home Finance Intermediation claims in 2010/11 but the overall number remains low

Sub class totals

• 357 new claims were received during 2010/11 compared with 170 in 2009/10 an increase of 110%

• 261 claims were completed during 2010/11 compared with 117 in 2009/10 an increase of 123%

• 23% of claims resulted in an offer of compensation

• The average compensation payment was £4 949

• Claims are expected to continue to increase in volume in 2011/12

7 Being Ready to Respond

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

The FSCS is ready to meet the challenges of new failures

Context

A key part of the FSCS s responsibilities is to be ready to respond to future financial failures so that consumers can be protected while allowing for the orderly resolution of a failed business In 2010/11 the focus of our work in this area was to put in place a capacity to pay out depositors in a failed bank building society or credit union in no more than 20 days and in most cases within a target of seven days We were also concerned that, consistent with our responsibilities the FSCS retained its integrity and independence as part of the Government s regulatory reforms but with appropriate accountabilities to the new regulatory bodies Regulatory reform in the UK and Europe provides the opportunity for the FSCS together with the authorities to improve the framework for consumer protection and financial stability

Faster compensation payouts for depositors

- The new FSCS faster-payout process relies on deposit-taking firms being able to produce up-to-date customer account data Deposit-taking firms were therefore required to prepare Single Customer View (SCV) files of their customers account information so that in the event of a default the FSCS could swiftly access that information Since January 2011 we have been working with the Financial Services Authority (FSA) to verify that all banks building societies and credit unions have prepared their SCV files as required
- The data received by the deposit institutions in turn drives our own systems and processes for faster payouts As explained in Section 6 we have invested and will continue to invest in our IT systems to build a resilient and secure process These improvements will benefit all our work

The FSCS is ready to respond to future failures to protect consumers

- We have arrangements in place with specialist outsource partners to handle some key elements including
  - the processing of the account data received
  - the rapid issue of compensation payments to claimants by a choice of methods and
  - the efficient handling of individual claims that are not suitable for automated payment

Increased limit and removal of set-off for deposit payments

From 31 December 2010 the FSCS compensation limit was increased to £85 000 in accordance with the requirements of the Deposit Compensation Scheme Directive and following a consultation by the FSA set-off by the FSCS was removed This means that depositors will receive all their credit balances from the failed deposit taker subject to the compensation limit of £85 000 Any outstanding loans or mortgages remain the responsibility of the depositor This change to the FSCS rules is also reflected in the relevant Insolvency rules for deposit takers so that the FSCS is repaid on the gross amount of the compensation paid as opposed to the net amount ensuring that the FSCS is not penalised on recoveries

These changes mean that as from 31 December 2010 the FSCS aims to deal with the majority of depositors claims against a failed deposit taker within seven days

Regulatory reform

The Government and HM Treasury opened the discussion about the UK s financial regulatory framework with the publication in July 2010 of a consultation paper *A new approach to financial regulation judgement focus and stability*

The document set out proposals for reform of financial services regulation including the establishment of two new regulators

The Prudential Regulatory Authority

The Government proposed that the Prudential Regulatory Authority (PRA) will take responsibility for the authorisation regulation and day-to-day supervision of all firms which are systemically important

The Government expects that the banks and other deposit-takers (including building societies and credit unions) insurers (including friendly societies) and certain broker-dealers (or investment banks) will come under the remit of the PRA

The Financial Conduct Authority

The Government proposed that the other regulatory body now to be called the Financial Conduct Authority (FCA) will have the primary objective to ensure confidence in financial services and markets with a particular focus on protecting consumers and ensuring market integrity

Key role for the FSCS

The consultation paper acknowledged the FSCS s key role as a provider of consumer protection when a firm fails

The FSCS s core business of compensating consumers for the more frequent failures of small firms such as Independent Financial Advisers was acknowledged as fitting within the remit of the FCA However the role of the FSCS in the event of the failure of a bank insurer or investment bank meant there was a clear link with the work of the PRA

The consultation paper discussed the options for the FSCS s role under the new arrangements

There was strong support from respondents for retaining the FSCS as a single administrator of compensation

In October 2010 the FSCS s Chairman David Hall and Chief Executive Mark Neale outlined their views on the new proposals before the Treasury Select Committee The Chairman and Chief Executive agreed with the consultation paper that it was important for the FSCS to retain its critical mass and so continue to remain a single organisation whether managing one scheme or several sectoral schemes As one organisation the FSCS has several advantages namely

- being a single point of contact for consumers and levy payers
- promoting increased recognition and awareness and
- combining mobilising and redeploying resources resulting in greater operational efficiency and economies of scale

The FSCS made it clear that in terms of future governance dual accountability to both the PRA and the FCA appeared to be the most appropriate option Both the PRA and the FCA will have an operational interest in the FSCS Accordingly dual accountability will best deliver and promote the compensation function

Responses to the consultation

The Government s proposals resulted in much comment among financial firms trade bodies and the media In November 2010 HM Treasury published *A new approach to financial regulation summary of consultation responses*

HM Treasury received around 220 written responses from a diverse range of stakeholders The overwhelming majority of respondents welcomed the proposed framework for financial regulation but alongside this general support respondents also highlighted a number of areas for further consideration

The FSCS s good work since its inception was acknowledged There was strong support from the respondents for retaining the FSCS as a single administrator of compensation whether as a single scheme or separate sectoral schemes Views on separating the FSCS were mixed with around half of the respondents preferring a single scheme to minimise administration costs and avoid differences in rules and interpretation while the other half of the respondents favoured separate sectoral schemes for different classes of levy payers

A large number of respondents highlighted the planned FSA review of the FSCS funding model and the work being undertaken in Europe on the Deposit Guarantee Schemes Directive and the Investor Compensation Schemes Directive which could have consequences for the FSCS particularly with regard to funding

In February 2011 HM Treasury published a further consultation paper *A new approach to financial regulation building a stronger system* outlining the Government s proposals following the earlier consultation The paper also responded to the Treasury Select Committee s report on the proposed reforms

In view of the important role that the FSCS plays in compensating consumers and promoting financial stability the FCA and the PRA will jointly take on the FSA s powers and responsibilities in relation to the FSCS This consultation closed on 14 April 2011 and a White Paper and draft bill are expected later in 2011

The FSCS will continue to engage with stakeholders on the important issue of regulatory reform and the FSCS s role within the new framework

Our work in Europe

In July 2010 the European Commission proposed a package of measures to boost consumer protection and confidence in financial services These measures included a revised Deposit Guarantee Schemes Directive an amended Investor Compensation Schemes Directive and a White Paper on a possible Insurance Guarantee Schemes Directive

Deposit Guarantee Schemes Directive and Investor Compensation Schemes Directive

The proposals relating to the schemes are wide-ranging and include changes to the eligibility criteria and funding arrangements

Changes made by the 2009 amended directive have been implemented across the European Economic Area (EEA) including the UK from 31 December 2011 These include

- a harmonised deposit compensation limit of €100 000 implemented in the UK as a sterling equivalent of £85 000 and
- a compensation payout deadline of 20 working days

The draft Investor Compensation Schemes Directive also proposes an extension to the scope of protection an increased payout limit and revised funding arrangements

Insurance Guarantee Schemes – White Paper

The White Paper on Insurance Guarantee Schemes considered the need for a European directive to address the issues caused by the fragmented insurance guarantee scheme landscape in Europe Unlike the UK many EU member states do not have a scheme that protects life and/or general insurance The closure date for responses to the White Paper was 30 November 2010 and the FSCS awaits with interest the proposals from the European Commission with regard to a possible Insurance Guarantee Schemes Directive

Formulating the UK position in Europe

There are still major areas of discussion underway in the European Commission and European Parliament on the proposals put forward for both deposit and investor protection The FSCS is closely involved in the work of the UK authorities to help in formulating the UK position

The FSCS remains an active member of the European Forum of Deposit Insurers (EFDI) and Alex Kuczynski Director of Corporate Affairs acts as Co-ordinator for the EFDI EU Committee This Committee has met with the European Commission and European Parliament representatives ensuring that they have heard directly from the Deposit Guarantee Schemes practitioners who have been able to share their experience on operational issues and the practical application of the possible Deposit Guarantee Scheme Directive reforms

The EFDI also hosts an Investor Compensation Schemes sub-group which has presented its views to the European Commission about the Commission s proposals in regard to the revised Investor Compensation Schemes Directive

The FSCS continues to build strong working relationships with our deposit guarantee and investor compensation counterparts across the EEA both formally through the EFDI multilateral Memorandum of Understanding and informally through working groups and bilateral meetings

Our international work beyond Europe

The FSCS is active in the International Association of Deposit Insurers (IADI) which is recognised as a standard setter and as a partner in the global response to the financial crisis

During 2010 IADI worked with the International Monetary Fund the World Bank the Basel Committee on Banking Supervision EFDI and the European Commission to develop an assessment methodology for the already published *Core Principles for Effective Deposit Insurance Systems*

The FSCS has been part of the working group developing the methodology that will form part of the IMF Financial Stability Assessment Programs and be used by deposit guarantee schemes to assess their own scheme against globally recognised standards

The FSCS is also contributing to IADI s work on

- cross-border failure and resolution
- payout processes and
- financial inclusion and innovation

Alex Kuczynski FSCS Director of Corporate Affairs is a member of the IADI Executive Council

During 2010/11 the FSCS hosted numerous delegations from guarantee schemes and regulators including Japan South Korea China Tanzania Australia and the USA all of whom were keen to exchange experiences with the FSCS

8 Enhancing Our Capability

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

We have focused on building a high-performance culture through effective leadership and a more robust performance management process

Context

We have spent much of the past year restructuring the organisation to meet the challenges of the new regulatory framework and the potential demands of new complex defaults with fluctuating claims numbers This section looks at our staffing levels the composition of our Board and its committees, our internal controls and the principal risks and uncertainties in our work

Strengthening skills and professionalism

We are committed to strengthening the skills and professionalism of our people To that end we have developed our internal capability for procurement service management risk and data management. We also aim to build on the commitment of staff to revamp our working practices and culture to engrain flexibility and dynamism

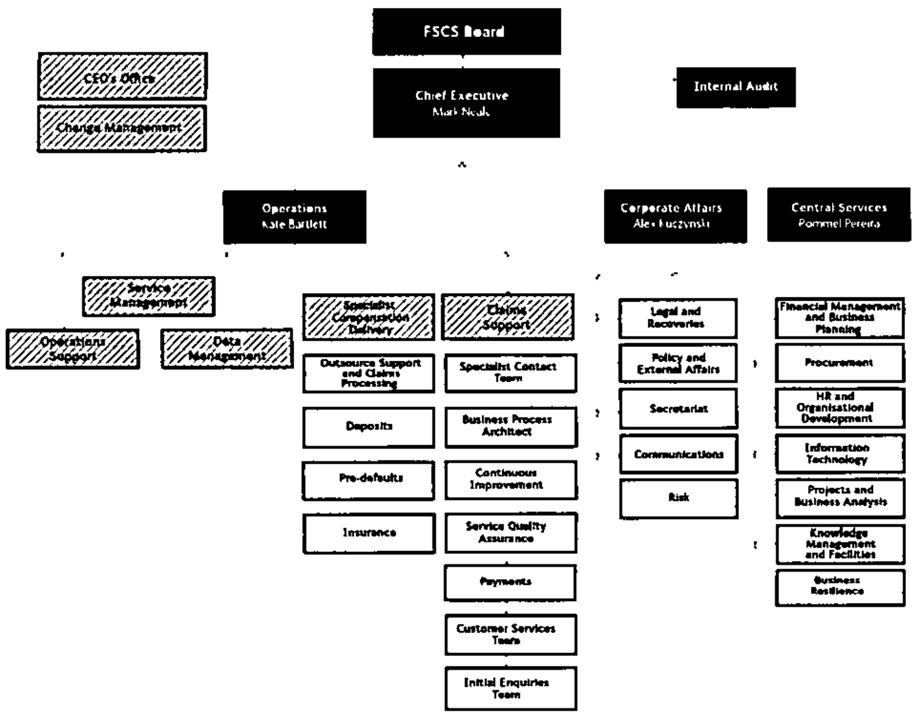
The five aims around which we have structured this year s Annual Report and Accounts are supported by our core values which are

- retaining our focus on service to consumers – **delivery**
- respecting each other within a supportive environment – **working together**
- placing more emphasis on taking personal responsibility for the service we provide – **making a difference** and
- always seeking to improve – **excellence**

We firmly believe that we can only deliver against our aims if we adhere to these values Over the past year we have built on the strong foundations of our aims and values to finalise a new operating model for the FSCS enabling the delivery of a faster and more responsive service to consumers

We are committed to strengthening the skills and professionalism of our people

The FSCS chart of our organisational structure as at 31 March 2011



We are committed to creating a high-performance culture through effective leadership and a more robust performance management process – and that has meant improving our skills to meet changing demands while making sure that we are also resilient and ready for the future

Our annual staff survey

We are committed to an independently run annual staff survey which we carried out in November 2010 We were pleased that we had a response rate of 86 per cent which was two per cent more than the previous year

A key outcome of the survey was measuring the extent to which our people are engaged Employee engagement has been proven to impact positively on organisation results The FSCS engagement score was 78 per cent, which compares favourably with an industry benchmark of 76 per cent

There were also other extremely positive results including 77 per cent of respondents saying that they were proud to work for the FSCS Staff appreciated the fact that working at the FSCS provides a valuable service to consumers and contributes to society A high proportion 88 per cent of staff cared about the FSCS s future

However there were also areas where we need to improve mainly with regard to better communications between the different teams and generally more robust systems to monitor and measure performance

In-house teams and outsourcers to manage claims

As outlined in the report, our strategy in delivering compensation to eligible claimants involves using a combination of in-house teams and outsourcers to help manage the fluctuating volume of claims while ensuring that we retain vital key skills to be able to deal with complex defaults

Staff numbers

Staff levels at the year end were 180 decreasing from 181 During the year

- 29 staff joined the FSCS and
- 30 staff left the FSCS including four who joined the Financial Ombudsman Service following a secondment there

This gave a staff turnover rate of 17 2 per cent compared with 8 5 per cent during 2009/10

	As at 31 March 2011	As at 31 March 2010
Administration Assistant	27	25
Claims Officer	34	39
Senior Claims Officer	72	73
Heads of Function and Managers (or equivalent)	43	42
Chief Executive and other Executive Directors	4	2
Total	**180**	**181**

Comprising

	As at 31 March 2011	As at 31 March 2010
Operational	169	176
Secondees and other staff on maternity or other long-term leave	11	5
Total	**180**	**181**

Staff mix as at 31 March 2011

- Our staff mix comprised 73 women and 107 men (compared with 81 and 100 respectively in 2009/10)
- 26% of staff were aged 30 or younger with 15% over 50 years of age (compared with 26% and 14% respectively in 2009/10)
- The average age of staff was 39 with the youngest being 20 and the eldest 65 (compared with 38 19 and 64 respectively in 2009/10)

Ethnic backgrounds

	As at 31 March 2011	As at 31 March 2010
Asian	14	11
Black	19	24
Oriental	3	2
Other	5	8
White	139	136
Total	**180**	**181**

Skills and training

We spent £108 000 during the year (compared with £90 600 in 2009/10) on a mixture of management skills technical training and continuing professional development

The Board of Directors

The Financial Services Authority (FSA) appoints the Board of Directors on terms which secure their independence from the FSA in the operation of the FSCS The Chairman s appointment (and removal) is subject to the approval of HM Treasury

The FSCS is independent from the FSA although accountable to it Details of our Board members follow

Non-executive directors

David Hall (Chairman) – reappointed 1 April 2009

Non-Executive Director of C Hoare & Co a member of the Advisory Board of Campbell Lutyens (a specialist advisory investment bank in private equity) and a Non-Executive Director of Ricardo Plc. From 1973 to 2000 David worked at Boston Consulting Group where his roles included Senior Vice President serving on the firm's Worldwide Executive Committee Chairman Worldwide Financial Services Practice Group Chairman Global Practice Groups and Chairman Global Human Resources David has an MA in economics from Jesus College Cambridge and an MSc from London Business School

Anthony Ashford – reappointed 1 February 2010

Anthony is currently the Chairman of the HSBC Pensions Trust and a Non-Executive Director of AIB (UK) Limited and the Jubilee Sailing Trust. He worked for HSBC from 1985 until 2005 rising to the position of General Manager Personal Banking and Executive Committee member in 2000 He previously worked for Thomas Cook and the British Steel Corporation

Terence (Terry) Connor – reappointed 1 June 2008

A senior independent Director of New Star Private Equity Trust. Terry is a member of the Legal Services Board and a Trustee of the Africa Educational Trust. He is a strategy consultant for small- and medium-sized enterprises in the media and publishing sectors and began his City career as a media analyst for James Capel & Co and Smith New Court.

Alexandra (Sandy) Kinney – reappointed 1 June 2008

Sandy is a Non-Executive Director and Chairman of the Audit Committee for Skipton Building Society as well as an adviser on risk and performance management to the boards of a number of insurance companies and investment banks She retired from her role as a senior Financial Services Partner at PricewaterhouseCoopers and was previously at KPMG

Rosalind Reston – reappointed 1 February 2010

A solicitor authorised insolvency practitioner and accredited mediator Rosalind is also a Non-Executive Director of Sport Resolutions (UK) and a Trustee of Richmond Parish Lands Charity Until 2006 she was a partner at the law firm Lovells, where she worked for 21 years While at Lovells Rosalind was involved in banking fraud and insolvency matters and acted for a wide variety of banks and other financial institutions

Mark (Ivan) Rogers – appointed 1 June 2009

Ivan started his career as a civil servant and the posts he held included Principal Private Secretary to former Prime Minister Tony Blair Private Secretary to former Chancellor of the Exchequer Kenneth Clarke and Director of European Policy and Director of Budget and Tax Policy at HM Treasury Ivan joined Citigroup as a Senior Government Banker for the UK in July 2006 and became a member of Citigroup's UK Banking and Broking Board He joined Barclays Capital in early 2010

John (Max) Taylor – reappointed 1 September 2010

Deputy Chairman of the FSCS Max retired from insurance broker Aon UK in 2008 Before joining Aon in January 2001 he completed a three-year term as Chairman of Lloyd's, the insurance market. He is Chairman of the Council of the University of Surrey a Director of Qatar Insurance Services and Chairman of the Mitsui Sumitomo Insurance London Companies

Philip Wallace – appointed 1 June 2009

Philip was a chartered accountant at KPMG from 1971 to 2005 finishing as a Vice Chairman and Chairman of the Audit Committee His main specialism was Corporate Recovery where he was the senior partner responsible for complex restructurings and insolvency Since his retirement Philip has taken up a number of non executive roles including the Chairmanship of the Insolvency Services Steering Board which he accepted in 2007

Christopher Woodburn – reappointed 1 June 2008

Christopher was previously Chief Executive of the Securities and Futures Authority and Chief Executive of the General Insurance Standards Council He has held various directorships in the financial services industry

Executive directors

Mark Neale CB (Chief Executive) – appointed 4 May 2010

Before joining the FSCS Mark Neale had a career in public service Between 2005 and 2010 he was Director General at HM Treasury responsible for Budget, Tax and Welfare with responsibility for the development of tax and welfare policy and delivery of the annual Budget and Pre-Budget Report Before that, 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 and child poverty as Director for Children and Housing at the Department for Work and Pensions and was Finance Director of the Employment Service

Aleksander (Alex) Kuczynski (Director of Corporate Affairs)
– appointed 1 February 2010

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

Katherine (Kate) Bartlett (Director of Operations)
– appointed 1 February 2010

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

Rommel Pereira (Director of Central Services)
– appointed 7 September 2010

Rommel most recently worked for the Metropolitan Housing Partnership where he was Group Chief Operating Officer Before that he worked as an accountant for Ernst & Young, Head of Financial Systems at Reuters Group IT & Finance Manager at HSBC Midland and in a number of roles at JP Morgan Chase including Chief Financial Officer Business Manager Head of Business Unit and Global Chief Operating Officer

Corporate governance

The FSCS Board remains committed to high standards of corporate governance Accordingly the Board has agreed to follow the provisions of the Combined Code on Corporate Governance (revised in June 2008) from the next financial year (2011/12) we shall follow the provisions of the new UK Corporate Governance Code issued in June 2010 by the Financial Report Council

The FSCS recognises that the code applies only to UK-listed companies However the Board believes that it would be beneficial to the FSCS and its stakeholders if the FSCS were to adopt the approach of a listed company by following the provisions of the code and reporting on the extent to which it has complied with the code The first part of this section therefore explains how the FSCS has applied the main and supporting principles of Section 1 of the code and the second part reports on the FSCS s compliance with the code by explaining where it has departed from some of the code s provisions

The Board

Composition of the Board

The FSCS Board currently comprises 13 directors nine of whom are non-executive directors including the Chairman The four executive directors are the Chief Executive the Director of Corporate Affairs the Director of Operations and the Director of Central Services

All directors are appointed by the FSA The appointment (and removal) of the Chairman is also approved by HM Treasury

Although the FSCS is not subject to the Commissioner for Public Appointments code of practice appointments of the FSCS s non-executive directors are made within the spirit of the principles set out in that code

The biographical details of the directors demonstrate the broad range of experience and expertise that they bring to the Board Directors are subject to a conflict of interest policy to prevent any potential interference with the independence of their judgement on Board matters Subject to any such potential conflicts of interest that may be declared on individual matters from time to time all the non-executive directors are considered to be independent, within the meaning expressed in the code provision A.3 1

The FSA reappointed Max Taylor as a Non-Executive Director of the FSCS for a further three years with effect from 1 September 2010 In addition Mark Neale the FSCS's Chief Executive was appointed to the Board as Executive Director with effect from 4 May 2010 for an initial period of three years and Rommel Pereira (Director of Central Services) was appointed to the Board as Executive Director on 7 September 2010 for an initial three-year term Three non-executive directors retired after the year end on the expiry of their second three-year terms

Induction appraisals training and development

On appointment new directors go through an FSCS-delivered induction programme and depending on their recent experience director training The FSCS induction is split into two parts The first involves being briefed by the FSCS s executive team on the operation of the FSCS and the various functions within the organisation The second involves receiving more detailed briefings from the claims teams on the different claims processes New directors also take this opportunity to sit in with some of the claims teams to see first hand the work involved in processing claims Similar claims briefings are also given to other directors from time to time which help to refresh directors knowledge of existing claims practices and explain new or revised processes

Directors are also given training usually from external providers on their duties and responsibilities as directors Such training is delivered not only on appointment to the Board but also on an occasional basis as a way of maintaining and refreshing directors knowledge in this area This is sometimes delivered to individual directors and sometimes to the Board as a whole by way of an externally facilitated workshop The last workshop of this type was carried out in October 2009

Separately the Audit Committee recognises that it should be updated from time to time on current best practice for audit committees The FSCS s Audit Committee attended a bespoke workshop on audit committee effectiveness in March 2010 delivered by an external consultant This was geared specifically to look at the way in which the FSCS s Audit Committee operated It was concluded that the Audit Committee was broadly operating in line with good corporate governance principles although a number of minor changes were suggested and taken forward as a result.

In addition to receiving briefings and training on FSCS issues and directors duties and responsibilities directors keep up to date with developments in the financial services industry The Chairman and Chief Executive among other FSCS officials, continued to meet the Tripartite Authorities (HM Treasury the FSA and the Bank of England) and trade bodies on a regular basis during the year

All directors are given a formal annual appraisal by the Chairman The directors appraisal system involves a structured mechanism for obtaining feedback on directors performance from other directors and managers The Chairman s own performance is similarly assessed and his formal appraisal is conducted on behalf of the Board by a non executive director selected for carrying out this task From 2011 this will be carried out by the Deputy Chairman

Operation of the Board

The Board met 12 times during the year A formal schedule of matters reserved to the Board has been documented and agreed in order to provide a framework for the Board s decision making In accordance with this schedule the Board has responsibility for a number of statutory requirements primarily those deriving from company law and the Financial Services and Markets Act 2000 as well as governing the strategic direction and the financial operation of the FSCS It is responsible for setting policy and ensuring that appropriate internal control measures are in place

The Board believes that it receives and has access to relevant information on a timely basis in order to make informed decisions although directors take the opportunity to review this on an ongoing basis to ensure that the Board continues to receive appropriately focused information In 2010/11 a number of 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 the furtherance of their duties

The Board normally carries out an annual review of its own performance every autumn However this was deferred in 2010/11 pending the Board s consideration of the results of the Governance Review (see below) Although the annual Board evaluation was outside the remit of the Governance Review directors felt that it would be appropriate to review the recommendations made in the report and implement any agreed actions before resuming the annual Board evaluation exercise

As in previous years the Board held two strategy days which provided the opportunity to review the key risks and strategic direction of the FSCS going forward

The Board also took the opportunity to review the Memorandum and Articles of Association of the company in order to incorporate the relevant provisions of the Companies Act 2006 and also to simplify and bring up-to-date certain aspects of the company s constitution As a result the Articles of Association were amended at the Annual General Meeting held on 21 September 2010

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

Governance review

As reported last year the Board decided to commission an external review of its structure operation and its committees This governance review was carried out by an Institute of Chartered Secretaries and Administrators Board Evaluation and was completed in mid-2010 The Board considered the results of the review at its July 2010 strategy day and having taken steps to implement the agreed recommendations over the next few months carried out an interim check of progress at its December 2010 strategy day

The main recommendations adopted or taken forward by the FSCS as a result of this review included

- discontinuing the Finance and Administration Committee and setting up a new Remuneration Committee Nomination Committee and Contingencies Planning Committee
- appointing a Deputy Chairman – Max Taylor was appointed to this role in October 2010
- refining and streamlining the process for carrying out annual reviews of the Board and its committees
- introducing more structured feedback on the quality of Board papers and Board discussions
- refining the timing and content of new director inductions revising the process for ensuring continuing professional development for individual directors and offering mentoring and coaching to the executive directors
- introducing more opportunities for the Board to meet informally outside formal Board meetings and strategy days to review and develop Board effectiveness
- reviewing the impact of the revised organisational structure and the integration of new or enhanced functions
- reviewing and revising the way in which risk management is dealt with at all levels within the FSCS and
- reviewing and revising the approach towards the internal audit function

Committees of the Board

Audit Committee

The Audit Committee met four times during the year It currently comprises four non-executive directors The Chairman Chief Executive and other executive directors are normally in attendance at meetings by invitation The Committee s role is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial reporting process the system of internal control and management of risks the audit process and the company s process for monitoring compliance with laws and regulations The committee is responsible for reviewing and reporting to the Board on the following key areas

- 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)
- risk management
- compliance with laws and regulations
- whistle-blowing arrangements and
- arrangements for promoting health and safety at work

During the year in addition to the above items the Committee considered quality assurance reports on claims internal audit reports the rolling internal audit programme the external audit plan and position papers on a number of principles to be applied to the financial statements and directors expenses The Committee also conducted reviews of the effectiveness of both the external audit and internal audit processes and continued to review and further develop the FSCS s risk-management approach with the newly appointed Head of Risk

Some of these matters are covered in more detail below under Internal controls

Finance and Administration Committee

As explained above the Finance and Administration Committee was discontinued in 2010/11 It had been in existence since 2001 and following a review of its role and functions it was decided to move certain parts of its remit to the Board the Remuneration Committee or the Nomination Committee with other elements becoming the responsibility of the Executive The Committee met five times in 2010 before it was discontinued

The Committee s role was to assist the Board in fulfilling its oversight responsibilities by reviewing the strategic management and operational activities of the FSCS This was achieved by receiving and considering reports providing challenge and support to the Executive on matters arising and reporting and making recommendations to the Board where appropriate

During 2010/11 the Committee reviewed the following matters

- the management accounts
- the Business Plan and Budget
- the FSCS treasury strategy policy and procedures
- the FSCS's communications strategy
- remuneration issues including executive director remuneration and
- the governance review (see above)

Remuneration Committee

This new Committee was established and had its first meeting in 2010/11 The membership of this Committee is made up of four non-executive directors The FSCS Chairman is a member of but may not chair this Committee The Committee s role is broadly to consider the FSCS s remuneration policies determine the remuneration package of the FSCS s executive directors look at remuneration trends across the FSCS and review executive and employee benefit structures

At its first meeting, the Committee made recommendations for Board approval about the Chief Executive s remuneration package and determined the remuneration packages of the other executive directors, having taken into account market data provided by external consultants and advice from the Chief Executive in respect of those executive directors

The remuneration package of the Chief Executive is now considered annually by the Remuneration Committee and is approved by the Board (in both cases without the Chief Executive being present) Performance is taken into account, and executive director remuneration incorporates a performance-related element The Remuneration Committee now determines the remuneration of the other executive directors

Nomination Committee

This new Committee was set up and had its first meeting in 2010/11 The membership is made up of the FSCS Chairman Chief Executive and two non executive directors The Committee s role is to review regularly the structure size and composition of the Board (including the balance of skills knowledge and experience) and make recommendations with regard to any changes review succession planning for both executive and non-executive directors ensure that there is appropriate liaison with the FSA with regard to appointments and reappointments of Board members and keep under review the membership of the Board committees

In 2010/11 the Committee primarily reviewed and revised the Board appointment framework and began its engagement in the process for recruiting three new non-executive directors in mid-2011

Contingencies Planning Committee

This new Committee was established and had its first meeting in 2010/11 The membership is made up of two non-executive directors (one of whom is the Chairman) and two executive directors (the Director of Operations and the Director of Central Services)

The Committee s role is to review and provide input to the Executive s work on the FSCS s contingency planning arrangements which include the specific plans to respond to major business failures and disaster recovery so that the FSCS can demonstrate its ability to respond to major defaults and/or other significant events that might potentially affect our business continuity

Claims Decisions Committee

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

Committee membership

Committee membership (as at 31 March 2011)	Audit Committee	Remuneration Committee	Nomination Committee	Contingencies Planning Committee
Non-executive directors				
Anthony Ashford			X	•
Terence (Terry) Connor				
David Hall		X	•	
Alexandra (Sandy) Kinney				
Rosalind Reston	X		X	
Mark (Ivan) Rogers		X		X
John (Max) Taylor	X	•		
Philip Wallace	X	X		
Christopher Woodburn	•			
Executive directors				
Katherine (Kate) Bartlett				X
Aleksander (Alex) Kuczynski				
Mark Neale			X	
Rommel Pereira				X

• Committee Chairman

Attendance at Board and committee meetings

The following table shows the directors attendance at Board and committee meetings during the year together with their dates of appointment and current expiry dates

	Board	AudC	RemCo	NomCo	CPCo	F&A Cttee	Appointment date	Expiry of current term
Number of meetings held	12	4	1	1	1	5		
Non-executive directors:								
Anthony Ashford	11/12			0/1	1/1	5/5	1 Feb 2007	(renewed on 1 Feb 2010) 31 Jan 2013
Terence (Terry) Connor	10/12					5/5	1 Jun 2005	(renewed on 1 June 2008) 31 May 2011
David Hall	12/12		1/1	1/1			1 Mar 2006	(renewed on 1 April 2009) 31 Mar 2012
Alexandra (Sandy) Kinney	10/12					5/5	1 Jun 2005	(renewed on 1 June 2008) 31 May 2011
Rosalind Reston	12/12	3/4		1/1			1 Feb 2007	(renewed on 1 Feb 2010) 31 Jan 2013
Mark (Ivan) Rogers	12/12		1/1		1/1	5/5	1 Jun 2009	31 May 2012
John (Max) Taylor	12/12	3/4	1/1				1 Sep 2007	(renewed on 1 Sep 2010) 31 Aug 2013
Philip Wallace	9/12	4/4	1/1				1 Jun 2009	31 May 2012
Christopher Woodburn	10/12	4/4					1 Jun 2005	(renewed on 1 June 2008) 31 May 2011
Executive directors:								
Katherine (Kate) Bartlett	12/12				1/1		1 Feb 2010	31 Jan 2013
Aleksander (Alex) Kuczynski	10/12					1/1	1 Feb 2010	31 Jan 2013
Mark Neale	11/11			1/1		4/4	4 May 2010	3 May 2013
Rommel Pereira	8/8				1/1		7 Sep 2010	6 Sep 2013

AudCo – Audit Committee
RemCo – Remuneration Committee
NomCo – Nomination Committee
CPCo – Contingencies Planning Committee
F&A Cttee – Finance & Administration Committee

Note Rosalind Reston and Terence Connor are also Trustees of the FSCS Pension Scheme There were four scheduled Trustee meetings during the year

Internal controls

The Board recognises that a sound system of internal controls 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 the FSCS s system of control comprise

- clear lines of responsibility and delegated authority throughout the organisation
- management of controls using a standard three lines of defence approach
- Board-approved operational policies supported by documented company-wide procedures including the formal recording of risks and associated mitigations in the Risk Register
- the work of the auditors (both internal and external) and
- regular monitoring of performance against plans and targets by management

The arrangements for internal control have been in place throughout the year and are kept under regular review by the Board During the year the Board introduced enhancements to the internal control environment, with particular regard to the introduction of a formal risk management function the appointment of a Head of Risk and the introduction of new risk reporting tools.

In addition the Board regularly reviews the FSCS's performance against its Plan and Budget and receives monthly and quarterly reports on the operational and financial position of the FSCS including budgets and forecasts as well as reports from the Board committees

Furthermore to satisfy itself that there are appropriate controls throughout the organisation the Board also receives reports from the Audit Committee on among other things

- the internal and external audit functions
- the procedures for the assessment and management of risks and
- the FSCS s internal controls (which include financial operational and compliance controls)

The following examples illustrate the additional work that the FSCS has carried out during 2010/11 in order to satisfy itself that there are appropriate controls throughout the organisation

1 The Audit Committee has continued to review the process by which risks are managed and monitored at the FSCS The FSCS s Risk Register which identifies and prioritises key risks to the organisation and highlights the relevant controls for each risk area was further refined during the year This is treated as a continuous process with the Risk Register changing over time in line with changes in the FSCS s priorities activities and exposure to risk

   The Risk Register is reviewed and updated monthly by the Executive Committee (the executive directors) and is considered by the Audit Committee at each meeting The Executive Committee also carries out deep dives into risks associated with end to-end processes and potential FSCS-wide issues The Audit Committee reports to the Board after each Committee meeting and as a matter of good practice the Board itself considers the Risk Register twice a year

2 The Head of Risk attends all Audit Committee meetings and those Board meetings at which risk issues are discussed in order to present reports and satisfy Board and Committee members that risks and controls are being appropriately managed by the executive and management of the company The new risk management function is also subject to internal audit

3 The Audit Committee has continued to ensure that the internal audit programme is aligned to the FSCS s risk assessment work and that internal audit reports are linked to the relevant risks identified in the Risk Register

4 The Audit Committee received reports on the quality assurance (QA) reviews of claims These QA reviews identify issues that are considered further in order to establish whether any improvements could be made or remedial measures put in place

5 Our internal auditors have continued to conduct reviews and provide reports on various aspects of the FSCS s work both as part of the annual programme and in response to events in the year The Head of Internal Audit oversees this work and the Audit Committee considers and reports to the Board on the internal audit plan and the reviews that have been carried out During the year the Audit Committee has considered internal audit reports on

   • business planning and budgetary control

   • human resources

   • general computer controls

   • data protection and information security

   • corporate governance

   • critical models

   • document management

   • business continuity and disaster recovery planning

   • business contingency planning

   • arrangements to manage fraud risks

   • off-site record archive and retrieval and

   • payroll

   The internal auditors carry out reviews in accordance with an agreed rolling programme and management follows up the agreed recommendations Where significant control weaknesses are identified by the internal auditors the Audit Committee reviews these and consider the appropriateness of actions taken or proposed to be taken to remedy or mitigate the effect of such weaknesses. The internal auditors also reported on the follow-up work on recommendations made in previous internal audit reports

6 The Board continued to consider claims processes and policies in particular

   • the intensive work required to enable the FSCS to deliver faster payout on deposits from January 2011

   • the FSCS's approach towards recoveries and levies

   • recommendations made by the Independent Investigator in his reports

   • changes proposed as a result of receiving feedback from claimants in customer feedback reports and

   • the FSCS s contingency planning for large business failures in the industry – as reported above under Committees of the Board a new Contingencies Planning Committee has been set up to ensure preparedness in this area

7 The Board also continued to discuss extensively issues arising from the regulatory reform and their potential impact on the compensation scheme

8 Any non-audit work to be carried out by our external auditors must be approved in accordance with the 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 FSCS and sets out an approval procedure A report is submitted

annually to the Audit Committee on any non-audit work carried out by the external auditors In 2010/11 our external auditors have not yet carried out their investigations

Principal risks and uncertainties

The FSCS s risk management processes are described above As a result we have established that key risks to the FSCS s business arise from

- large business failures
- changes in legislation and regulatory approach
- changes in the internal structure and organisation of the FSCS and
- overseas/cross-border failures

The processes to manage these key risks and other identified risks are also detailed under Internal controls'

Financial risk management

The 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 the business operations but no financial derivatives are held 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 The FSCS maintains a balance between readily available funds to meet cash flow requirements and flexibility in placing money-market deposits over periods not exceeding six months

HM Treasury borrowing facilities and commercial bank overdrafts loan facilities and finance leases are also available for use. Given the current levels of net debt, interest rate risk is presently considered to be low and no instruments are currently in place to further mitigate any risk. To the extent that liabilities arise in a currency other than pound sterling, these are covered by equivalent currency deposits placed on terms within the policies agreed by the Board It is policy not to engage in speculative transactions of any kind

Directors' remuneration

Non-executive directors fees are reviewed and set by the FSA The Remuneration Committee (and formerly the Finance and Administration Committee) considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval (in both cases the Chief Executive is not present when this remuneration package is being considered) The remuneration packages of the other executive directors are now determined by the Remuneration Committee Remuneration details of directors are given in the Directors Report and Accounts

Compliance with the Combined Code

The FSCS complied throughout the period covered by this report with the code provisions set out in Section 1 of the Combined Code on Corporate Governance (revised in June 2008) with the exception of the following areas

- A.1 2 and A.3 3 (senior independent director)
- A.4 1 to A.4 3 (Nomination Committee) – for part of the year only
- B 2 2 (remuneration for the Chairman)
- B 2 1 (Remuneration Committee) – for part of the year only and
- B 2 3 (remuneration of non-executive directors)

The Combined Code recommends that there should be a recognised senior independent director other than the non executive Chairman to whom concerns can be conveyed Given the largely non-executive structure of the Board the FSCS has operated without identifying such a senior director since its inception The Board revisits this issue periodically the most recent review being in 2010 and remains of the view that the present system continues to be appropriate for the FSCS The Board has however agreed to appoint a Deputy Chairman who while not being a senior independent director within the meaning set out in the Combined Code will be able to take the chair at Board meetings in the absence of the Chairman and carry out on behalf of the Board the formal appraisal of the Chairman

All appointments to the FSCS Board are made by the FSA with the Chairman s appointment (and removal) also being approved by HM Treasury Remuneration for all the FSCS s non-executive directors is set by the FSA with appropriate input from the FSCS

During 2010/11 the FSCS set up a Nomination Committee and a Remuneration Committee for the first time The roles and responsibilities of these new committees are described above under Committees of the Board Accordingly while the Combined Code provisions in respect of both of these committees were not in force for the full year they were implemented and became effective part of the way through the year while still being subject to the requirement that FSCS Board appointments and non-executive director remuneration would continue to be determined by the FSA

9 Directors' Report and Accounts

The directors of the Financial Services Compensation Scheme Limited (FSCS) present their 11th report, together with the audited financial statements of the FSCS (on pages 110 to 136) and its classes and sub-classes (on pages 137 to 148) for the year ended 31 March 2011

Principal activities

The FSCS was established as the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA) to administer a single compensation scheme for consumers in respect of regulated financial services activities should an authorised financial services firm be unable or likely to be unable to meet its liabilities The FSCS assumed its responsibilities at midnight on 30 November 2001 (a date referred to as N2) when the FSMA came into force and has fulfilled those responsibilities throughout the year ended 31 March 2011

Review of activities and performance

Since receiving its powers under the FSMA and the integration of the former compensation schemes at N2 the FSCS has continued to fulfil its responsibilities throughout the year The Chief Executive s Report includes commentary on the FSCS's key performance indicators

Future outlook

Further matters relating to future outlook are referred to in the Chairman s Statement. To the extent that the outlook encompasses loans recoveries and repayments, they are referred to in the Chief Executive s Report. For the 2008 banking defaults recoveries have been paid to reduce the remaining loans and the outstanding principal is due to be repaid from 2012 on a timetable which will be determined by the FSCS and HM Treasury depending on market conditions at the time Until the repayment timetable is agreed from 2012 it is not possible to say which levy class or sub-classes will be levied for any outstanding principal At the time that the loans were taken out, the then Chancellor of the Exchequer confirmed that the Government stood behind the FSCS so the FSCS could be relied on to be able to play its role in meeting future claims that arise

During the year, the FSCS made recoveries of £735m from the banking defaults

Principal risks and uncertainties

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

The principal uncertainties identified are

- funding of borrowings which are referred to in Note 17
- recoveries through dividends from the estates of the Specified Deposit Defaults as explained in Note 17 and in Section 6
- the net costs of the failure of Dunfermline Building Society as explained in Note 16 and in Section 6 and
- the levy provision referred to in Note 16

Business review

The FSCS s results show an excess of income over expenditure of £355 000 (2010 £624 000) as shown on page 110 and a net actuarial loss arising on the final salary pension scheme assets and liabilities movements of £506 000 (2010 £7 958 000 loss) in the Statement of Total Recognised Gains and Losses A more detailed review of the performance of the FSCS can be found in Section 6 Administration expenses and interest payable of £391 851 000 (2010 £387 855 000) in the year includes a net credit of £247,000 being the defined benefit pension scheme contributions of £1 139 000 less the current service cost of £892 000 (see Note 7) (2010 £581 000 £1 161 000 and £580 000 respectively)

Of the gross amount of management expenses £392 098 000 (2010 £388 436 000) is accounted for within the FSCS s classes and sub-classes and for base costs firms within the Financial Services Authority (FSA) fee blocks (see Note 10)

Subsequent to the issue of interim levy invoices to firms in the Investment Intermediation and Investment Fund Management sub-classes totalling £325 051 000 a number of firms have applied for a reduction of the amount levied due to errors in the tariff data submitted by them to the FSA These claims total £79 993 000 Based on the best information available to the directors provision for £30 000 000 has been made in the accounts (see Notes 3 13 and 16) The claims are currently being investigated and any amount eventually repaid is likely to be levied in 2011/12 The final outcome may potentially result in a material adjustment to the provision being required (see Notes 3 13 and 16)

Following the default of Welcome Financial Services Limited (Welcome) its restructuring arrangements provide for it to make payments to the FSCS to fund compensation payments and associated costs £50 000 000 of this sum was received during the financial year and a further £40 000 000 has been received since the year end Payments made by Welcome to the FSCS are ring-fenced and will only be used to pay for costs relating to Welcome Compensation and related costs since the default amounted to £824 000 during the year Additional costs totalling £198 000 were incurred prior to the default and separately recovered from Welcome The remaining £49 176 000 is shown in the Balance Sheet of the Scheme Manager as Cash at bank and short term deposits (see Note 14) and in Creditors amounts falling due within one year since any excess payments will be repaid to Welcome (see Note 15) Compensation costs are shown in the Classes and Sub-classes Accounts only and the costs associated with the handling of claims are shown in the Scheme Manager Income and Expenditure Account under administrative expenses and are recovered from the Insurance Intermediation sub-class An equivalent amount is then released from the Scheme Manager to the sub-class to fund these costs.

The provision brought forward from last year of £400 000 000 relating to Dunfermline Building Society has been increased to £455 000 000 based on the best information available to the directors to include interest accrued during the year on the balance owing to HM Treasury However the final outcome may be different and the final amounts once agreed may potentially result in a material adjustment to the provision being required (see Notes 3 and 16)

During the year the FSCS made recoveries of £506 716 000 from prior banking defaults and this was set off against loans (see Note 17) A further £228 522 000 was due at 31 March 2011 (see Note 13) The loans continue to accrue interest, with £334 414 000 charged during the year (see Note 17) This amount will be levied to firms in the Deposit class before 1 September 2011

A more detailed review of the performance of the FSCS can be found in Section 6

Fixed assets

The movements in fixed assets during the year are set out in Note 12 of the financial statements

The directors

Details of the directors in the year to 31 March 2011 all of whom are non-executive unless stated are as follows

Anthony Ashford
Katherine (Kate) Bartlett – Executive Director
Terence (Terry) Connor
David Hall (Chairman)
Alexandra (Sandy) Kinney
Aleksander (Alex) Kuczynski – Executive Director
Mark Neale – Chief Executive and Executive Director Appointed 4 May 2010
Rommel Pereira – Executive Director Appointed 7 September 2010
Rosalind Reston
Mark (Ivan) Rogers
John (Max) Taylor
Philip Wallace
Christopher Woodburn

Since 31 March 2011 Terence (Terry) Connor Alexandra (Sandy) Kinney and Christopher Woodburn retired on 31 May 2011

Directors emoluments

During the year the Board consisted of nine non-executive directors (2010 nine) and two executive directors at the beginning of the year increasing to four by the end of the year (2010 two) Total emoluments paid to directors are as follows

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Aggregate emoluments	1 036	785
Compensation for loss of office	–	45
Pension contributions		
– defined benefit	34	39
– money purchase	22	2
Total	**1,092**	**871**

Retirement benefits during the year accrued to one director (2010 two) under the FSCS s defined benefit scheme and three under the money purchase scheme (2010 one)

The highest paid director the Chief Executive (2010 the former Chief Executive) received aggregate emoluments for the period 4 May 2010 to 31 March 2011 of £249 191 (comprising basic salary of £213 910 bonus of £35 250 and other emoluments of £31) (2010 £346 454 comprising basic salary of £251 443 bonus of £47 000 relating to the year ended 31 March 2009 and £45 575 relating to the year ended 31 March 2010 and other emoluments of £2 436) and contributions to a money purchase arrangement under the FSCS s pension scheme have been made of £12 533 (2010 defined benefit arrangement £30 931) The Chief Executive did not receive additional remuneration in respect of his role as director

The fees paid to the Chairman are set at £73 500 per annum (2010 £73 500) and the fees paid to the non-executive directors are set at £21 000 per annum (2010 £21 000) Additional fees paid to the Chairmen of the Audit Committee and Finance and Administration Committee were set at £4 750 per annum (2010 £4 750) In addition business-related expenses totalling £13 579 (2010 £15 967) were reimbursed to the non-executive directors The Chairman and the other non-executive directors are not entitled to a pension funded by the FSCS

Liability insurance

The 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

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 the FSCS auditors are aware of that information

Statement of the 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 elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practices (UK Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the income or expenditure of the company for that period In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements
- 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 FSCS s website Legislation in the UK governing the preparation and dissemination of the 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

Going concern

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

Auditors

The auditors PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution that they be re-appointed will be put to the company

By order of the Board

M Thomas
Company Secretary
21 June 2011

Report of the Auditors

Independent Auditors Report to the Members of Financial Services Compensation Scheme Limited

We have audited the financial statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2011 which comprise the Income and Expenditure Account the Statement of Total Recognised Gains and Losses the Balance Sheet, the Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Principles)

Respective responsibilities of directors and auditors

As explained more fully in the Directors Responsibilities Statements the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

This report, including the opinions has been prepared for and only for the company s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company s affairs as at 31 March 2011 and of its results and cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if In our opinion

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us or
- the financial statements are not in agreement with the accounting records and returns or
- certain disclosures of directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Jeremy Jense

Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 June 2011

Financial Statements of the Scheme Manager for the year ended 31 March 2011

Income and Expenditure Account

	Note	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Administrative expenses	4	(57 401)	(39 415)
Interest payable	5	(334 450)	(348 440)
		(391 851)	(387 855)
Operating income comprising		392 206	388 479
Interest receivable and other income	9	108	43
Management expenses recoverable			
From classes and sub-classes	10	30 923	28 850
In respect of base costs	10	26 725	11 146
Interest payable recoverable			
From classes and sub-classes	10	334 420	348 440
In respect of base costs	10	30	–
Excess of income over expenditure before tax		**355**	**624**
Excess of income over expenditure after tax		**355**	**624**

All of the FSCS's operations are continuing There is no difference between the gains and losses included above and those prepared under the historical cost basis

Statement of Total Recognised Gains and Losses (STRGL)

	Note	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Excess of income over expenditure		355	624
Actuarial loss on pension scheme liabilities	7	(506)	(2 958)
Total recognised loss relating to the year		(151)	(2 334)
Total losses recognised since last annual report		**(151)**	**(2 334)**

The Notes on pages 113 to 136 form part of these financial statements.

Balance Sheet of the Scheme Manager as at 31 March 2011

	Note	2011 £000	2010 £000
Fixed assets	12	**1 405**	**1 827**
Current assets			
Debtors amounts falling due within one year	13	612 046	580 643
Cash at bank and short-term deposits	14	218 676	17 053
Debtors amounts falling due after more than one year	13	19 016 690	19 609 535
Total current assets		**19 847 412**	**20,207 231**
Creditors amounts falling due within one year			
Creditors and accruals	15	(227 389)	(100 900)
Bank overdraft	14	(1 203)	(346)
Loan interest payable	17	(334 414)	(382 813)
Total current liabilities		**(563 006)**	**(484,059)**
Net current assets		**19,284 406**	**19 723 172**
Total assets less current liabilities		**19 285 811**	**19 724 999**
Creditors amounts falling due after more than one year			
Loans	15	(18 805 265)	(19 324 742)
Provisions for liabilities and charges	16	(480 546)	(400 257)
Total creditors amounts falling due after more than one year		**(19 285 811)**	**(19,724 999)**
Total net assets excluding pension liability		–	–
Pension liability	7	(2 851)	(2 700)
Total net liabilities including pension liability		**(2 851)**	**(2 700)**
Reserves	19	**(2 851)**	**(2 700)**

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited on 21 June 2011

David S. Hall

David Hall
Chairman

The Notes on pages 113 to 136 form part of these financial statements

Statement of Cash Flows of the Scheme Manager for the Year Ended 31 March 2011

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Net cash inflow from operating activities	20	1 103 639	1 510 811
Returns on investments and servicing of finance	21	(382 849)	(394 891)
		720 790	**1,115 920**
Capital expenditure			
Payments to acquire tangible fixed assets	12	(547)	(748)
Net cash outflow from investing activities		**(547)**	**(748)**
Financing activities			
Decrease in loans	22	(519 477)	(1 140 790)
Net cash inflow from financing activities		**(519 477)**	**(1 140 790)**
Increase/(decrease) in cash	23	**200 766**	**(25 618)**

Notes to the Financial Statements for the Scheme Manager for the year ended 31 March 2011

1 Constitution

Financial Services Compensation Scheme Limited (the 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 The FSCS has no share capital and no ultimate controlling party

The FSCS was established as the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA) Its full powers were assumed following the coming into force of powers of the Financial Services Authority (FSA) under FSMA at midnight on 30 November 2001 The FSCS as Scheme Manager operates five broad funding classes based on identifiable industry sectors – Deposit, General Insurance Life and Pensions Investment and Home Finance Each broad class is divided into two sub-classes along provider and intermediation lines, with the exception of the Deposit class

2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions UK Generally Accepted Accounting Principles and the COMP section and FEES manual of the FSA Handbook, on a going concern basis. As shown on the Balance Sheet, the FSCS has negative reserves and an excess of liabilities over assets that arise due to the inclusion of the pension liability in relation to the FSCS pension scheme valued in accordance with the principles set out in Financial Reporting Standard (FRS) 17 However the directors are satisfied that the FSCS is in a position to meet its obligations as they fall due As such the FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention

The financial statements presented here are those of the FSCS and do not consolidate or otherwise include the classes and sub-classes except insofar as the classes and sub-classes transactions give rise to an obligation of the FSCS itself The FEES manual requires the FSCS to keep accounts which show the funds held to the credit of each broad class and sub-class and the liabilities of that broad class and sub-class These accounts are set out on pages 137 to 148

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

The FSCS operates both a defined benefit pension scheme (the Scheme) and a money purchase scheme The aggregate pension scheme asset/liability recognised in the Balance Sheet is the excess or deficit of the present value of the Scheme s assets over the value of the Scheme s liabilities Further details are contained in Note 7

Money purchase scheme

The costs of the money purchase scheme are charged to the Income and Expenditure Account as incurred

Defined benefit scheme

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

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

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

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

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

• Actuarial gains and losses
The actual return less expected return on Scheme assets and actuarial gains/losses net of tax which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Balance Sheet date are shown in the Statement of Total Recognised Gains and Losses

c) 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 and equipment. 33 1/3% per annum (reducing balance basis) and

• Leasehold improvements straight-line basis over the periods of the leases commencing on occupancy

Expenditure on computer software is written off when incurred

d) Levies compensation costs and other items handled on behalf of classes and sub-classes

The FSCS is funded by levies on firms authorised by the FSA. It raises levies on behalf of the classes and sub-classes, which are credited to the classes and sub-classes on a cash received basis Where requests for the remission or rebate of a levy have been received a provision is only made where a reliable estimate can be made of the amount and it is considered probable that a payment will be made The levy relating to the base cost element of the management expenses has been credited to the relevant FSA fee block. Under the FEES rules once a sub-class reaches its annual compensation costs levy limit, the connected sub-class in the broad class (the receiving sub-class) is required to contribute to any further compensation costs levy (again up to an annual limit) Levies received during the year from a receiving sub-class are shown as levies received in the sub-class accounts of the receiving sub-class together with a corresponding transfer out to the connected sub-class

The FSCS s costs are made up of compensation payments and management expenses (see Note 1 (b) and (d) of the Classes and Sub-classes Accounts) The FSCS makes compensation payments on behalf of the classes and sub-classes which are only shown in the Classes and Sub-classes Accounts Compensation offers are accrued at the Balance Sheet date if they are due and have been made accepted and for reinstatement cases fully valued Reinstatement cases are claims where compensation is paid to reinstate a claimant into an occupational pension scheme that the claimant was wrongly advised to opt out of not join or transfer away from The amount of compensation cannot be determined until the cost of reinstatement and the value of the relevant personal pension are both known

The FSCS has made payments referred to as deemed compensation under parliamentary Orders The liability is incurred on the Order date and adjusted for Balancing Payments made between the parties and updated as further information is received

Recoveries notified before the year end in respect of dividends from liquidators/provisional liquidators or notified *and agreed in respect of other recoveries* but not received by that date are accrued by the FSCS and reflected as amounts payable to the relevant class or sub-class in accordance with FSMA and the FEES manual

Management expenses comprise base costs being the costs of running the classes and sub-classes specific costs which are the remaining costs which cover the handling and payment of compensation claims and loan interest payable The specific costs are allocated by the FSCS to each class or sub-class in accordance with the principles contained within the FEES manual The base costs are not allocated to classes or sub-classes but are shown against the FSA fee blocks by which they are levied

e) Third party arrangements as agent

The FSCS does work for and makes compensation payments on behalf of third parties, as agent, these are recoverable from such parties Any amounts so due from third parties are shown in the Balance Sheet.

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

f) Interest receivable

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

g) Interest payable

Loan interest payable is charged to the Income and Expenditure Account in the period according to the terms of the loans as described in Note 17

Interest to reflect the time value of money on any Balancing Payment adjustment on deemed compensation is accrued in the period to which it relates

h) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the Balance Sheet date All differences are charged to the classes and sub-classes

i) 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

j) Provisions legal challenges and costs

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

On occasion legal proceedings are threatened or initiated against or by the 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

k) Loans

Loans are initially stated at the fair value amount of the consideration received

Interest is charged to the Income and Expenditure Account over the term of the borrowings Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans

l) Special Resolution Regime

The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the Tripartite Authorities a statutory framework providing tools for dealing with distressed banks and building societies Under the Act, and its regulations the FSCS may be required to contribute to the costs of the SRR but no more than the cost the FSCS would have incurred if the relevant institution had been subject to insolvency and an FSCS depositor payout Any such costs although initially obligations on the FSCS as Scheme Manager are recoverable from the classes or sub-classes and will be funded through levies The Scheme Manager s obligation is accounted for in accordance with FRS 12 as set out above and a provision recognised when it is probable that an economic outflow will be required and the outflow can be measured reliably otherwise such amounts are disclosed as a contingency

m) Welcome Financial Services Limited (Welcome)

The FSCS declared Welcome in default on 2 March 2011 Welcome sold a substantial number of Payment Protection Insurance policies and its restructuring arrangements provide for it to make payments to the FSCS to fund compensation costs and the costs associated with handling claims Payments made by Welcome to the FSCS are ring fenced and will only be used to pay for costs relating to Welcome Such payments are shown in the Balance Sheet of the Scheme Manager as an asset and in Creditors amounts falling due within one year since any excess payments will ultimately be repaid to Welcome Compensation costs and recoveries are shown in the Classes and Sub-classes Accounts only and ultimately the costs associated with the handling of claims are shown in the Scheme Manager Income and Expenditure Account under administrative expenses and are recovered from the General Insurance Intermediation sub-class An equivalent amount is then released from the Scheme Manager to the sub-class to fund these costs.

3 Accounting judgements and key estimation uncertainties

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

As explained in Note 17 to the extent that loans relating to the Specified Deposit Defaults (SDDs) are not repaid through recoveries and/or dividends by 31 March 2012 an amortisation schedule will be agreed taking into account prevailing market conditions at that time

Following notice served by HM Treasury the FSCS has an obligation to contribute to the net costs of resolution of Dunfermline Building Society (DBS) including interest, but after recoveries which will be discharged through levies The FSCS figure for the total amount of the protected deposits less the valuation of the total FSCS recoveries in insolvency will provide the cap on the FSCS contribution HM Treasury appointed an independent valuer to work out what recoveries the FSCS would have received had there been a payout by the FSCS to DBS s approximately 260 000 depositors in the event of insolvency The valuer has yet to report Based on the best information available to the Directors the brought forward provision has been increased by £55 000 000 in the financial statements for the year ended 31 March 2011 to include interest accrued during the year on the balance owing to HM Treasury However the final outcome may be different and the final amounts once agreed may potentially result in a material adjustment to the provision being required (see Note 16)

Subsequent to the issue of interim levy invoices to firms in the Investment Fund Management and Investment Intermediation sub-classes totalling £325 051 000 a number of firms have applied for a reduction of the amount levied due to errors in the tariff data submitted by them to the FSA These claims total £79 993 000 Based on the best information available to the Directors provision for £30 000 000 has been made in the accounts (see Notes 13 and 16) The final amount that is likely to be repaid is uncertain and may potentially result in a material adjustment to the provision being required Any resulting adjustment to the levy is likely to be made in 2011/12

4 Administrative expenses

	Note	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Staff costs	6	11 353	10 591
Outsourcing costs		13 160	9 460
Change programme costs		18 001	3 980
Depreciation – owned assets	12	969	838
Auditors remuneration			
Audit services		206	270
Operating lease rentals	18	1 087	1 061
Other		12 625	13 215
		57 401	**39 415**

5 Interest payable

	Note	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Loan interest – HM Treasury	17	334 414	344 332
Loan interest – other		30	-
Time value for money interest		6	4 108
		334 450	**348,440**

The loan interest payable to HM Treasury of £334 414 000 is made up of a charge for 2010/11 of £335 380 000 less an adjustment for the previous year of £966 000 mainly due to the reallocation of compensation costs between HM Treasury and the FSCS The time value of money interest of £6 000 (2010 £4 108 000) relates to the interest payable on the Balancing Payment adjustment The latter arises from the validation exercise carried out to verify the deemed compensation paid relating to Kaupthing Singer & Friedlander Limited and Heritable Bank Plc

6 Staff costs

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Aggregate gross salaries for staff including the Executive Directors	8 683	8 163
Employer s national insurance contributions	1 060	889
Employer's pension contributions	1 610	1 539
	11 353	**10 591**

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 the FSCS during the year was as follows

	Year ended 31 March 2011	Year ended 31 March 2010
Executive Committee and Internal Audit	7	10
Operations	108	108
Central Services	29	29
Corporate Affairs	17	16
Change Management	13	7
Other	7	7
	181	**177**

7 Retirement benefits

The FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Scheme) which is *closed to new staff*

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 The FSCS makes contributions of 5 per cent with potential increments of 2 per cent after two years service and a further 2 per cent after five years The staff member may make voluntary contributions, which to a further 3 per cent, will be matched by the FSCS

Amounts paid by the FSCS into the money purchase scheme amounted to £485 000 and £49 000 was outstanding to be paid at 31 March 2011 (2010 £423 000 and £nil respectively)

Defined benefit pension scheme

The FSCS operates a funded scheme of the defined benefit type with assets held in separate Trustee-administered funds An actuarial valuation of the defined benefit pension scheme was carried out as at 1 April 2009 The valuation used the projected unit method and was carried out by Buck Consultants Limited professionally qualified actuaries

Principal actuarial assumptions at the Balance Sheet date are

	31 March 2011 % (p a)	31 March 2010 % (p a)
Discount rate	5 15	5 50
Salary increase rate	4 10*	4 30**
Pension increase rate (where increase is based on RPI inflation capped at 5% p a)	3 30	3 45
Pension increase rate (where increase is based on RPI (2010) / CPI (2011) inflation capped at 3% p a)	2 30	2 55
Expected return on Scheme assets	7 45	7 80
Inflation assumption	3 60	3 80

* The salary increase assumption is 2 0% p a for the next year i e 2011/12 After that year salary increases are assumed to follow price inflation plus 0 5% i e 4 1% p a

** The salary increase assumption was 2 0% p a for the next two years i e 2010/11 and 2011/12 After two years salary increases are assumed to follow price inflation plus 0 5% i e 4 3% p a

The salary increase assumption is a long-term average assumption It averages inflationary increases and merit and promotional increases across the whole employee membership for the period until they leave or retire from the Scheme

The following standard mortality tables published by the Institute and Faculty of Actuaries and projections of future mortality improvements have been used

Pre- and post-retirement PMA00 for males and PFA00 for females with future improvements to mortality projected in line with the long cohort projection methodology with a minimum improvement of 1 per cent p a allowing for individual members year of birth

This assumption is consistent with last year s life expectancy assumption

Based on the post-retirement tables future life expectancy is 28 7 years for a male currently aged 60 and 31 4 years for a female currently aged 60 The future life expectancy at age 60 for a male currently aged 40 is 31 0 years and 33 5 years for a female currently aged 40

For the 31 March 2011 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 This assumption is consistent with last year s commutation assumption

The family statistics adopted for disclosures as at 31 March 2011 differ from those used for the 31 March 2010 disclosures Previously 90 per cent of members were assumed to be married For the 31 March 2011 disclosures 80 per cent of male and 70 per cent of female members are assumed to be married This change assumes that fewer members have eligible adult dependants which has decreased the liability of providing a retirement benefit

The assumptions were chosen by the FSCS with professional advice

At 31 March 2011 the Scheme s assets were *invested in a diversified portfolio that consisted primarily of equities* The fair value of the Scheme s assets is set out below along with the expected rate of return on each asset

	31 March 2011 £000	Expected rate of return %	31 March 2010 £000	Expected rate of return %
Equities	9 477	7 85	9 098	8 05
Hedge funds	1 292	6 70	1 209	6 70
Property	1 086	7 85	583	8 30
Cash	964	3 80	340	3 80
Total assets/average return	**12,819**	**7 45**	**11 230**	**7 80**

Following advice from the Scheme s investment advisers new contributions being paid into the Scheme from the end of December 2009 were held back in the Trustees bank account pending a rebalancing exercise This rebalancing exercise was completed on 1 July 2010

The Scheme s strategic allocation of 75 per cent global equities 10 per cent property and 15 per cent hedge funds remained unchanged following this rebalancing exercise However a liquidity holding was added to the asset mix, pending a review of investment strategy due in 2011 and a possible move into some risk-reducing/liability-matching assets

The expected return on assets is the average of the best estimate of investment returns for each of the investment classes held *weighted by the holding at 31 March 2011*

The Scheme does not invest in the sponsor s own financial instruments including property or other assets owned by the sponsor

The amounts recognised in the Balance Sheet are as follows

	31 March 2011 £000	*31 March 2010* £000
Assets	12 819	11 230
Liabilities	(15 670)	(13 930)
Net liability	**(2 851)**	**(2 700)**

Changes in present value of the defined benefit obligation

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Opening defined benefit obligation	13 930	7 686
Current service cost	892	580
Interest cost	800	557
Benefits paid	(316)	(201)
Actuarial losses	364	5 308
Closing defined benefit obligation	**15 670**	**13 930**

Sensitivity analysis of the Scheme liabilities

The sensitivity of the principal assumptions used to measure the Scheme liabilities is set out below

	Change in assumption	Impact on Scheme liabilities
Discount rate	Increase/decrease by 0 25%	Decrease/increase by 6 8%
Rate of inflation*	Increase/decrease by 0 25%	Increase/decrease by 5 4%
Rate of salary growth	Increase/decrease by 0 25%	Increase/decrease by 2 1%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 1 9%

* Including the effect of an increase in the pension increase assumption and rate of salary growth of 0 25%

Changes in fair value of the Scheme assets

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Opening fair value of assets	11 230	7 320
Expected return	908	600
Contributions paid by employer	1 139	1 161
Benefits paid	(316)	(201)
Actuarial (losses)/gains	(142)	2 350
Closing fair value of assets	**12 819**	**11 230**

Actual return on Scheme assets

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Actual return	**766**	**2 950**

Amount recognised in the Income and Expenditure Account

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Current service cost	892	580
Interest on liabilities	800	557
Expected return on assets	(908)	(600)
Total expense	**784**	**537**

The FSCS expects to contribute £1 833 000 to its defined benefit pension plan during 2011/12

Amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Actual return less expected return on assets	(142)	2 350
Experience gains and (losses) arising on Scheme liabilities	239	(135)
Changes in assumptions underlying the present value of the Scheme liabilities	(603)	(5 173)
Net actuarial losses recognised in the period	**(506)**	**(2,958)**

The liabilities of the Scheme are measured by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit method This amount is reflected in the Balance Sheet. The projected unit method is an accrued benefits valuation method in which the Scheme liabilities make an allowance for projected earnings The accumulated benefit obligation is an actuarial measure of the present value of benefits for service already rendered but differs from the projected unit method in that it includes no assumption for future salary increases Instead it allows for increases from 31 March 2011 to members dates of leaving in line with RPI inflation At the Balance Sheet date the accumulated benefit obligation was £15 265 000

The FSCS has agreed with the Trustees that the funding objective is to aim to ensure that the Scheme has sufficient and appropriate assets to cover its Technical Provisions (which are effectively the liabilities in respect of service already completed) under the Scheme Specific Funding regulations. The approach used must be prudent taking into account the financial resources and ability of the FSCS to withstand any adverse experience

The latest actuarial valuation was as at 1 April 2009 On completion of the 2009 valuation the FSCS s ordinary contribution rate was increased with effect from 1 April 2011 from 27 3 per cent of pensionable salaries plus £90 000 p a in respect of Scheme management fees to 32 1 per cent of pensionable salaries plus £111 000 p a in respect of Scheme management expenses In addition the FSCS has agreed to the following Recovery Plan to eliminate the deficit that was determined in the 2009 valuation over a period of five years from 1 April 2011 i e by 31 March 2016

The Recovery Plan consists of

Repayment	Period	Contributions due in period
Element 1	1 April 2009 to 31 March 2011 (inclusive)	£480 000 p a (£40 000 p m)
Element 2	1 April 2011 to 31 March 2016 (inclusive)	£903 000 p a (£75 250 p m) adjusted in accordance with the instructions below
Element 3	1 April 2011 to 31 March 2016 or a date when the Scheme ceases to allow future service benefit accrual if earlier (inclusive)	6 7% p a of pensionable salaries

All Element 2 deficit payments in this Recovery Plan will be contingent on the results of future annual Actuarial Reports and future Actuarial Valuations

Hence if the results set out in any future signed annual Actuarial Report or Actuarial Valuation (whether preliminary or final) indicate that the current level of deficit contributions is projected to result in the Scheme being in surplus at the end of the Recovery Period using assumptions calculated in a way consistent with those agreed for the 1 April 2009 valuation as set out in the Statement of Funding Principles agreed on 22 March 2011 all future Element 2 deficit contributions would reduce on a prorated basis so as to target the Scheme being 100 per cent funded at the end of the Recovery Period

Similarly if the results set out in any future signed annual Actuarial Report or Actuarial Valuation (whether preliminary or final) indicate that the current level of deficit contributions are projected to result in the Scheme being in deficit at the end of the Recovery Period using assumptions calculated in a way consistent with those agreed for the 1 April 2009 valuation as set out in the Statement of Funding Principles agreed on 22 March 2011 all future Element 2 deficit contributions would increase on a prorated basis so as to target the Scheme being 100 per cent funded at the end of the Recovery Period

Following consultation with employee members of the Scheme and a request by the FSCS the Trustees have agreed to amend the Trust Deed and Rules to allow the FSCS to close the Scheme to the future accrual of benefits The date of closure is expected to be 30 June 2011

The valuation of the Scheme s liabilities for accounting purposes has been carried out at a different date from when the Scheme s last actuarial valuation was carried out to determine the funding position and using some different assumptions Therefore the figures quoted in this note are different from those disclosed in the last actuarial valuation report as would usually be expected The figures set out in this note are calculated according to the requirements of the accounting standard FRS 17 Separate calculations will be carried out for the Trustees to monitor and control the funding of the Scheme using assumptions selected by the Trustees The FSCS estimates the duration of the Scheme liabilities on average to fall due in around 28 years

History of experience gains and losses

	2011	2010	2009	2008	2007
Present value of the liabilities (£'000)	15 670	13 930	7 686	7 612	9 077
Fair value of assets (£'000)	12 819	11 230	7 320	8 190	7 700
(Deficit)/surplus in the Scheme (£'000)	(2 851)	(2 700)	(366)	578	(1 377)
Experience arising on Scheme assets (£'000)	(142)	2 350	(2 479)	(1 145)	(113)
Percentage of Scheme s assets (%)	(1 1)	20 9	(33 9)	(14 0)	(1 5)
Experience gains and (losses) on Scheme s liabilities (£'000)	239	(135)	24	11	(231)
Percentage of present value of Scheme s liabilities (%)	1 5	(1 0)	0 3	0 1	(2 5)
Total amount recognised in Statement of Total Recognised Gains and (Losses) (£ 000)	(506)	(2 958)	(1 666)	1 344	(440)
Percentage of the present value of Scheme s liabilities (%)	(3 2)	(21 2)	(21 7)	17 7	(4 8)

8 Directors emoluments

Details of directors emoluments are shown in the Directors Report, on page 104

9 Interest receivable and other income

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Expected net return on pension scheme assets	**108**	**43**

10 Management expenses and interest payable

Management expenses and interest payable allocated and recoverable from the classes and sub-classes were as follows

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Deposit	340 725	359 119
General Insurance Provision	1 436	1 263
General Insurance Intermediation	7 043	2 264
Life and Pensions Provision	92	39
Life and Pensions Intermediation	4 342	3 986
Investment Fund Management	394	501
Investment Intermediation	10 970	9 889
Home Finance Intermediation	341	229
Amount recoverable from classes and sub-classes	**365 343**	**377 290**
Amount recoverable in respect of base costs	**26 755**	**11 146**

The amount due in respect of base costs of £26 755 000 (2010 £11 146 000) relates to costs allocated on the basis of FSA periodic fees

The amounts recoverable from classes and sub-classes of £365 343 000 (2010 £377 290 000) comprise management expenses of £30 923 000 (2010 £28 850 000) and interest payable of £334 420 000 (2010 £348 440 000) both recoverable from classes and sub-classes as shown in the Income and Expenditure Account.

The amount recoverable in respect of base costs of £26 755 000 (2010 £11 146 000) comprises management expenses of £26 725 000 (2010 £11 146 000) and interest payable of £30 000 (2010 £nil)

The FSCS is engaged on work on behalf of HM Treasury and any related costs will be recharged to HM Treasury when agreed These are not expected to be material

11 Compensation payments relating to Specified Deposit Defaults

During the year the FSCS has made compensation payments on behalf of the classes and sub-classes for HM Treasury s own account and to the account of HM Treasury for amounts otherwise payable by the Icelandic Depositors and Investors Guarantee Fund (DIGF[1]) Compensation payments include the adjustments resulting from the validation process as described in Notes 2 and 3 to the Classes and Sub-classes Accounts The FSCS element of the compensation payments shown below is shown in the Classes and Sub-classes Accounts Amounts paid on behalf of HM Treasury below are included within Amounts due from HM Treasury in Note 13 as described above in compliance with the accounting policies These are treated as amounts paid as agent and not passed through the Income and Expenditure Account.

As at 31 March 2011 compensation payments in the year in respect of the SDDs[2] and their allocation for funding responsibility were

	HM Treasury £ 000	HM Treasury for DIGF £ 000	The FSCS £ 000	Year ended 31 March 2011 Total £'000	Year ended 31 March 2010 Total £'000
Bradford & Bingley Plc	–	–	–	–	(95 806)
Heritable Bank Plc	240	–	91	331	1 174
Kaupthing Singer & Friedlander Limited	6 053	–	1 262	7 315	458 869
Landsbanki Islands hf – Icesave	17 689	25 210	31 258	74 157	506 952
London Scottish Bank Plc	7 077	–	54 808	61 885	100 427
Year ended 31 March 2011	**31 059**	**25 210**	**87 419**	**143 688**	–
Year ended 31 March 2010	**293 597**	**177,133**	**500,886**	–	**971,616**

1 Tryggingarsjóður innstæðueigenda og fjárfesta – es ablished pursuant to Act No 98/1999 of the Icelandic Parliament

2 Bradford & Bingley plc Heritable Bank Plc Landsbanki Islands hf and its UK branch and brand Icesave Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc

12 Fixed assets

	Computers £'000	Furniture and equipment £ 000	Leasehold improvements £'000	Total £'000
Cost				
At 1 April 2010	2 558	1 506	2 861	6 925
Additions in the year	481	50	16	547
At 31 March 2011	**3,039**	**1 556**	**2 877**	**7 472**
Accumulated depreciation				
At 1 April 2010	(2 043)	(1 066)	(1 989)	(5 098)
Charge for the year	(462)	(140)	(367)	(969)
At 31 March 2011	**(2 505)**	**(1,206)**	**(2,356)**	**(6,067)**
Net book value at 31 March 2011	**534**	**350**	**521**	**1,405**
Net book value at 31 March 2010	**515**	**440**	**872**	**1 827**

13 Debtors

Amounts falling due within one year

	Note	31 March 2011 £'000	31 March 2010 £'000
Amounts due from the FSA	24	1 567	541
Levies receivable net of provision			
Deposit		–	3
General Insurance Provision		227	240
General Insurance Intermediation		153	39
Life and Pensions Intermediation		307	365
Investment Fund Management		10 492	29
Investment Intermediation		3 296	80 965
Home Finance Intermediation		7	27
In respect of base costs		130	–
Net amounts due from classes and sub-classes			
Deposit		348 116	437 832
General Insurance Intermediation		–	4 951
Investment Fund Management		11 374	92
In respect of base costs		4 998	252
Amounts due from HM Treasury		1 876	54 326
Amounts due from administrators		228 522	–
Other debtors		102	113
Prepayments		879	868
		612,046	**580 643**

The £1 876 000 due from HM Treasury relates to compensation payments made on behalf of HM Treasury and DIGF not offset against the loan It is made up of the amount brought forward of £54 326 000 plus the compensation payments made during the year of £56 269 000 on behalf of HM Treasury (Note 11) less drawings offset against the loan of £108 719 000 (Note 17)

Subsequent to the issue of interim levy invoices to firms in the Investment Intermediation and Investment Fund *Management sub-classes totalling £325 051 000 a number of firms have applied for a reduction of the amount* levied due to errors in the tariff data submitted by them to the FSA. These claims total £79 993 000 Based on the best information available to the Directors a provision of £24 481 000 has been made (see Note 3 and Note 16) and further the debtors relating to levies receivable are stated net of a provision for levy refunds of £5 519 000 The claims are currently being investigated Any resulting adjustment to the levy is likely to be made in 2011/12

The debtors relating to levies receivable net of provision do not appear in the Classes and Sub-classes Accounts as these are recognised on a cash basis (see Note 1(e) on page 145)

The amounts due from administrators of £228 522 000 relate to dividends receivable from the administrators of Kaupthing Singer & Friedlander Limited Heritable Bank Plc and London Scottish Bank Plc

Debtors amounts falling due after more than one year

	Note	31 March 2011 £'000	31 March 2010 £'000
Amount due from the Deposit Class in respect of Dunfermline Building Society	16	455 000	400 000
Amounts due in respect of SDDs		18 561 690	19 209 535
		19,016,690	**19 609 535**

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

As at 31 March 2011 the FSCS had facilities for business purposes of £152m comprising a 364-day Sterling revolving credit facility of £75m a three-month Sterling-dealing line facility of £75m both at a floating rate of interest linked to LIBOR and an overdraft facility of £2m at a fixed margin above bank rate Of the £75m revolving credit facility £25m expires on 11 May 2012 Since the Balance Sheet date the remaining £50m revolving credit facility has been extended and will expire on 22 August 2011 Both have further Term-Out Loan options of three months from the expiry dates which means all monies outstanding on the date of expiry can be repaid up to three months after that date The £75m Sterling-dealing line facility expired on 13 May 2011

	31 March 2011 £000	31 March 2010 £'000
Cash at bank	208 578	10 811
Cash on short-term deposit	10 098	6 242
	218 676	**17 053**
Bank overdraft	(1 203)	(346)
	217 473	**16 707**

Cash book balances which include cheques or other effects which are drawn but not presented are shown as bank overdrafts above and presented within Creditors on the Balance Sheet The cash at bank includes £49 176 000 received from Welcome Financial Services Limited referred to in Note 2(m) This sum is ring-fenced and can only be used to pay costs relating to Welcome An equivalent creditor is reported in Note 15

15 Creditors and accruals

Creditors amounts falling due within one year

	31 March 2011 £000	31 March 2010 £'000
Compensation payable	16 491	2 657
Levies accrued		
General Insurance Provision	115	180
General Insurance Intermediation	15	12
Life and Pensions Provision	1	2
Life and Pensions Intermediation	200	201
Investment Intermediation	31	23
Home Finance Intermediation	1	–
In respect of base costs	–	44
Net amounts due to classes and sub classes		
General Insurance Provision	49 618	52 610
General Insurance Intermediation	11 004	–
Life and Pensions Provision	414	867
Life and Pensions Intermediation	3 612	11 039
Investment Intermediation	83 038	21 021
Home Finance Intermediation	42	1 224
Social security and other taxes	324	294
Due to claimants and/or Welcome	49 176	–
Accruals	11 777	4 158
Amounts due to HM Treasury relating to validation adjustments	–	1 766
Other creditors	1 530	4 802
	227 389	**100,900**

The £49 176 000 due to claimants and/or Welcome relates to payments received from Welcome As explained in Accounting policies Note 2(m) payments from Welcome are only used to pay compensation and other costs relating to Welcome and any excess amount will ultimately be repaid to Welcome

Creditors amounts falling due after more than one year

	Note	31 March 2011 £000	31 March 2010 £'000
Amounts due to HM Treasury			
Loans	17	18 805 265	19 324 742
		18 805 265	**19 324 742**

16 Provisions for liabilities and charges

	31 March 2010 £'000	Charge in the year £'000	31 March 2011 £000
Restructuring	–	770	770
Levy provision	–	24 481	24 481
Dilapidations	257	38	295
Dunfermline Building Society	400 000	55 000	455 000
Total provisions	**400 257**	**80 289**	**480 546**

Restructuring

The FSCS is undertaking a major restructuring of the organisation This has resulted in redundancies and will continue to do so A provision of £770 000 has been made for the anticipated costs of such redundancies

Levy provision

The levy provision of £24 481 000 relates to requests for refunds received from levy payers (see Notes 3 and 13) This is based on the best information available to the Directors. The claims are currently being investigated The final amount that is likely to be repaid is uncertain and may potentially result in a material adjustment to the provision being required Any resulting adjustment to the levy is likely to be made in 2011/12

Dilapidations

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

Dunfermline Building Society

Following notice served by HM Treasury the FSCS has an obligation under the Special Resolution Regime to contribute to the net costs of resolution of Dunfermline Building Society including interest but after recoveries which will be discharged through levies Based on the best information available to the Directors the brought forward provision has been increased by £55 000 000 in the financial statements for the year ended 31 March 2011 to include interest accrued during the year

This amount will be due to HM Treasury and as shown in Note 13 recoverable from the Deposit class However the timing of the final outcome is uncertain although it is not expected to be within 12 months of the Balance Sheet date The final amount may be different and once agreed may potentially result in a material adjustment to the provision being required (see Note 3)

17 Loans

As a result of the SDDs various arrangements were made during 2008/09 to obtain unsecured loans with HM Treasury and the Bank of England The facilities with the Bank of England were subsequently refinanced to cover accumulated interest and principal by HM Treasury Details of loans with HM Treasury are

Loans

	Principal outstanding as at 31 March 2010 £000	Drawdown from (and repayment to) HM Treasury £000	Validation adjustments £000	Recoveries £000	Compensation payments on behalf of HM Treasury £000	Principal outstanding as at 31 March 2011 £000
Loan in respect of						
Bradford & Bingley Plc	15 658 944	–	–	–	–	15 658 944
Heritable Bank Plc	305 603	–	1 751	(70 417)	–	236 937
Kaupthing Singer & Friedlander Limited	1 766 603	(21 126)	333	(436 299)	(60 700)	1 248 811
Landsbanki Islands hf – Icesave	1 412 809	65 000	–	–	(39 868)	1 437 941
London Scottish Bank Plc	180 783	50 000	–	–	(8 151)	222 632
	19 324,742	**93,874**	**2 084**	**(506 716)**	**(108 719)**	**18,805,265**

Loan interest payable

	Facility £000	Interest outstanding as at 31 March 2011 £000	Interest outstanding as at 31 March 2010 £000
Loan in respect of			
Bradford & Bingley Plc	15 658 944	275 887	302 054
Heritable Bank Plc	236 937	4 809	6 268
Kaupthing Singer & Friedlander Limited	1 448 811	25 277	48 921
Landsbanki Islands hf – Icesave	1 462 941	24 932	23 455
London Scottish Bank Plc	242 632	3 509	2 115
	19 050 265	**334 414**	**382 813**

Principal terms and conditions

During the year the FSCS made drawings from HM Treasury which were used to pay compensation some of which was on behalf of HM Treasury Those amounts that were paid on behalf of HM Treasury were subsequently used to reduce the loan balances with HM Treasury

The FSCS has loan facilities agreed with HM Treasury for each default Borrowings by the FSCS under these facilities are only repayable through recoveries or dividends from the estates of defaulted firms and levies on levy paying firms Under the terms of the facilities, to the extent that loans are not repaid by the target repayment date of 31 March 2012 an amortisation schedule agreed between HM Treasury and the FSCS based upon expected recovery and levy amounts and taking account of prevailing market conditions will apply There is therefore no fixed repayment date within these facilities and there is no obligation for the FSCS to raise compensation cost levies in relation to the SDDs in the period ending 31 March 2012

Interest

Under the terms of the 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 30 basis points adjusted monthly Interest and related management expenses levied by the FSCS in respect of any Interest Accrual Period in relation to the SDDs are capped at £1bn per year for the period to 31 March 2012

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

The loan interest of £334 414 000 is recoverable from the Deposit class by way of a specific cost management expenses levy and is payable to HM Treasury on 1 October 2011 This loan interest is made up of £335 378 000 for 2010/11 less an adjustment for 2008/09 of £9 000 and for 2009/10 of £955 000 resulting from the validation process

18 Payments under lease agreements

Future minimum payments – operating leases

Amounts payable in year to 31 March 2011	Lease expiring: Between two and five years £000	Lease expiring: Over five years £000	Total £000
Office rental	–	1 043	1 043
Equipment rental	44	–	44
	44	**1 043**	**1 087**

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

19 Reserves

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
At 1 April		(2 700)	(366)
Excess of income over expenditure on ordinary activities after tax		355	624
Actuarial loss on pension scheme liabilities	7	(506)	(2 958)
At 31 March		**(2 851)**	**(2 700)**

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

The statement set out below relates cash flows to items shown in the Income and Expenditure Account and Balance Sheet movements

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Excess of income over expenditure on ordinary activities before interest and tax		334 805	349 064
Depreciation	12	969	838
Loss on disposal	12	–	37
Decrease in debtors		561 442	2 631 604
Increase/(decrease) in creditors		126 134	(1 870 773)
Increase in provisions for liabilities and charges		80 289	400 041
Net cash inflow from operating activities		**1 103,639**	**1 510 811**

21 Returns on investments and servicing of finance

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Interest payable (see Notes 5 and 17)	(382 849)	(394 891)
	(382,849)	**(394,891)**

22 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
(Increase)/decrease in cash at bank and short-term deposits in the year	(200 766)	25 618
Decrease in loans	(519 477)	(1 140 790)
Decrease in net debt	(720 243)	(1 115 172)
Net funds at 31 March 2010	19 308 035	20 423 207
Net funds at 31 March 2011	**18 587,792**	**19 308 035**

23 Analysis of change in net funds

	At 31 March 2010 £'000	Cash inflows/ (outflows) £'000	At 31 March 2011 £'000
Cash at bank and short-term deposits	17 053	201 623	218 676
Bank overdraft	(346)	(857)	(1 203)
	16 707	**200,766**	**217 473**

24 Transactions with related parties

During the year the FSCS entered into transactions with the FSA as a related party The FSA appoints and has the right to remove directors to the Board of the FSCS and it establishes the rules under which the FSCS became operative as from midnight on 30 November 2001 The FSA is considered to be a related party but not a controlling party

During the year the FSA provided an agency service to the FSCS to collect tariff data issue levy invoices and collect levy monies on its behalf Levy invoices net of credit notes were raised for £857 385 000 (2010 £635 828 000) including £380 091 000 raised as a levy for the interest on the loans relating to the SDDs on 26 July 2010 and £325 051 000 raised as a further interim levy on 20 January 2011 Related collections of £918 880 000 (2010 £595 699 000) were received The charge for the service was £314 000 (2010 £287 500)

Overall payments less receipts of £917 854 000 (2010 £595 408 000) were made by the FSA to the FSCS leaving amounts due from the FSA to the FSCS at 31 March 2011 of £1 567 000 (2010 £541 000)

The FSA is a party to the lease agreement for the FSCS s premises at 7th Floor 1 Portsoken Street London (see Note 18) as guarantor of performance of the lease

The FSCS has also had material transactions with HM Treasury

25 Capital commitments

Capital commitments authorised and contracted for but not provided in the financial statements are £nil (2010 £nil)

26 Contingencies

The FSCS may have contingent liabilities in respect of legal claims arising in the ordinary course of business It is not anticipated that any material liabilities will arise from the contingent liabilities to the FSCS In any event any liabilities that crystallise would normally be recoverable from the appropriate class or sub-class and would not fall to the FSCS as designated Scheme Manager

27 Post balance sheet events

On 8 April 2011 the FSCS received £20 000 000 from Welcome Financial Services Limited in accordance with the arrangement outlined in Note 2(m) A further £20 000 000 was received on 18 May 2011

On 21 April 2011 the FSCS announced that the Norwich and Peterborough Building Society (N&P) would pay recoveries to the FSCS of some £28 000 000 in respect of the compensation the FSCS paid to their customers who had invested in Keydata products on the advice of N&P

28 Going concern

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

Financial Services Compensation Scheme Classes and Sub-classes: Financial Statements for the year ended 31 March 2011

The powers of the FSA under the FSMA became effective as at midnight on 30 November 2001

As explained in Chapter 6 of the FEES manual of the FSA s Handbook for funding purposes and effective from 1 April 2008 the FSCS is split into broad classes comprising Deposit General Insurance Life and Pensions Investment and Home Finance (FEES 6 5 7R and FEES 6 Annex 3) Within each broad class there is one or more sub-class The FSCS must keep accounts which show

(1) the funds held to the credit of each class and sub-class, and

(2) the liabilities of that class and sub-class

The financial statements for the FSCS s classes and sub-classes for the year ended 31 March 2011 with comparatives including the equivalent fund balances for the year ended 31 March 2010 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 each of them 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 the 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 class and sub-class transactions and disclose with reasonable accuracy at any time the financial position of the classes and sub-classes and to enable them to ensure that the financial statements comply with the requirements They are also responsible for safeguarding the assets of the classes and sub-classes and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

Mark Thomas
Secretary
21 June 2011

The FSCS Classes and Sub-classes
Statement of Fund Movements for the year ended 31 March 2011

Funding sub-class code	Total		Compensation costs net of recoveries relating to SDDs		Deposit SA01		General Insurance Provision SB01	
	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000
Compensation and interest	(535 357)	(1 105 348)	(87 419)	(500 886)	(56 738)	(400 940)	(61 649)	(59 773)
Exchange gain/(loss)	211	785	(1)	–	212	756	–	29
Recoveries received	756 001	1 073 579	735 265	1 058 321	1,240	176	15 359	10 561
	220 855	(30 984)	647 845	557 935	(55 286)	(400 008)	(46 290)	(48 883)
Attributable management costs								
Specific costs	(30 923)	(28 850)	–	–	(6,305)	(10 679)	(1 436)	(1 263)
SDD interest	(334 420)	(348 440)	–	–	(334 420)	(345 440)	–	–
	(365 343)	(377 290)	–	–	(340 725)	(356 119)	(1 436)	(1 263)
Interest received								
Gross before tax	82	257	–	–	54	182	141	103
Tax at 28%	(22)	(67)	–	–	(14)	(48)	(39)	(27)
	60	190	–	–	40	134	102	76
Levies received	897 141	555 437	–	–	380 369	424 803	43 937	66 658
Cross-subsidy transfer	–	–	–	–	–	–	–	–
Funds brought forward	(19 985 418)	(20 162 771)	(19 209 535)	(19 767 470)	(767 450)	(433 260)	51 197	34 609
Funds carried forward	(19,232,705)	(19,985,418)	(18,561,690)	(19,209,535)	(783,052)	(767,450)	47,510	51,197

Funding sub-class code	General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Fund Management SD01		Investment Intermediation SD02		Home Finance Provision SE01		Home Finance Intermediation SE02	
	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000
Compensation and interest	(35 800)	(12 313)	–	(7)	(16 191)	(13 501)	(116)	(923)	(277 147)	(116 859)	–	–	(297)	(146)
Exchange gain/(loss)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Recoveries received	1 052	1	–	–	1 585	688	421	21	1 079	3 011	–	–	–	–
	(34 748)	(12 312)	–	(7)	(14 606)	(12 813)	305	(902)	(276 068)	(113 848)	–	–	(297)	(146)
Attributable management costs														
Specific costs	(7 043)	(2,264)	(92)	(39)	(4 342)	(3,986)	(394)	(501)	(10 970)	(9 889)	–	–	(341)	(229)
SDD interest	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	(7 043)	(2,264)	(92)	(39)	(4 342)	(3,986)	(394)	(501)	(10 970)	(9 889)	–	–	(341)	(229)
Interest received														
Gross before tax	8	1	1	(1)	16	20	1	(3)	(140)	(47)	–	–	1	2
Tax at 28%	(2)	–	–	–	(5)	(5)	–	1	38	13	–	–	–	(1)
	6	1	1	(1)	11	15	1	(2)	(102)	(34)	–	–	1	1
Levies received	57,227	7,979	(361)	571	10 643	17,420	217 821	3 000	188 044	64 252	–	–	(539)	754
Cross-subsidy transfer	–	–	–	–	–	–	(216,778)	–	216,778	–	–	–	–	–
Funds brought forward	(5 730)	866	866	342	9 970	9 334	(116)	(1 711)	(65 817)	(6 298)	–	–	1 197	817
Funds carried forward	9,712	(5,730)	414	866	1,676	9,970	839	(116)	51 865	(65,817)	–	–	21	1,197

The FSCS Classes and Sub-classes
Statement of Assets and Liabilities at 31 March 2011

Funding sub-class code	Total		Compensation costs net of recoveries relating to SDDs		Deposit SA01		General Insurance Provision SB01		General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Fund Management SD01		Investment Intermediation SD02		Home Finance Provision SE01		Home Finance Intermediation SE02	
	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000
Current assets																						
Net amounts due from the FSCS	146 373	65 108	–	–	–	–	49 390	52 370	10 851	–	415	867	3 306	10 674	845	–	81 531	–	–	–	35	1,197
Taxation	133	[illegible]	–	–	77	76	44	46	3	3	–	–	9	9	–	–	–	–	–	–	–	–
Term deposits and cash at bank	21 590	76 085	–	–	21 316	75 702	274	383	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	168 096	141 327	–	–	21 393	75 778	49 708	52 799	10 854	3	415	867	3 315	10 683	845	–	81 531	–	–	–	35	1,197
Current liabilities																						
Net amounts due to the FSCS	(348 116)	(502 868)	–	–	(348 116)	(437 835)	–	–	–	(4 990)	–	–	–	–	–	(99)	–	(59 944)	–	–	–	–
Taxation	(27)	25	–	–	–	–	–	–	–	–	(1)	(1)	(2)	–	(2)	3	(22)	(21)	–	–	–	–
Bank overdrafts	(35 968)	(14 317)	–	–	(1 329)	(5 393)	(2 198)	(1 602)	(1 142)	(743)	–	–	(1 637)	(713)	(4)	(14)	(29 644)	(5 852)	–	–	(14)	–
	(384 111)	(517 210)	–	–	(349 445)	(44[illegible] 226)	(2 198)	(1 602)	(1 142)	(5 733)	(1)	(1)	(1 639)	(713)	(6)	(116)	(29 666)	(65 817)	–	–	(14)	–
Long-term liabilities																						
Net amounts due to the FSCS	(19 016 690)	(19 609 535)	(18 561 690)	(19 209 535)	(455 000)	(400 000)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total net assets/(liabilities)	(19,232,705)	(19,985,418)	(18,561,690)	(19,209,535)	(783,052)	(767,450)	47,510	51,197	9,712	(5,730)	414	866	1,676	9,970	839	(116)	51,865	(65,817)	–	–	21	1,197

The FSCS Classes and Sub-classes
Statement of Base Costs and Related Levies at 31 March 2011

	FSA Fee Block													
Base Cost Fund Account	Total		Minimum fee A000		Deposit takers A001		Home finance providers A002		General Insurance A003		Life Insurance A004		Society of Lloyd's A006	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
Levies received	21 836	10 930	1 022	–	6 553	3 081	750	–	1 523	607	2 345	1 425	130	–
Base costs allocated	(26 755)	(11 146)	(1 239)	–	(8 217)	(3,221)	(604)	–	(1 930)	(624)	(3 056)	(1 503)	(94)	–
Balance at 1 April 2010	(208)	108	–	–	(68)	72	–	–	(174)	(157)	(215)	(137)	–	–
Funds carried forward	(5,127)	(208)	(217)	–	(1,732)	(68)	146	–	(581)	(174)	(926)	(215)	36	–
Current assets														
Net amounts due from the FSCS	251	249	–	–	–	–	146	–	–	–	–	–	36	–
	251	249	–	–	–	–	146	–	–	–	–	–	36	–
Current liabilities														
Net amounts due to the FSCS	(5 378)	(457)	(217)	–	(1 732)	(68)	–	–	(581)	(174)	(926)	(215)	–	–
	(5 378)	(457)	(217)	–	(1 732)	(68)	–	–	(581)	(174)	(926)	(215)	–	–
Total net assets/(liabilities)	(5,127)	(208)	(217)	–	(1,732)	(68)	146	–	(581)	(174)	(926)	(215)	36	–

	FSA Fee Block															
Base Cost Fund Account	Fund managers A007		Operators/ Trustees Collective Investment Schemes A009		Firms dealing as principal A010		Advising/ arranging (holding client money) A012		Advising/ arranging (not holding client money) A013		Corporate finance A014		Home finance mediation A018		General Insurance mediation A019	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
Levies received	1 577	944	362	179	1 390	758	1 290	741	2 101	1 378	444	238	947	358	1 402	1,12[illegible]
Base costs allocated	(1 930)	(946)	(371)	(172)	(1 805)	(757)	(1 641)	(753)	(2 528)	(1 408)	(497)	(232)	(906)	(381)	(1 937)	(1 14[illegible])
Balance at 1 April 2010	90	92	21	14	11	10	15	27	46	76	11	5	16	39	39	67
Funds carried forward	(263)	90	12	21	(404)	11	(336)	15	(381)	46	(42)	11	57	16	(496)	39
Current assets																
Net amounts due from the FSCS	–	90	12	21	–	11	–	15	–	46	–	11	57	16	–	39
	–	90	12	21	–	11	–	15	–	46	–	11	57	16	–	39
Current liabilities																
Net amounts due to the FSCS	(263)	–	–	–	(404)	–	(336)	–	(381)	–	(42)	–	–	–	(496)	–
	(263)	–	–	–	(404)	–	(336)	–	(381)	–	(42)	–	–	–	(496)	–
Total net assets/(liabilities)	(263)	90	12	21	(404)	11	(336)	15	(381)	46	(42)	11	57	16	(496)	39

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited as designated Scheme Manager of the classes and sub-classes on 21 June 2011

David S. Hall

David Hall
Chairman

The FSCS Notes to the Classes and Sub-classes Financial Statements for the year ended 31 March 2011

1 Accounting policies

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

a) Basis of accounting

The FEES manual requires the FSCS to keep accounts which show the funds held to the credit of each broad class and sub-class and the liabilities of that broad class and sub-class

The financial statements have been prepared under the historical cost convention and on the basis that the Financial Services Compensation Scheme Limited as the designated Scheme Manager will exercise its responsibilities under the FSMA and the FEES manual to recover management expenses and compensation costs on behalf of the broad classes and sub-classes, as defined for funding purposes in the FSA Handbook. The financial statements have been prepared on a going concern basis in accordance with Note 28 of the FSCS s financial statements and

- Section 218 of the Financial Services and Markets Act 2000
- the FSA Handbook (in particular rule COMP 2 2 5)
- the FSA-FSCS Memorandum of Understanding (Section 24 to 26) and
- the accounting policies set out here and overleaf

The five broad classes are classified based on identifiable industry sectors

- Deposit,
- General Insurance
- Life and Pensions
- Investment, and
- Home Finance

Each broad class is divided into two sub-classes divided along provider and intermediation lines with the exception of the Deposit class

The accounting policies have been selected by the designated Scheme Manager

b) Compensation costs

These costs which include interest paid to claimants comprise deemed compensation (see Note 3) payments made to claimants and amounts for offers which have been made are due and accepted and for reinstatement cases fully valued but which have not been paid at the Balance Sheet date No account has been taken of compensation costs in respect of offers accepted after the Balance Sheet date

c) Recoveries

Recoveries are credited to funds when notification is received in respect of dividends from liquidators/provisional liquidators or notified and agreed in respect of other recoveries which have not been received by the Balance Sheet date Where no notification is received recoveries are credited on receipt

d) Management expenses

Management expenses comprise base costs being the costs of running the classes and sub-classes and specific costs, which are the remaining costs which cover the handling and payment of compensation The specific costs are allocated by the FSCS to each class and sub-class and in accordance with the levy principles contained within FEES manual 6 4 5 6 4 6 and 6 4 7 The base costs are not allocated to classes and sub-classes but are shown against the FSA fee blocks by which they are levied (FEES manual 6 1 10)

e) Levies

The FSCS is funded by levies on firms authorised by the FSA It raises levies on behalf of the classes and sub-classes which are credited to the classes and sub-classes on a cash received basis Levies refunded are accounted for on payment Where requests for the remission or rebate of a levy have been made this is only recognised in the classes and sub-classes when the payment is made The levy relating to the base cost element of the management expenses has been credited to the relevant FSA fee block Under the FEES rules once a sub-class reaches its annual compensation costs levy limit the connected sub-class in the broad class (the receiving sub-class) is required to contribute to any further compensation costs levy (again up to an annual limit) Levies received during the year from a receiving sub-class are shown as levies received in the sub-class accounts of the receiving sub-class together with a corresponding transfer out to the connected sub-class

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 Statement of Fund Movements

g) 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

h) Taxation

Interest income is recognised gross of tax The related tax on interest income is charged to the Statement of Fund Movements

i) Special Resolution Regime

The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the Tripartite Authorities a statutory framework providing tools for dealing with distressed banks and building societies Under the Act, and its regulations the FSCS may be required to contribute to the costs of the SRR, but no more than the cost that the FSCS would have incurred if the relevant institution had been subject to insolvency and an FSCS depositor payout. Any such costs although initially obligations on the Scheme Manager are recoverable from the classes or sub classes and will be funded through levies

Such costs are provided for in the financial statements when a reliable estimate can be made otherwise they are disclosed as a contingency

j) Welcome Financial Services Limited (Welcome)

The FSCS declared Welcome in default on 2 March 2011 Welcome sold a substantial number of Payment Protection Insurance policies and its restructuring arrangements provide for it to make payments to the FSCS to fund compensation costs and the costs associated with handling claims Payments made by Welcome to the FSCS are ring-fenced and will only be used to pay for costs relating to Welcome Such payments are shown in the Balance Sheet of the Scheme Manager as an asset and in Creditors amounts falling due within one year' since any excess payments will be repaid to Welcome Compensation costs and recoveries are shown in the Classes and Sub-classes Accounts only and ultimately the costs associated with the handling of claims are shown in the Scheme Manager Income and Expenditure Account under administrative expenses and are recovered from the Insurance Intermediation sub-class An equivalent amount is then released from the Scheme Manager to the sub-class in order to fund these costs

k) Accounting judgements and key estimation uncertainties

As designated Scheme Manager the FSCS is required to prepare class and sub-class financial statements In relation to these financial statements drawn up in accordance with the accounting policies above there are no areas of key *estimation uncertainty beyond those described in Note 3 of the FSCS s financial statements*

2 Compensation costs

Payments to valid claimants are made in accordance with the FEES manual and are summarised within class and sub-class records by type of claim and defaulting firm Extracts from these summaries are shown within the Annual Report A number of claims relate to firms which were handled previously by former schemes

A summary of compensation costs for the Specified Deposit Defaults of £87 418 000 made up of validation adjustments (see Note 3) of £313 000 and manual payments of £87 105 000 is shown below

	Year ended 31 March 2010 £'000	Validation adjustments £'000	The FSCS manual payments £'000	Year ended 31 March 2011 £'000
Bradford & Bingley Plc	15 654 509	–	–	15 654 509
Heritable Bank Plc	464 585	(16)	107	464 676
Kaupthing Singer & Friedlander Limited	2 582 021	329	932	2 583 282
Landsbanki Islands hf – Icesave	1 397 291	–	31 258	1 428 549
London Scottish Bank Plc	169 950	–	54 808	224 758
	20 268 356	**313**	**87 105**	**20 355 774**

3 Deemed compensation costs

Compensation costs include amounts paid under various Orders during the previous year and are referred to as deemed compensation These amounts were subject to validations as set out in the Order to assess the total amounts of compensation that would have been paid to qualifying claimants and any resulting adjustments to the original deemed compensation are referred to as Validation adjustments

Recoveries are accounted for within the classes and sub-classes financial statements in accordance with Note 1(c)

As explained in Notes 11 and 17 to the FSCS financial statements the Specified Deposit Defaults compensation costs including net deemed compensation costs are funded through borrowings The principal is repayable through recoveries with any remaining balance levyable Until the amortisation schedule is agreed it is not possible to say which class or sub-class if any will bear levies.

The FSCS is engaged in work on behalf of HM Treasury Related costs will be recharged to HM Treasury when agreed These are not expected to be material

4 Management expenses

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

As stated above (Note 1d) management expenses are allocated to classes and sub-classes and FSA fee blocks under the rules within the FEES Manual chapter 6

5 Interest received

Interest received comprises

	Rate	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Term deposits	Available money market rates	23	34
Other bank accounts	Available rates	59	223
		82	**257**

6 Levies received

Levy invoice amounts and cash receipts arise mainly from the transactions carried out under agreement for the FSCS by the FSA

Subsequent to the issue of interim levy invoices to firms in the Investment Intermediation and Investment Fund Management sub-classes totalling £325 051 000 a number of firms have applied for a reduction of the amount levied due to errors in the tariff data submitted by them to the FSA These claims total £79 993 000 Provision has been made against this latter sum in the financial statements of the Scheme Manager (see Notes 3 13 and 16) and in accordance with the accounting policies herein not recognised in the classes and sub-classes The final amount that is likely to be repaid is uncertain but the amount eventually repaid will be levied in the future

7 Term deposits and cash at banks

Cleared money at banks is placed on overnight deposit, within strict limits and rules as laid down and reviewed regularly by the FSCS Board

Cashbook balances which include cheques or other effects which are drawn but not presented are shown as bank overdrafts within the Classes and Sub-classes Statement of Assets and Liabilities

As at 31 March 2011 the FSCS is a party to various joint accounts with claims administration companies involved with the Insurance Provision sub class to make payments to policyholders The balances of these accounts at 31 March 2011 of £274 000 (2010 £383 000) are included within Term deposits and cash at banks in the Insurance Provision sub class Statement of Asset and Liabilities

8 Special Resolution Regime – Dunfermline Building Society

On 30 March 2009 the Bank of England exercised stabilisation powers under the Banking Act 2009 in respect of Dunfermline Building Society including through the Dunfermline Building Society Property Transfer Instrument 2009 by which certain property rights and liabilities of Dunfermline Building Society were transferred to the Nationwide Building Society HM Treasury served notice on the FSCS revised during the year placing an obligation on the FSCS to contribute to the net costs of the resolution including interest but after recoveries which will be discharged by the FSCS through levies

Based on the best information available to the directors the brought forward provision has been increased by £55 000 000 in the financial statements of the Scheme Manager for the year ended 31 March 2011 to include the interest accrued during the year on the balance owing to HM Treasury and is recoverable from the Deposit class In the financial statements of the classes and sub-classes this amount has been shown as a creditor in the Deposit class due to the FSCS after more than one year and charged to compensation costs in the same class

However the final outcome may be different and the final amounts once agreed may potentially result in a material adjustment to the provision being required It is however unlikely to exceed £1 12bn the current estimated cost of the resolution In addition as referred to above interest at a rate of 4 5 per cent will be applied in the calculation of the contribution both to the costs of resolution and to the FSCS recovery amount When the FSCS is notified by HM Treasury of the final contribution required the creditor amount will be updated accordingly and the corresponding change made to the compensation cost

9 Welcome Financial Services Limited (Welcome)

Compensation and management expenses relating to Welcome since the default amounted to £824 000 during the year This is shown under the Insurance Intermediation sub-class in the Statement of Fund Movements for the year ended 31 March 2011 This amount together with a further sum of £198 000 relating to costs incurred prior to the default have been recovered from the Scheme Manager

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

We have audited the financial statements of the Financial Services Compensation Scheme Classes and Sub-classes (Classes and Sub-classes) for the year ended 31 March 2011 which comprise the Classes and Sub-classes Statement of Fund Movements the Classes and Sub-classes Statement of Assets and Liabilities the Statement of Base Costs and Related Levies and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

As explained more fully in the Directors Responsibilities Statement, set out on page 137 the FSCS is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practice Board s Ethical Standards for Auditors

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 (Sections 24 to 26)

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

We report to you our opinion as to whether the financial statements are properly prepared in accordance with

- Section 218 of the Financial Services and Markets Act 2000
- the FSA Handbook (in particular rule COMP 2 2 5)
- the FSA-FSCS Memorandum of Understanding (Sections 24 to 26) and
- the accounting policies set out on pages 144 to 146

We also report to you if in our opinion the FSCS as designated Scheme Manager has not kept adequate accounting records for the Classes and Sub-classes or if we have not received all the information and explanations we require for our audit

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Classes and Sub-classes circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information described in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion

In our opinion the financial statements for the year ended 31 March 2011 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 (Sections 24 to 26) and
- the accounting policies set out on pages 144 to 146

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
21 June 2011

Appendix 1 Understanding Our Work

The FSCS is the UK's statutory fund of last resort for customers of financial services firms The FSCS is a company limited by guarantee and a non-profit-making independent body

The FSCS was established as the Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA) The FSCS s full powers were assumed on 30 November 2001 when the powers of the Financial Services Authority (FSA) came into force

Our role

Our role is to protect UK consumers against financial loss when firms regulated by the FSA (or its predecessors) are unable or are likely to be unable to pay claims against them We do this by aiming to provide an effective and efficient compensation scheme to eligible consumers

A key element of our role is to help maintain confidence in the financial services sector by increasing consumer awareness of our existence and services

We do not charge individual consumers for using our service Consumers do not need to use a claims management company

There are limits to our powers For example there are limits to the amount of compensation we can pay and we pay compensation only for financial loss

The rules governing the operation of the FSCS are made by the FSA and are outlined in more detail in the FSA s handbook

A key element of our role is to help maintain confidence in the financial services sector

For funding purposes the FSCS is divided into five broad classes or industry sectors

- Deposit,
- General Insurance
- Life and Pensions
- Investment, and
- Home Finance

With the exception of the Deposit class each of the sectors is divided into two sub-classes one for the provision of financial services and one for intermediation (i e advice or arranging)

There are two important points to remember before a potential claimant can ask the FSCS for help

1 The FSCS only covers financial services firms that are authorised by the FSA You can find out if a firm is authorised on the FSA website

2 A firm must be declared in default before the compensation scheme *can be triggered For example a firm might* be subject to an insolvency action such as liquidation or administration There is a list of the firms that were declared in default during 2010/11 in Appendix 2

The table below shows what the FSCS protects and the compensation limits for different financial sectors However please note that the table is intended only as a general guide There will be specific considerations given to particular products

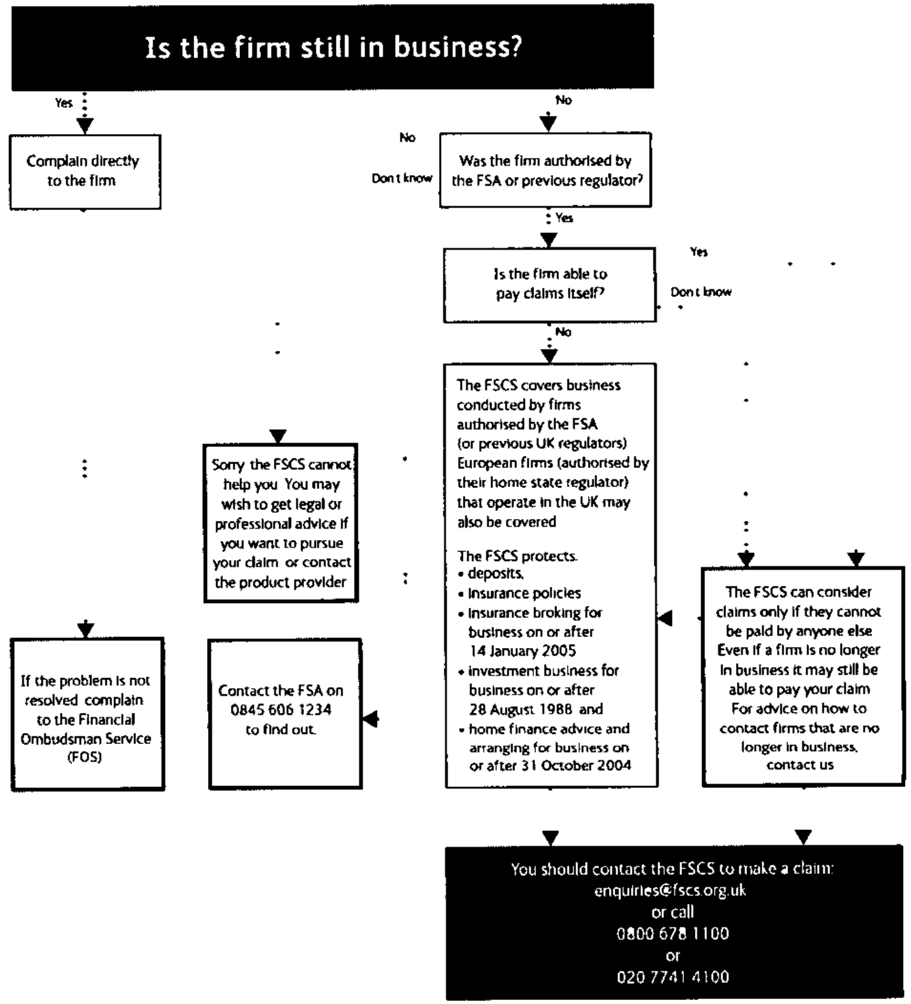
What the FSCS protects and compensation limits

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

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

Can we help you?

The following chart can be used to work out whether the FSCS may be able to help you with your claim The example is for a potential investment claim – but the principles could broadly apply to the other industry sectors we cover



Where claims come from

The claims we deal with come from a combination of the following

- Individual consumers who come to the FSCS off the street because they cannot resolve a claim with a financial services firm
- Notification of specific defaults where we will need to deal with high volumes of claims
  - against one large firm for example a large investment firm or
  - notification of a smaller default such as a credit union

  In these cases where we consider they may have a valid claim we will contact the depositors directly

Most off the street claims during 2010/11 related to defaults involving various and often complex investment products or the mis-selling of Payment Protection Insurance (PPI)

A consumer who thinks they may have lost money because of the advice they received will usually try to contact the firm with which they dealt. For some claims consumers may have dealt with a financial adviser many years before and find that the firm is no longer trading If the firm cannot consider their claim for compensation the FSCS may be able to help

Deciding who is eligible to receive compensation

We are funded by the financial services industry We have a duty to our levy payers to ensure that we pay compensation only for eligible claims

We review each claim to make sure it is eligible for compensation under the rules set by the FSA We have no discretion to pay compensation to consumers if their claim falls outside our jurisdiction

The majority of consumers we deal with are private individuals However under certain circumstances small companies may also be eligible for compensation

When we look at each claim we consider for example whether the product was mis-sold because the firm failed to describe or mis-described the risk to the investor We gather and examine the evidence from the consumer any client files that are available from the failed firm and any information from the relevant product providers We also look at the consumer s attitude to risk and investments when they bought the product concerned to help us establish whether

- the advice to take out the product was suitable for the needs of the consumer at the time and
- the consumer was advised of the risks associated with the product.

For all claims we must be satisfied that there is a financial loss for which the firm is liable

Deposit claims

From 31 January 2010 the Deposit Guarantee Schemes Directive required that deposit guarantee schemes (i e the FSCS in the UK) pay out compensation within 20 business days of the default of a deposit taker

Further since 31 December 2010 the FSCS has had the target to pay compensation to the majority of depositors within seven days of the default of a deposit taker To help the FSCS achieve these targets deposit-taking firms are required to provide the FSCS with a Single Customer View making sure that their customers account details are aggregated and that they can provide a file detailing the total balances due to their customers The consumer has no need to contact the FSCS or return an application form

Establishing financial loss

The aim of compensation is generally to put the consumer back in the position they would have been in had the firm not been declared in default and/or the financial product concerned had not been mis-sold

Under our rules for claims for inappropriate advice the FSCS can only pay compensation that is essential and fair If we uphold a claim in order to determine whether we can pay compensation we must then establish that the claimant has made a financial loss that has been caused by the activities of the firm with which they dealt.

When we do NOT pay compensation

We do not pay compensation

- because an investment has not performed as a consumer had hoped it would and
- we do not take account of a projected shortfall

Examples of how we calculate financial loss

Payment Protection Insurance (PPI) mis-selling claims

For PPI mis-selling claims we may reimburse the claimant their original premium amount, together with any loan interest paid by the claimant to date in respect of that premium less any benefits a consumer might have already received and minus any rebate due on cancellation We may also take account of an element of a future no claims bonus payable under the policy

General investment claims

Many investment claims are worked out on a money in – money out basis This includes all the amounts invested in the inappropriate investment, but less any amounts that have been returned to the investor Any residual value on the date the compensation is worked out is also deducted from the net running balance

In addition an interest equivalent sum or rate of return is added to the net running balance of the calculation to compensate the investor for the loss of access to their funds while they were invested following the negligent advice of the firm

How the FSCS is funded

The FSCS is funded ultimately by levies on authorised firms but it also receives recoveries (monies from the estate of a failed firm or third party) and has access to borrowing facilities

The FSCS s costs are made up of management expenses and compensation payments

Management expenses

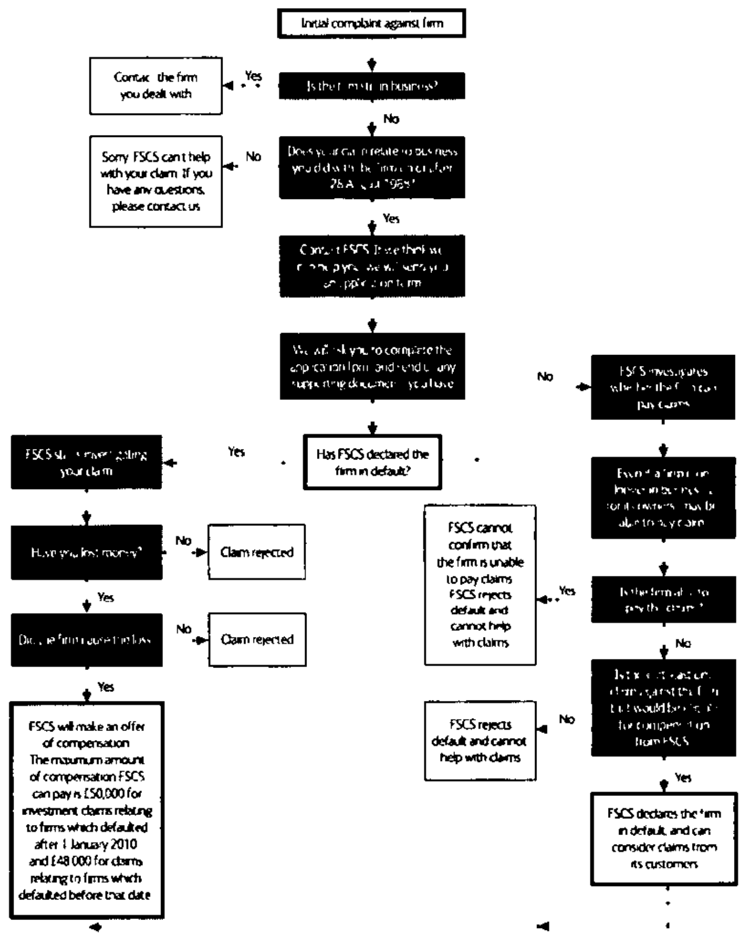
Management expenses are the FSCS s running costs and are split between base costs and specific costs

Base costs

All firms contribute to the base costs – the costs of running the FSCS that are not dependent on levels of activity The amount any firm pays is in proportion to the annual fees they pay to the FSA

How our claims process works – a basic guide

This chart gives an example of the process we use to handle an investment claim



Specific costs

Specific costs are the costs of assessing claims and making compensation payments to consumers These are allocated to the relevant classes and sub-classes

The management expenses levy is subject to an annual limit, following consultation with the industry by the FSA

The Management Expenses Levy Limit for 2011/12 has been set at £1bn

Classes and sub-classes

The FSCS funding model which became effective on 1 April 2008 consists of five broad industry sectors or classes

- Deposit,
- General Insurance
- Life and Pensions
- Investment and
- Home Finance

With the exception of the Deposit class each broad class is divided into two sub classes

Each sub-class is made up of firms which are defined as being either provision or intermediation and

- engage in similar styles of business with similar types of customer and
- share a common interest in protecting their collective good name

Firms are allocated to sub classes according to the regulated activities they are authorised by the FSA to carry out. A firm could be allocated to one or more classes according to its permitted activities

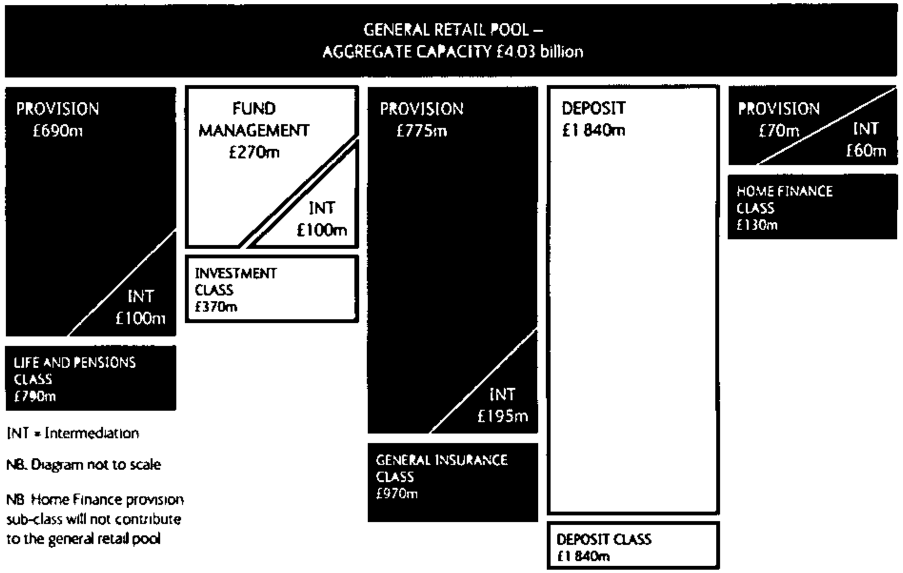
The model operates on the basis that a sub-class will meet the compensation claims from defaults in that sub-class up to its levy threshold

Once a sub-class reaches its annual threshold the other sub-class within their broad class will be required to contribute to any further compensation costs A final layer of cross subsidy is then available from the general retail pool through which all the other broad classes support any class which has reached its overall threshold up to the overall limit

Annual compensation levy thresholds

An annual compensation levy threshold is set at the point when it is no longer reasonably affordable for a particular sub-class or class to shoulder by itself all the compensation costs associated with it so that the outstanding costs must be spread more widely across the general retail pool

Class and sub-class annual levy limits



General retail pool

The general retail pool sits above all five broad classes

The total levy on all the classes under the general retail pool provides an annual capacity of about £4 03bn to the FSCS unless defaults arise in the Home Finance Intermediation sub-class in which case the total capacity is £4 10bn This is because the £70m contribution from the Home Finance Provision can be levied only for defaults in the Home Finance Intermediation sub-class

Levy limits

There are limits to the amounts the FSCS can levy in a financial year which are in addition to the Management Expenses Levy Limit. For compensation payments the limits for each class are

- Deposit £1 840m
- General Insurance £970m
- Life and Pensions £790m
- Investment £370m and
- Home Finance £130m

Any costs exceeding these thresholds for each class would trigger the general retail pool and be shared more widely The general retail pool would be triggered only in the event of a significant default or a series of defaults

Appendix 2 Default Declarations and Statistics

This appendix breaks down the numbers and types of default that were made during 2010/11

During 2010/11 the FSCS made 207 declarations of default, compared with 145 in 2009/10

- 199 defaults were in relation to claims arising from investment, home finance general insurance and pension business undertaken by authorised firms Many of these firms were authorised to undertake more than one type of business
- Eight credit unions were also declared in default in 2010/11 and are included in the total number of declarations
- As at 31 March 2011 the total number of firms declared in default by the FSCS since December 2001 is 2 356

What does being 'in default' mean?

Before the FSCS can consider claims for compensation against a firm we must determine the financial position of the firm responsible for the claim The FSCS can consider claims only if the firm is unable or likely to be unable to meet claims against it, which we describe as being in default

Firms declared in default by the FSCS in 2010/11 are listed below

Default declarations – questions the FSCS seeks to answer

Who is legally liable for the claim?

The firm or individual a consumer has dealt with may not be the firm or individual that is legally liable for dealing with claims The FSCS must establish who is liable for any claim and then that firm s ability to pay claims if these claims are proven

The total number of firms declared in default by the FSCS is 2,356

What type of firm is it?

The FSCS deals with claims against sole traders partnerships, limited partnerships and limited and unlimited companies

What is the status of the firm?

The approach the FSCS takes to establishing a firm s financial position and its ability to deal with claims made by former clients will depend on the firm s legal status Many firms are no longer authorised (described as departed') The FSCS looks at firms that are trading dormant, dissolved or in a formal insolvency and at owners of unincorporated firms where one or more individuals may be in bankruptcy or unable to meet claims against them

Where are the owners?

It is generally quite straightforward to find out information about a limited company and to determine its financial position However many of the departed firms we investigate are sole traders or partnerships If a firm stopped trading many years ago locating its owners can be difficult and time-consuming especially with partnerships where ownership may have changed many times over the firm s trading life

Is the firm in default?

The FSCS will establish whether a firm is in default by comparing the total value of liabilities including established and contingent claims with the assets available to the firm or its principals including any professional indemnity (PI) cover that may have been arranged How we establish whether a firm is in default will depend on the type of firm involved

Limited companies

To establish whether a limited company is in default, we will look at the value of the company s assets and the availability of PI cover if any and compare these with its liabilities We also need to find out about the status of the firm whether the firm is still trading has been dissolved or is insolvent. We can usually get this information from Companies House and we liaise with insolvency practitioners (if appointed)

We also need to establish whether any related companies have responsibility for or wish to take responsibility for claims

Partnerships and sole traders

If the firm is not a limited company (or limited partnership) its former partners or owners (its principals) are likely to be personally responsible for any claims against it The FSCS must establish the status of the firm (for example whether it is still trading) and whether the principals are liable for some or all claims and have sufficient assets or means to meet claims We ask the principals to complete a statement of assets and liabilities to assist us in determining whether they are unable to pay claims against the firm

We also search public records to find out whether the principals are or have been bankrupt are deceased or whether they are likely to have sufficient assets to meet claims Assets can include the share of the equity in a house or overseas property any financial or business assets and any professional indemnity insurance

We regularly publish lists of firms that have been declared in default and have a searchable default database

Firms in default 2010/11

Legal name	Default date
21st Century Finance Limited	18-Aug-10
21st Direct Limited	11-Jun-10
4Front Finance Limited	31-Mar-11
A James Financial	07-Apr-10
A W Lucas & Company Limited	28-Sep-10
Abba Loans & Mortgages Limited	03-Sep-10
Access Loans & Mortgages	14-May-10
Access Mortgages Limited (formerly Fishwick Financial Management Limited)	28-Jun-10
Acorn Independent Financial Management Limited	12-Jan-11
Acoustic Financial Planning Limited	28-Sep-10
Aggarwal Investment Services	10-Nov-10
Agreed Car Credit Limited	27-Sep-10
Allscot Finance Limited	12-Jan-11
Alpha to Omega (UK) Limited	11-Aug-10
Anchor Financial Advisers (Sussex) Limited	28-Sep-10
Anglo European Credit Group Limited (formerly Auto Union Finance Limited)	12-Jan-11
Antony Weil Insurance Consultants	07-Oct-10
ARC Fund Management Limited (formerly Sherriff Research Limited)	13-Dec-10
Arena Independent Financial Advisors Limited (formerly known as Wilson Johnson (Financial Planning) Limited)	28-Sep-10
Arrow Finance Limited	11-Aug-10
Aspire Personal Finance Limited	31-Mar-11
Auto Credit Finance Limited	30-Sep-10
Barclay Brown & Co Limited	16-Jul-10
Bespoke Tax and Financial Planning Limited	09-Aug-10
Best Advice Financial Planning Limited	03-Jul-10
BHHG Limited	23-Nov-10
Bowater Home Improvements Limited	04-May-10
Braithwaite Investments Limited (formerly Braithwaite Connor Financial Management Limited)	14-Dec-10
Bridgewater House UK Limited	06-May-10
Bright Finance Limited	14-Apr-10
Britannia Finance Limited	07-Jan 11
Brownhills Holdings Limited	11-Mar-11
C Cosford t/a Move Up Mortgages	10-Nov-10
Caledonian Financial Planning Limited	25-Mar-11
Cambrian Independent (Aberystwyth) Limited	11-Aug-10
Cartel Marketing Limited	04-Nov-10
Chadwick Financial Management Limited	14-May-10
Changing Gear Limited	04-Nov-10
Charterhouse Mortgage Consultants	04-May-10
Cheshire Independent Financial Services Limited	24-May-10
City Loans UK Limited	25-Oct-10
Classic Network Solutions Limited	14-May-10
Complete Pensions Management Limited	16-Mar-11

Legal name	Default date
Consumer Finance Solutions Limited	16-Mar-11
Contact Centre Financial Services Limited	31-Mar-11
Corby Motor Group Limited	08-Mar-11
Council Homebuyers (Mortgages) Limited	28-Sep-10
County Mortgage Services Limited t/a C2-Financial, City Homeloans, CMS Group, County Homeloans, County Mortgage Group, Feefreebroker and Mortgageandloans.co.uk	10-May-10
Cranfield Consultancy (UK) Limited	21-Jun-10
D Carter t/a The Network Financial Services	21-Jul-10
D Deane (deceased) t/a Deane Financial Services	09-Aug-10
Dando Associates Limited	25-Mar-11
Derek Marler (deceased) t/a Derek Marler Investment & Insurance Services	20-Oct-10
Dixon Motor Holdings Limited (formerly t/a various other names)	04-Nov-10
Drummond Moores Limited	10-Feb-11
Elswick And Cruddas Park Credit Union Limited	05-Aug-10
Equity House Limited	31-Mar-11
Falcon Securities (UK) Limited	29-Sep-10
Fenton Advisory Services Limited (formerly Fenton Financial Services Limited Fenton Financial Limited & Fenton Financial Services Limited)	03-Sep-10
Financial Intelligence Limited	12-Jan-11
First Financial (GB) Limited	09-Aug-10
First Motor Finance Limited	23-Nov-10
Flexi Loans And Mortgages Limited	30-Sep-10
Forest of Dean Credit Union Limited	17-May-10
Four Winds Financial Services Limited	03-Jul-10
Freedom Car Credit Limited	31-Mar-11
Freewill Financial Planning Limited	31-Mar-11
FT Compliance Services Limited	25-Oct-10
Funding Network Loans Limited	04-May-10
G & N Car Sales Limited t/a Britannia Motor Company	31-Mar-11
G & W 5 Limited	23-Dec-10
Gordon & Company	14-May-10
GSZ LLP (formerly Britannia Capital Securities LLP)	30-Nov-10
Guardian Mortgages Limited	10-Feb-11
Hackney Credit Union Limited	07-Jul-10
Hadenglen Home Finance Limited (formerly Hadenglen Plc)	18-Mar-11
Harts Estate Agents and Mortgage Services	06-May-10
Havant Area Savers Credit Union Limited	06-Jan-11
Help Marketing Limited	04-Nov-10
Heritage Finance Limited	25-Mar-11
Hill Megson Limited	13-Jul-10
Home & County Mortgages Limited	24-Mar-11
Homebuyer Securities Limited	06-May-10
Homemoney Limited	23-Nov-10
Horners Motor Group Limited	14-Dec-10

Legal name	Default date
Ilfracombe & District Credit Union Limited	30-Mar-11
Independent Personal Financial Services Limited	08-Mar-11
Insurance Quoteline Limited	23-Nov-10
Integrity Financial Solutions Limited	13-Aug-10
Inter-Alliance (Group Practices) Limited	14-Dec-10
J Harris t/a Creditlink UK	20 Dec-10
J Weston t/a Weston Financial Services	28-Jun-10
J B A (Financial Planning) Limited	10-Nov-10
James Ford Enterprises Limited (formerly Charterhouse Consulting Independent Financial Advisers Limited; Charterhouse Consulting Wealth Management Limited)	07-Feb-11
JHS Financial Services	13-Oct-10
JSJ (2006) Limited (formerly JSJ Insurance Services Limited)	28-Jun-10
K Swindells (deceased) t/a K & A Independent Financial Advisers	02-Jun-10
Keater Limited (formerly Mortgage Advice Services Limited)	23-Dec-10
Keelan Westall (Life & Pensions) Limited	09-Aug-10
Kidsons Impey Financial Services (East Anglian) Limited	07-Jun-10
Kozee Homes	14 Dec-10
L&P 2004 Limited (formerly Eric Rawlins (Life & Pensions) Limited)	06-May-10
Land of Leather Limited	21-Feb-11
Landsker Community Credit Union Limited	03-Sep-10
Lanes Financial Services Centre	28-Sep-10
Leumi Insurance Services (U K) Limited	09-Aug-10
Lewis Cox Partnership	14-Dec-10
Lifestyle Finance Limited	26-Jan-11
Lifestyle Financial Services Limited	07-Feb-11
LLIF Financial Limited (formerly Lite Private Client Limited)	14-Dec-10
Loans 4 People Limited	07-Oct-10
Loans Etc Limited	11-Aug-10
London & Provincial Insurance Brokers Limited	23-Nov-10
Lottbridge Finance Limited	04-Nov-10
Mainwaring Francis & Associates (Bramhall) Limited	26-Jan-11
Mandrake Associates Limited	28-Sep-10
Mendip Caravan Centre Limited	08-Mar-11
Mform.co.uk Limited (formerly UK Mortgages Online Ltd)	01-Nov-10
MKD Group Limited	26-Jan-11
Moore, Clayton & Co (UK) Limited	13-Aug-10
More Finance Limited	12-Jan-11
Mortgage Advice & Practice Limited	04-May-10
Mortgage Broking Services Limited	23-Nov-10
Mortgage Marketing Services Limited	25-Feb-11
Mortgage Nation Limited	13-Aug-10
Mosaic ERP Systems Limited	24-Mar-11
Motor & General & Aldersley & Company Insurance Services Limited (formerly Motor & General Insurance Services Limited)	08-Mar-11

Legal name	Default date
Mr R Simmons (deceased) t/a Capital Insurance Investment & Mortgage Consultants	11-Jun-10
MW Finance Limited	25-Feb-11
Myplace Mortgages Limited	21-Apr-10
N McClements t/a Northumbria Mortgages	29-Oct-10
N.I.Loans co uk Limited t/a Loans Made Simple	04-Nov-10
Needaloan Limited	28-Sep-10
Net Vehicle Solutions Limited (formerly Netcars Limited and previously Netcars 2000 Limited)	03-Jul-10
North Riding Finance (Pool) Limited	31-Mar-11
Northern Services Finance & Investments	21-Jan-11
Oakwell Investment Limited	13-Dec-10
Only Insurance Limited	02-Jun-10
Oxford Motorcycles Limited	31-Mar-11
Palmglade Limited	11-Oct-10
Personal And Corporate Financial Planning Limited	16-Feb-11
Positive Lending Limited (formerly Positive Lending Solutions Limited)	31-Mar-11
Powsney & Company Limited (formerly Mifsud Powsney and Co Limited)	10-Feb-11
Premier Financial Solutions (UK) Limited	16-Jul-10
Prestbury Financial Limited also t/a Bsure Loans UK, Moneybrain Solution Network	29-Oct-10
Prestige Acceptance	10-Feb-11
PRG Powerhouse Limited	31-Mar-11
Pure Mortgage Solutions (UK) Limited	11-Mar-11
Quest Finance (UK) Limited	04-May-10
Quick Decision Loans Limited	25-Mar-11
R Barnden t/a Barnden Southon & Peters	09-Aug-10
R Draper & C Burrows t/a PTL Associates (UK)	10-Feb-11
R Stead (deceased) t/a R Stead Insurance Broker	11-Jun-010
Rainbow Homeloans Limited	13-Aug-10
Red Kite Money Limited (formerly Style Finance Corporation Limited)	23-Nov-10
Regency Mortgage Corporation Limited	29-Jun-10
Relax Finance Limited	09-Aug-10
Residential 1 Limited	30-Sep-10
Resolutiontrust (Servicing) Limited	31-Jan-11
S C Limited (formerly Smith Consulting Limited, Smith Bland & Steed Limited, Localcash Limited, Philip A.L. Smith (International))	09-Aug-10
S Ewing (deceased) t/a Paul Pritchard Financial Services	26-Jan-11
Scarlet Loans & Mortgages Limited (formerly Scarlet Finance & Mortgages Limited & Park Hall Financial Services Limited)	08-Mar-11
Simply Credit Limited	20-Oct-10
SKB Realisations Limited (formerly Space Kitchens & Bedrooms Limited)	03-Jul-10
Skyblue Loans Limited	25-Oct-10
Smith, Whiteley & Company	10-Feb-11
Source Financial Limited	31-Mar-11
South Coast & Metropolitan Insurance Services Limited also t/a S.C.M. Property Services, S.C.M. Financial Services, S.C.M. Mortgage and Insurance Services	03-Jul-10

Legal name	Default date
South East Birmingham Community Credit Union Limited	26-Jan-11
South Kintyre Credit Union Limited	26-Nov-10
Splotlands Credit Union Limited	29-Jun-10
St Georges Financial Services Limited	03-Sep-10
St Helens Glass Limited	07-Oct-10
Stephen Craig Associates Limited	03-Jul-10
Sunflower Personal Loans Limited	11-Jun-10
Supreme O Glaze Home Products Limited	10-Feb-11
Surrey Independent Financial Services Limited	21-Jan-11
Sutherland Independent Financial Advisers	25-Feb-11
Tenaville Limited	25-Feb-11
The Bamford Partnership Limited also t/a Bamford Mortgage Services and The Willwriting Partnership	04-May-10
The Exchange Insurance Company Limited	06-Oct-10
The Financial Associate (TFA) Limited (formerly Find Financial Services Limited, First Option Mortgage Centre Limited)	28-Sep-10
The Freedom SIPP Limited	16-Mar-11
The Review Company UK Limited	13-Oct-10
The Right Loan 4 U Co Limited	23-Nov-10
The Willow Tree Management Company UK Limited (previously t/a Homebank)	09-Aug-10
Three Bee s Credit Union Limited	21-Oct-10
Tower View Community Credit Union Limited	04-Nov-10
Tudor Rose Associates Limited	16-Aug-10
UK Personal Loans Limited	27-Sep-10
Universal Mortgage Services Limited	21-Jan-11
Vale Investment Services	28-Sep-10
Value Analysis	24-May-10
Veritas Wealth Management Limited	31-Mar-11
Village Cars (Herts & Essex) Limited	10-Feb-11
Vision Automotive Limited	13-Aug-10
W H Realisations Limited (formerly Weatherseal Holdings Limited)	04-May-10
Welcome Financial Services Limited	02-Mar-11
Wilford Independent Financial Advisers	14-Dec-10
Wills & Co Stockbrokers Limited (formerly Grahame H Wills & Company Limited)	29-Jun-10
Wilmot Financial Solutions Limited t/a WFS	09-Aug-10
Windsor Finance UK Limited	08-Mar-11
Woodhead Taylor James Limited	28-Sep-10
Yellowsport Trading Limited t/a Motoroptions	08-Mar-11
Yes Loans & Mortgages Limited	02-Jun-10
YMO LLP	10-Feb-11
Your Choice Auto Finance Limited	25-Mar-11

3 Appendix

List of Abbreviations

B&B – Bradford & Bingley plc
COMP – The Financial Services Authority s Compensation Sourcebook
DBS – Dunfermline Building Society
DIGF – Iceland Depositors and Investors Guarantee Fund
EFDI – European Forum of Deposit Insurers
FCA – Financial Conduct Authority
FSAVCs – Free Standing Additional Voluntary Contribution claims
FSCS – Financial Services Compensation Scheme
FSA – Financial Services Authority
FSMA – Financial Services and Markets Act 2000
GAAP – Generally Accepted Accounting Principles
IFA – Independent Financial Adviser
ISA – Individual Savings Account
HMRC – Her Majesty s Revenue and Customs
IADI – International Association of Deposit Insurers
KSF – Kaupthing Singer & Friedlander Limited
LIBOR – London Inter-Bank Offer Rate i e the interest rate that the banks charge one another for loans
MELL – Management Expenses Levy Limit
N&P – Norwich and Peterborough Building Society
PI – Professional Indemnity
PPI – Payment Protection Insurance
PRA – Prudential Regulation Authority
QA – Quality Assurance
SCV – Single Customer View
SDDs – Specified Deposit Defaults i e the five specified bank defaults from 2008
- Bradford & Bingley plc
- Landsbanki Islands hf (Icesave)
- Heritable Bank Plc
- Kaupthing Singer & Friedlander Limited and
- London Scottish Bank Plc

t/a – trading as

Financial Services Compensation Scheme
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Portsoken Street
London E1 8BN

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