FINANCIAL SERVICES COMPENSATION SCHEME LIMITED

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

Registered no: 3943048

FINANCIAL STATEMENTS

of Financial Services Compensation Scheme Limited for the year ended 31 March 2005

Directors' report

The directors of the Financial Services Compensation Scheme Limited (FSCS) present their fifth report, together with the audited financial statements of the company and its Sub-schemes for the year ended 31 March 2005.

Principal activities

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

Review of activities

Since receiving its powers under FSMA and the integration of the former compensation schemes at N2, FSCS has continued to fulfill its responsibilities throughout the year. On 1 February 2001 the Investors Compensation Scheme Limited (ICS), the Scheme Manager responsible for the Investors Compensation Scheme, a predecessor scheme, became a subsidiary of FSCS. ICS was dissolved on 23 October 2004.

Financial position

The company's results show neither a surplus nor deficit as its management expenses are recovered in full from the Scheme's Sub-schemes, comprising Accepting Deposits, Insurance Business, Designated Investment Business and Mortgage Advice and Arranging (from 31 October 2004) and General Insurance Mediation (from 14 January 2005), as shown on pages 25 to 28.

Fixed assets

The movements in fixed assets during the year are set out in note 9 to the financial statements.

The directors

Details of the directors, who were non-executive other than as stated, in the year to 31 March 2005 are shown on page 3 of the Annual Report, as follows:

Nigel Hamilton (Chairman)
Suzanne McCarthy (Chief Executive, and executive director) - resigned 31 May 2004
Loretta Minghella (Chief Executive, and executive director) - appointed 6 December 2004
Michael Blair QC
Sarah Brown, OBE
Kenneth Culley, CBE
Bernard Day, OBE
Luke March
Graeme MacLennan
Tim Vogel – term of office came to an end and retired 1 March 2005
John Young, CBE – terms of office came to an end and retired 31 May 2004
Richard Pratt - appointed 1 June 2004
Kate Williams - appointed 1 June 2004

Directors' emoluments

Total emoluments paid to directors are as follows:

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Aggregate emoluments	242	305
Pension contributions	18	36
	260	**341**

The highest paid director, the current Chief Executive, received aggregate emoluments in the year of £54,074, since her appointment on 6 December 2004 (comprising basic salary of £51,269 and other emoluments of £2,805 (2004: former Chief Executive £153,098, £145,000 and £8,098 respectively)), and contributions to a defined benefit arrangement under the company's pension scheme have been made of £12,572 (2004: former Chief Executive £35,550). Neither of the Chief Executives received additional remuneration in respect of their role as director.

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

	Accrued Pension at 31 March 2005 (£ pa)	**Increase in Accrued Pension *(in excess of inflation)*** (£ pa)	***Transfer value* of increase** £
L C R Minghella	425	425	3,547

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

The fees paid to the Chairman are set at £40,000 per annum (2004: £40,000) and the fees paid to the non-executive directors are set at £14,000 per annum (2004: £14,000). The Chairman and directors, other than the Chief Executive, are not entitled to a pension funded by the company.

Liability insurance

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

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

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

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

The directors confirm that the financial statements comply with these requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable it to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of FSCS's website is the responsibility of the directors. The directors recognise that uncertainty regarding legal requirements may be compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Corporate governance

A statement of corporate governance is contained in FSCS's Annual Report.

Auditors

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

By order of the Board

MaThomas

M Thomas
Secretary
24 May 2005

Report of the Auditors

Independent auditors' report to the members of Financial Services Compensation Scheme Limited for the year ended 31 March 2005

We have audited the financial statements which comprise the income and expenditure account, the balance sheet, the statement of cash flows and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company at 31 March 2005 and of its result and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
24 May 2005

FINANCIAL STATEMENTS

for the year ended 31 March 2005

INCOME AND EXPENDITURE ACCOUNT

	Note	Year ended 31 March 2005	Year ended 31 March 2004
		£'000	£'000
Administrative expenses	3	(13,903)	(11,171)
Interest payable	4	(66)	(69)
Other operating income, comprising:		13,969	11,240
Interest receivable and other income	7	61	40
Management expenses recoverable from Sub-schemes	8	13,908	11,200
Excess of income over expenditure on ordinary activities before and after tax		-	-

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

The Notes on pages 10 to 22 form part of these financial statements.

BALANCE SHEET AS AT 31 MARCH 2005

	Note	2005 £'000	2004 £'000
Fixed assets	9	**1,931**	**1,763**
Current assets			
Debtors: recoverable establishment costs: amounts falling due after one year	10	-	-
Debtors: amounts falling due within one year	11	8,178	7,796
Cash at bank and short term deposit	12	914	1,983
Total current assets		**9,092**	**9,779**
Creditors: amounts falling due within one year			
Sub-scheme borrowings	12	(170)	(507)
Creditors and accruals	13	(10,068)	(10,249)
Bank overdraft	12	(130)	(88)
Total current liabilities		**(10,368)**	**(10,844)**
Total assets less current liabilities		**655**	**698**
Creditors: amounts falling due after one year			
Sub-scheme borrowings	12	(528)	(698)
Provision for liabilities and charges	14	(90)	-
Amounts payable under finance leases	15	(37)	-
		(655)	(698)
Total net assets		-	-
Accumulated excess of income over expenditure		-	-

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited on 24 May 2005.

NIGEL HAMILTON
CHAIRMAN

The Notes on pages 10 to 22 form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	16	8	2,554
Returns on investment and servicing of finance	17	(21)	12
		(13)	**2,566**
Taxation		**(20)**	**(10)**
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(503)	(53)
Net cash outflow from investing activities		**(503)**	**(53)**
Financing activities			
Sub-scheme borrowings		(507)	(680)
Capital element of finance lease payments		(68)	-
Net cash (outflow) from financing activities		**(575)**	**(680)**
(Decrease) / increase in cash	19	**(1,111)**	**1,823**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

1 Constitution and subsidiary

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

FSCS was formed to be the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA). Its full powers were assumed following the coming into force of powers of the Financial Services Authority (FSA), under FSMA, at midnight on 30 November 2001. In anticipation of its powers, FSCS acquired Investors Compensation Scheme Limited (ICS) on 1 February 2001 for £Nil consideration. ICS was the current Scheme Manager under the Financial Services Act 1986, with responsibility for compensation for private clients of UK authorised investment firms that have gone out of business. ICS, a company registered in England, was placed into Members' Voluntary liquidation on 22 October 2002 and dissolved on 23 October 2004.

2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions, COMP Rules and United Kingdom accounting standards.

a) Administrative expenses
These costs are included in the income and expenditure account on an accruals basis.

b) Pension scheme payments
FSCS operates both a defined benefit pension scheme and a money purchase scheme. The costs of the money purchase scheme are charged to the income and expenditure account as incurred. The costs of the defined benefit scheme are recognised so as to spread the cost of pensions over the expected remaining service lives of current employees in the Scheme.

FSCS continues to account for pensions in accordance with the Statement of Standard Accounting Practice No 24 'Accounting for Pension Costs'. Financial Reporting Standard No 17 'Retirement Benefits' ('FRS 17'), which changes the basis of accounting for pensions and other post-retirement benefits, will be mandatory for the year ending 31 March 2006. This standard requires certain additional disclosures in accounting periods prior to full implementation, as set out in Note 5.

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

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

Computer software is expensed when incurred.

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

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

Management expenses comprise base costs, being the costs of running the Scheme, specific costs, which are the remaining costs which cover the handling and payment of compensation and establishment costs, which relate to the set-up costs of FSCS prior to 1 December 2001. These expenses are allocated by the Scheme Manager to each Sub-scheme and contribution group in accordance with the levy principles contained within COMP rules 13.5.5, 13.5.6 and 13.5.11.

e) Foreign currencies

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

f) Operating leases

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

g) Finance leases

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

h) Legal challenges and costs

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

3 Administrative expenses

The following amounts are included within administrative expenses:

	Year ended 31 March 2005 £'000	**Year ended 31 March 2004** £'000
Depreciation		
Owned assets	432	494
Assets held under finance leases	14	-
Auditor's fees		
Audit work	74	78
Operating lease rentals (see note 15 for lease details)	746	661

4 Interest payable

Interest payable comprises:

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Sub-scheme interest	44	57
Other interest	3	12
Finance lease interest	19	-
	66	**69**

5 Staff, costs and FRS 17 disclosure

The average number of employees during the year was 133 (2004: 122).
At the year end the company had 172 staff comprising 124 permanent and 48 contract staff (2004: 122, 101 and 21 respectively).

Employment costs comprise:

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Aggregate gross salaries, including the Executive Directors together with costs of seconded, contract and long term temporary staff	5,318	4,573
Employer's national insurance contributions	541	458
Employer's pension contributions	790	658
	6,649	**5,689**

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

FSCS operates both a defined benefits pension scheme, which is generally closed to new staff, and a money purchase scheme. The defined benefits pension scheme offers employees the better of a defined benefits pension or a pension secured by an individual pension account, built up from contributions (with effect from 1 April 2002 contributions to these individual pension accounts ceased). It is non-contributory and contracted out of the state scheme. The assets of the scheme are held separately from those of the company.

The defined benefits pension scheme was valued at 1 April 2004 by a professionally qualified independent actuary on a going concern and a discontinuance basis, the required rates of contribution payable being determined by the actuary. It was assumed that the investment return would be 7.25% per annum (pre-retirement) and 4.75% per annum (post retirement), and that the average rate of increase in pensionable salaries would be 4.0% per annum. The valuation showed that the market value of the pension scheme's assets was £3,890,000 and that in the opinion of the actuary, the actuarial valuation of these assets was exceeded by the liabilities of the pension scheme by £136,000 at that date. The current contribution rate is 25.2% p.a. of pensionable salaries. This rate has applied since 1 January 2002 and remained the same following the latest valuation, and includes the expenses of running the FSCS Pension Scheme. No special contributions were made in the year other than provision for the asset shortfall of £136,000 (2004: a contribution of £100,000 was made towards the deficit and costs relating to the Pensions Bill).

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

Amounts paid by the employer into the money purchase scheme amounted to £197,000 and £68,000 was outstanding to be paid at 31 March 2005 (2004: £131,000 and £17,000 respectively).

FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 1 April 2004, as described above, which has been updated by Mellon Human Resources & Investor Solutions (formerly Buck Consultants), the Scheme actuaries, to take account of the requirements of FRS 17 in order to assess the liabilities for the Scheme at 31 March 2005. Scheme assets are stated at their market value at 31 March 2005.

The Scheme deficit under FRS 17 rules as at 31 March 2005 exceeds the actuarial deficit as at the 1 April 2004 funding valuation date. This is due partly as a result of different timing but mainly due to the different valuation bases being used. In particular the FRS 17 rules require the discount rate to be set as the rate of return on high quality corporate bonds whereas the funding valuation has regards to the assets of the Scheme and includes an equity risk premium allowance in setting the pre-retirement discount rate assumption.

The financial assumptions used to calculate Scheme liabilities under FRS 17 are:

	31 March 2005	**31 March 2004**
Projected Unit Valuation method		
Discount rate	5.40%	5.50%
Inflation rate	2.90%	2.90%
Increases to pensions in payment	2.90%	2.90%
Rate of increase in salaries	4.00%	3.75%

The expected rates of return and fair value of the Scheme's assets were:

	Long term rate of return expected at 31 March 2005	**Value 31 March 2005**	**Long term rate of return expected at 31 March 2004**	**Value 31 March 2004**
	%	£'000	%	£'000
Equities	7.50	3,391	7.50	2,927
Property	7.50	432	7.50	268
Corporate bonds	5.25	694	5.25	578
Cash	4.00	103	4.00	134
Overall expected rate of return, and total market values of assets	**7.08**	**4,620**	**7.05**	**3,907**

The following amounts at 31 March 2005 and 31 March 2004 were measured in accordance with the requirements of FRS17:

	31 March 2005	31 March 2004
	£'000	£'000
Total market value of assets	4,620	3,907
Present value of insured annuity policies	-	-
Present value of Scheme liabilities	(6,036)	(4,589)
Surplus / (deficit) in the Scheme	(1,416)	(682)
Related deferred tax liability	-	-
Net pension liability	**(1,416)**	**(682)**

The net pension liability has increased during the year mainly due to the recognition of the experience of the Scheme since the last formal valuation and an increase in the liability due to changes to the financial assumptions. A further analysis of the movement is shown on page 15. Cash contributions to the above Scheme were £413,000 in 2004/05, (2004: £558,000 including an additional special contribution of £100,000, made in March 2004). The normal contributions expressed as a percentage of pensionable salaries are not expected to increase before the next formal valuation of the Scheme, due to be carried out as at 1 April 2007.

If the above amounts had been recognised in the financial statements, the net assets and accumulated excess of income over expenditure would be amended as follows:

	31 March 2005 £'000	31 March 2004 £'000
Net assets		
Net assets excluding pension scheme asset	-	-
Net pension (liability)	(1,416)	(682)
Amount apportionable to Sub-schemes	1,416	682
Net assets including pension asset / (liability)	**-**	**-**
Reserves		
Accumulated excess of income over expenditure, excluding pension (liability) / asset	-	-
Pension (liability) / asset	(1,416)	(682)
Amount apportionable to Sub-schemes	1,416	682
Accumulated excess of income over expenditure	**-**	**-**

The following amounts would have been recognised in the performance statements in the year ended 31 March 2005, under the requirements of FRS 17:

Amounts included within administration expenses:	**Year ended 31 March 2005** £'000
Current service cost	457
Past service cost	-
Total operating charge	**457**
Amounts of net return credited to net interest payable:	**Year ended 31 March 2005** £'000
Expected return on pension scheme assets	287
Interest on pension liabilities	(270)
Net return	**17**

Analysis of amount recognised in statement of total recognised gains and losses (STRGL):	**Year ended 31 March 2005** £'000
Actual return less expected return on assets	197
Experience gains and losses arising on Scheme liabilities	(624)
Changes in assumptions underlying the present value of the Scheme liabilities	(280)
Actuarial gain / (loss) recognised in STRGL	**(707)**

Movement in accumulated excess of income over expenditure during the year	**Year ended 31 March 2005** £'000
(Deficit) in Scheme at beginning of the year	(682)
Movements in the year:	
Current service cost	(457)
Contributions	413
Past service costs	-
Other finance income	17
Actuarial gain / (loss)	(707)
Deficit in Scheme at end of year	**(1,416)**

History of experience gains and losses:

	Year ended 31 March 2005 £'000	%
Difference between expected and actual return on Scheme assets	197	
Percentage of scheme assets		4.3
Experience gains and (losses) on Scheme liabilities	(624)	
Percentage of present value of the Scheme liabilities		(10.3)
Total amount recognised in statement of total recognised gains and (losses)	(707)	
Percentage of the present value of Scheme liabilities		(13.4)

6 Directors' emoluments

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

7 Interest receivable and other income

During the year, FSCS received interest of £87,000 less tax of £26,000 at 30% and no other income. (2004: interest of £57,000 less tax of £17,000 at 30%, and no other income).

8 Management expenses recoverable from Sub-schemes

	Year ended 31 March 2005 £'000	**Year ended 31 March 2004** £'000
Management expenses allocated to Sub-schemes, and recoverable from them were:		
Accepting Deposits	752	731
Insurance Business	1,613	2,040
Designated Investment Business	11,397	8,429
Mortgage Advice and Arranging	54	-
General Insurance Mediation	92	-
	13,908	**11,200**

9 Fixed Assets

	Computers	Furniture & Equipment	Building improvements	Total
	£'000	£'000	£'000	£'000
Cost				
Opening balance	1,170	494	1,624	3,288
Additions in the year	189	232	193	614
At 31 March 2005	**1,359**	**726**	**1,817**	**3,902**
Accumulated depreciation				
Opening balance	(849)	(277)	(399)	(1,525)
Charge for the year	(183)	(93)	(170)	(446)
At 31 March 2005	**(1,032)**	**(370)**	**(569)**	**(1,971)**
Net book value at 31 March 2005	**327**	**356**	**1,248**	**1,931**
Net book value at 31 March 2004	**321**	**217**	**1,225**	**1,763**

The net book value of tangible fixed assets includes an amount of £97,000 (2004: £nil) in respect of assets held under finance leases.

10 Debtors: recoverable establishment costs

The costs of a non-capital nature, incurred in establishing the single compensation scheme, FSCS, were recovered from participating firms within FSCS's Sub-schemes and contribution groups over a period of 3 years from 1 December 2001, as provided within the COMP Rules.

	31 March 2005	31 March 2004
	£'000	£'000
Opening balance	359	897
Recovered from Sub-schemes	(359)	(538)
Amounts falling due within one year	-	(359)
Amounts falling due after one year	**-**	**-**

11 Debtors: amounts falling due within one year

	Note	31 March 2005	31 March 2004
		£'000	£'000
Amount due from the FSA	20	847	177
Levies receivable, net of provision:			
Insurance Business		28	4
Designated Investment Business		40	3,135
Recoverable establishment costs		-	359
Net amounts due from Sub-schemes:			
Accepting Deposits		262	430
Insurance Business		-	3,024
Designated Investment Business		6,272	-
Mortgage Advice and Arranging		54	
General Insurance Mediation		92	
Amounts due in respect of recoveries		-	125
Other debtors		77	56
Prepayments		506	486
		8,178	**7,796**

12 Bank overdraft, facilities and Sub-scheme borrowings

As at 31 March 2005 the company had negotiated facilities for business purposes of £52m, comprising a revolving credit facility of £38m; a £12m multi-currency stand-by loan, repayable over 5 years, at a floating rate of interest based on LIBOR; and an overdraft facility of £2m at a fixed margin above base rate.

	31 March 2005	31 March 2004
	£'000	£'000
Cash at banks	-	9
Cash on short term deposit	914	1,974
	914	1,983
Overdraft	(130)	(88)
	784	**1,895**
Sub-scheme borrowings		
Amounts falling due within one year	(170)	(507)
Amounts falling due:		
Between one and two years	(148)	(170)
Between two and five years	(380)	(444)
Over five years	-	(84)
	(698)	**(1,205)**
	86	**690**

As permitted by COMP rule 13.4.15A, which came into force on 1 March 2003, a bank loan and related interest was fully repaid on 17 March 2003, and substituted, in part, by Sub-scheme borrowings of £1,885,000 from the Insurance Business Sub-scheme. Of the balance at 1 April 2004 of £1,205,000, £507,000 was repaid during the year (2004: a repayment of £680,000). Interest is payable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies.

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

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

13 Creditors and accruals

	Note	31 March 2005 £'000	31 March 2004 £'000
Compensation payable		3,564	6,911
Net amounts due to Sub-schemes:			
Insurance Business		4,439	-
Designated Investment Business		-	1,520
Corporation taxation		16	10
Other taxation & social security costs		187	131
Accruals		851	885
Other creditors		1,011	792
		10,068	**10,249**

14 Provisions for liabilities and charges

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

	31 March 2005 £'000	31 March 2004 £'000
Opening balance	-	-
Charge in the year	90	-
Amounts falling due after one year	**90**	**-**

15 Payments under lease agreements

The company has lease commitments as follows:

Finance leases	31 March 2005 £'000	31 March 2004 £'000
Amounts payable:		
Within one year	46	
Between one and two years	46	
Between two and five years	72	
	164	
Less: Finance charges allocated to future periods	(121)	
	43	-
Shown as:		
Due within one year	6	
Due after more than one year	37	
	43	-

Operating leases		**Leases expiring in:**	
	Less than one year	**Two to five years**	**Over five years**
Amounts payable in year to 31 March 2005	£'000	£'000	£'000
Office rental	-	-	**724**
Equipment rental	-	**22**	-

The lease for the premises at 1 Portsoken Street, London, is from 13 February 2001 to 21 June 2018, but FSCS has the right to break the lease on 24 June 2012.

16 Reconciliation of the excess income over expenditure on ordinary activities before interest and tax to net cash inflow/(outflow) from operating activities

The statement set out below relates cash flows to items shown in the income and expenditure account, and balance sheet movements:

	Year ended 31 March 2005		**Year ended 31 March 2004**	
	£'000	£'000	£'000	£'000
Excess of income over expenditure on ordinary activities before interest and tax		-		-
Interest transfer from / (to) Sub-schemes		21		(12)
Corporation tax charge		26		17
		47		5
Establishment costs charged to Sub-schemes		359		538
Depreciation		446		494
Compensation paid	(178,057)		(194,055)	
BCCI repayment (see note 21)	-		(4,000)	
Recoveries received	49,620		106,114	
Funds transferred from the FSA in respect to IFA pensions claims (formerly A16) contribution group (see note 20)	750		-	
Levies received	237,637		87,871	
Funds transferred (to) / from Sub-schemes	(109,950)	-	4,070	-
(Increase) in debtors		(741)		(2,050)
(Decrease) / increase in creditors		(103)		3,567
Net cash inflow from operating activities		8		2,554

17 Returns on investments and servicing of finance

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Interest received	87	57
Interest paid (see note 4)	(66)	(69)
	21	**(12)**

18 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Decrease / (increase) in cash and short term deposits in the year	1,111	(1,823)
Cash used to repay Sub-scheme borrowings	(507)	(680)
Increase / (reduction) in net debt	604	(2,503)
Net funds at 31 March 2004 (2003: net debt)	(690)	1,813
Net funds at 31 March 2005	**(86)**	**(690)**

19 Analysis of change in net funds

	Opening balance £'000	Cash flows £'000	At 31 March 2005 £'000
Sub-scheme borrowings	(1,205)	507	(698)
Cash and short term deposits, net of bank overdraft	1,895	(1,111)	784
	690	**(604)**	**86**

20 Transactions with related parties

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

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

During the year, the FSA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes were raised for £234,733,000, and related collections were received of £237,676,000 (2004: £90,940,000 and £87,871,000 respectively). The charge for the service was £157,000, and no other costs were invoiced by FSCS to the FSA (2004: £176,000 and £8,000 respectively).

In accordance with arrangements set out in the FSA's CP05/02, the FSA is paying across the balance of funds on its A16 Pensions Review fee block as at 31 March 2005, to be used to reduce levies to firms in IFA pensions review claims (formerly contribution group A16). The amount due is expected to be £977,000 of which £750,000 has been received by 31 March 2005.

Overall, payments, less receipts of £237,825,000 (2004: £87,495,000) were made by the FSA to FSCS, leaving amounts due by the FSA to FSCS at 31 March 2005 of £847,000 (2004: £177,000).

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

21 Bank of Credit & Commerce International SA (BCCI)

On 23 October 2003, FSCS made repayments from recoveries received from the liquidators of BCCI, under transitional arrangements provided at N2, and COMP 13.4.17R, of £4.0m to firms within the Accepting Deposits Sub-scheme which had previously contributed to a levy called by the Bank of England in 1992. During the year there have been no repayments from recoveries received from the liquidators of BCCI.

22 Capital commitments

No capital commitments were authorised and contracted for but not provided in the financial statements (2004: £nil).

FINANCIAL SERVICES COMPENSATION SCHEME

Sub-schemes and Contribution Groups

Financial Statements to 31 March 2005

As explained in Chapter 13 of the COMP rules of the FSA's Handbook, for funding purposes FSCS is split into Sub-schemes, comprising: the Accepting Deposits Sub-scheme; the Insurance Business Sub-scheme; the Designated Investment Sub-scheme; the Mortgage Advice and Arrangements Sub-scheme (from 31 October 2004) and General Insurance Mediation Sub-scheme (from 14 January 2005)(COMP 13.2.4G). Within each Sub-scheme, there is one or more contribution group (COMP 13.2.5G). The FSCS must keep accounts which show: (1) the funds held to the credit of each Sub-scheme and relevant contribution group; and (2) the liabilities of that Sub-scheme and relevant contribution group (COMP 13.4.12R).

The powers of the FSA under FSMA became effective as at midnight on 30 November 2001. The financial statements for FSCS' Sub-schemes and contribution groups are for the year ended 31 March 2005, with comparatives for the year ended 31 March 2004, as set out as follows:

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

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

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

The directors confirm that the financial statements comply with these Requirements.

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

The maintenance and integrity of the FSCS website is the responsibility of the directors. The directors recognise that uncertainty regarding legal requirements may be compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

By order of the Board

M Thomas
Secretary
24 May 2005

SUB-SCHEME ACCOUNTS - Summary
Financial statements for the year ended 31 March 2005

Fund movements	Note	Total		Accepting Deposits		Insurance Business		Investment Business		Mortgage Advice & Arranging	General Insurance Mediation
										See footnote below	
			2003/4		2003/4		2003/4		2003/4		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation costs	2	(174,710)	(197,595)	(225)	(385)	(112,984)	(131,365)	(61,501)	(65,845)	0	0
Recoveries receivable (see below)		50,245	106,229	219	2,982	45,270	96,163	4,756	7,084	0	0
Exchange gain		154	8	0	0	154	8	0	0	0	0
		(124,311)	(91,358)	(6)	2,597	(67,560)	(35,194)	(56,745)	(58,761)	0	0
Management expenses:	3										
Base costs		(2,294)	(2,081)	(528)	(473)	(536)	(485)	(1,089)	(1,123)	(54)	(87)
Specific costs		(11,614)	(9,119)	(224)	(258)	(1,077)	(1,555)	(10,308)	(7,306)	0	(5)
		(13,908)	(11,200)	(752)	(731)	(1,613)	(2,040)	(11,397)	(8,429)	(54)	(92)
Establishment costs		(359)	(538)	(88)	(123)	(89)	(125)	(182)	(290)	0	0
		(14,267)	(11,738)	(840)	(854)	(1,702)	(2,165)	(11,579)	(8,719)	(54)	(92)
Interest receivable	4	8,518	4,191	332	341	5,472	2,569	2,714	1,281	0	0
Taxation		(2,541)	(1,264)	(99)	(102)	(1,628)	(777)	(814)	(385)	0	0
		5,977	2,927	233	239	3,844	1,792	1,900	896	0	0
Net management expenses		(8,290)	(8,811)	(607)	(615)	2,142	(373)	(9,679)	(7,823)	(54)	(92)
		(132,601)	(100,169)	(613)	1,982	(65,418)	(35,567)	(66,424)	(66,584)	(54)	(92)
Levy received (note 6) / (BCCI repayment (note 5))		237,637	83,871	0	(4,000)	140,086	0	97,551	87,871	0	0
Net in / (out) flow in the fund		105,036	(16,298)	(613)	(2,018)	74,668	(35,567)	31,127	21,287	(54)	(92)
Funds at start of year		101,674	117,972	7,388	9,406	62,273	97,840	32,013	10,726	0	0
Funds at end of year		206,710	101,674	6,775	7,388	136,941	62,273	63,140	32,013	(54)	(92)

Statement of assets and liabilities at 31 March 2005

	Note	Total		Accepting Deposits		Insurance Business		Investment Business		Mortgage Advice & Arranging	General Insurance Mediation
			2003/4		2003/4		2003/4		2003/4		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current assets											
Interest receivable		1,140	608	16	12	626	375	498	221	0	0
Net amounts due from FSCS	7	5,137	1,205	0	0	5,137	1,205	0	0	0	0
Term deposits and cash at banks	8	212,359	109,355	7,084	7,919	133,292	65,522	71,983	35,914	0	0
		218,636	111,168	7,100	7,931	139,055	67,102	72,481	36,135	0	0
Current liabilities											
Taxation payable		(1,580)	(750)	(62)	(61)	(1,012)	(461)	(506)	(228)	0	0
Net amounts due to FSCS	7	(6,748)	(5,073)	(262)	(430)	(28)	(3,028)	(6,312)	(1,615)	(54)	(92)
Bank overdrafts	8	(3,598)	(3,671)	(1)	(52)	(1,074)	(1,340)	(2,523)	(2,279)	0	0
		(11,926)	(9,494)	(325)	(543)	(2,114)	(4,829)	(9,341)	(4,122)	(54)	(92)
Total net assets		206,710	101,674	6,775	7,388	136,941	62,273	63,140	32,013	(54)	(92)

Approved for and on behalf of the Financial Services Compensation Scheme Limited on 24 May 2005. Nigel Hamilton Chairman

Notes:

1. Mortgage advice & arranging with effect from 31 October 2004, General insurance mediation with effect from 14 January 2005
2. Recoveries include £977,000 received from the FSA in respect of the A16 fee block funds to be transferred, as referred to in note 20 on page 21.

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

SUB-SCHEME ACCOUNTS - Insurance and Investment business
Financial statements for the year ended 31 March 2005

Fund movements	Note	Total Insurance Business £'000	Total Insurance Business 2003/4 £'000	General Insurance A3 £'000	General Insurance A3 2003/4 £'000	Life Insurance A4 £'000	Life Insurance A4 2003/4 £'000
Compensation costs	2	(112,984)	(131,365)	(112,934)	(131,204)	(50)	(161)
Recoveries receivable		45,270	96,163	45,270	96,086	0	77
Exchange gain		154	8	154	8	0	0
		(67,560)	(35,194)	(67,510)	(35,110)	(50)	(84)
Management expenses:	3						
Base costs		(536)	(485)	(146)	(143)	(390)	(342)
Specific costs		(1,077)	(1,555)	(1,060)	(1,515)	(17)	(40)
		(1,613)	(2,040)	(1,206)	(1,658)	(407)	(382)
Establishment costs		(89)	(125)	(24)	(37)	(65)	(88)
		(1,702)	(2,165)	(1,230)	(1,695)	(472)	(470)
Interest receivable	4	5,472	2,569	5,366	2,494	106	75
Taxation		(1,628)	(777)	(1,596)	(754)	(32)	(23)
		3,844	1,792	3,770	1,740	74	52
Net management expenses		2,142	(373)	2,540	45	(398)	(418)
		(65,418)	(35,567)	(64,970)	(35,065)	(448)	(502)
Levy received	6	140,086	0	140,086	0	0	0
Net in / (out) flow in the fund		74,668	(35,567)	75,116	(35,065)	(448)	(502)
Funds at start of year		62,273	97,840	60,122	95,187	2,151	2,653
Funds at end of year		136,941	62,273	135,238	60,122	1,703	2,151

Statement of assets and liabilities at 31 March 2005

	Note	£'000	2003/4 £'000	£'000	2003/4 £'000	£'000	2003/4 £'000
Current assets							
Interest receivable		626	375	617	364	9	11
Net amounts due from FSCS	7	5,137	1,205	5,137	1,205	0	0
Term deposits and cash at banks	8	133,292	65,522	131,578	63,369	1,714	2,153
		139,055	67,102	137,332	64,938	1,723	2,164
Current liabilities							
Taxation payable		(1,012)	(461)	(992)	(448)	(20)	(13)
Net amounts due to FSCS	7	(28)	(3,028)	(28)	(3,028)	0	0
Bank overdrafts	8	(1,074)	(1,340)	(1,074)	(1,340)	0	0
		(2,114)	(4,829)	(2,094)	(4,816)	(20)	(13)
Total net assets		136,941	62,273	135,238	60,122	1,703	2,151

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

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SUB-SCHEME ACCOUNTS - Investment business Contribution Groups
Financial statements for the year ended 31 March 2005

Fund movements	Note	Total Investment Business		IFA pensions review claims (Formerly A16)		Other Designated Investment contribution groups		Fund managers holding client money / assets A7		Managers of an AUT, ACDs and depositaries A9	
			2003/4		2003/4		2003/4		2003/4		2003/4
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation costs	2	(61,501)	(65,845)	(46,580)	(61,996)	(14,921)	(3,849)	0	0	(39)	(158)
Recoveries receivable		4,756	7,084	4,735	7,039	21	45	0	0	0	0
Exchange gain		0	0	0	0	0	0	0	0	0	0
		(56,745)	(58,761)	(41,845)	(54,957)	(14,900)	(3,804)	0	0	(39)	(158)
Management expenses:	3										
Base costs		(1,089)	(1,123)	0	(128)	(1,089)	(995)	(268)	(232)	(53)	(53)
Specific costs		(10,308)	(7,306)	(4,476)	(5,450)	(5,832)	(1,856)	0	0	(1)	(24)
		(11,397)	(8,429)	(4,476)	(5,578)	(6,921)	(2,851)	(268)	(232)	(54)	(77)
Establishment costs		(182)	(290)	0	(33)	(182)	(257)	(45)	(60)	(9)	(14)
		(11,579)	(8,719)	(4,476)	(5,611)	(7,103)	(3,108)	(313)	(292)	(63)	(91)
Interest receivable / (payable)	4	2,714	1,281	2,337	1,233	377	48	9	33	0	(11)
Taxation		(814)	(385)	(701)	(370)	(113)	(15)	(3)	(10)	0	3
		1,900	896	1,636	863	264	33	6	23	0	(8)
Net management expenses		(9,679)	(7,823)	(2,840)	(4,748)	(6,839)	(3,075)	(307)	(269)	(63)	(99)
		(66,424)	(66,584)	(44,685)	(59,705)	(21,739)	(6,879)	(307)	(269)	(102)	(257)
Levy received	6	97,551	87,871	64,566	79,978	32,985	7,893	101	0	511	100
Net in / (out) flow in the fund		31,127	21,287	19,881	20,273	11,246	1,014	(206)	(269)	409	(157)
Fund at start of year		32,013	10,726	31,237	10,964	776	(238)	251	520	(200)	(43)
Fund at end of year		63,140	32,013	51,118	31,237	12,022	776	45	251	209	(200)

Statement of assets and liabilities at 31 March 2005

	Note	Total Investment Business		IFA pensions review claims (Formerly A16)		Other Designated Investment contribution groups		Fund managers holding client money / assets A7		Managers of an AUT, ACDs and depositaries A9	
			2003/4		2003/4		2003/4		2003/4		2003/4
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current assets											
Interest receivable		498	221	429	213	69	8	2	3	0	0
Net amounts due from FSCS	7	0	0	0	0	0	0	0	0	0	0
Term deposits and cash at banks	8	71,983	35,914	58,278	34,917	13,705	997	52	251	238	0
		72,481	36,135	58,707	35,130	13,774	1,005	54	254	238	0
Current liabilities											
Taxation payable		(506)	(228)	(436)	(219)	(70)	(9)	(2)	(3)	0	0
Net amounts due to FSCS	7	(6,312)	(1,615)	(5,110)	(1,615)	(1,202)	0	(5)	0	(21)	0
Bank overdrafts	8	(2,523)	(2,279)	(2,043)	(2,059)	(480)	(220)	(2)	0	(8)	(200)
		(9,341)	(4,122)	(7,589)	(3,893)	(1,752)	(229)	(9)	(3)	(29)	(200)
Total net assets		63,140	32,013	51,118	31,237	12,021	776	45	251	209	(200)

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

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SUB-SCHEME ACCOUNTS - Investment business Contribution Groups - continued
Contribution Groups - continued
Financial statements for the year ended 31 March 2005

Fund movements	Note	Dealers as principal A10		Brokers holding client money / assets A12		Brokers - not holding client money / assets A13		Corporate advisers A14	
			2003/4		2003/4		2003/04		2003/04
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation costs	2	0	0	(5,144)	(819)	(9,738)	(2,872)	0	0
Recoveries receivable		0	0	0	0	21	45	0	0
Exchange gain		0	0	0	0	0	0	0	0
		0	0	(5,144)	(819)	(9,717)	(2,827)	0	0
Management expenses:	3								
Base costs		(133)	(131)	(176)	(155)	(399)	(372)	(60)	(52)
Specific costs		0	0	(1,932)	(457)	(3,899)	(1,375)	0	0
		(133)	(131)	(2,108)	(612)	(4,298)	(1,747)	(60)	(52)
Establishment costs		(22)	(34)	(29)	(40)	(67)	(95)	(10)	(14)
		(155)	(165)	(2,137)	(652)	(4,365)	(1,842)	(70)	(66)
Interest receivable / (payable)	4	4	0	5	(12)	359	41	0	(3)
Taxation		(1)	0	(1)	3	(108)	(12)	0	1
		3	0	4	(9)	251	29	0	(2)
Net management expenses		(152)	(165)	(2,133)	(661)	(4,114)	(1,813)	(70)	(68)
		(152)	(165)	(7,277)	(1,480)	(13,831)	(4,640)	(70)	(68)
Levy received	6	276	200	7,195	1,998	24,806	5,495	96	100
Net in / (out) flow in the fund		124	35	(82)	518	10,975	855	26	32
Fund at start of year		13	(22)	107	(411)	625	(230)	(20)	(52)
Fund at end of year		137	13	25	107	11,600	625	6	(20)

Statement of assets and liabilities at 31 March 2005

	Note	A10 £'000	A10 2003/4 £'000	A12 £'000	A12 2003/4 £'000	A13 £'000	A13 2003/04 £'000	A14 £'000	A14 2003/04 £'000
Current assets									
Interest receivable		1	0	1	0	66	5	0	0
Net amounts due from FSCS	7	0	0	0	0	0	0	0	0
Term deposits and cash at banks	8	156	13	28	107	13,223	626	7	0
		157	13	29	107	13,289	631	7	0
Current liabilities									
Taxation payable		(1)	0	(1)	0	(66)	(6)	0	0
Net amounts due to FSCS	7	(14)	0	(2)	0	(1,159)	0	(1)	0
Bank overdrafts	8	(5)	0	(1)	0	(464)	0	(0)	(20)
		(20)	0	(4)	0	(1,689)	(6)	(1)	(20)
Total net assets		137	13	25	107	11,600	625	6	(20)

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Notes to the Sub-scheme Financial Statements for the year to 31 March 2005

1 Accounting policies

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

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

b) Compensation costs
These costs, which include interest paid to claimants, comprise payments made to claimants and amounts for offers which have been made and accepted, and, for reinstatement cases, fully valued, but which have not been paid at the balance sheet date. No account has been taken of compensation costs in respect of offers accepted after the balance sheet date.

c) Recoveries
Recoveries are credited to funds when received, and when notified, in respect of Scheme dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries, which have not been received by the balance sheet date.

d) Management expenses
Management expenses comprise base costs, being the costs of running the Scheme, specific costs, which are the remaining costs which cover the handling and payment of compensation and establishment costs, which relate to the set-up costs of FSCS prior to 1 December 2001. These expenses are allocated by the Scheme Manager to each Sub-scheme and contribution group in accordance with the levy principles contained within COMP rules 13.5.5, 13.5.6 and 13.5.11.

e) Levies
Levies raised are credited on receipt.

f) Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

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

h) Cash flow
No statement of cash flow is prepared because, in the opinion of the directors, this would not provide any useful information in addition to that already provided in the statements of Fund movement, and assets and liabilities.

2 Compensation costs

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

3 Management expenses

As stated above, (note 1d), management expenses are allocated to contribution groups under the rules within COMP, chapter 13. The respective shares of establishment costs are based on the allocation set out in COMP 13.5.11R, and cover 8/36ths of the balance as at 30 November 2001, which has been recovered over a three-year period.

4 Interest receivable

Interest receivable comprises:

	Rates	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Term-deposits	Available money-market rates	7,863	3,993
Other bank accounts	Available rates	611	141
Sub-scheme borrowings	Bank of England's repo rate	44	57
		8,518	**4,191**

5 Bank of Credit & Commerce International SA (BCCI)

On 23 October 2003, FSCS made repayments from recoveries received from the liquidators of BCCI, under transitional arrangements provided at N2, and COMP 13.4.17R, of £4.0m to firms within the Accepting Deposits Sub-scheme which had previously contributed to a levy called by the Bank of England in 1992. During the year, there have been no repayments from recoveries received from the liquidators of BCCI.

6 Levy Received

Levy invoice amounts and cash receipts arise mainly from the transactions carried out under agreement for FSCS by the FSA. Further similar transactions are dealt with directly by the Scheme Manager, which explains why amounts on Sub-scheme accounts summary (pages 25-28) do not agree directly with Note 20 - Transactions with related parties.

7 Loans receivable and Sub-scheme borrowings

Sub-scheme borrowings of £1,885,000 were made under COMP rule 13.4.15A from the Insurance business Sub-scheme to FSCS in March 2003. Of the balance at 1 April 2004 of £1,205,000, £507,000 was repaid during the year (2004: a repayment of £680,000). Interest is receivable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies.

8 Term-deposits and cash at banks

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

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

As at 31 March 2005, FSCS is a party to various joint accounts with claims administration companies involved with the Insurance Business Sub-scheme and payments to policyholders. The balances of these accounts at 31 March 2005 of £3,340,000 (2004: £4,569,000) are included within Term-deposits and cash at banks in the Insurance Business Sub-scheme statement of assets and liabilities.

9 The Advizas fund

In the Designated Investment Business Sub-scheme, FSCS, through its subsidiary ICS, negotiated with Towry Law plc and AMP plc, and others, resulting in an agreement dated 26 June 2001, to secure recoveries for levy payers of up to some £20.4m to help meet the cost of claims flowing from the default of Advizas Limited and to minimise disruption to investors' claims. Following the conclusion of litigation between various parties, the available recoveries were approximately £16m. All expected recoveries and related payments were made before the start of the current financial year (2004: By 31 March 2004, FSCS had received a total of £12.2m directly by way of recoveries (£5.3m received in the year) and £3.8m had been paid from the funds to meet directly investors' claims that would otherwise have been paid out of FSCS funds (£1.2m in the year)).

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

We have audited the financial statements for the year ended 31 March 2005 which comprise the movement in the Sub-schemes funds, the statements of assets and liabilities, and related notes.

Respective Responsibilities of the Scheme and Auditors

The Scheme Manager's responsibilities, on behalf of the Scheme, for preparing the financial statements are set out in the Statement of directors' responsibilities in respect of the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This 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 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 page 29.

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

Basis of Opinion

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

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

Opinion

In our opinion the financial statements for the year ended 31 March 2005 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 page 29.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
24 May 2005