

FINANCIAL SERVICES COMPENSATION SCHEME LIMITED

**DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS**

FOR THE PERIOD ENDED 31 MARCH 2001

Registered no: 3943048



FINANCIAL STATEMENTS

of Financial Services Compensation Scheme Limited for the period ended 31 March 2001

Directors' report

The directors of Financial Services Compensation Scheme Limited (FSCS) present their first report, for the period from the company's incorporation on 3 March 2000 to 31 March 2001, together with the audited financial statements of the company for the same period, ended 31 March 2001.

Principal activities

FSCS was formed as the Scheme Manager designate under s212 of the Financial Services and Markets Act 2000 (FSMA) to administer a single compensation scheme for consumers in respect of deposits, contracts of insurance and investment business, should a financial services firm be unable to meet its liabilities.

Review of activities

Since its incorporation and the appointment of directors, the company has made *preparations in anticipation of receiving its powers under FSMA at a date referred to as N2*, and integrating the seven existing compensation schemes.

As a part of this process, on 1 February 2001 FSCS became the sole member of Investors Compensation Scheme Limited (ICS), the Scheme Manager responsible for the Investors Compensation Scheme (the ICS Scheme). At that date, the FSCS directors also became directors of ICS.

As a further part of the "early start" process, staff of both ICS and the Deposit Protection Board (DPB), were offered contracts of employment with FSCS as from 1 February 2001, and FSCS assumed, under a service level agreement, the operational activities of DPB.

Financial position

The company's results show neither a surplus nor deficit as its net costs are treated as recoverable from future participating firms from N2 as costs of establishing the scheme, under s213 of FSMA.

The financial statements of ICS show net assets of £Nil and ICS did not trade during the period to 31 March 2001 as it continued to act in its capacity as Scheme Manager of the ICS Scheme. In accordance with s229(2) of the Companies Act, consolidated financial statements have not been prepared in view of the immateriality of the amounts involved. Financial statements of the ICS Scheme for the year to 31 March 2001 are available from the company secretary at 7th Floor, Lloyds Chambers, 1 Portsoken Street, London E1 8BN.

Fixed assets

The movements in fixed assets during the period are set out in note 7 to the financial statements.

The directors

Details of the directors for the period to 31 March 2001 are shown in the FSCS annual report.

Directors' emoluments

Total emoluments paid to directors are as follows:

	Period ended 31 March 2001 £'000
Aggregate emoluments	166
Pension contributions	8
	174

The highest paid director, the Chief Executive, received aggregate emoluments in the period of £62,317 and contributions to a defined benefit arrangement under the company's pension scheme will be made of £7,563. The Chief Executive received no additional remuneration in respect of her role as director.

The fees paid to the Chairman and the other non-executive directors were set at £25,000 and £10,000 per annum respectively, with effect from 17 February 2000. The Chairman and directors, other than the Chief Executive, are not entitled to a pension funded by the company.

Included in the aggregate emoluments of £166,000, which includes VAT on certain fees invoiced by directors, is an amount of £9,792 paid to third parties in respect of the Chairman.

Liability insurance

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

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 to 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.

Corporate governance

A statement of corporate governance is contained in the FSCS annual report.

Auditors

PricewaterhouseCoopers were appointed as auditors following a competitive open tender process. A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors will be put to members at the Annual General Meeting.

By order of the Board



M Thomas
Secretary
26 June 2001

Report of the Auditors

Independent auditors' report to the members of Financial Services Compensation Scheme Limited for the period ended 31 March 2001

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

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 judgements 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 2001 and of its result and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
26 June 2001

FINANCIAL STATEMENTS

for the period ended 31 March 2001 (see note 1)

INCOME AND EXPENDITURE ACCOUNT

	Note	Period ended 31 March 2001 £'000
Administrative expenses	3	(1,644)
Other operating income		1,644
Service charges receivable	6	601
Recoverable establishment costs	8	1,043
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 15 form part of these financial statements.

BALANCE SHEET AS AT 31 MARCH 2001

	Note	2001 £'000
Fixed assets	7	193
Current assets		
Debtors – recoverable establishment costs: amounts falling due after one year	8	1,043
Debtors: amounts falling due within one year	9	162
Total current assets		1,205
Creditors: amounts falling due within one year		
Bank overdraft	10	(766)
Creditors and accruals	11	(632)
Total current liabilities		(1,398)
Net current liabilities		(193)
Total net assets		-
Accumulated excess of income over expenditure		-

Approved by the Board of Financial Services Compensation Scheme Limited on 26 June 2001.


 NIGEL HAMILTON
 CHAIRMAN

The Notes on pages 10 to 15 form part of these financial statements.

**STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED
31 MARCH 2001**

	Note	2001 £'000
Net cash outflow from operating activities	13	(573)
Capital expenditure and financial investments		
Payments to acquire tangible fixed assets		(193)
Decrease in cash	14	(766)

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 March 2001

1 Constitution, accounting period and subsidiary

Financial Services Compensation Scheme Limited (FSCS) was incorporated on 3 March 2000 and is a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member.

FSCS has been formed as the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA). Its full powers will be assumed following the coming into force of powers of the Financial Services Authority (FSA), under FSMA, which is expected within the financial year to 31 March 2002 (N2 date). In anticipation of its powers at N2, FSCS acquired Investors Compensation Scheme Limited (ICS) on 1 February 2001 for £Nil consideration. ICS is 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, and is a company registered in England.

Financial statements have been prepared for the period from incorporation to 31 March 2001.

The company has one subsidiary, ICS, the financial statements of which show net assets of £Nil. ICS did not trade during the period to 31 March 2001 as it continued to act in its capacity as Scheme Manager and agent to the ICS Scheme. In accordance with s229(2) of the Companies Act, consolidated financial statements have not been prepared in view of the immateriality of the amounts involved. Financial statements of the ICS Scheme for the year to 31 March 2001 are available from the company secretary.

2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable 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 employees' working lives.

c *Fixed assets*

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

Building improvements:	straight-line basis over the period of the lease, commencing on occupancy.
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3 Administrative expenses

The following amounts are included within administrative expenses:

	Period ended 31 March 2001 £'000
Auditor's fees	
Audit work	18
Non – audit work:	
Due diligence reviews	76

4 Staff costs

As from 1 February 2001, 91 former staff of ICS accepted FSCS contracts of employment. The average number of employees during the period was 16. At the year end the company had 98 staff comprising 61 permanent and 37 seconded, contract and temporary staff.

Employment costs comprise:

	Period ended 31 March 2001 £'000
Aggregate gross salaries together with costs of seconded, contract and long term temporary staff	1,116
Employer's national insurance contributions	36
Employer's pension contributions (all defined benefit)	37
	<hr/> 1,189

On 1 February 2001 the pension scheme in the name of the ICS was renamed the Financial Services Compensation Scheme Pension Scheme.

The permanent staff that transferred from ICS to FSCS continued to be members of the FSCS pension scheme. The employer's pension contributions shown above represent the liability to contributions in respect of the service during the period.

The pension scheme offers employees a choice between defined benefits and the pension secured by the individual pension account built up from contributions. 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 benefit pension scheme was valued at 1 April 1999 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 8% per annum and that the average rate of increase in pensionable salaries would be 6% per annum. The valuation showed that the market value of the pension scheme's assets was £2,523,000 and that in the opinion of the actuary, the actuarial valuation of these assets exceeded the liabilities of the pension scheme by £610,000 at that date. In view of the surplus, the contribution rate paid has been reduced to 11.7% of salaries since 1 April 2000. These contributions include the expenses of running the FSCS pension scheme and the cost of insuring death-in-service benefits.

A pension scheme for new permanent staff from 1 February 2001 is currently being devised. Once finalised these staff members will be given the opportunity to become members of this pension scheme.

FSCS is committed to equality of opportunity for its staff.

5 Directors' emoluments

Details of directors' emoluments are shown in the directors' report.

6 Service charges receivable

As described in note 4, as at 1 February 2001 all staff of ICS were offered contracts of employment by FSCS and as from that date FSCS has provided staff and resources to carry out the functions of ICS and the ICS Scheme under a letter of agreement. Similarly, as from that date, FSCS has carried out the functions of the Deposit Protection Board (DPB) under a service level agreement dated 1 February 2001. Staff and related costs incurred by FSCS on behalf of ICS and DPB, recharged as service charges, were as follows:

	Period ended 31 March 2001 £'000
ICS	596
DPB	5
	<hr/> 601

The service charge to ICS includes £34,500 for a proportion of FSCS's Board costs since 1 February 2001, which are allocated on a basis of the estimated time spent on ICS matters.

7 Fixed Assets

	Building improvements £'000	Total £'000
Cost		
Additions in the period	193	193
At 31 March 2001	193	193
Net book value at 31 March 2001	193	193

8 Debtors: recoverable establishment costs

The costs incurred in establishing the single compensation scheme, FSCS, are to be recovered from participating firms over a period of 3 years commencing from N2, currently assumed to be 30 November 2001, and will be invoiced from 2002/03.

	31 March 2001 £'000
Amounts falling due after one year	1,043

9 Debtors: amounts falling due within one year

	31 March 2001 £'000
Prepayments	162

10 Bank loan and facilities

As at 1 February 2001 the company had negotiated facilities for business purposes of £20m, comprising a loan of £6m, and a revolving credit facility of £12m, both repayable over 5 years, at a floating rate of interest based on LIBOR; and an overdraft facility of £2m, renewable in December 2001 at a fixed interest rate above base rate. As at 31 March 2001, £766,000 of the overdraft facility was utilised.

11 Creditors and accruals

	Note	31 March 2001 £'000
Amount due to the FSA	16	243
Amount due to ICS Scheme		24
Other taxation & social security costs		62
Accruals		303
		<u>632</u>

12 Payments made under lease agreements

The company has commitments in respect of the rental of office space as follows:

	Leases expiring in:	
	One to two years	Two to eighteen years
	£'000	£'000
Amounts payable in year to 31 March 2002		
Office rental	-	724

FSCS relocate

in June 2001. The lease for the new premises at 1 Portsoken Street, London, is for 18 years from 13 February 2001 to 21 June 2018, but FSCS has the right to break the lease on 24 June 2012.

There are no assets held under finance leases.

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

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

	2001 £'000
Excess of income over expenditure on ordinary activities before interest and tax	-
Movements in:	
Recoverable establishment costs	(1,043)
Prepayments	(162)
Other creditors and accruals	632
<u>Net cash outflow from operating activities</u>	<u>(573)</u>

14 Reconciliation of net cash flow to movement in net debt

	2001 £'000
Decrease in cash	(766)
Opening balance	-
Net cash at end of the period	(766)

15 Analysis of change in cash

	Opening balance £'000	Cash flows £'000	At 31 March 2001 £'000
Cash, net of bank overdraft	-	(766)	(766)

16 Transactions with related parties

During the period, the company entered into transactions with the following related parties:

The Financial Services Authority (FSA)

Deposit Protection Board (DPB)

Investors Compensation Scheme (ICS)

The FSA appoints, and has the right to remove, directors to the Board of FSCS and it establishes the rules under which the scheme will operate as from N2. During the period, the FSA provided short term funding to meet certain establishment costs of FSCS of £986,000 and were repaid £743,000, leaving a balance due by FSCS to the FSA at 31 March 2001 of £243,000.

The FSA is a party to the lease agreement for the company's premises at 1 Portsoken Street, London (see note 12) as guarantor of performance of the lease.

Amounts were charged to the DPB and ICS for the 2 months ended 31 March 2001 as a service charge as detailed in note 6. As at 31 March 2001, £5,000 was due from the DPB and £24,000 was due to ICS.

17 Capital commitments

Capital commitments authorised and contracted for but not provided in the financial statements amount to £2.5m in the company.

The outstanding commitments relate to the relocation of the company to 1 Portsoken Street, London. It is intended that these building improvements will be financed through the loan facilities as described in note 10, Bank loan and facilities.