Financial Services Compensation Scheme

Annual Report and Accounts 2014/15

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Annual Report and Accounts 2014/15

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

July 2015

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

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FSCS Contacts

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

General enquiries should be addressed to:

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

Email: enquiries@fscs.org.uk

Company number 3943048

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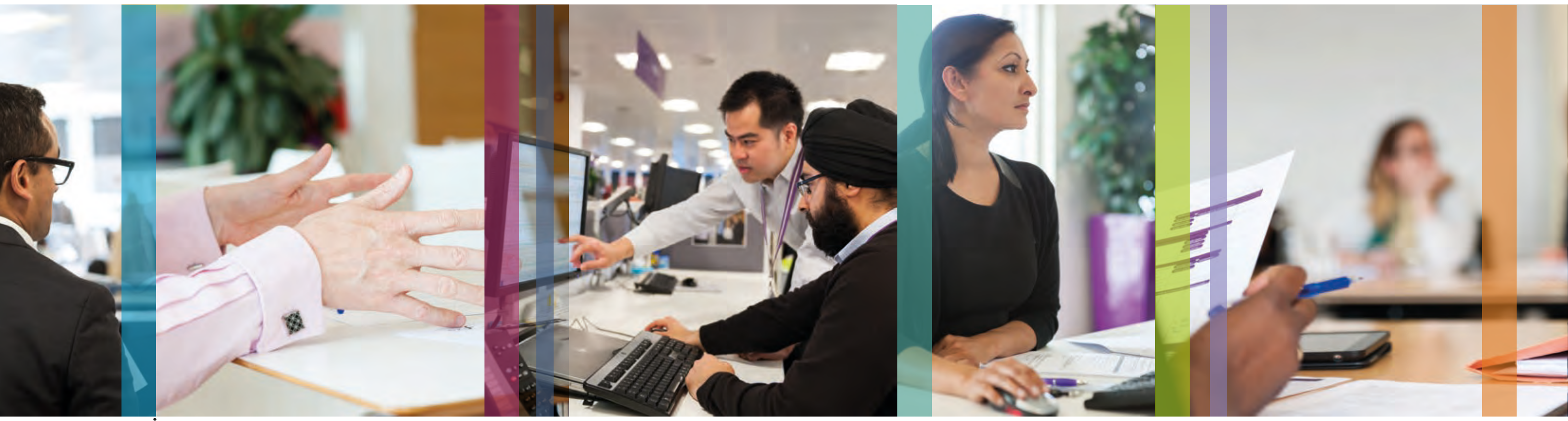

Our role

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

FSCS is a non-profit-making independent body, created under the Financial Services and Markets Act 2000 (FSMA).

It is funded by levies on authorised financial services firms.

FSCS does not charge individual consumers.

Our mission

Our mission is to provide a responsive, well-understood and efficient compensation service for customers of 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 consumers' claims for compensation;
- raise public awareness of the protection we provide;
- ensure we operate as cost-efficiently as possible and maximise recoveries from the estates of failed providers and third parties;
- be ready to respond to failures in the financial services industry in a way that protects consumers and financial stability; and
- enhance our capability by developing the skills, knowledge and professionalism of the people who work for us.

Section 1

The Year in Summary

The main figures and events of the 2014/15 year.
Click on the headings to find out more.

53,662

We received 31,762 new claims from consumers during 2014/15, compared with 39,258 claims the previous year. There were 21,900 General Insurance Provision claims – a rise of 50% compared with 2013/14. That is 53,662 claims in all.

50%

Average compensation payouts for Self-Invested Personal Pensions (SIPPs)-related claims increased by around 50% to £16,375. In October 2014, we passed the £1bn mark for the total amount of compensation FSCS has paid out to claimants of failed insurance firms since 2001.

£327m

Total compensation in 2014/15 (excluding the major banking failures) was £327m, up from £243m in 2013/14.

£8,855

The average compensation payment was £8,855 compared with £5,136 in 2013/14. Average payments for Investment Intermediation increased to £19,450 compared with £10,939 in 2013/14.

Our five-year plan

We report against each of the seven imperatives outlined in the vision we published last year.

Connect

One of the main focuses of FSCS's work during 2014/15 has been on Connect, our streamlined claims service.

£71.5m

Management expenses for the year were £71.5m compared with £57.7m in 2013/14.

Changing FSCS protection

We have prepared for the implementation of the recast Deposit Guarantee Schemes Directive in July 2015 when FSCS protection further evolved.

£560m

During 2014/15 our recoveries work delivered nearly £560m from the estates of failed firms. This figure includes £494m from the major banking failures of 2008/09.

Icesave

We made a total recovery from the estate of Icelandic bank LBI hf (Icesave) of £1.36bn. FSCS's share of this was just over £435m, with the balance going to HM Treasury.

£1.076bn

The levies received this year totalled £1.076bn, compared with £1.11bn in 2013/14. This figure includes the interest cost and capital repayment levy for the banking failures of 2008/09.

Section 2

Chairman's Statement

Chairman, Lawrence Churchill, focuses on how FSCS has continued to build awareness and work closely with the regulators to improve its service to consumers.

FSCS has evolved during the past six years into a respected organisation that contributes greatly to consumer confidence in financial services by offering consumers a compensation scheme that is reliable, credible, increasingly flexible and sustainable. Even if consumers do not always know FSCS by name, most understand that a compensation scheme exists and that their money is protected when a regulated firm fails.

In his report, the Chief Executive explains how FSCS has worked in 2014/15 to modernise its service: the ways through which we can pay compensation are changing to the greater benefit of consumers. My statement focuses on our external activities, including the consumer awareness programme and the collaborative ways in which FSCS has worked with the regulators.

Raising awareness of FSCS protection

In common with most of the industry, FSCS believes that awareness of our protection is a fundamental underpinning to rebuild trust and sustain confidence. Our initial strategy has been, rightly, to focus on Deposits. Banks, building societies and credit unions reach consumers with a clear message: FSCS exists to protect people's savings. The industry informs its customers about FSCS protection and we continue to discuss with them how greater knowledge and confidence can be built, while complementing this activity with awareness-raising of our own.

This approach has met with success. Awareness of FSCS, or the existence of a protection scheme, has risen year on year and is now at 63 per cent.

As the financial crisis recedes and consumer attention is drawn to other areas (such as the new pensions freedoms discussed below), our next priority is to support consumer confidence across the range of financial services with a simple and memorable message about the extent of the protection we provide.

Simplifying FSCS protection

Key to this, as far as possible, is to simplify FSCS protection so that consumers are in no doubt about the protection they can expect. The rules are made by the regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and the steps taken by the PRA to improve FSCS protection for holders of insurance policies is welcome. The PRA announced that from July 2015, 100 per cent of consumers' long-term insurance policies that provide, for example, an income in retirement or protection against death or disability will be FSCS protected. We strongly supported this measure. Not only will it facilitate the delivery of FSCS compensation, but it enhances protection to consumers such as those already in retirement.

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

> “
> **We must ensure that we are in a state of readiness for the next crisis whatever form it takes**

Pensions and investments

This matters in part because, following the liberalisation of retirement savings, which came into force in April 2015, consumers now have much more choice about their retirement savings both as those savings build up and as they draw an income in retirement. But the protection they will receive from FSCS varies according to the products they buy. Although consumers will enjoy 100 per cent protection for annuities and other savings held within long-term insurance contracts, a limit of £50,000 applies for investments, including those within a Self-Invested Personal Pension (SIPP).

We are very keen, therefore, to discuss protection limits with the FCA and the PRA, as part of their forthcoming review of FSCS protection and funding.

Meanwhile it is extremely important that consumers understand fully the choices involved in accessing their pensions savings, particularly as there is the potential for individuals to move funds from an FSCS-protected environment into a position where there is far less (or no) protection. We are working closely with the regulatory bodies and consumer advisers, including the free and impartial service Pension Wise to keep consumers closely informed about FSCS's role and the benefits of FSCS protection. PRA and FCA rules also place responsibility on the industry to tell consumers about FSCS and the protection in place for different products and services.

Changes in depositor protection

We also work closely with the PRA and the FCA to enhance FSCS protection. This year there were two important developments in depositor protection. The recast European Deposit Guarantee Schemes Directive (DGSD) which comes into force in July 2015 will ensure that, under certain circumstances, when consumers deposit up to £1m after a house sale, probate settlement or for an insurance payout, this temporary high balance (THB) will be FSCS protected for up to six months (or with no monetary limit for certain payments). We shall also protect the deposits held by businesses of all sizes, not just small enterprises (as at present).

Equally important are the new PRA requirements to facilitate continuity of access for depositors by transferring accounts from a failing firm to another provider. This will greatly benefit customers for whom losing access to current accounts while they wait for a cheque in the post can be distressing. FSCS also welcomed the PRA proposals which involved changes to the Single Customer View (SCV) file. When a firm fails, FSCS must be able to rely on the SCV files to pay out compensation automatically. Over the past five years, FSCS, working with the regulators, has helped to ensure that SCV files are in place across all deposit takers. There is also a provision for deposit-taking firms to produce an SCV file within 24 hours instead of 72 as now.

Verifying SCV files is essential for the efficient running of the claims-handling process and the responsibility for constantly maintaining complete and accurate records lies with the Boards of all deposit-taking institutions. FSCS reviews the SCV files on behalf of the PRA and has brought this service in-house to make the process more efficient. As part of this exercise, we have also upgraded our security measures across FSCS to the industry-recognised data security standards.

Contingency planning highlights the big issues

Although, as I mention above, I believe we are on the way to the final resolution stages of the 2008/09 financial crisis, we have to be realistic about the future. We must ensure that we are in a state of readiness for the next crisis whatever form it takes. Contingency planning is integral to preparing for the future. The lessons learned by the FSCS Board from an exercise involving the fictitious failure of a major insurance company proved valuable because they highlighted the difficulty of trying to implement the 90 per cent protection limit. Raising concerns about that rule contributed to the change in the limits of FSCS protection outlined above.

People and performance

In May, FSCS bade farewell to Phil Wallace after six years of outstanding service as a non-Executive Director on our Board, and Chair of our Audit Committee. With his encyclopaedic knowledge of insolvency, and breadth of experience, Phil has made a huge and enduring contribution to FSCS.

We welcome Mark Adams as a new non-Executive Director to the FSCS Board and look forward to working with him in the year ahead. Paul Stockton chairs the Audit Committee from 1 June 2015.

For FSCS to operate sustainably and efficiently, we need highly professional, committed and skilled staff. FSCS offers its people opportunities to develop wide-ranging and specialist skills that can be transferred to other work environments. For example, as a result of their extensive experience working at FSCS, two former staff members took up key positions at the Bank of England and a leading City law firm.

I want to thank all FSCS staff for their continuing dedication over the year to improving both the quality of our organisation and our service to consumers. They have played an important role in making FSCS a respected and valued organisation that does a complex job very well.

Lawrence Churchill
Chairman

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For FSCS to operate sustainably and efficiently, we need highly professional, committed and skilled staff


Quality and Information

Section 3

Chief Executive's Report

Mark Neale reports on a year of major change in which FSCS took important steps to modernise its service to consumers.

The effectiveness of FSCS's service is vital in maintaining public confidence in financial services. That confidence is especially important in times of financial crisis, but it also needs to be laid in a calmer economic climate so that consumers are secure in the knowledge that when failures do happen the FSCS will step in.

FSCS also needs to maintain the confidence of the industry which pays for the protection we provide. Doing so depends on being able to demonstrate that FSCS has a business model that delivers value for money in both benign conditions and in times of crisis. It also depends on FSCS's willingness to be open about costs and as candid about those aspects of our work which have gone wrong as those which have gone right.

An essential ingredient in maintaining public and industry confidence is to provide a responsive service now. We did that in 2014/15. Over the year, 98 per cent of Payment Protection Insurance (PPI) claims and 92 per cent of non-PPI claims were turned round by their due date.

Many failures, particularly those concerning investments, involved increasingly difficult judgements about the eligibility and quantification of claims.

We received 31,762 new claims (including 4,631 relating to Welcome Financial Services Limited), down from 39,258 in 2013/14. However, the trend of increasingly complex individual claims continued to grow. We have, in particular, seen a steady rise in Self-Invested Personal Pensions (SIPPs)-related claims arising from poor advice to transfer pension savings from sound occupational schemes into SIPPs and then to invest in illiquid and risky assets within the SIPP. FSCS had paid out £19.4m in compensation relating to 1,142 SIPPs-related claims which gave rise to an interim levy in March 2015 of £20m on Life and Pensions intermediaries. As we have made clear in our communications with the industry, we believe that the numbers and costs of complex SIPPs-related decisions are likely to rise steeply again during 2015/16.

General Insurance claims up

We also saw a substantial growth in the numbers of new General Insurance Provision claims to 21,900, up from 14,328 in 2013/14. We paid £327m in compensation, up from £243m last year. A significant contribution to these higher costs was an increase in the numbers of noise-induced hearing loss (NIHL) claims made to failed general insurers and protected by FSCS.

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> **We believe that the numbers and costs of complex SIPPs-related decisions are likely to rise steeply again during 2015/16**

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Connect will establish the foundations of our operations for years to come

FSCS's change programme

Consumers and the industry also need to be confident about FSCS's ability to deliver a responsive and efficient compensation service in future. That is why, since the financial crisis of 2007/08, FSCS has embarked on a major change programme covering all aspects of our business from putting in place a faster payout system for deposits, to modernising our outsourced process for handling other claims. As the different strands to this change programme neared implementation, we then looked at our longer-term priorities. Our five-year Vision for a Confident Future, published in early 2014, defined these important next stages for FSCS. Our vision has closely informed FSCS's work during the past year. The Annual Report and Accounts explains how FSCS has delivered against each of the seven imperatives outlined in the vision. The Chairman covers our externally focused imperatives, including our raising awareness programme and collaborative work with the regulators to diversify compensation routes and prepare for upcoming financial reforms.

I focus the remainder of my report on how we are progressing with our strategy to modernise our service to consumers while delivering value for money to levy payers. The past year has also seen significant achievements in FSCS's work to pursue recoveries in our role as a creditor of a failed firm.

Connect – modernising our service

In May 2015, shortly before publication, FSCS started to phase in Connect, our new claims-handling system which will enable claimants to submit their claims for compensation online. Connect will also allow our outsource partners, who handle the great majority of claims, to use the same platform. This means the claims process can be efficiently scaled up and down in response to changes in demand. It also means that the process will be better controlled, with less risk to personal data as the transmission of paper is eliminated.

Connect will establish the foundations for our operations for years to come and enable us to provide a better and faster service to consumers, while reducing the cost of handling claims.

Connect is a major project that will bring benefits to consumers and the industry. It is not surprising, therefore, that its implementation has, at times, proved challenging. As I reported in the November issue of our industry publication *Outlook*, we identified a number of design and testing issues that we needed to investigate more fully. Connect, therefore, cost more than we expected during 2014/15. We contained much of the additional cost within our budget for 2014/15. For the next phase of Connect, we have budgeted £3.6m for 2015/16. I understand the frustration expressed by some industry members about these higher costs. That is why I have

commissioned an independent review into the project. We shall report the findings to the Board later in the year and cover them in future publications.

Improving our value for money

FSCS is required by the Financial Services (Banking Reform) Act 2013 to have regard to the need to be efficient and effective in everything we do. As Accounting Officer, I have duties to manage public money. With this in mind, we put in place in 2014/15 our Value for Money (VFM) Strategy to enhance accountability and transparency. As part of that strategy, we have strengthened our procurement policy and raised awareness about the importance of VFM to FSCS teams so that everyone, regardless of where they sit in the organisation, understands the significance of placing VFM firmly at the forefront of their professional responsibilities.

We also applied VFM principles to test FSCS's major strategic choices, such as our outsourcing strategy. We concluded that, given the unpredictability of claims numbers, outsourcing the majority of claims-handling work continues to represent the best value because outsourcing transfers the volume risk to organisations that are better placed to absorb it. However, we keep this strategy under close review to ensure it remains appropriate as the complexity of individual claims, rather than the number of bulk claims, continues to grow.

We aim to be transparent about our costs and expenses to our levy payers. Our Plan and Budget provides a forecast of compensation costs, claims trends and default prospects by funding class, together with a breakdown of FSCS's budget and management expenses.

In 2014/15 management expenses were £71.5m (excluding the major banking failures and the arrangement with Welcome) compared with £57.7m in 2013/14. This increase reflected the costs of our change programme which have now passed their peak and the costs of pursuing recoveries. FSCS's management expenses budget falls to just over £69m in 2015/16 as the cost of the change programme scales down.

Maximising recoveries to reduce costs

One of FSCS's imperatives is to achieve excellence as a creditor by maximising recoveries. When a firm fails and FSCS protection is triggered, FSCS takes over that consumer's right to pursue a claim against the estate of the failed business. This often means that FSCS becomes the largest creditor of that failed firm and as a creditor we pursue recoveries whenever possible and cost-effective to do so. Pursuing recoveries is also a vital route through which we deliver savings to the industry. Our strategy and interventions have produced highly positive results to the benefit of taxpayers and levy payers alike. Over the year, FSCS recovered £560m from the estates of failed firms, including £494m from the major banking failures.

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> **We put in place our Value for Money Strategy to enhance accountability and transparency**

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We recovered £560m from the estates of failed firms, including £494m from the major banking failures

Engaging our people

Our imperative, Engaging our people and organisation, is the foundation of all strong organisations. That engagement is best measured by the quality of the service we provide to consumers and other stakeholders. On this measure, FSCS's people once again demonstrated their commitment. We also saw an improvement in our engagement scores in the annual People Survey, with a particular improvement in our people's satisfaction with the quality of opportunities for personal development, although there remain areas for further progress.

In the coming months we shall also re-examine FSCS's core values and aims. Now five years old, we want to see if our values have shifted to reflect a different world from 2010; or whether they simply need to be re-endorsed with a clearer understanding of why we believe they crystallise who we are and the service we provide.

I would like to thank everyone at FSCS for their continuing drive and determination over the year to absorb the many changes we have undergone to deliver an enhanced service. The background against which we work changes swiftly and, at times, without warning. We have to be as prepared as we can be to recognise the opportunities and understand the risks such changes pose to FSCS's operations. Our unique experience in managing complex failures and pursuing recoveries presents us with an opportunity to build further our own capabilities, while playing a role in influencing future resolution arrangements to benefit consumers and the industry.

Mark Neale
Chief Executive

No charge for FSCS service

An investor ignores advice to use solicitor after problems with a SIPP.

Christopher Whaley sought the advice of his long-term financial adviser to help him invest some money he had saved to supplement his pension income.

After discussing the options with his adviser he decided in February 2010 to invest in a Catalyst product which appeared to be a good investment and was one of four products within a Self-Invested Personal Pension (SIPP).

Initially there were no problems, but Mr Whaley began to experience issues with his financial adviser who had started a new business and become slow to return his calls. In 2012 Mr Whaley asked for advice regarding his final salary pension but the options his adviser gave him just didn't seem right. Mr Whaley started to feel nagging doubts about his investment and about his financial adviser too.

It soon became apparent there were problems with his investment and his financial adviser suggested he use a solicitor contact of his who would help him recoup his money from Catalyst. Mr Whaley knew this couldn't be right and was likely to be a waste of money, so he contacted the Financial Ombudsman Service instead for help. They passed him onto the Financial Conduct Authority. After being referred to FSCS, Mr Whaley made a claim for compensation against Catalyst which we upheld.

Mr Whaley describes the process of receiving compensation to be "straightforward" and he feels the FSCS provides a fantastic safety net for investors. He was extremely pleased to get back all the money he had invested.

Our mission is to provide a responsive, well-understood and efficient compensation service for customers of financial services, which raises public confidence in the industry.

Section 4

Our Vision for a Confident Future – One Year On

We report on progress we have made against the seven imperatives outlined in our five-year vision.

Update on our seven imperatives 2014/15

Published in January 2014, *Our Vision for a Confident Future* explained what we aim to achieve over the five years to 2019. Central to the vision were seven imperatives of equal importance that shape our strategy. These are the actions FSCS must take to deliver a fast and reliable service to consumers, while being efficient and cost-effective across all our activities.

Our seven imperatives

Reporting on the progress we have made against each of the imperatives allows the industry to see and measure FSCS's development over the past year and in future.

Modernising our service to consumers

We plan to give people more choice in how they deal with us and provide a fast, reliable and responsive claims service. The modernising of our claims system, Connect, will greatly improve FSCS's readiness to respond to significant increases in claims volumes and improve our service to consumers. The new service will come online from spring/summer 2015.

Diversifying compensation routes

Working with our partners in government, and the UK Authorities, we want to develop improved ways of paying compensation, while simplifying the rules so consumers understand protection better. FSCS has worked closely with the UK Authorities on the implementation of the recast Deposit Guarantee Schemes Directive. From summer 2015, FSCS will be able to:

- protect temporary high balances in bank, building society and credit union accounts; and

from December 2016, FSCS will be able to:

- support the transfer of accounts from a failed provider to another firm.

Raising awareness of the protection we provide

There is a strong link between awareness of FSCS (or a protection scheme) and confidence in financial services products. The focus in 2014/15 was to continue to raise awareness of deposit protection. Independent research shows that 63 per cent of adults are now aware of FSCS or a protection scheme, compared with 60 per cent in 2013/14.

Improving our value for money, transparency and accountability

Our Value for Money strategy, which focuses on driving accountability and transparency, has been strengthened across FSCS's teams and operations.

Achieving excellence as a creditor

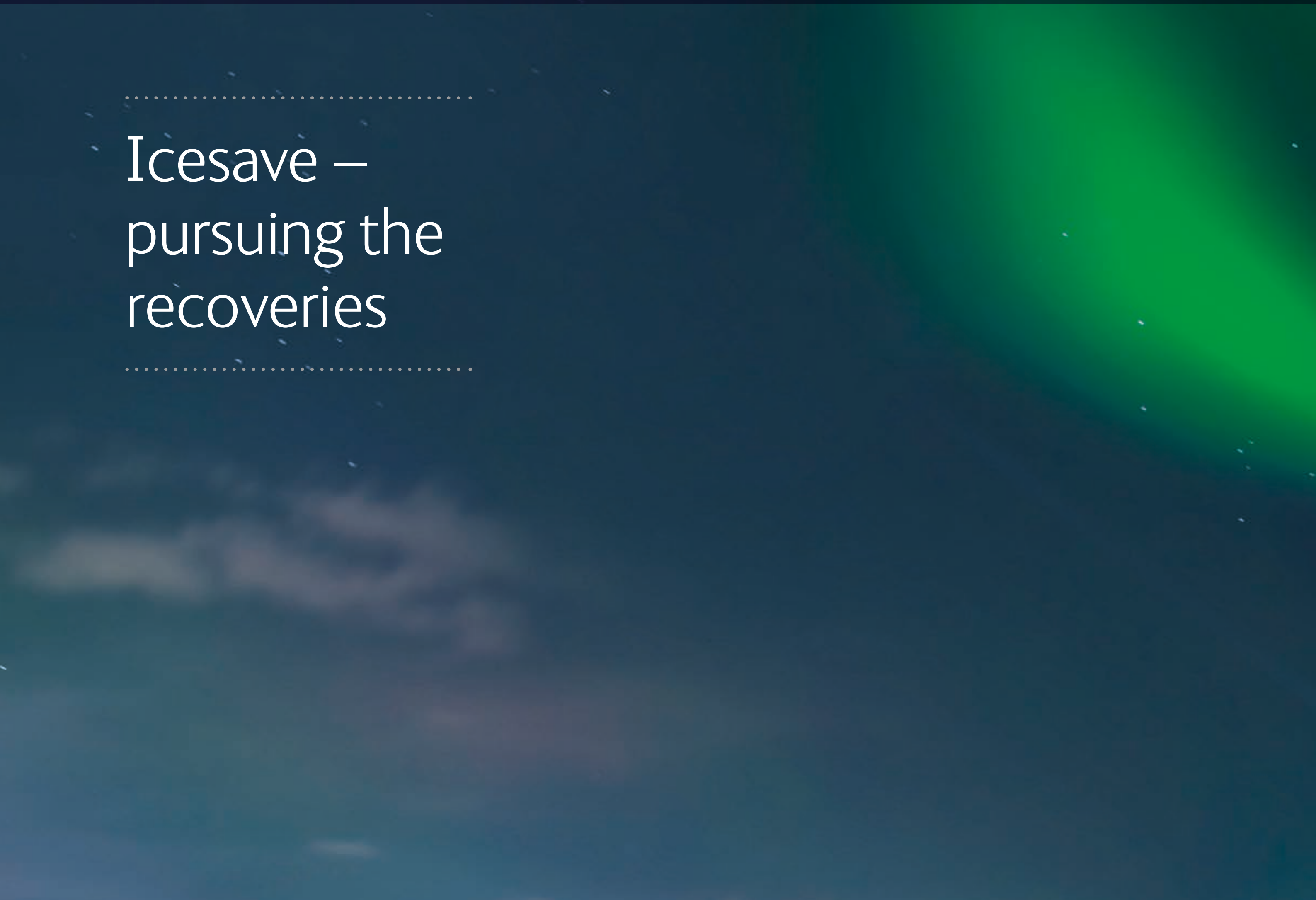
When financial services businesses fail, we must maximise what we can recover from the estates of failed firms, and third parties, for levy payers. During 2014/15 we recovered £560m from the estates of failed firms and third parties, including £494m from the major banking failures. In December 2014, FSCS (and HM Treasury) received a total dividend from the estate of the failed Icelandic bank, LBI hf, amounting to £1.36bn, of which FSCS's share was just over £435m. The case study on page 24 shows how we set about the task.

Deepening contingency planning

FSCS must be able to respond effectively to crises and play a positive role in resolving failures wherever and whenever they happen. Over the year we continued to maintain an adequate and tested state of preparedness for failures across the industry.

Engaging our people and organisation

It is people who drive forward our imperatives now and in future. We want to engage better with everyone who works at FSCS so that we are even better positioned to respond to, and embrace, change. Over the year employee engagement, as measured by our People Survey 2014, increased by a further 15 per cent compared with 2013/14.



Icesave – pursuing the recoveries

By the end of 2014/15, following the failure of Icesave in 2008, FSCS had successfully recovered more than £3.8bn, some 85 per cent of FSCS's compensation payout.

Background – Icesave fails

On 6 October 2008, Icesave, the UK internet branch of Landsbanki Islands hf (LBI), ceased to operate. On 8 October 2008, Icesave was declared in default triggering cover from FSCS. FSCS took over Icesave's internet portal to engineer an electronic payout solution for depositors. Compensation payouts started in early November 2008 and were completed for most depositors during the next few weeks. The portal was closed down that December. FSCS paid compensation to the remaining depositors over the following months, with the last accounts being settled in 2011.

FSCS takes over depositors' rights

On the payment of compensation to depositors, FSCS took over their rights against LBI. Under emergency legislation passed in Iceland on 6 October 2008, LBI was split: the domestic, Icelandic depositors were separated into a new bank, leaving the foreign business (including UK depositors) in LBI. Winding-up proceedings for LBI started on 22 April 2009. At the end of October 2009, FSCS submitted its claims for recoveries to the Winding-Up Board.

FSCS provided rigorous and detailed evidence to the Winding-up Board supporting the depositor payouts and transfers of rights. The amount of FSCS's principal claim was admitted in the sum of ISK823,253,277,056. FSCS's claims have now been finalised with the Winding-up Board following further reconciliation.

FSCS accorded priority status in creditor hierarchy

Under the emergency legislation, depositors were accorded priority status in the creditor hierarchy in the event of insolvency (an Article 112 claim). As the holder of the Icesave branch depositors' claims, FSCS was accorded that priority status. The acceptance of FSCS as an Article 112 creditor was challenged by other, non-priority creditors under the Icelandic constitution and the European Convention on Human Rights. FSCS, along with the other priority creditors

(the Dutch Central Bank and UK and Dutch local government authorities), joined legal proceedings in Iceland to resolve the issue. Before the District Court on 27 April 2011, FSCS's claims and Article 112 status was upheld. On appeal, the Supreme Court of Iceland also upheld FSCS's claims and status in a judgment dated 28 October 2011.

FSCS has attended the regular open creditors' meetings and is a member of the Winding-up Board's Informal Creditors' Committee. Most meetings have been held in Reykjavik, Iceland, with the occasional meeting hosted in London. FSCS has been supported by English and Icelandic Counsel, and financial advisers, in submitting and maintaining its claims and its oversight of the winding-up. FSCS also liaises with HM Treasury in view of the Treasury's significant economic interest in the recoveries following its funding of the payout made on behalf of the Icelandic Depositors and Investors Guarantee Fund, and for amounts in excess of the then FSCS level of protection of £50,000.

First distribution of recoveries

The Supreme Court judgment unlocked the first distribution of recoveries from the winding-up proceedings in December 2011. Subsequent distributions were made in May 2012, October 2012 and September 2013. However, as part of Icelandic currency control restrictions, from March 2012 the Winding-up Board was unable to distribute "new funds" without an exemption from the Central Bank of Iceland. From March 2012, the Winding-up Board continued to accumulate significant funds for distribution to creditors. A significant asset of LBI is a bond instrument from the new bank, originally agreed in 2009, and renegotiated in December 2014. Following these renegotiations and lengthy discussions between the Winding-up Board, creditors and the authorities, the fifth distribution was made in December 2014, reaching a total 84 per cent recovery. We expect to recover the remainder in the next year or two.

Distributions have been received in sterling, euros and US dollars – payment in the latter two currencies have been converted to sterling in order to repay FSCS's borrowings with HMT. A relatively small amount of ISK, worth approximately £37m, is retained in an escrow account for FSCS in Iceland. FSCS is continuing to work with the Winding-up Board and the authorities to achieve early payment of the sixth distribution.

We aim to respond quickly, efficiently and accurately to consumers' claims for compensation.

Section 5

Responding to Consumers

A summary of our core activities in responding to consumers while modernising our service and diversifying compensation routes.

In this section we report on our imperatives to:

- modernise our claims service; and
- diversify compensation routes.

We also:

- report on our claims and enquiries during 2014/15;
- summarise consumer enquiries and complaints; and
- publish the Independent Investigator's report.

Reporting on our imperative:
Modernising our service to consumers

Connect: our user-friendly online claims service

Since the financial crisis, FSCS has invested in its claims-handling capacity to ensure that we can protect consumers quickly and efficiently in calm times and in crises. In January 2011, we introduced faster payout for deposits which enables us to compensate the great majority of savers in failed banks, building societies and credit unions within seven days.

We stated in our five-year vision that we planned next to overhaul our handling of other claims to give people more choice in the way they deal with us by providing a secure online claims service. This service will be supported by a single, consistent and well-controlled claims-handling platform that will be used by both FSCS and our outsource partners who handle the great majority of claims. Connect also greatly improves FSCS's readiness to respond to significant increases in claims volumes. We will

Key points

- The launch of Connect will modernise our service to consumers.
- We have worked closely with the UK Authorities to implement the Deposit Guarantee Schemes Directive (DGSD).
- We received 31,762 new claims in 2014/15 (including those from Welcome). We also received 21,900 new claims in the General Insurance sector.
- Average compensation payments for a Self-Invested Personal Pension (SIPP)-related claim went up to £16,375 compared with £11,104 in 2013/14.
- Average payments for Investment Intermediation have also increased significantly in 2014/15 at £19,450 (compared with £10,939 in 2013/14).
- We handled over 142,900 enquiries covering all aspects of our work, compared with over 200,000 in 2013/14.

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FSCS has worked closely with the UK Authorities in 2014/15 on a number of changes to the law

Consultation and discussion papers

Over the year the Prudential Regulation Authority (PRA) published a number of important consultation and discussion papers:

- *Depositor protection* (consultation paper CP20/14) published October 2014;
- *Policyholder protection* (consultation paper CP21/14) published October 2014;
- *Ensuring operational continuity in resolution* (discussion paper DP1/14) published October 2014; and
- *Depositor, dormant account and policyholder protection – amendments* (consultation paper CP4/15) published January 2015.

PRA policy statements

The majority of the changes proposed in depositor and policyholder consultations and discussions were confirmed at final rules in the two policy statements published by the PRA in April 2015:

- *Depositor and dormant account protection* (PS6/15); and
- *Policyholder protection* (PS5/15).

be able to scale our operations up and down according to the complexity and numbers of claims involved in a failure – however unexpected that failure is.

While the costs of modernising our claims service have been more than we budgeted for over the past year, these costs have been contained within the year's budget. It is also important to view the costs of bringing in such a substantial change in our operations within the longer-term context. Connect will deliver a number of benefits including greater operational efficiency as consumers access the online service.

Reporting on our imperative: Diversifying compensation routes

Working with the UK Authorities

Alongside our work to modernise the handling of claims, FSCS has worked closely with the UK Authorities in 2014/15 on a number of changes to the law and to our approach to compensation which will enable us to:

- change our protection for consumers from 2015/16 (see below); and
- compensate consumers in new and more convenient ways.

These changes flow from the implementation in the UK of EU law on deposit protection, the recast DGSD, and from wider changes proposed by the PRA to the protection of savers and holders of insurance policies.

Impact of recast DGSD

For depositors the changes will mean:

- **Fast payments for depositors in failed banks, building societies and credit unions:** FSCS currently aims to pay the majority of depositors with a failed firm within seven days; the DGSD has adopted seven days as the payout deadline for all European Deposit Guarantee Schemes, with a transition period to meet this requirement ending in December 2023.
- **Protection for a wider range of businesses:** extension of FSCS eligibility to include medium and large corporate depositors (in addition to small businesses which are already FSCS protected), with certain exceptions (e.g. financial institutions).
- **Protection for temporary high balances (THBs):** the THB coverage, for certain categories of deposits, means that when a deposit firm fails, the proceeds from important events in people's lives, such as the sale of a home, or deposits that are the result of proceeds from a life insurance policy, personal pension, legacy or redundancy will be FSCS protected up to £1m and for six months (or without monetary limit in some cases).
- **Continuity of access to accounts:** in some circumstances, the regulator and FSCS may be able to protect savers in a failed bank or building society by transferring their account to another provider with little or no loss of service continuity.
- **Faster payout of deposits in cross-border failures:** the recast DGSD also requires the Deposit Guarantee Scheme in a host Member State to repay depositors with branches of credit institutions on behalf of the DGS in the institution's home Member State. Through the European Forum of Deposit Insurers (EFDI), FSCS is working closely with its European counterparts to implement the above requirement.

These changes will become effective from July 2015, with the exception of continuity of access requirements, which firms have to implement by December 2016. In order to give them effect FSCS is making important changes to the Single Customer View (SCV) files which support fast payout and to our service to verify those files.

Protection for many insurance policyholders will also change.

The policy statement on *Policyholder protection* (PS5/15) contains a number of rules intended to:

- align the existing insurance compensation rules more closely with the PRA's statutory objectives; and
- contribute to the future operational effectiveness of FSCS in providing continuity of cover, and pay any benefits falling due, and compensation in the event of the failure of an insurance firm.

The main proposals being implemented include extending FSCS compensation to all long-term insurance products to 100 per cent; and extending compensation to 100 per cent for certain types of general insurance claims where:

- the claim arises from death or incapacity due to injury, sickness or infirmity of the policyholder;
- benefits are payable in the form of income and/or other regular payment; or
- the claim is made under a contract of professional indemnity insurance.

Reporting on our imperative: A summary of claims and enquiries

We received 31,762 new claims from consumers during 2014/15. We also saw a marked increase of new claims in the General Insurance Provision sector to 21,900 (see below).

The chart on page 36 shows claims numbers, the decisions made and average compensation payments by class.

General Insurance Provision claims

New claims in the General Insurance Provision sector in 2014/15 rose by around 50 per cent to 21,900 compared with 14,328 received in 2013/14.

While FSCS does not directly process claims for General Insurance Provision as it does for the other classes, we are closely involved in protecting policyholders through the management of key areas of the claims-handling process. We do this in a number of ways:

- our continuing work with the nominated Run-Off Agent (ROA), who handles aspects of the claim on FSCS's behalf, including:
  - auditing the soundness of the ROA's processes for assessing eligibility and only signing off high-value claims ourselves; and
  - assessing increasing numbers of claims that are submitted direct to us and then passing eligible claims onto the ROA for processing.

The nature and complexity of many General Insurance Provision claims mean there is no direct correlation between the numbers of payments and the numbers of 'decisions' or 'uphold rates' in any one year.

The majority of the FSCS spend for General Insurance Provision again fell against employers' liability policies issued by the firms:

- Builders' Accident Insurance Limited (BAI);
- Chester Street Insurance Holdings Limited; and
- Independent Insurance Company Limited.

In 2014/15 we paid out £70.76m on these estates with claims payments against Chester Street contributing £51.5m towards the total General Insurance spend of £85m.

Noise-induced hearing loss claims

New claim notifications continue to rise year on year largely as a consequence of noise-induced hearing loss (NIHL) claims. This experience is consistent with claims trends in the live UK insurance market. In 2014/15 we received 11,088 new claims for NIHL across all failed insurance firms. The rising number of these claims presents an ongoing challenge to the UK insurance market and FSCS continues to work with the Association of British Insurers (ABI) and its members to address the escalating compensation and handling costs attributed to these claims.

As with the live insurance market, FSCS continues to see that proper and legitimate challenges made during the claims-handling process lead to the majority of those claims, brought against protected policyholders, being withdrawn or otherwise abandoned by the claimant with the consequence that, although no compensation is paid, considerable time and expense is incurred.

Older insurance failures also continue to see new claims for the fatal asbestos-related condition of mesothelioma.

Milburn Insurance Services Limited (Milburn)

Milburn is a UK-based insurer regulated by the PRA. It ceased underwriting new business in September 2013 and two partners in Begbies Traynor Group plc were appointed joint administrators in December 2013. FSCS declared Milburn in default in December 2013.

Milburn's policyholders were small firms with property insurance and the vast majority of these were able to seek FSCS protection. Compensation for indemnity claims for those policyholders in 2014/15 was £1.92m. In addition to providing protection for indemnity claims, FSCS also protects eligible policyholders for any loss of premium sustained where the joint administrators cancel the firm's live insurance policies. In 2014/15 we paid out £650,000 in total to 7,139 policyholders for these return of

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In 2014/15 we received 11,088 new claims for NIHL across all failed insurance firms

> Although there were fewer PPI claims, PPI continues to be a significant workstream for FSCS

premium claims. We expect to continue to pay indemnity claims for Milburn over the next 12 to 18 months but as this firm wrote no liability business we do not expect claims over the long term.

European Risks Insurance Company hf (ERIC)

ERIC is an Icelandic firm that passported-in to the UK for the provision of property and liability insurance policies. ERIC was declared in default in April 2014.

In 2014/15 FSCS has paid out £4.43m to policyholders for indemnity claims. The majority of this spend was in respect of indemnity claims under solicitors' professional indemnity insurance. As ERIC provided liability insurance, we expect to provide continuing support to policyholders of the firm by meeting claims over the next few years.

Balva AAS (Balva)

Balva is a Latvian firm that passported-in to the UK for the provision of liability insurance policies. Balva was declared in default in July 2014. In 2014/15 we have paid out £2.73m. The majority of this spend was in respect of claims under solicitors' professional indemnity policies. As Balva provided liability insurance, we expect to receive further claims from policyholders over the next few years.

Investment Intermediation claims

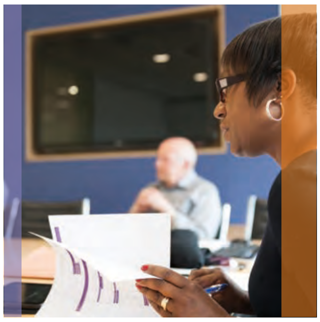
Another area of increased claims volumes was in the Investment Intermediation sector where we received 9,049 claims during 2014/15 compared with 7,823 claims received in 2013/14. Average payments also increased significantly this year to £19,450.23 compared with £10,939 in 2013/14.

Alpari (UK) Limited and LQD Markets (UK) Limited

Following the market reaction after the Swiss National Bank's decision on 15 January 2015 to remove the informal peg between the Swiss franc and the euro, Alpari (UK) Limited and LQD Markets (UK) Limited were placed into special administration and declared in default.

FSCS has been working with the relevant special administrators to determine FSCS's involvement in paying compensation to clients of the firms and ensuring that FSCS's compensation process aligns with the obligations of the special administrators to return client monies.

In the case of Alpari (UK) Limited, FSCS has confirmed that all accounts are protected by FSCS which meant that FSCS and the special administrators were able to announce a process in April 2015 whereby clients of Alpari could register FSCS claims through the firm's website, helping to facilitate the payment of compensation to eligible claimants.



Welcome Financial Services Limited (Welcome)

Welcome is an early example of FSCS diversifying the ways in which we pay out compensation. Welcome was declared in default in March 2011, having mis-sold a large number of Payment Protection Insurance (PPI) policies. However, an innovative scheme agreed with the firm and its creditors allowed Welcome to cover the costs of compensating claimants and processing the claims. FSCS's levy payers have not funded the PPI compensation costs relating to claims against Welcome.

FSCS has paid out £2.6m in compensation to Welcome PPI claimants during 2014/15 compared with £5.5m in 2013/14. These amounts are in addition to £13.2m paid out in 2012/13 and £41.4m paid out in 2011/12. These sums, together with the claims-processing costs, were met under the arrangement put in place with Welcome. PPI claims volumes have continued to decrease and it is expected that numbers will decrease further in 2015/16.

In January 2014 FSCS reached a further agreement with Welcome for the financing of compensation payments relating to the mis-selling of any other insurance products by the firm.

In the case of LQD Markets (UK) Limited, FSCS continues to work with the special administrators to establish which clients will be entitled to FSCS compensation and the amount of compensation due. FSCS expects to pay compensation to all eligible claimants in the forthcoming months.

Catalyst Investment Group Limited

Catalyst was declared in default on 4 October 2013. Catalyst had a key role in promoting funds backed by ARM Asset Backed Securities SA (ARM), which have been suspended since 2011. After working with the provisional liquidators of ARM to gather the information we needed to deal with claims, we started processing these claims during 2014. By the end of 2014/15 decisions on the vast majority of Catalyst claims had been issued, with 3,707 claims decided and compensation of £68.8m paid to eligible claimants.

City Equities Limited

London-based stockbroker firm City Equities Limited was placed into the Special Administration Regime (SAR) and declared in default on 11 October 2013. After working with the special administrator, FSCS was able to start processing claims in July 2014. By the end of 2014/15 compensation of £10.58m had been paid to around 800 eligible claimants. Further claims will be processed during 2015/16.

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Claims made through CMCs accounted for just over 55 per cent of all claims

Life and Pensions Intermediation claims

The Life and Pensions Intermediation sector saw a similar volume of new claims compared with 2013/14.

SIPPs-related claims

The average compensation payment for a SIPP-related claim against Independent Financial Advisers (IFAs) in this sector went up by nearly 50 per cent to £16,375, compared with last year's average payment of £11,104. As a result we raised an interim levy on the Life and Pensions Intermediation sector in March 2015 of £20m. The increase in compensation mainly related to wrong advice being given to consumers by IFAs to transfer funds from existing pension schemes to SIPPs. Our experience of these claims was consistent with warnings that had been published by the Financial Conduct Authority (FCA) in relation to SIPPs and the conduct of some firms. We expect SIPPs-related claims to continue to rise in 2015/16. We explain more about how a SIPP-related claim is handled in the case study on page 19.

PPI claims continue

Although there were fewer PPI claims in 2014/15, PPI continues to be a significant workstream for FSCS in terms of new claims. There were 5,644 claims received in 2014/15 (excluding those from Welcome), 9,621 claims including Welcome (see box on page 33), compared with 12,120 the previous year. At the year-end we had completed 6,239 claims (excluding Welcome) of which 97.5 per cent were completed within our target timescales.

There was also a continuing decrease in Home Finance claims.

Claims Management Companies

Claims made through Claims Management Companies (CMCs) accounted for just over 55 per cent of all claims. Significant areas of activity from CMCs continued to be related to PPI claims (both non-Welcome and Welcome), and Investment Intermediation.

Of the total PPI claims received, over two-thirds were sent to us from CMCs. Whether a claim is received via a CMC or an individual is irrelevant to whether or not we uphold the claim. We assess all claims on an individual basis and on the available evidence. However, claimants who use CMCs receive less because CMCs can take up to 25 per cent of the compensation that is paid out.

Significant complexity

Overall, we continued to see significant complexity in the claims we received. Handling complexity means that no two claims are the same; there cannot be the equivalent economies of scale that arise when we handle volumes of relatively 'straightforward' claims.

Consumer enquiries and complaints

FSCS handles an extremely varied range of telephone, email and written enquiries from claimants, their representatives and the general public every day.

During 2014/15 we dealt with over 142,000 enquiries compared with over 200,000 during 2013/14. The decrease in enquiries corresponds to the decrease in claims during 2014/15. General enquiries cover a wide range of topics about all aspects of our work, including how to make a claim, compensation limits in various sectors and how long a claim might take to process.

Although the volume of enquiries was lower in 2014/15, the type of enquiry was very much in line with the type of claims we received which means, as with last year, we were asked for increasingly complex information about the claims process.

Alongside this daily work, FSCS deals with any complaints it receives as well as responding to all parliamentary correspondence.

Complaints

The number of complaints received in 2014/15 increased to 968 compared with 868 in 2013/14. We continually monitor the complaints we receive and are aware that a significant proportion relate to the time it takes for claim decisions to be issued. As noted elsewhere in this report, we expect that the changes in our systems and processes brought about through the implementation of Connect, discussed earlier, will improve the time taken to handle claims.

Complaints are dealt with by one of our complaints officers within our Customer Escalation team, which is separate from the teams responsible for assessing claims. A complaints officer carries out a review of the decision that has been reached, taking into account any new evidence and concerns raised. When there are complaints about the mishandling or maladministration of a claim, the matter may also be referred to the Independent Investigator. Three complaints were referred to the Independent Investigator during 2014/15. The Independent Investigator always makes a separate report.

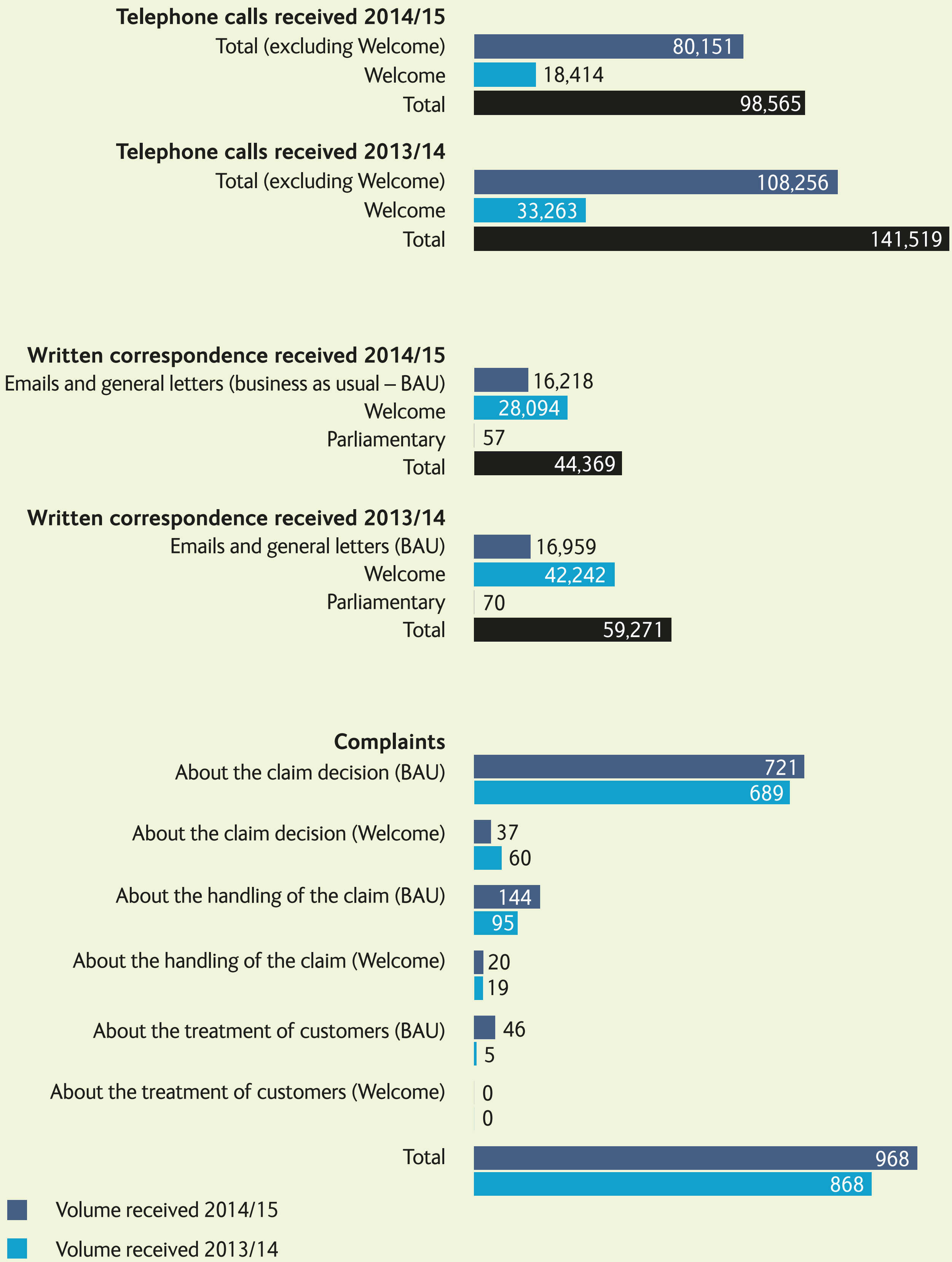
Claims, decisions and average payments by class

		New claims received		Total decisions		Uphold rate		Average paid	
		2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Deposits (SA01)		7,460	6,066	7,466	6,070	100%	99.8%	£544	£633
General Insurance Int. (SB02)	All (excluding Welcome[1])	5,644	12,120	6,239	13,881	80%	75.2%	£3,738	£3,915
	Welcome	4,631	8,289	4,525	6,514	87%	92.2%	£1,395	£1,463
Life and Pensions Provision (SC01)		1	0	1	3	100%	66.7%	£15,725	–
Life and Pensions Intermediation (SC02)		4,442	4,248	4,629	3,944	43%	44.8%	£16,375	£11,104
Investment Fund Management (SD01)		4	2	5	5	80%	100%	£22,087	£7,377
Investment Intermediation (SD02)		9,049	7,823	10,093	7,373	83%	83.4%	£19,450	£10,939
Home Finance Intermediation (SE02)		531	710	477	847	7%	3.5%	£53,199	£39,994
Total		**31,762**	**39,258**	**33,435**	**38,637**	**N/A**	**N/A**	**£8,855**	**£5,136**
General Insurance Provision (SB01)[2]		21,900	14,328	27,892	13,339	17,951	7,505	£3,026	£6,785

1 Due to the restructuring arrangement put in place for Welcome Financial Services Limited (Welcome), the costs of handling and compensation for these claims will not fall on levy payers.

2 FSCS does not directly process claims for General Insurance Provision as it does for other classes. The nature and complexity of these claims mean there is no direct correlation between the numbers of payments and the numbers of ‘decisions’ or ‘uphold rates’ in any one year.

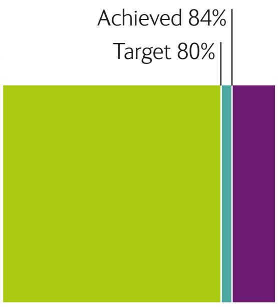
Consumer enquiries and complaints



How we performed against our service standards

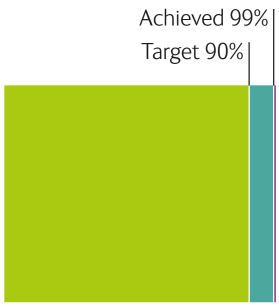
Target:
To answer 80 per cent of all telephone calls within 20 seconds.

Performance:
We answered 84 per cent of all telephone calls within 20 seconds.



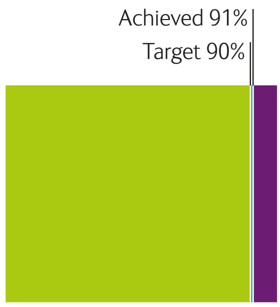
Target:
To answer 90 per cent of correspondence within 10 working days.

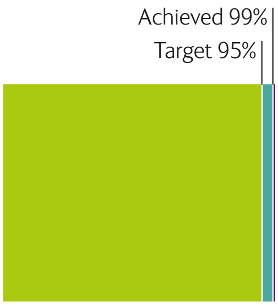
Performance:
We answered 99 per cent of correspondence within 10 days.



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

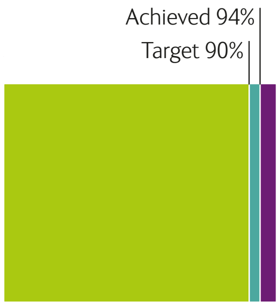
Performance:
We answered 91 per cent of complaints within the target.





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

Performance:
We answered 99 per cent of calls within 90 seconds.

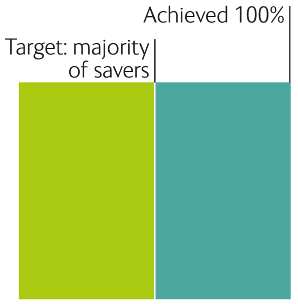


Target:
To send out 90 per cent of application forms within five working days.

Performance:
We sent out 94 per cent of forms within five days.

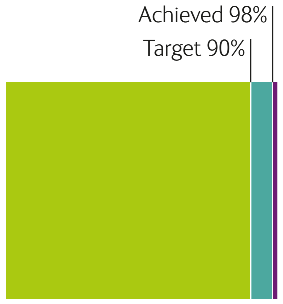
Target:
To confirm a compensation decision to the majority of savers in failed banks, building societies and credit unions within seven days of failure. (To pay the remaining customers with more complex accounts within 20 days.)

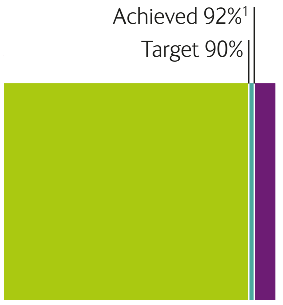
Performance:
In 2014/15 100 per cent of customers were paid compensation within seven days of the failure of a credit union. (The majority of customers with more complex accounts were paid compensation within 20 days.)



Target:
To confirm a compensation decision on 90 per cent of PPI claims within three months of receiving a completed application form.

Performance:
We confirmed decisions for 98 per cent of claims within the target.





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

Performance:
We confirmed decisions for 92 per cent of claims within the target.

1 We have changed our approach to reporting the performance of our turnaround time to a method which we consider more in line with the service we are seeking to deliver for claimants. We are now reporting the claims that were completed within the Service Level Agreement (SLA), due to be completed within the year, as a percentage of the total number of claims due to be completed by a date in the year. Our previous method was to report all claims completed within the SLA as a percentage of total claims completed within the year.

Understanding our work

FSCS is the UK's statutory fund of last resort for customers of financial services firms. We are a non-profit-making independent body, accountable to the FCA and the PRA. The rules under which we operate are made by the regulators and are in the FCA Handbook and the PRA Handbook.

Our role

Our role is to protect UK consumers and small businesses against financial loss from failed firms regulated by the relevant UK Authorities. These are firms which are unable, or likely to become unable, to pay claims against them. We do this by providing an effective and efficient compensation scheme to eligible consumers.

No charge to consumers

We do not charge individual consumers for using our service and consumers do not need to use a representative such as a CMC to apply for compensation.

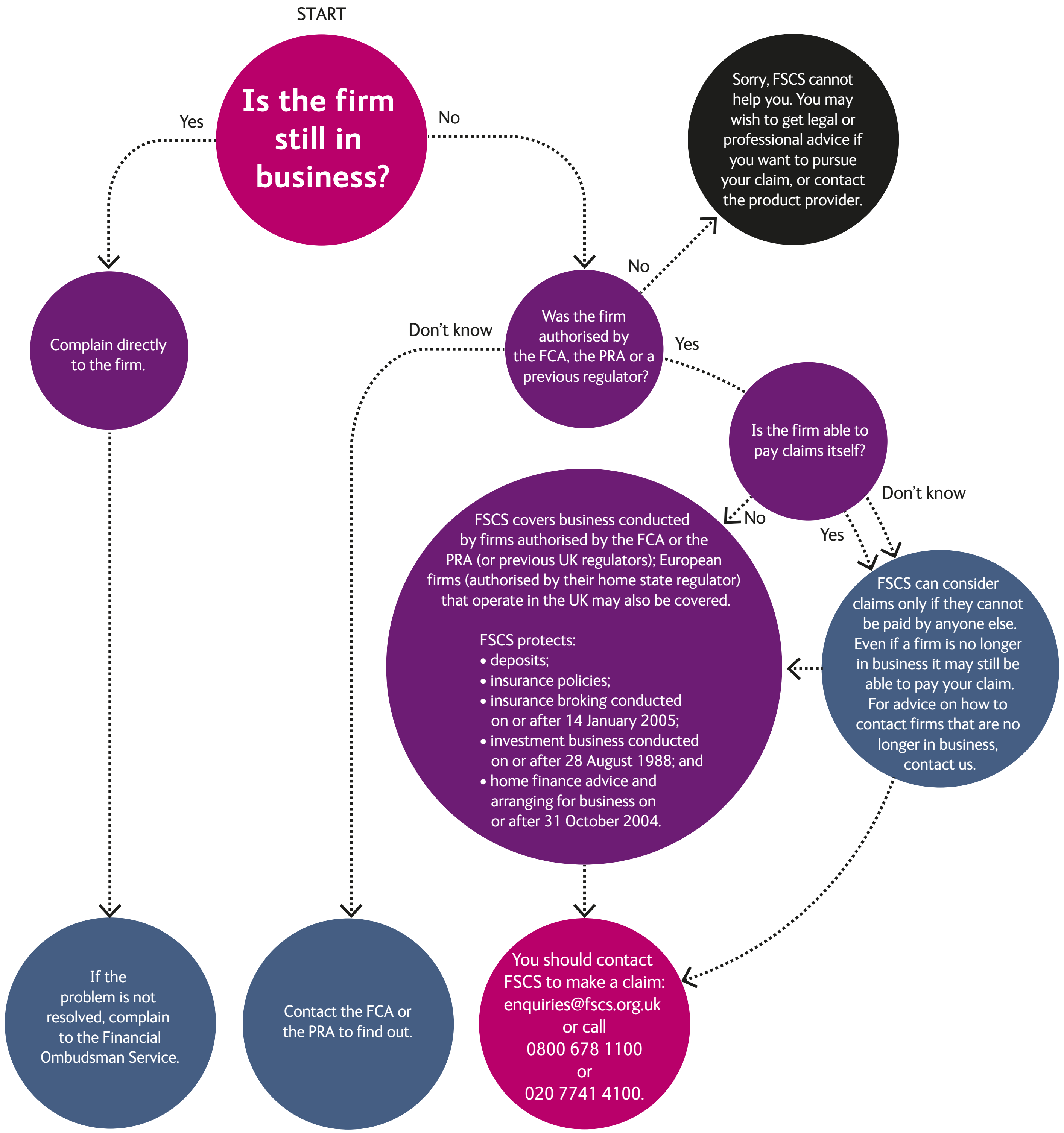
We only pay compensation for financial loss and there are limits to the amount of compensation we can pay. The table on page 42 shows the financial sectors we cover, alongside what we protect and the compensation limits. The 'Can we help you?' decision tree shows the process we use to work out whether or not we can help you with your claim.

The FCA hosts the register of authorised financial services firms and offers more information about who to contact if you think you are entitled to make a claim for compensation.

FSCS is funded by the industry. There is more information about FSCS finances in Section 7.

Can we help you?

This decision tree shows the process FSCS uses to work out whether we can help you with your claim.



What FSCS protects and compensation limits: a brief summary

Industry class or sector	What we protect	Compensation limits
Deposits	Consumers' deposits in banks, building societies and credit unions. Small businesses. **From 3 July 2015** FSCS will also cover deposits made by medium and large businesses (with certain exceptions, e.g. financial institutions), up to a limit of £75,000. THBs are covered for six months for key 'life' events (e.g. sale of home). Some THBs covered without limit.	The maximum level of compensation for claims against firms declared in default: • **from 1 January 2016** deposit protection will be £75,000. This figure is the sterling equivalent of €100,000 as required by the recast DGSD; • **from 3 July 2015** 100% of consumers' temporary high balances (THBs) of up to £1 million; • **from 1 January 2011 to 31 December 2015** up to 100% of £85,000 for **each** depositor in most cases. • **up to 31 December 2010** different limits apply. See our website for more information. Deposits in all currencies are covered.
Investment Provision and Intermediation	We can provide protection for investments if: • investors suffer losses arising from bad investment advice, poor investment management, misrepresentation or fraud; or • 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	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 class or sector	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 including 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, since 1 December 2001, credit insurance. Authorised firms in the UK, or, in some cases, UK policyholders of EEA firms passporting-in to the UK.	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** is 100% of the first £2,000 plus 90% of the remainder; • **on or after 3 July 2015** long-term insurance and some general insurance claims are covered in full. There is more information about the compensation limits on our website.
Insurance Intermediation	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. **Please note:** certain life insurance policies are treated as investment contracts and are subject to the investment compensation limits.	Claims for compulsory insurance are covered in full. The maximum level of compensation for claims against firms declared in default: • **on or after 1 January 2010** is 90% of the claim with no upper limit; • **on or after 14 January 2005** (until 1 January 2010) is 100% of the first £2,000 plus 90% of the remainder.

Who may receive compensation?

To receive compensation from FSCS, you must have suffered a financial loss caused by the regulated activities of a firm which has failed.

The aim of the compensation is to restore you to the position you would have been in had the firm not failed and/or if the financial product concerned had not been mis-sold.

What we do not cover

- We do not pay compensation because a financial services product, such as an investment, has not performed as well as you hoped it would.
- We do not protect shares held in a company simply because they have become worthless on that company's collapse.
- We do not compensate purely for a projected shortfall in performance.

Three complaints were referred to the Independent Investigator in 2014/15

John Hanlon, Independent Investigator

This is my seventh annual report since I took up office, and it relates to the period from 1 April 2014 to 31 March 2015.

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

I do not investigate disagreements or disputes about the merits of a decision made on a claim itself. This is made clear to claimants who ask for a complaint to be referred to me. I make it clear to complainants that I will not adjudicate on decisions made on claims. Having investigated a complaint, I provide a written report to the FSCS 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 in every case I adjudicate upon. I investigate complaints following review of the complaint by FSCS under its internal complaints procedures.

In this reporting period, I investigated and reported on three cases referred to me. I did not uphold the complaints made in two of these cases. In relation to the third case, this comprised five elements of complaint. I did not uphold three of the elements of complaint. I upheld one of the elements of complaint and found the fifth element to be justified. In relation to this third case, I noted, adversely, the failure of the complainants to answer questions I put to them.

I note that FSCS dealt with 31,762 claims in this reporting period. I am satisfied that FSCS is signposting complainants to me should they be dissatisfied with how their claim has been administered.

Small investor says FSCS protection essential

Catalyst customer Alan White was grateful that FSCS not only recovered his investment, but also paid the interest.

"I am currently in my 89th year. My late father had briefly been a stockbroker and then a colliery salesman and had always dabbled in the stock market, so from an early age I bought shares and continued to be a small investor over the years."

In December 2000, Mr White put some money into AIM VCT2 on the advice of Catalyst, who had sent him a copy of their brochure. He told us: "It subsequently became Maven Income & Growth VCT5 and still pays me a regular dividend.

"Another investment recommended by Catalyst was the ARM zero-coupon bond offered for either five or seven years in October 2006. I put some money into the seven-year version which was due to pay out by the end of September 2013. I used to receive regular reports confirming it was doing well until approximately a year ago when the first mention was made of the problems."

Mr White had heard about FSCS when it previously existed under a different name. "I felt very pleased to learn that I might be covered." After looking at Mr White's claim, FSCS was satisfied that Mr White was owed compensation and interest.

"I would recommend FSCS to anyone. I was not saving for anything in particular but the money was very welcome. If the government want people to invest in industry and commerce then clearly the existence of some form of back-up, such as FSCS, is essential."

We aim to raise public awareness of the protection we provide.

Key points

- Our focus in 2014/15 was to continue to raise awareness of deposit protection.
- Independent research shows that awareness of FSCS or a protection scheme stands at 63%.
- Social media activity allowed us to reach our target audience.

Section 6

Raising Awareness of FSCS

Boosting consumer confidence and stability through awareness of FSCS is vital in supporting markets and a strong economy.

Reporting on our imperative: Raising awareness of the protection we provide

Our research shows that the more aware people are of FSCS and the protection it provides, the more confident they are in taking financial decisions. The more reassured people are that their money is protected, the more likely they are to buy financial products. Understanding the compensation limits in the different sectors (Deposits, Insurance and Investments) also means that consumers are more likely to take active steps to manage their finances.

The focus in 2014/15 was to continue to raise consumers' awareness of deposit protection: an area that touches almost everyone's lives.

Our long-term goal is to achieve 70 per cent public awareness of FSCS or a protection scheme for deposits. Currently, awareness of FSCS or a protection scheme stands at 63 per cent, according to independent research carried out by GfK NOP during 2014/15.

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Understanding compensation limits means consumers are more likely to take active steps to manage their finances

In order to keep costs to a minimum, our strategy is to rely on banks, building societies and credit unions to raise awareness of FSCS protection through their own marketing and disclosures. We supplement the industry's efforts with targeted marketing and PR. Generally, one-third of awareness is driven by the industry, one-third by advertising and one-third through various PR activities. This gives us a clear indication that our multi-channel approach is an effective way to build awareness of FSCS or a protection scheme. Currently, only banks, building societies and credit unions fund the costs of FSCS's consumer awareness programme, which cost £3.3m in 2014/15.

Monitoring effectiveness

We set key performance indicators at the start of the 2014/15 programme and report regularly to the FSCS Board on performance and the tracking evaluation of those awareness indicators. The FSCS Board, along with our Consumer Awareness Programme Governance Board and Consumer Advisory Panel, help to ensure that we are heading in the right direction and maintaining the highest levels of reporting. We delivered our strategy over the year to the same budget as we did in 2013/14 and will do so again in 2015/16.

A snapshot of our activities

Our work during 2014/15 included:

- developing our overarching communications message: ‘Whatever you're saving for, your money is FSCS Protected’;
- the introduction of new creative designs that work across advertising, as well as across in-bank materials, so that people can see an aligned look and feel to all our communications;
- the inclusion of the ‘FSCS Protected’ badge in all our communications. We welcomed the fact that several banks and building societies have already taken up our challenge to include the badge in their customer communications and advertising;
- the tracking of the campaign, frontline staff training and the range of in-bank materials throughout the year. We used the results to inform our future strategy to improve awareness; and
- establishing a strong digital presence across the year, revising our consumer awareness microsite and using video to push our awareness message to consumers in a more relevant and resonant way. To support this drive, we partnered with five well-known personalities and Mail Online (This is Money website) to promote the ‘Whatever you're saving for ...’ message. The results have allowed us to gain knowledge about how we can further communicate our messages, which we will be taking into our 2015/16 programme.

The results: an overview

- We reached 84% of our target audience via advertising in radio, print and online.
- Microsite visits were up 50% from 2013/14.
- Social media activity allowed us to reach our target audience via Facebook, Twitter, YouTube, Vine and Instagram. On average, users were able to see or hear about our ‘Whatever you’re saving for, it’s FSCS Protected’ campaign 2.5 times.
- Our PR had 97% positive or neutral engagement over the year as measured by Brandwatch, the proprietary tool used by our media communications agency.

Plans for the coming year

In 2015/16 we will continue to engage with consumers across a similar range of media channels to make them aware of FSCS’s deposit protection. Our main focus will continue to be on our prime target audience: adults aged between 21 and 70. However, we will also target an audience of women, aged 25 to 34, who are currently the least aware of FSCS protection among all adults in the UK. This audience will have a bespoke digital programme of activity aimed at building awareness through key peer influencers, such as vloggers and bloggers.

“

We supplement the industry’s efforts with targeted marketing and PR

Media coverage

A snapshot of the coverage FSCS has received over the year.

FSCS has featured in a range of media outlets including broadcast media and national and regional newspapers. There was also regular coverage in the online versions of many of these titles.

April 2014

The new ISA limit announced in the Budget, and FSCS's warning that savers putting money into these so-called 'Nisas' could reach the compensation limit at that time of £85,000 much faster, resulted in coverage in *The Telegraph* and *Sunday Telegraph*.

June 2014

Lawyer Online reported that the FSCS Legal team received the In-house Public Sector Team award in recognition for its outstanding work in the wake of the financial crisis. In particular, the coverage highlighted the key role played by the Legal team in the FSCS's bid to recoup Keydata compensation from financial adviser firms.

September 2014

A number of general articles during the year were testament to FSCS's efforts to highlight the role it plays in protecting consumers. One article on the This Is Money website ('Are your savings safe? How to protect your hard-earned cash') outlined ways in which consumers can protect their savings. It noted that people with savings in UK-regulated banks or building societies are provided with guaranteed protection by FSCS of up to £85,000, the limit at the time.

A further article in *The Independent* reported how British citizens have fallen behind their continental European counterparts in terms of saving for the future. The article also noted the FSCS protection limit for deposits.

October 2014

FSCS came to the aid of thousands of credit union members during the year. In October coverage of its efforts was reported by several regional media outlets. The *Evening Gazette* (Teesside), *Northern Echo* and darlingtonandstocktontimes.co.uk were among the regional media that reported FSCS had made payments to more than 800 members of Redcar and Cleveland Money Tree and Glen Credit Union following its collapse.

December 2014

FSCS efforts, along with the UK Government, to get money back from the estate of LBI hf for the failure of Icesave in 2008 proved fruitful. In December FSCS announced that taxpayers and financial services firms are better off thanks to a £1.36bn recovery achieved by FSCS. This was reported in a number of national newspapers including *The Telegraph* (Business), *The Independent* and *The Times*. It was also covered extensively by the Press Association's News Wire as well as the regional media.

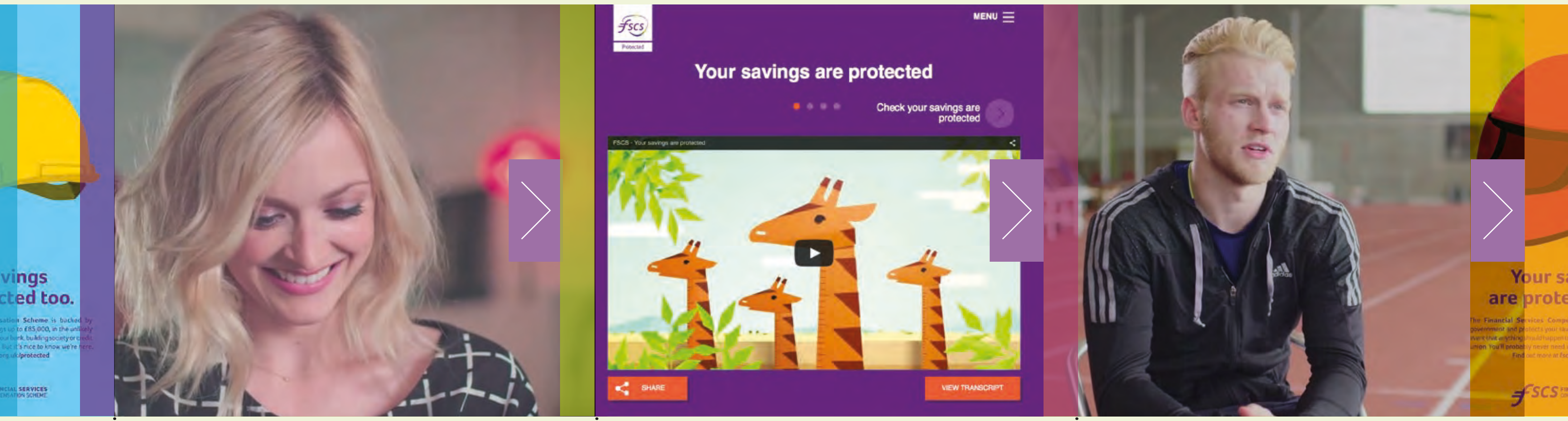
March 2015

The FSCS's 'Protecting Your Future' campaign, which formed part of our consumer awareness programme, resulted in coverage in *The Telegraph* that included extracts of their interview with Monica Galetti, during which she discussed aspects of her life and her attitude towards savings.

Social media

FSCS launched its 'Protecting Your Future' consumer awareness programme in September 2014.

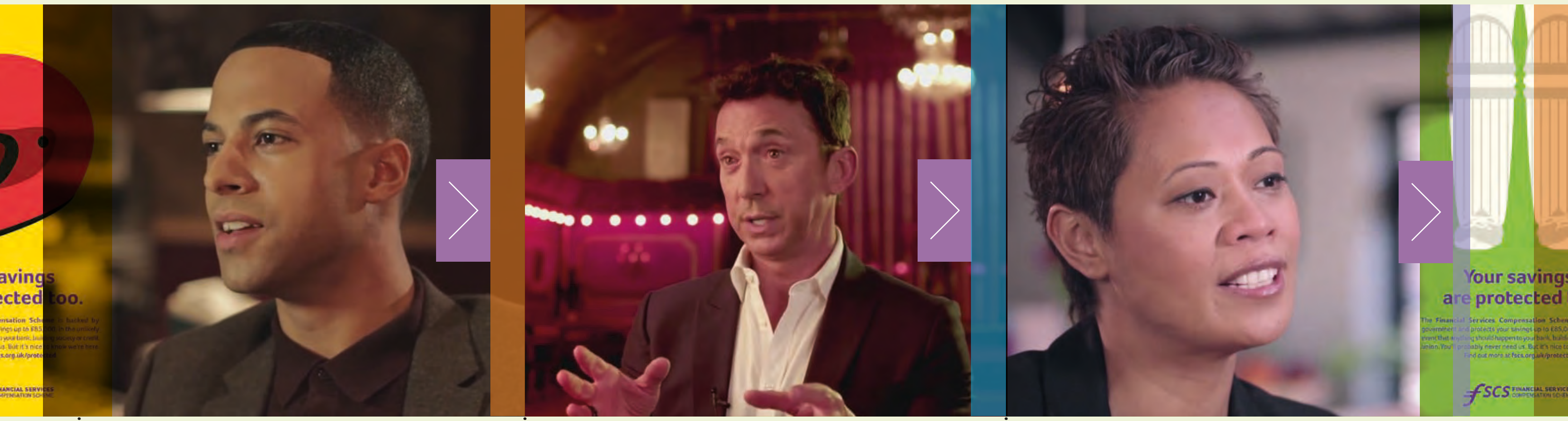
The films for each personality were hosted on YouTube and shared via multiple social media channels such as Twitter, Facebook and BuzzFeed.



The programme was launched with a film featuring TV and radio presenter Fearne Cotton, the first of five well-known personalities talking about a time in their lives when savings were crucial to securing their futures.

We also launched a short, 60-second animated film featuring the voice of Benedict Cumberbatch.

A film was shared each week, with a month dedicated to each personality. Paralympic gold medallist Jonnie Peacock's film was used in October.



TV presenter and former member of boyband JLS, Marvin Humes, was featured in November.

We started 2015 with the most watched video content of the campaign, *Strictly Come Dancing* judge, Bruno Tonioli's story which gained over 370,000 YouTube views.

The campaign concluded with *MasterChef*'s Monica Galetti's story in March.

Over the course of six months, the films for each celebrity and the animation gained almost one million views in total.

We aim to ensure that we operate as cost-efficiently as possible and maximise recoveries from the estates of failed providers and third parties.

Section 7

FSCS Finances: Compensation, Management Expenses, Recoveries and Levies

The main strands of our finance work during 2014/15 supported by a robust Value for Money (VFM) Strategy.

In this section we report on:

- our imperative: improving our value for money, transparency and accountability;
- compensation payments;
- FSCS's management expenses;
- the major banking failures of 2008/09;
- the recoveries we made; and
- what FSCS levied in 2014/15 after taking recoveries into account.

Key points

- Total compensation in 2014/15 was £327m (excluding the major banking failures), up from £243m in 2013/14.
- Compensation payments relating to the Life and Pensions Intermediation sector rose by £16.5m in 2014/15 to £35.2m compared with £18.7m in the previous year.
- FSCS management expenses for 2014/15 were £71.5m.
- We recovered £560m from the estates of failed firms, including £494m from the major banking failures of 2008/09.
- FSCS and HM Treasury received a total dividend from Icesave, part of the estate of the failed Icelandic bank, LBI hf, of £1.36bn. Our share is £435m.
- During 2014/15, the levies we received totalled £1.076bn. This includes an interest cost and capital repayment levy for the banking failures of 2008/09.

Note: levies and recoveries figures above are on a cash received basis. These differ from the equivalent figures in the financial statements as they are produced on an accruals basis. See note 8.

Our Value for Money Strategy

Reporting on our imperative: Improving our value for money, transparency and accountability.

> **Procurement is a key area of VFM focus**

We share the industry's expectations that FSCS should show financial discipline and a commitment to VFM.

During 2014/15 good progress has been achieved through the adoption of a VFM Strategy which reinforces FSCS's commitment to operate in an efficient and cost-effective fashion.

Our VFM Strategy focuses on the following areas:

- applying a VFM test to strategic decision making;
- creating an environment and organisational culture which appreciates the role VFM has to play as part of our decision making; and
- using performance indicators and benchmarking information.

Outsourcing claims processing

Our strategic decision to outsource the vast majority of our claims is reviewed on a periodic basis. During the year, we compared outsourced costs with those of running an equivalent internal service across a range of volume and claim scenarios.

This analysis supports our view that outsourcing generates the optimal value for our stakeholders. This view is informed not only by cost and efficiency perspectives but also takes account of our requirement to respond quickly to a diverse and volatile flow of claims.

A VFM environment: Connect

Connect has been a stimulus for a more structured focus on improving processes and efficiency. All elements of the claims-handling process now have identified process owners who are responsible for managing risks, identifying inefficiencies and driving improvement.

Procurement

About two-thirds of FSCS's management budget is spent with third parties. Procurement and the ongoing management of supplier relationships is, therefore, a key area of VFM focus. During the year, our procurement policy framework has been strengthened and we have developed 'value' indicators to enhance the existing monitoring of our suppliers.

Performance measurement

We are currently in the process of considering how best to leverage benchmarking information as part of our decision-making process.

FSCS steps in after investment product fails

Part of Mrs Marion Price's pension disappeared overnight.

Seventy-nine-year-old Mrs Price read about an investment opportunity recommended in a national newspaper and decided in 2010 to invest part of her retirement funds into the product which promised to pay regular interest payments four times a year.

Approximately 21 months later Mrs Price received a letter saying the interest payments would be delayed.

"After receiving this letter, I then heard no more and received no further payments. I suddenly began to realise that the money I had invested might have gone. I felt sick and devastated to think that I had lost the money through no fault of my own and that part of my pension had just disappeared almost overnight."

Mrs Price's husband carried out research on the internet and found that the firm had stopped trading. He read about FSCS online and decided to contact us to see if we could assist. Marion wasn't so sure at first.

"Initially, I felt sceptical that FSCS could help, as I had tried to contact numerous people, including the administrators, but to no avail. But as soon as I contacted FSCS they said they were aware of the situation and gave me a case number. From then on, FSCS kept me informed every step of the way and replied immediately to any queries I had. The service I received was absolutely perfect.

"When I received the compensation payment I felt jubilant, tearful and very relieved. I treated myself to a new dress! I've since put the money into an ISA where I know it is safe. It's important to persevere and to try and get around the problem by getting in touch with the right people. I would say to anyone who is in a similar situation to definitely contact FSCS. They provide a vital service."

Compensation payments

Between 1 April 2014 and 31 March 2015, FSCS declared 193 firms in default compared with 209 in 2013/14.

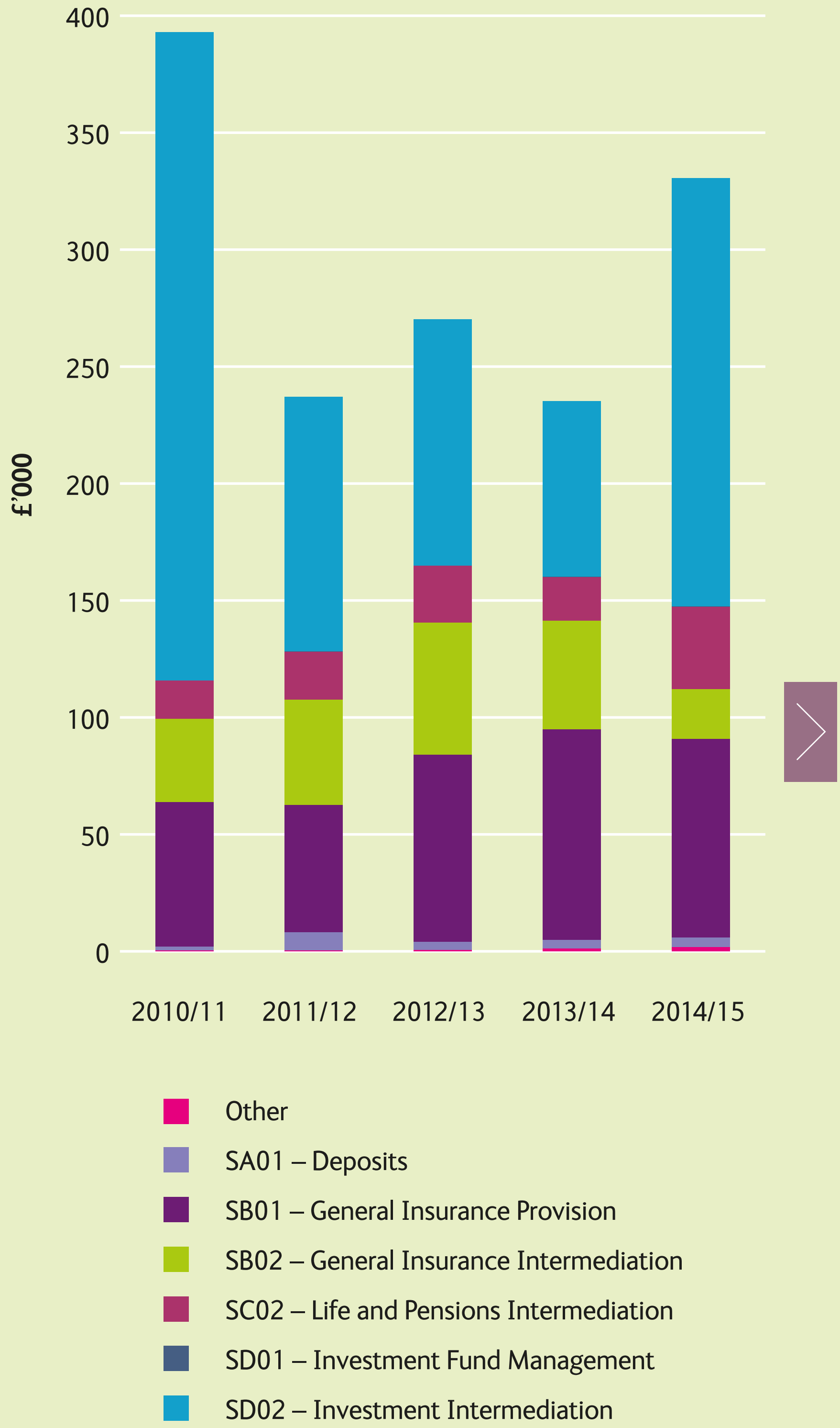
We made total compensation payments of £327m in 2014/15, excluding the major banking failures, compared with £243m in 2013/14. As outlined in Section 5, the increase was the result of:

- higher noise-induced hearing loss (NIHL), and other insurance claims, in the General Insurance Provision class;
- higher Self-Invested Personal Pensions (SIPPs)-related claims volumes in the Life and Pensions Intermediation class; and
- continuing but reduced levels of Payment Protection Insurance (PPI) claims over the year in the General Insurance Intermediation class.

Compensation payments by class

Funding class	2014/15 £m	2013/14 £m
Deposits (excluding the major banking failures of 2008/09 and Dunfermline Building Society)	4.1	3.7
General Insurance Provision	85.0	90.0
General Insurance Intermediation (excluding Welcome)	18.7	40.9
Life and Pensions Provision	0.0	0.0
Life and Pensions Intermediation	35.2	18.7
Investment Fund Management	0.2	0.1
Investment Intermediation	183.1	71.3
Home Finance Intermediation	1.7	1.2
Sub-total (excluding major banking failures of 2008/09)	**328.0**	**225.9**
Major banking failures of 2008/09	0.0	0.0
Dunfermline Building Society	(4.0)	12.0
Sub-total	**324.0**	**237.9**
Welcome	2.6	5.5
Total	**326.6**	**243.4**

Compensation payments (excluding major banking failures of 2008/09 and Dunfermline Building Society): five-year trends



FSCS management expenses

FSCS aims to control its management expenses in order to reduce the costs we impose on the industry and to meet our imperative value for money.

FSCS's management expenses comprise:

- business as usual (BAU) costs of running FSCS, including the handling of claims;
- our investment in strengthening our future capability and improving our efficiency;
- the costs of pursuing recoveries from the estates of failed businesses and from third parties which share responsibility for claimants' losses: FSCS only spends on recoveries where it is cost-effective and reasonable to do so; and
- management expenses associated with the loans from HM Treasury to cover the costs of the major banking failures of 2008/09.

All these expenses are subject to the Management Expenses Levy Limit (MELL), which is set annually by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) after consultation. The MELL limits the amount FSCS can incur in respect of management costs each year.

The MELL no longer covers the interest costs on the loans made by HM Treasury to FSCS to meet the costs of compensating depositors following the major banking failures of 2008/09. Since 2013/14, these interest costs have been attributed to the compensation costs levy payable by the Deposits class.

The MELL for 2014/15 was set at £78.4m and included £5.3m of non-levied reserve funding for major failures. The actual total MELL for 2014/15 amounted to £70.3m.

Total management expenses in 2014/15 were £71.5m, compared with a budget of £74.8m (excluding the non-levied reserve costs). The table shows a comparison of the actual costs with the budgeted costs and the notes explain the reasons for any variance.

The money not spent in 2014/15 is accounted for to levy payers in the relevant industry sector through a reduced levy for that sector in 2015/16. The FSCS Board has approved a management expenses budget for 2015/16 of £69.1m, which is £5.7m lower than the 2014/15 budget.

Five-year trends

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

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

Management expenses: comparison of actual with budget

	2014/15 Actual	2014/15 Budget	Variance
	£m	£m	£m
Employment costs	15.9	15.3	0.6
Other staff costs	4.5	2.5	2.0[1]
Total staff costs	**20.4**	**17.8**	**2.6**[2]
Outsourcing	11.2	11.0	0.2[3]
Other expenses	20.3	25.0	(4.7)[4]
Sub-total management expenses (excluding change programme and major banking failures)	**51.9**	**53.8**	**(1.9)**
Change programme	17.3	16.3	1.0[5]
Sub-total running costs	**69.2**	**70.1**	**(0.9)**
Management expenses related to 2008/09 major banking failures	1.1	3.0	(1.9)[6]
Sub-total management expenses (excluding interest on loans relating to major banking failures)	**70.3**	**73.1**	**(2.8)**
Non-levied reserve	0.0	5.3	(5.3)
Total MELL	**70.3**	**78.4**	**(8.1)**
Expenses relating to Welcome	1.2	1.7	(0.5)
	71.5	**80.1**	**(8.6)**

Notes

1 'Other staff costs' includes a statutory credit adjustment for costs associated with funding the defined benefit pension scheme deficit (£1.291m actual; £1.611m budget).

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

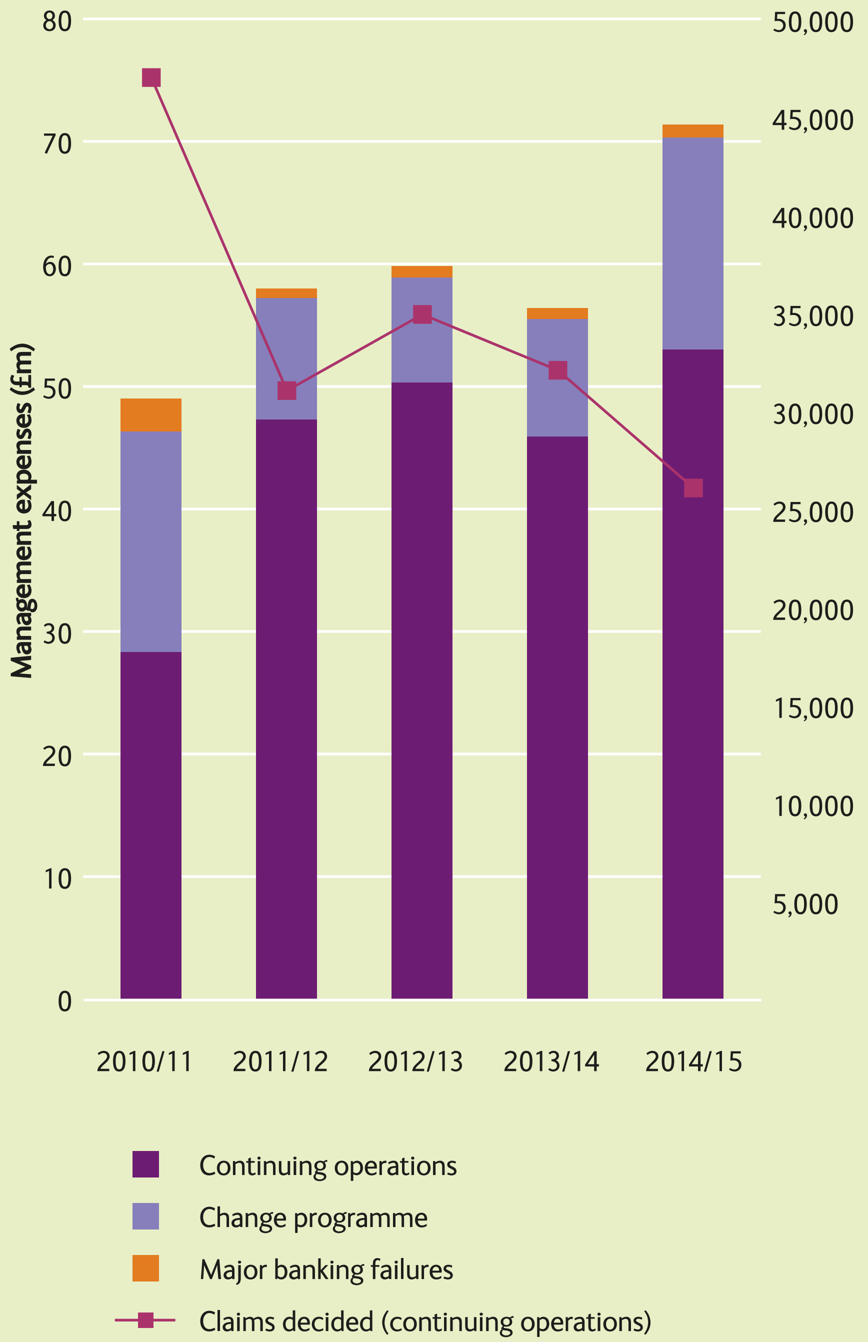
3 'Outsourcing' costs were roughly in line with budget as lower PPI claims volumes were offset by higher general investment and SIPPs-related claims.

4 'Other expenses' were lower than budget due to a lower spend on legal and professional costs.

5 'Change programme' costs were above budget because of the additional investment in the Connect programme.

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

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



Update on the major banking failures of 2008/09 and Dunfermline Building Society

FSCS was instrumental in protecting the deposits of more than four million customers' accounts following the failure 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), now LBI hf; and
- London Scottish Bank plc (London Scottish).

FSCS paid out total compensation of £23bn for the benefit of customers of these banks, including approximately £3bn on behalf of HM Treasury.

During 2014/15 we continued to make good progress in settling the few outstanding claims on the fixed-term deposits held to maturity by depositors, paying out £0.2m.

Cost of funding the banking failures

The scale of the compensation payments resulting from the banking failures meant that FSCS had to borrow, initially from the Bank of England. This borrowing was re-financed with longer-term loans from HM Treasury. As explained in previous Annual Reports, interest has been payable since 1 April 2012 at the rate of either 12-month LIBOR plus 100 basis points (one per cent), adjusted monthly, or, if higher, the relevant Debt Management Office (DMO) rate.

The interest on the loan to finance the B&B borrowing has accrued under both rates at different times during 2014/15, as lower gilt rates have reduced DMO rates from previous years, and below 12-month LIBOR plus 100 basis points. Interest has been charged at an average rate of 2.45 per cent, resulting in a cost of £385m. The interest on the other banking failure loans has been payable at the LIBOR-based rate, at an average of 1.99 per cent, resulting in a cost of £13m. In both cases, these costs will be levied in summer 2015 for payment to HM Treasury on 1 October 2015.

The total amount outstanding on these loans as of 31 March 2015 is £15.8bn. The interest payable in 2014/15 amounted to just over £397m compared with just over £446m in 2013/14. Recoveries made during the year (described below) also reduced the balances on a number of loans, with only the B&B and KSF loans having outstanding amounts at the year-end.

The KSF loan is due for repayment by the end of March 2016. FSCS intends to raise a levy in the summer of 2015 to allow for repayment on 1 October 2015, after which time no further interest will accrue on this loan.

For 2014/15, the interest on these borrowings was defined as a 'specific' cost within FSCS's management expenses (although such costs are now regarded as 'compensation' costs). The interest payments are funded through levies on firms in the Deposits class only.

Update on Dunfermline Building Society

Dunfermline Building Society (DBS) was the first financial institution to be resolved under the Banking Act 2009. In March 2009:

- the deposits in DBS were transferred to Nationwide Building Society;
- a bridge bank was established; and
- building society administrators were appointed.

As previously reported, FSCS contributes to the UK Authorities' costs of the DBS resolution, up to the amount that FSCS would have incurred had DBS gone into insolvency and compensation been paid to eligible depositors. The numbers for this cap on FSCS's contribution are calculated by FSCS, which determines the amount of the compensation payout, and by an independent valuer, appointed by HM Treasury, who calculates the recoveries that FSCS would have received had DBS gone into insolvency.

FSCS's liability to HM Treasury will not be finalised until the end of the resolution process. Based on the best information available to the directors, the DBS provision of £552m brought forward from 2013/14 decreased to £448m for the year to 31 March 2015, largely due to a £100m interim payment made by FSCS to HM Treasury on 1 October 2014.The final outcome might be different from current projections and the final amount, once agreed, may potentially result in an adjustment to the provision.

FSCS has indicated to HM Treasury that we are likely to wish to make a further interim payment for the costs of resolution to be paid on 1 October 2015. The exact amount of this payment is likely to depend on the recoveries made in 2015/16 on the other legacy failures. As noted above, we will repay the remaining KSF loan during 2015/16. We expect to levy a total of £750m to pay the KSF balance as well as the annual interest bill noted above, and our current intention is to use the balance of this levy to make the second interim payment in respect of DBS. We currently expect this amount to be up to £325m, although it may be less depending on the amount of recoveries made by the time of the payment to HM Treasury.

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

Firm	Total compensation paid to date	Recoveries received to date	Prospects of future recoveries
Bradford & Bingley	£15,655m	Nil	B&B's management forecast full repayment of FSCS's loan but timing remains uncertain. FSCS is working with B&B, UK Asset Resolution and HM Treasury on this issue.
Heritable	£465m	Received dividends of £437m (94%)	Estimated total dividends between 95% and 100%.
KSF	£2,589m	Received dividends of £2,142m (83%)	Estimated total dividends between 85% and 86%.
Icesave	£1,434m	Received dividends of £1,234m (85%)	Estimated total dividends up to 100%.
London Scottish	£239m	Received dividends of £118m (52%)	Estimated total dividends of between 57% and 59%.
Dunfermline Building Society	N/A	N/A	Recoveries are paid to HM Treasury and FSCS pays any shortfall in resolution costs (subject to a cap). Provision: £448m, after £100m interim payment.

Recoveries – reducing the costs for levy payers

Reporting on our imperative: Achieving excellence as a creditor

During 2014/15 our recoveries work delivered nearly £560m from the estates of failed firms. This figure includes £494m from the major banking failures of 2008/09.

We are committed to carrying out our statutory duty to pursue recoveries in order to reduce the costs of compensation to levy payers. Our approach is determined by the facts of each case and we only pursue recoveries when it is reasonably possible and cost-effective to do so.

Keydata Investment Services Limited update

We have continued our work during 2014/15 to pursue recoveries relating to the failure of Keydata. As we have outlined in previous Annual Reports, and in our communications with the industry, Keydata was an extremely complex, high-profile case involving multiple defendants and foreign jurisdictions. FSCS sought to manage the litigation in the most efficient and cost-effective manner, keeping the issue of costs against recoveries constantly under review. To date, FSCS has secured more than £122m in recoveries and incurred approximately £20.3m in costs in relation to Keydata.

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

Significant recoveries from Iceland

In December 2014, FSCS and HM Treasury received a significant dividend from the estate of LBI hf (formerly Landsbanki Islands hf, which operated in the UK under the Icesave brand), amounting to £1.36bn.This takes total dividends to date to around 85 per cent.

Icesave was one of the higher-profile failures of 2008 and FSCS paid around £4.5bn to compensate over 200,000 depositors. Part of the compensation was paid on behalf of HM Treasury. We have since pursued a claim for the full amount paid out on behalf of both HM Treasury and FSCS. FSCS has actively participated in the informal creditors' committee set up following the failure of the bank and attended numerous meetings of that committee to monitor the winding-up of the bank and distributions of funds to creditors.

The benefit of the £1.36bn recovery is split between levy payers and UK taxpayers. The £435m FSCS share (32 per cent) was used to repay outstanding borrowings from HM Treasury, including all of the outstanding balance on the Icesave loan. This removes the need to raise a future levy to meet these liabilities. FSCS will continue to take an active role in the winding-up of LBI and anticipates that we will recover, substantially, our entire claim in due course.

FSCS active member of creditors' committees

FSCS remains an active member of the creditors' committees of the failed banking estates. These recoveries are used to reduce the borrowing that FSCS arranged with HM Treasury. We have made recoveries of £494m during the past year to repay the loans, of which £435m came from the LBI recovery. This has enabled us to pay off three of the five loans (Heritable, LBI and London Scottish) during 2014/15. As noted above, we expect to fully repay a fourth loan (KSF) during 2015/16, leaving only the B&B loan.

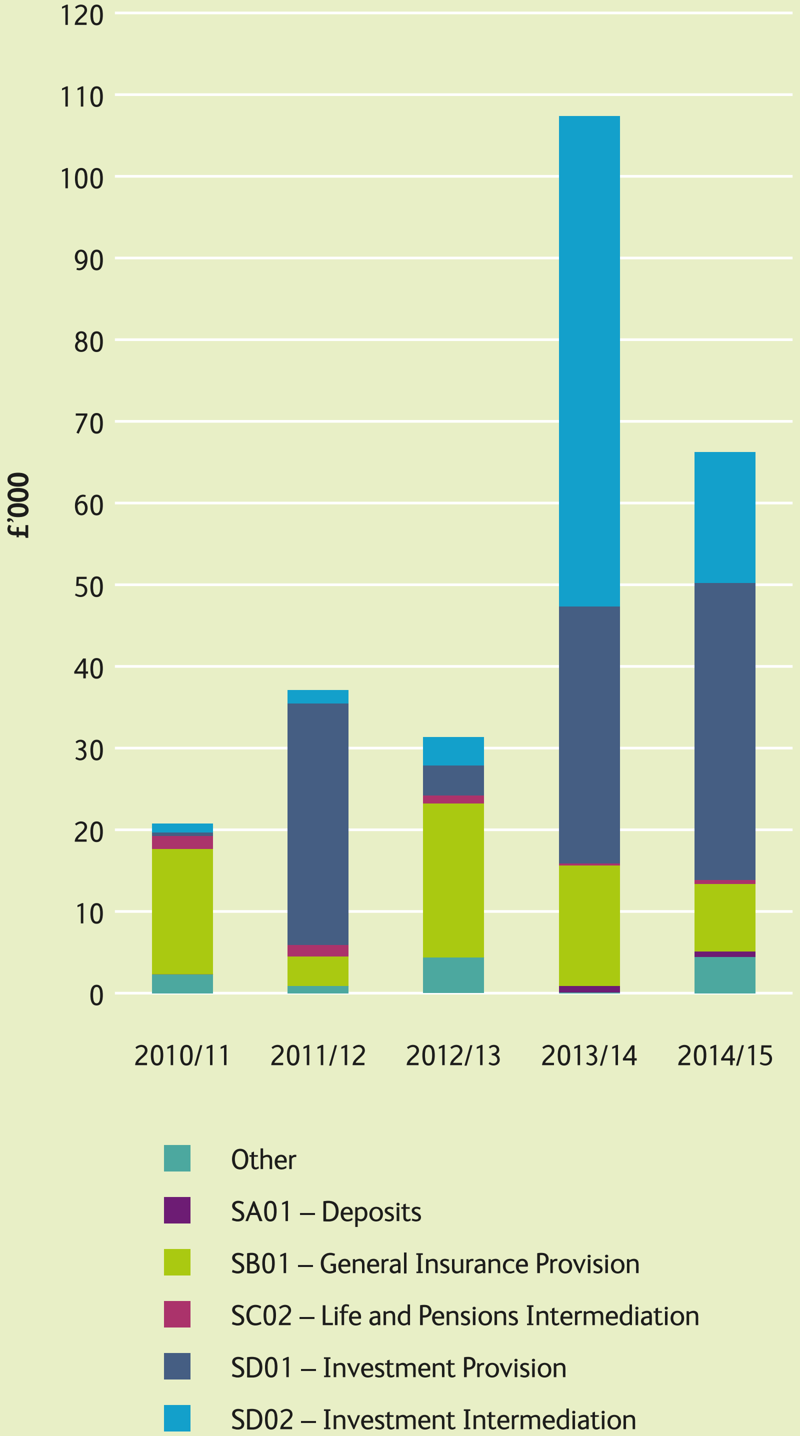
Bradford & Bingley plc – recoveries update

The winding-down of B&B's business continues, overseen by UK Asset Resolution (UKAR) on behalf of HM Treasury. As B&B did not enter an insolvency process, there is no creditors' committee in which FSCS can participate. While B&B forecasts a full repayment of the FSCS claim, the timing remains uncertain. On 14 October 2014, UKAR announced a sale of a portfolio of residential mortgage loans, including some from B&B. FSCS welcomes this development as it may help to accelerate repayment of B&B's liabilities to us. We continue to carry out further work with regard to other options that may accelerate the repayment.

Lehman Brothers – recoveries from complex default

Before Lehman Brothers failed in 2008, a substantial number of UK consumers had bought structured products from three plan managers – NDF Administration, Defined Returns Limited and ARC Capital – which in turn were backed by various Lehman entities. As a result of certain non-compliant marketing materials, over 2,000 customers of these firms had their claims for compensation paid by FSCS. Having taken an assignment of these customers' rights, FSCS has been pursuing claims in the estates of various Lehman entities across the world, including in Germany, the US and the UK. Over the past year, FSCS has recovered £13m from the Lehman insolvencies. We expect further substantial recoveries from the Lehman estates in future.

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



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FSCS and HM Treasury received a significant dividend from the estate of LBI hf

FSCS’s legal panel

After a rigorous and competitive procurement process to offer the best value for money, and to support FSCS in discharging its statutory functions effectively, FSCS appointed a new legal panel of eight firms which will contribute to four specific legal services’ workstreams:

- core FSCS legal services;
- Scottish legal services;
- employment law and ancillary legal services; and
- lower-value dispute resolution services.

FSCS wins award: In-house Public Sector Team of the Year

We were delighted that FSCS’s Legal team won a coveted award in June 2014 against stiff competition in *The Lawyer* magazine’s annual awards, which celebrate excellence across private practice and the public sector.

The Lawyer reported that FSCS was “this year’s standout winner … for its outstanding work in the wake of the financial crisis.”

One judge commented: “This impressive Legal team have successfully led on some significant high-profile cases to pursue recoveries for claimants and the UK taxpayer.”

What FSCS levied in 2014/15

In 2014/15, FSCS was primarily funded by an annual levy paid by financial services firms in five sectors:

- Deposits (banks, building societies and credit unions);
- Investments;
- General Insurance;
- Life and Pensions; and
- Home Finance.

During 2014/15, the levies we received totalled £1.076bn. This figure includes an interest cost and capital repayment levy on the Deposits sector for the major banking failures of 2008/09 as explained above. The amounts levied took into account the recoveries achieved during the year.

The calculation of the annual levy

The calculation of the annual levy is made up of different components, primarily driven by our forecast of compensation costs. The levy has to be adjusted to reflect both unspent balances or deficits (carried over from the previous year) and recoveries. The levy also reflects FSCS's management expenses. In the Deposits class, the greater part of the annual levy is made up of the cost of FSCS's liabilities for the 2008/09 bank and building society failures. We update the industry about levies through our various announcements, publications and online communications.

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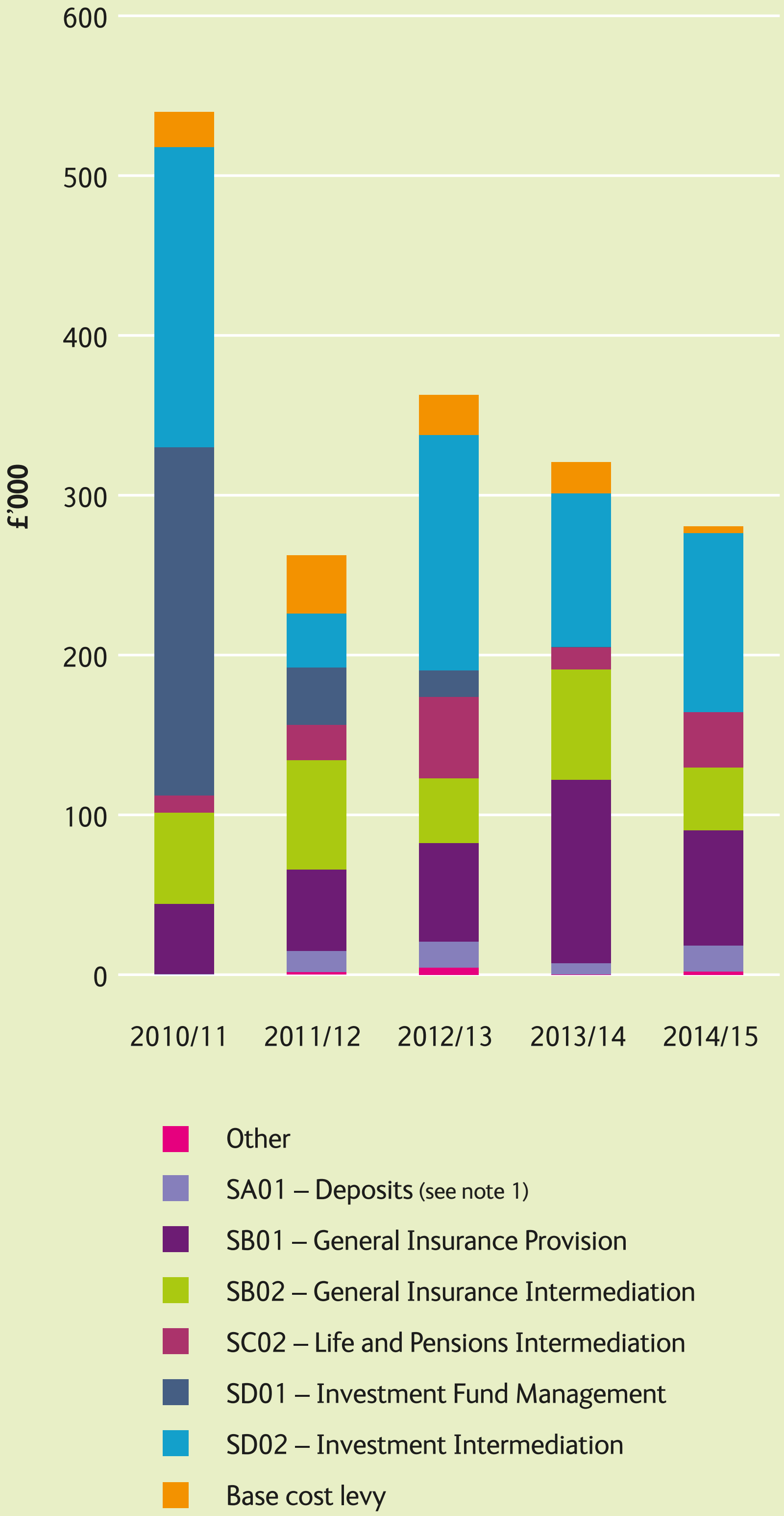
FSCS remains an active member of the creditors' committees of the failed banking estates

Reducing the volatility of annual levies

The new 36-month funding model was introduced in 2013 to help to reduce the volatility of annual levies and the likelihood of interim levies while also giving the industry greater certainty. From 1 April 2014, except in the case of the Deposits class, FSCS levies either one-third of the next 36 months' expected compensation costs or the costs expected over the next 12 months from the date of the levy – whichever is greater.

However, we nonetheless continue to face a high degree of uncertainty about the likelihood and timing of possible failures, and the volume, types and timing of the claims that could arise. As a result, there will continue to be occasions when we have to raise an interim levy as we did in March 2015 on the Life and Pensions Intermediation class.

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



Note 1:
Excludes levies received in relation to loan interest on major banking failures of 2008/09.

No panic when credit union failed

Mary McCurrie already knew about FSCS protection when she joined her local credit union.

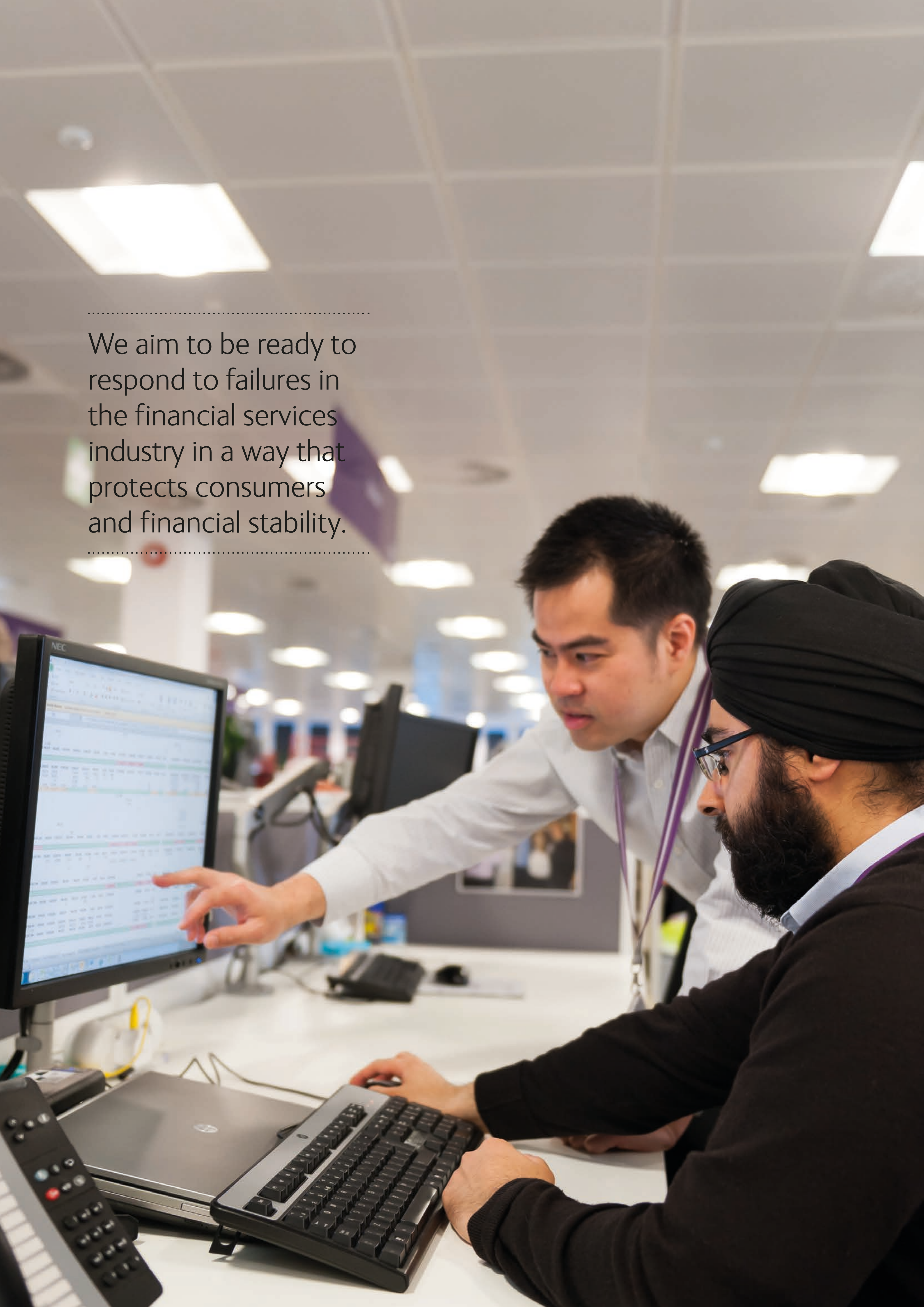
In 2013 Ms McCurrie had an opportunity to join her local credit union which had been running successfully for over 40 years. She had wanted to join for some time, but had to wait until she met a member of the union who was able to sponsor her. Ms McCurrie was keen to join because it was close to her home, supported the local area and offered a better option than saving with a high street bank.

Six months later, Ms McCurrie noticed the union had stopped giving out loans. Some members began to panic and started to withdraw their money but fortunately Ms McCurrie already knew her money was protected by FSCS. She subsequently walked by the credit union office and saw a notice on their door saying they had closed and gone into administration.

Ms McCurrie was shocked because they had such a good reputation within the community so she quickly contacted the local credit union governing body for advice. Two weeks later she received a letter from the administrators saying she would receive full compensation via FSCS within a fortnight.

Ms McCurrie told us: “Many people save with credit unions to spread the cost of Christmas and I know of many members who were extremely worried about not having the funds to buy their children Christmas presents this year as a result of losing their money.

“I initially thought it would take months but I received compensation for all of my investment within four weeks. It means I now have the money to buy my family their presents in time for Christmas.”



We aim to be ready to respond to failures in the financial services industry in a way that protects consumers and financial stability.

Section 8

Deepening Contingency Planning

We have continued to deepen our contingency planning by enhancing our processes and developing further our risk management.

Reporting on our imperative:
Deepening contingency planning

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

- enhancing the infrastructure and processes that support fast payout of deposits;
- testing our processes, including our communication plans, to ensure that FSCS is able to gear up to meet a crisis; and
- developing our identification and management of risk.

Fast payout of deposits

Single Customer View files

Our ability to protect consumers depends on integrating contingency planning effectively into the wider regulatory structure and, in particular, into planning arrangements by government and the regulators for the future resolution of failing businesses.

During the last year FSCS has been working with the UK Authorities to improve the efficiency and effectiveness of the preparation and testing of Single Customer View (SCV) files. SCV files are created by deposit-taking institutions and used by insolvency practitioners (IPs), bank administrators and FSCS to ensure that compensation is paid to deposit holders in seven days or fewer.

To that end, FSCS has designed and built an SCV verification service. Given the sensitivity of the data included in SCV files, the solution has been subjected to independent audit and certification to ISO27001 (Information Security Management). Certification was confirmed shortly after the year-end in April 2015.

The service has a number of benefits and supports further the requirement to pay compensation to the majority of depositors in a failed deposit-taking institution within seven days. We already pay compensation in most cases well within this target – often within 48 hours.

Key points

- FSCS has enhanced the infrastructure that supports fast payout of deposits.
- We have worked with the UK Authorities to improve the effectiveness of the preparation of SCV files.
- FSCS has undergone an independent risk maturity audit.

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FSCS continues to test a range of scenarios that have the potential to disrupt our service to stakeholders

The verification facility will enable us to check the format and content of SCV files to ensure they can be used if a firm fails. In addition we will be able to:

- improve our value for money by rationalising the verification activity into a single consolidated service;
- improve the deposit takers' experience of compliance because they can deal directly with our SCV Assurance team; and
- modernise our service through a technology platform with greater flexibility to respond to strategic and regulatory change and reduce the target processing time for SCV files.

The new verification service started operations in June, ready for the recast DGSD effective date of 3 July 2015. FSCS will continue to work with the PRA and the Bank of England to prioritise firms for SCV verification on a staggered basis.

Testing our preparedness

FSCS continues to test a range of scenarios that have the potential to disrupt our service to stakeholders. This year a number of comprehensive IT system 'fail-over' tests were conducted on critical systems with consistent success.

In addition, we carried out a significant test of the quality and responsiveness of our ability to deal with a social media-led crisis scenario. This also concluded successfully and we could be assured of FSCS's capabilities in maintaining consumer confidence while news unfolded rapidly via these new media.

Insolvency practitioner liaison

We have continued to build links with the IP market, a key FSCS stakeholder. Alongside the regular annual event for IPs (co-hosted with the Bank of England), FSCS maintains a working dialogue to consider issues and risks that are significant to FSCS, and which the IPs of failed financial services firms might be required to handle. During the year this group has considered matters such as the preparation and transmission of SCV files for banks and the issues arising from the failure of a life insurer.

Developing stronger risk management

Developing stronger risk management is an essential part of our work throughout the year and we are working to carry out assessments across all FSCS systems and processes.

Enterprise-wide approach to risk

To maintain our resilience to risks, FSCS has adopted an International Organization for Standardization (ISO) 31000-aligned enterprise-wide approach to risk management, in line with corporate governance best practice. ISO31000 provides a framework and process to manage risk. Certification for ISO31000 is not available, but an independent audit during 2014/15 confirmed FSCS's alignment to the standard.

Enterprise risk management has been rolled out to all business units. Managers and staff have been trained in risk management techniques and given responsibility to identify, assess, monitor and report operational risks under the guidance of risk management staff. Risk assessments are also included in all process reviews, using formal tools and supporting governance. These and other robust processes ensure that we can identify, assess and deal with all risk types throughout the organisation.

Review and oversight

All risks are kept under active management and are subject to frequent review by FSCS's Executive Committee. They are also subject to quarterly oversight and challenge by the Risk Committee and at least annually at full Board reviews. FSCS also carries out internal audits of the risk management function.

As well as having robust risk management, FSCS plans carefully for contingencies. We seek to ensure that our level of preparedness for any particular eventuality is proportionate to the likelihood of the risk materialising and to the scale and severity of the potential impact. We test our judgements in these respects by submitting them to the challenge of the Risk Committee.

Risk maturity audit

An independent risk maturity assessment was agreed as part of the 2014/15 audit plan. The main objectives were to:

- assess the level of understanding across a selection of FSCS staff; and
- review risk management documentation.

The Chartered Institute of Internal Auditors (CIIA) has defined a set of criteria by which an internal audit can determine the level of risk maturity within an organisation. These include:

- leadership;
- risk strategy and policies;
- people;
- processes;
- risk handling; and
- outcomes from the risk management process.

The assessment report contains an assessment of each risk maturity criterion, together with any specific actions for management to take. A five-level scale is applied to the risk maturity rating of the organisation as a whole. Using the CIIA methodology, FSCS was deemed as being Level 4 ('Risk Managed') in its maturity and attitude to risk management. This is an improvement from Level 3 last year and now meets the target noted in previous years' reports.

> **"FSCS has designed and built an SCV verification service**

> **"FSCS has adopted an ISO31000-aligned enterprise-wide approach to risk management**

We aim to enhance our capability by developing the skills, knowledge and professionalism of the people who work for us.

Section 9

Engaging Our People

During 2014 we made significant changes to maximise our efficiency while enabling us to be more agile and responsive to future demands.

Reporting on our imperative:
Engaging our people and organisation

Our commitment to our people

FSCS is committed to the development and well-being of its employees. Our goal is to recruit and retain people who have the required competencies and skills to work at FSCS and implement our Vision for a Confident Future.

FSCS has a permanent staff of 204 people as at 31 March 2015. Our people have a wide range of high-level professional skills including data management and claims processing through to law and accountancy qualifications. Our continuing commitment to our people is to create and maintain an attractive and professionally stimulating work environment.

Our People Strategy – enhancing performance

As we have reported previously, our three-year People Strategy for 2013 to 2016 is built around six key strategic objectives:

1. Organisational development – improving organisational performance
2. Management development – empowering management capability and managing performance
3. Learning and development – enlightening our leaders
4. Recognition and reward – inspiring individuals
5. Talent management – making it all happen
6. Human resources services – supporting our business

Key points

- Employee engagement, as measured by our People Survey 2014, increased by a further 15% compared with 2013/14.
- FSCS continued to be recognised as 'Ones to Watch' by Best Companies.
- We achieved Investors in People accreditation.
- We were recognised as a Positive About Disabled People employer.
- We conducted an equal pay audit.
- We delivered 855 learning opportunities through our Learning and Development Programme.

Our core offer to our people – a brief summary

FSCS is an organisation:

- that makes a difference;
- in which you can make a difference;
- which will support you in developing your skills and career; and
- that welcomes challenge but also challenges you to perform excellently and to improve.

In order to meet our six objectives, over the past year we have:

- reorganised our Operations Division and recruited 52 new employees to support our imperative to modernise our service;
- worked with CEB SHL to develop our own universal competency framework for the specific requirements of FSCS;
- launched Fuse – our new dynamic e-learning environment. Fuse combines social learning, performance and workplace support, distributed mentoring and coaching alongside formal, fully tracked learning paths;
- developed our People Fluent Programme across FSCS to manage, track and report on all vacancies whether contractor or permanent to bring significant improvements in management reporting and drive greater transparency and value for money; and
- continued our involvement with the Towards Outstanding Leadership Programme and launched our second cohort of Coaching Circles.

People Survey 2014

For a fourth year, FSCS commissioned Best Companies to survey our people during 2014 in order to establish how they perceived the organisation and to enable us to improve engagement. The Best Companies Index (BCI) measures employee engagement on a 900-point scale. Last year our BCI score increased by 15 engagement points or 15 per cent overall and represents the highest level recorded since working with Best Companies.

Some of the positive headlines include:

- 95% of our people feel that we encourage and support charitable activities;
- 89% believe they can make a valuable contribution to our success;
- 87% believe FSCS makes a difference to the world we live in;
- 86% believe we can be trusted by our customers;
- 82% feel that their managers care about them as individuals;
- 80% are proud to work for FSCS; and
- 76% feel that they gain valuable experience for their future by working at FSCS.

FSCS employee numbers by category

	As at 31 March 2015	As at 31 March 2014
Administration Assistant	10	17
Practitioner Level 1	57	52
Practitioner Level 2	83	78
Head of Function and Managers (or equivalent)	51	50
Chief Executive and other Executive Directors	3	4
Total	**204**	**201**

Comprising:

	As at 31 March 2015	As at 31 March 2014
Operational	195	199
Secondees and other people on maternity or other long-term leave	9	2
Total	**204**	**201**

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FSCS teams are made up of skilled specialists

> We celebrate diversity and promote an inclusive workplace

Investors in People accreditation

The Investors in People (IiP) standard was launched in 1991 to help UK organisations and their employees make the most of their abilities. Based on over 20 years of leading practice, it was designed by business, for business, and written in consultation with customers, employees and people management specialists. The IiP standard provides a path to organisational change.

The standard sets a series of 39 must-haves against which organisations measure themselves to find and realise the potential of their people. In January 2015 we undertook an assessment of FSCS against the standard for the first time and achieved accreditation. The assessment highlighted a number of areas of particularly good FSCS practice:

- Our management development programme is creative and has had an impact on the effectiveness of those who have teams of people reporting to them.
- People are strongly motivated to provide an excellent service to the end consumer.
- Our commitment to diversity and inclusion is apparent and is externally benchmarked.
- We have a strong commitment to continually improving our people management practices.

Diversity and inclusion

We celebrate diversity and promote an inclusive workplace. An inclusive workplace is an environment where:

- everyone is treated with dignity and respect;
- the talents and skills of different groups and individuals are valued; and
- productivity and customer service improve because the workforce is happier and more motivated.

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

In November 2014 our commitment to diversity and inclusion was externally benchmarked by Business in the Community. We achieved silver accreditation for our position on gender and bronze for race. We were also recognised as a Positive About Disabled People employer for the first time and took part in the Stonewall Workplace Equality Index.

Through our work we are continuing to widen the focus of our diversity and inclusion agenda. We ensure that we are supporting the aspirations of all staff, irrespective of race, gender, disability, sexual orientation, religion, age, marriage or civil partnership, maternity or gender reassignment.

The tables summarise FSCS employee numbers by category and ethnic background.

FSCS employee numbers by ethnic background

	As at 31 March 2015	As at 31 March 2014
Asian or Asian British	22	18
Black or Black British	13	17
Chinese or Chinese British	9	7
Other ethnic group	12	9
White British/Irish	148	147
Not specified	0	3
Total	**204**	**201**

Corporate social responsibility

FSCS continues to engage all our employees in a wide range of socially responsible activities and volunteering opportunities throughout the year. We give all employees two volunteering days a year. We continue to focus on working within our local communities of Tower Hamlets, Newham, Waltham Forest and Hackney but increasingly also with new charitable organisations like Positive East and the Albert Kennedy Trust.

Over 40 per cent of our workforce participated in volunteering activities including:

- Spitalfields City Farm, Tower Hamlets;
- Cemetery Park, Tower Hamlets;
- St Matthew's Church, Hackney;
- Heat or Eat Food Bank, Waltham Forest;
- helping the British Legion with the poppy display at the Tower of London; and
- organising a careers event with several local schools:
  - Cubitt Town Junior School;
  - Manorfield Primary School;
  - Stebon Primary School; and
  - Clara Grant Primary School.

We also continued our support of St Paul's Primary School reading group in Tower Hamlets, where staff give their free time every Thursday to help children with their reading.

FSCS People Awards

At our annual staff away day in March 2015 built around the theme 'Let's Work Together' we celebrated the fourth annual FSCS People Awards to recognise those individuals and teams that have made a significant contribution to our success over the last year. All employees are able to nominate their colleagues anonymously.

The nominees were judged by the Chief Executive, Chairman and members of the FSCS Executive Team and People Council.

The winners of the FSCS People Awards 2014/15 are:

Rookie of the Year – Alice Cox, Learning and Development Co-ordinator

Working Together – Renatta Nzomono, Business Resilience Partner

Rising Star – Vicky Hutton, Process Architecture Specialist

Excellence – Sandie Fugler, Customer Escalation Specialist

Inside Edge

Our electronic staff quarterly magazine, *Inside Edge*, covers all the latest news and events with 60-second interviews about the latest projects and activities.

Delivery – James Condron, PMO Manager

Making a Difference – Ted Boucher, Insurance Adviser

Giving Something Back – the CSR Reading Group (St Paul's Primary School)

Team winner – Facilities

FSCS teams and roles

FSCS teams are made up of skilled specialists. Each team has a clearly defined role to help us deliver our aims and imperatives.

Operations Division

The Operations Division is responsible for all aspects of delivery to claimants and for the end-to-end claimant experience.

Continuous Improvement and Process Architecture

This team supports FSCS in assessing and continuously improving its business processes.

Operations Support

This team provides support to the Director of Operations and the Operations Division, ensuring that cross-divisional activities are consistently co-ordinated and delivered.

Claimant Services

This team deals with direct contact with the general public and claimants handling both general and complex enquiries as well as any complaints. This team also supports the delivery of our Claimant Experience Strategy ensuring our claimant experience is well planned and appropriate.

Service Management

This team puts in place appropriate, competitive contracts with our business partner organisations and monitors contractual delivery.

Data Management

This team delivers effective and efficient data, data integration and management information services to support FSCS's business strategy.

Compensation Delivery

The Compensation Delivery teams ensure that all claims are correctly assessed and, where applicable, compensation is paid to all eligible claimants across all product types. This includes ensuring that FSCS is prepared for new potential failures, providing technical advice and support to our business partner organisations, handling complex claims in-house, determining the approach for new/complex claims and processing faster payouts for deposit claims.

Central Services

Information Technology

The IT team delivers effective IT services and solutions through business and supplier partnerships, and manages the end-to-end supply chain from understanding business requirements to ensuring optimum strategic and commercial delivery of IT services in support of the achievement of FSCS's business objectives.

Change

The Change team ensures that FSCS is committed to enhancing its processes and systems to improve efficiencies. Through project management delivery teams, a central Portfolio Management Office (PMO) and a Change Management function, the team is responsible for delivering and managing a range of projects from mobilisation through to delivery and for embedding the outputs of these within the organisation. The programmes and projects within FSCS's annual Change portfolio are essential to ensuring that FSCS can deliver its Vision for a Confident Future.

Finance

This team is responsible for all financial and fiscal management aspects of FSCS's operations. The team oversees all financial and management accounting and reporting, ensuring compliance with legislation and best practice. It is also responsible for overseeing the planning and preparation of annual and long-term budgets. Within Finance, the Procurement team is responsible for the acquisition of supplies and services through the whole cycle from identification of needs through to end of contract. The team carries out options appraisals and risk assessments before making buying decisions, based on the optimum combination of whole-life costs and value for money benefits that meet FSCS's requirements.

People

This team's mission is to build a work environment in which all FSCS people can shine, and to create an outstanding company culture with the capacity to sustain and deliver the strategic priorities identified in the Business Plan. The team is also responsible for the provision of office space and support services, reception, postroom and health and safety services to FSCS.

Corporate Affairs Division

Legal and Recoveries

This team has overall responsibility for providing legal advice on claims for compensation, as well as advising on the practical application of FSCS rules, and recovering money from firms that have been declared in default and third parties. It also advises on contractual and procurement matters and a range of compliance issues.

Communications

This team's focus is on building the reputation of FSCS, raising awareness of the Scheme among its audiences. These include consumers, authorised financial services firms (which fund FSCS by paying levies), consumer organisations, journalists, trade bodies, regulators, MPs and government bodies.

Business Resilience

The team is responsible for the maintenance of FSCS's resilience to adapt and respond rapidly to all types of failures and disruptions. It develops and tests contingency plans which are appropriate and proportionate to help FSCS deal with failures more effectively and ensure that FSCS can continue to offer a service to our customers in the event of any disaster.

Policy and External Affairs

This team is responsible for policy, including development of FSCS's policy, and monitoring and responding to external policy proposals. The team also manages relationships with FSCS's key stakeholders in the financial services industry, as well as regulators, government bodies and international counterparts.

Risk Management

This team is responsible for the oversight of FSCS's risk strategy and managing, tracking and reporting risks in line with the strategy.

Quality and Information Assurance

The Quality and Information Assurance (QIA) team's principal role is to measure quality throughout the organisation against a set of agreed standards. QIA has a further responsibility to ensure that FSCS manages the information it holds in a manner that is both secure and compliant with its obligations.

Secretariat

The Secretariat is responsible for managing compliance with corporate governance standards and the Board and committee processes.

Section 10

Our Governance

FSCS is a company limited by guarantee, and therefore is not required to comply with the UK Corporate Governance Code issued in September 2012 (the Code). However, in order to ensure best practice, the Board has chosen voluntarily to follow the provisions of the Code. This section explains how FSCS has applied the main principles of the Code and where it has departed from some of the Code's provisions.

The Board

1. Composition of the Board

The FSCS Board consists of 11 directors, eight of whom are non-executive directors, including the Chairman. The three executive directors are the Chief Executive, the Director of Operations and the Director of Corporate Affairs.

All directors were appointed by the Financial Services Authority until 1 April 2013, and thereafter by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The appointment, and removal, of the Chairman is also approved by HM Treasury. In addition, as a result of a change in legislation taking effect on 1 April 2014, the appointment, and removal, of the Chief Executive must also be approved by HM Treasury. The appointments of FSCS's Chairman and other directors, both executive and non-executive, are made using external search consultancies and open advertising. Re-appointments of directors are made by the FCA and the PRA, acting, in the case of the Chairman and Chief Executive, with the approval of HM Treasury. All appointments of directors are for periods of no more than three years.

Four non-executive directors were re-appointed during the year: Liz Barclay, Jayne Nickalls, Paul Stockton and David Weymouth. Each had served on the Board for three years at the date of re-appointment, and all were appointed for a further three years. The Chairman was re-appointed for an initial six-month period from 1 April 2015. This had been approved by HM Treasury, following prior FCA and PRA approval, as a short-term measure, given the proximity of the General Election in May 2015, but with a view to making a decision on whether to approve the Chairman's re-appointment for a further period after the General Election.

One non-executive director, Philip Wallace, retired from the Board on 31 May 2015, having served for six years. After reviewing the mix of skills and experience on the Board, as well as its size and composition, it was decided to recruit a new non-executive director with similar experience to Mr Wallace. Accordingly, Mark Adams was appointed as a non-executive director with effect from 1 June 2015 for a period of three years.

One executive director, Rommel Pereira, resigned from the Board on 31 May 2014 and left FSCS on 31 July 2014. Following a review of the company's executive and organisational structure, it was decided not to continue with the role of Director of Central Services. This reduced the number of executive directors on the Board from four to three. Respective appointment dates are given in The Board of Directors. The appointments process is described under Nomination and Governance Committee.

Directors' independence

The biographical details of the directors demonstrate the broad range of experience and expertise they bring to the Board.

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

As shown in their biographical details, FSCS's non-executive directors may also hold directorships or positions in other organisations, which may, for example, include authorised financial services firms that contribute towards the FSCS levy. FSCS's levies are administered by the FCA under rules made by the FCA and the PRA. Moreover, 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 being declared on individual matters from time to time, all of the non-executive directors are considered to be independent, within the meaning expressed in the Code provision B.1.1.

Senior Independent Director

The Senior Independent Director is an independent non-executive director who is able to act as a sounding board to the Chairman and serve as an intermediary for other directors when necessary, such as when concerns raised through the normal channels of Chairman, Chief Executive or other executive directors may be considered inappropriate. The Board decided that the Deputy Chairman should be the person appointed to take on the role of Senior Independent Director. Philip Wallace was Deputy Chairman and Senior Independent Director throughout 2014/15 and up until 31 May 2015. Liz Barclay was appointed Deputy Chairman and Senior Independent Director with effect from 1 June 2015.

Board diversity

FSCS actively seeks diversity on the Board consistent with its skills base and Board requirements. The Board recruitment processes, which include instructions given to external search consultancies, ensure that the benefits of diversity, including gender, are taken into account. FSCS has not set specific measurable objectives for the application of its Board diversity approach, and Board appointments continue to be based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board, while also having due regard to the benefits of diversity on the Board.

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

2. Induction, appraisals, training and development

On appointment, all new directors receive an FSCS-delivered induction. This includes a briefing by the executive and management team on FSCS operations and the various functions within the organisation. There were no new appointments to the Board in 2014/15, although one new non-executive director was appointed on 1 June 2015. An appropriate induction was planned for delivery in early 2015/16.

Both new and existing directors have taken the opportunity to 'sit in' with some of the claims teams to see, first hand, certain aspects of the claims-handling process. Claims briefings are given to directors to refresh their knowledge of claims practices and explain new or revised processes. Similar briefings are given occasionally to directors on other aspects of FSCS operations.

Individual directors also take the opportunity to request information or briefings on particular topics outside formal Board/committee meetings in order to maintain their knowledge and understanding of the company and its operations.

Newly appointed directors are also offered training, usually from external providers, on their duties and responsibilities as directors and corporate governance. Such training is also offered to the Board on an occasional basis as a way of maintaining and refreshing knowledge in this area.

Training is sometimes delivered to individual directors and sometimes to the whole Board in an externally facilitated workshop. An externally facilitated Board refresher on corporate governance and directors' duties was delivered in April 2015, and covered recent developments and current thinking on corporate governance issues. The continuing professional development framework for directors was reviewed and revised in order to provide a more suitable mechanism to help directors to record and regularly refresh their skills and knowledge. The directors' annual performance reviews are also designed to capture individual training and development needs.

Directors keep up to date with developments in the financial services industry by way of briefings and reading material. During the year, there was a programme of external speakers for Board days, so that directors could take the opportunity to meet, and receive occasional briefings from, senior officials from external bodies such as the FCA, the PRA, the Bank of England, the Financial Ombudsman Service and other regulatory bodies. The Chairman, Chief Executive and other FSCS officials continued to meet the appropriate Authorities (HM Treasury, the FCA, the PRA and the Bank of England) and trade bodies on a regular basis during the year.

Annual performance reviews

Meetings have been held between the Chairman and each of the non-executive directors to carry out an annual review of their contribution to the Board in 2014/15. This process involves obtaining feedback on directors' performance from all the other directors using an online feedback form.

The Chairman's own performance is being similarly assessed and his annual review was carried out on behalf of the Board by the Deputy Chairman. The Chairman also maintained regular contact with directors outside formal Board/ committee meetings to obtain views on Board performance and organisational issues, and, in addition to the annual performance reviews, meets the non-executive directors from time to time without the executive directors present.

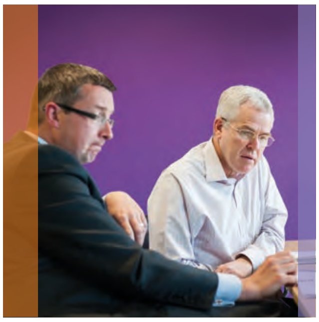
3. Operation of the Board

The Board met 11 times during the year. A formal schedule of matters reserved to the Board provides a framework for the Board's decision making. In accordance with this schedule, the Board is responsible for a number of statutory requirements, primarily deriving from company law and the Financial Services and Markets Act 2000, as well as for governing the strategic direction and the financial operation of FSCS. It is responsible for setting policy and ensuring that appropriate internal control measures are in place. The schedule of matters reserved to the Board is currently being reviewed as part of a wider review of the delegated authorities' framework.

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

Relevant and timely information

The Board believes that it receives and has access to, on a timely basis, the relevant information needed to make appropriate decisions. Directors review this on an ongoing basis to ensure that the Board continues to receive sufficient accurate, timely and clear information. In 2014/15, following a further review of the Board reporting mechanism, further improvements were made to the way in which certain operational and financial information was reported to the Board.



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

Review of Board performance

The Board carries out a formal and rigorous evaluation of its own performance, and that of its committees, on an annual basis. In 2014/15, the Board evaluation was externally facilitated for the first time. This followed previous discussions of the Nomination and Governance Committee on the UK Corporate Governance Code provision for FTSE 350 companies to have annual Board evaluations externally facilitated every three years, and it was agreed that FSCS should adopt a similar approach. Following a selection exercise, Independent Audit Limited was selected to carry out the Board review. Independent Audit Limited had no other connection with FSCS at the time of the appointment and throughout the evaluation, which was carried out between October and December 2014, and involved a combination of:

- one-to-one interviews with directors;
- Board observation; and
- a review of documents.

To supplement this, an adapted version of the usual Board evaluation questionnaire was completed by directors in order to provide a benchmark for future evaluations on Board and committee performance.

The Board evaluation exercise covered all areas of Board effectiveness, including how the Board works together as a unit and the balance of skills, experience, independence, knowledge of the company and Board diversity. FSCS's approach to Board diversity is also explained further above.

The results of Independent Audit's final report, and the assessments made in the questionnaires, were discussed by the Board with the external facilitator in December 2014, and a number of follow-up actions were agreed. In summary, the review concluded that FSCS's Board and committees were effective and working well on many fronts and that the Board should be well placed to address the challenges that lie ahead. Recognising that there was always room for improvement, the Board considered a number of suggestions in the following areas:

- reviewing the size of the Board, possibly with a view to proposing a reduction in the number of Board members, if considered appropriate;
- considering whether there may be scope to reduce the number of Board meetings held;
- reviewing the shape of the Board agenda, and considering whether a more thematic agenda would be helpful;
- completing the ongoing review of reserved powers and delegated authorities so that only those matters that need to be brought to the Board are brought to the Board; and
- reviewing the information provided to the Board in order to bring greater clarity and focus.

In the light of its discussions on the Board evaluation report, the Board has made good progress towards addressing the various issues.

Committees of the Board

The Board has charged its various committees with certain tasks, including making decisions on its behalf, giving guidance to the Executive and making recommendations to the Board on a range of subjects. Following reviews by the relevant committees, the Board approved minor changes to the terms of reference for the Risk Committee together with extended scopes and revisions to the terms of reference for both the Remuneration Committee (now called the Remuneration and Human Resources Committee) and the Nomination Committee (now called the Nomination and Governance Committee). These are outlined below as part of the current committee framework.

1. Audit Committee

The Audit Committee's role is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations. With the creation of the Risk Committee in early 2013, this allowed the Risk Committee to oversee FSCS's risk strategy and risk appetite and tolerances, whereas internal controls would continue to be overseen by the Audit Committee.

The Committee met six times during the year. It consists of four independent non-executive directors, one of whom is the Chairman of the Risk Committee, and the Board ensures that at least one member has recent and relevant financial experience. The FSCS Chairman and Chief Executive normally attend meetings by invitation, and other members of management attend meetings as required. The Engagement Director and/or Audit Manager at the National Audit Office and representatives from FSCS's internal auditors, Grant Thornton, attended most of the Audit Committee meetings in 2014/15 at the request of the Committee Chairman.

The Financial Services Act 2012, which came into force on 1 April 2013, imposed new statutory requirements on FSCS for the audit of its accounts by making amendments to the Financial Services and Markets Act 2000. As a result of these changes in legislation, the Comptroller and Auditor General was appointed as FSCS's external auditor with effect from 1 April 2013, with the National Audit Office acting on behalf of the Comptroller and Auditor General in carrying out external audit work.

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

- the annual accounts and accounting policies;
- the financial reporting system;
- the system of internal control;
- the appointment and performance of internal and external auditors;
- the audit processes and results (for both the internal audit and external audit);
- compliance with laws and regulations;
- whistleblowing arrangements; and
- arrangements for promoting health and safety at work.

During the year, in addition to the above matters, the Committee also considered quality assurance reports on:

- the performance of the end-to-end claims processes against pre-defined quality standards;
- a number of internal audit reports;
- the external audit plan;
- other reports from the National Audit Office; and
- papers or reports on a number of matters such as directors' expenses, health and safety, data protection, fraud and money laundering.

In reviewing matters relating to the financial statements, the Committee considered a number of position papers on the more significant issues relating to the preparation of the accounts, such as the accounting treatment for the major bank failures, related parties, materiality, going concern, pension scheme provision and FSCS's duties under the Financial Services (Banking Reform) Act 2013. The Committee advised the Board on its review of the Annual Report and Accounts. In the light of that review, the directors concluded that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided sufficient information to enable the company's performance, business model and strategy to be assessed.

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

Some of these matters are also reported under Internal controls.

2. Risk Committee

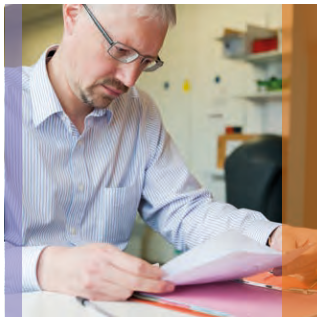
The Risk Committee's role is to recommend to the Board a risk appetite/tolerance statement covering enterprise-wide risks, and to review FSCS's risk management approach to identifying and managing risks in achieving FSCS's aims, including FSCS's contingency planning arrangements and disaster recovery plans. The Committee, in carrying out its oversight functions, advises the Board on whether FSCS is operating within acceptable risk tolerances and whether its level of readiness to respond to significant events is appropriate to the likelihood and impact of those events. As described in the Audit Committee section above, while the Risk Committee has responsibilities for overseeing the risk management arrangements, the Audit Committee retains the responsibility for overseeing the internal control framework.

The Risk Committee met three times during the year. It is made up of five independent non-executive directors, one of whom is the Chairman of the Audit Committee. The Chief Executive and Head of Risk normally attend meetings by invitation, as do other members of the executive and management teams from time to time.

During the year, the Risk Committee considered the following matters:

- the organisation's risk profile and the key risk exposures affecting the achievement of FSCS's aims (these matters are considered at each meeting);
- FSCS's Risk Register;
- papers and reports on other matters with risk implications, including: treasury management, internal audit reports on risk management and risk maturity, the introduction of bail-in resolution powers, and analyses of both the Deposits and Life Insurance sectors;
- the Committee's terms of reference, which were updated by the Board in late 2014 following the Committee's recommendations for minor revisions;
- FSCS's contingency planning arrangements for large business failures in the financial services industry; and
- the disaster recovery arrangements.

Some of these matters are reported further under Internal controls.



3. Remuneration and Human Resources Committee

The Committee's role is broadly to:

- consider FSCS's remuneration policies;
- make recommendations to the Board on the Chief Executive's remuneration package;
- determine the remuneration package of FSCS's other executive directors;
- look at remuneration trends across FSCS;
- review executive and employee benefit structures; and
- as an extension to its scope following a review of its terms of reference during the year, consider a number of human resources issues.

In essence, the role of the Committee was expanded beyond its key focus of executive remuneration and FSCS-wide remuneration policy to include elements of staff engagement and the People Strategy. These additional responsibilities include:

- overseeing the development, performance and use of human resources within FSCS;
- assisting in and monitoring the ongoing development of the People Strategy;
- developing a desired culture for the organisation, overseeing organisational development; and
- the setting out of standards of organisational performance, monitoring corporate social responsibility and overseeing diversity and equal opportunities.

The Remuneration and Human Resources Committee met three times during the year. The membership of this Committee is made up of four independent non-executive directors. The FSCS Chairman is a member of, but may not chair, this Committee.

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

- a review of the pay and benefits policy;
- consideration of the equal pay audit; and
- a review of the Committee's terms of reference, which resulted in the Board expanding the remit of the committee to cover human resources issues. This is described above.

The Committee made recommendations to the Board for the approval of the Chief Executive's remuneration package and determined the remuneration packages of the other executive directors, having taken into account comments from the Chief Executive. In the case of the executive directors, performance and market data provided by external consultants are taken into account, and remuneration incorporates a performance-related element.

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

4. Nomination and Governance Committee

The Committee's role is to review the structure, size and composition of the Board (including the balance of skills, knowledge and experience) and make recommendations to the FCA and the PRA with regard to any changes. It also:

- reviews succession planning for both executive and non-executive directors;
- ensures that there is appropriate liaison with the FCA and the PRA with regard to appointments and re-appointments of Board members; and
- keeps the membership of the Board committees under review.

Following a review of its terms of reference during the year, the Committee's remit was expanded to also include governance matters. These now include:

- overseeing the Board's governance arrangements;
- considering current and evolving best practice corporate governance standards;
- overseeing Board and director evaluation; and
- overseeing the application of the conflicts of interest policy.

The Nomination and Governance Committee is made up of the FSCS Chairman, the Chief Executive and two independent non-executive directors. It met three times formally during the year, and considered matters relating to the process for appointing and re-appointing directors as well as the specific re-appointments of four non-executive directors, whose first three-year periods of office expired in 2014/15; the re-appointment of the Chairman, whose first three-year period of office expired on 31 March 2015; and the appointment of a new non-executive director with effect from 1 June 2015.

As a matter of process, reviewing directors' appointments and re-appointments involves holding initial discussions on Board size, the mix of skills and experience on the Board and the phasing of directors' periods of appointment. In the case of re-appointments, consideration is also given to the performance reviews of the directors concerned. These reviews include assessing the continued effectiveness of the director's performance and the individual's ongoing commitment to the role. In the light of these assessments, the Committee's recommendations are then passed to the FCA and the PRA for consideration and, if thought fit, approval. For new appointments, an external search consultancy is engaged and the positions are made available through open advertising. A selection panel, which includes FCA and PRA representation, carries out the selection exercise, following which the panel's recommendations for Board appointments are put to the FCA and the PRA for approval (in the case of the Chairman, with the approval of HM Treasury).

During the year, in line with the above process, Liz Barclay, Jayne Nickalls, Paul Stockton and David Weymouth were re-appointed as non-executive directors for further three-year periods. In addition, as outlined above, Lawrence Churchill was re-appointed as Chairman on 1 April 2015 for an initial six-month period. There were no new Board appointments made in 2014/15, but Mark Adams was appointed as a non-executive director for a three-year period with effect from 1 June 2015. Details are also given under Composition of the Board as well as in the directors' profiles and in the Directors' Report.

In addition, the Committee considered FSCS's arrangements for succession planning and talent management, and approved proposals for carrying out an independent external Board evaluation. This is described in more detail under Review of Board performance. The Committee also reviewed its terms of reference, which resulted in the Board expanding the remit of the Committee to cover governance issues. This is described above.

5. Claims Decisions Committee

The Claims Decisions Committee meets on an ad hoc basis to consider marginal or unusual claims and difficult claims issues referred to it by the Executive. It consists of the Chief Executive and any two non-executive directors. One case was referred to this Committee during the year.

Working groups

As well as the formal Board committees, ad hoc Board working groups are set up from time to time to look at specific areas of significance for the organisation. These working groups do not have any decision-making authority, but serve to assist the Executive by discussing and giving views on certain topics.

Attendance at Board and committee meetings

The table shows the directors' attendance at Board and committee meetings during the year, together with their appointment and expiry of term dates.

	Board	Audit Committee	Remuneration & Human Resources Committee[1]	Nomination & Governance Committee[1]	Risk Committee[1]	Claims Decisions Committee[1]	Appointment date	Expiry of term
No. of meetings held	11[2]	6	3	3	3	1		
Non-executive directors:								
Margaret (Liz) Barclay	11/11		3/3		3/3	1/1	1 Jul 2011	30 Jun 2017
Lawrence Churchill	10/11		3/3	3/3			1 Apr 2012	30 Sep 2015
Marian Glen	10/11	4/6	3/3			1/1	1 Feb 2013	31 Jan 2016
Charles McKenna	11/11		3/3		3/3	1/1	1 Feb 2013	31 Jan 2016
Caroline (Jayne) Nickalls	11/11			3/3	3/3		1 Jul 2011	30 Jun 2017
Robert (Paul) Stockton	10/11	5/6		3/3			1 Dec 2011	30 Nov 2017
Philip Wallace	10/11	6/6			3/3		1 Jun 2009	31 May 2015
David Weymouth	9/11	4/6			3/3		1 Jul 2011	30 Jun 2017
Executive directors:								
Kate Bartlett	9/11						1 Feb 2010	31 Jan 2016
Alex Kuczynski	10/11						1 Feb 2010	31 Jan 2016
Mark Neale	10/11			3/3		1/1	4 May 2010	3 May 2016
Rommel Pereira[3]	0/2						7 Sep 2010	Resigned from Board 31 May 2014

1 Attendance shown only for committee members.
2 Includes one Board meeting attended only by non-executive directors.
3 Resigned from the Board on 31 May 2014.

Committee membership during the year

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

Internal controls

The Board recognises that a sound system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

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

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

The internal control framework has been in place throughout the year and is kept under regular review by the Board. The Audit Committee carries out, on behalf of the Board, an annual review of the effectiveness of the internal control arrangements.

The Board also regularly reviews FSCS's performance against its Plan and Budget, and receives monthly performance reports on both operational and financial matters as well as reports from the Board's committees. Furthermore, to satisfy itself that there are appropriate controls throughout the organisation, the Board receives reports from the Audit Committee on internal controls and the work undertaken by the internal and external audit functions, and from the Risk Committee on FSCS's risk management framework and its management of risk exposures.

Reviewing our controls

The following paragraphs set out the additional work that FSCS has carried out during the period covered by the Annual Report and Accounts in order to satisfy itself that there are appropriate controls throughout the organisation.

1. The Risk Committee reviewed the process by which risks are managed. The Executive identifies and prioritises key risks to the organisation and FSCS's Risk Register records these along with the relevant controls for each risk area. The review of FSCS's Risk Register is treated as a continuous process, with the Register changing over time in line with changes in FSCS's priorities, activities and exposure to risk.

The Risk Register continued to be reviewed and updated monthly by the Executive Committee. All directors are now able to access the Risk Register at any time, and the 'risk profile', which summarises the full Risk Register and highlights the material exposures to the achievement of FSCS's aims, which is considered by the Risk Committee at each of its meetings. The Audit Committee and Risk Committee report to the Board after each committee meeting and, as a matter of good practice, the Board itself considers the Risk Register at least once a year.

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

3. The Audit Committee continued to ensure that the Internal Audit Plan was appropriate to the needs of the organisation, including re-prioritising internal audit reviews where necessary. In addition, internal audit reports continued to provide an independent assessment of relevant risks identified in the Risk Register. The Audit Committee approves the annual Internal Audit Plans and, on an ongoing basis, considers proposed changes to either the current year's plan or future years' plans.

4. The internal auditors, Grant Thornton LLP, who normally attend Audit Committee meetings, planned and oversaw the development and delivery of the Internal Audit Plan, reporting to the Audit Committee on the progress of that plan, presenting those final internal audit reports that did not achieve a 'satisfactory' rating or which had received at least one high-priority audit observation, and reporting on management's progress in completing remedial actions arising from internal audit activity.

The following internal audit reviews were reported on during the year:

- claims service level agreements (non-deposits);
- risk management;
- risk maturity;
- contract, supplier and category management;
- Connect programme claims documentation; and
- Independent Insurance claims run-off arrangements.

The Audit Committee considered any significant control weaknesses identified in internal audit reviews and the proposed remedial action that management agreed to take, along with updates from internal audit on the progress made by management in implementing those remedial actions.

5. The Audit Committee received reports on FSCS's service quality assurance (SQA) reviews of the performance of the end-to-end claims process against pre-defined quality standards. These SQA reviews seek to identify issues to be considered further in order to establish whether any improvements could be made or remedial measures put in place.

6. Any non-audit work to be carried out by FSCS's external auditors must be approved in accordance with FSCS's policy. The policy includes the requirement to ensure that the external auditors' objectivity and independence would be safeguarded were they to carry out any non-audit work for the Scheme. A report is submitted annually to the Audit Committee on any non-audit work carried out by the external auditors. Neither the Comptroller and Auditor General nor the National Audit Office have carried out any non-audit services for FSCS in 2014/15.

Principal risks and uncertainties are covered separately in Section 11 and information on business risk and is covered in Section 8.

Financial risk management

FSCS's operations carry a variety of financial risks that include treasury risk and the effects of credit, liquidity, interest rate and currency risks. The principal financial instruments comprise HM Treasury loan arrangements, bank overdrafts and loan facilities, cash and short-term money market deposits.

Other instruments, such as trade receivables and trade payables, arise directly from operations, but FSCS holds no financial derivatives. Related risks are managed in accordance with Board-approved policies that are closely monitored, regularly reviewed and, where appropriate, externally benchmarked.

Throughout the year, monies were placed mainly with the Bank of England. FSCS maintains a balance between readily available funds to meet cash flow requirements and flexibility in placing money market deposits over periods not exceeding six months. During the year, the maximum term for such deposits was overnight.

HM Treasury borrowing facilities and commercial bank overdrafts and loan facilities are also available for use. Given FSCS's funding arrangements, interest rate risk is presently considered to be low, and no instruments are currently in place to further mitigate any such risk.

Where liabilities arise in a currency other than sterling, these are covered by equivalent currency deposits, placed on terms that conform to Board-approved policies. It is FSCS policy not to engage in speculative transactions of any kind.

Compliance with the UK Corporate Governance Code

FSCS has complied throughout the period covered by this report with the relevant provisions set out in the UK Corporate Governance Code (the Code) issued in September 2012, with the exception of the following:

- B.2.1 (making recommendations for Board appointments);
- D.2.2 (setting remuneration for the Chairman and Chief Executive);
- D.2.3 (remuneration for non-executive directors); and
- Section E (relations with shareholders) and other provisions relating to shareholders.

B.2.1 – The Code suggests that the Nomination Committee (which, in FSCS's case, is now called the Nomination and Governance Committee) should lead the process for Board appointments and make recommendations to the Board. As all FSCS's directors are appointed by the FCA and the PRA (and the appointments of the Chairman and Chief Executive are also approved by HM Treasury), FSCS's Nomination and Governance Committee makes its recommendations to the FCA and the PRA.

D.2.2/D.2.3 – Under the terms of its constitution, FSCS cannot set remuneration for its Chairman and non-executive directors. This is done by the FCA and the PRA, with appropriate input from FSCS. The Code also recommends that the Remuneration Committee (which, in FSCS's case, is now called the Remuneration and Human Resources Committee) should have delegated responsibility for setting executive directors' remuneration. FSCS's Remuneration and Human Resources Committee has the delegated responsibility for determining the remuneration of all executive directors except that of the Chief Executive. The Chief Executive's remuneration package is determined by the Board following recommendations made by the Remuneration and Human Resources Committee.

Section E, and other provisions relating to shareholders – As FSCS does not have shareholders, those provisions of the Code that refer to shareholders have been interpreted as referring to an equivalent body or bodies, or have been treated as not relevant for FSCS. Section E of the Code (relations with shareholders) covers provisions relating to the maintenance of a dialogue with shareholders and investors. Although FSCS is a company limited by guarantee with no shareholders, there is close and regular liaison with other key stakeholders, such as levy payers, trade bodies, HM Treasury, the FCA, the PRA and the Bank of England.

The Board of directors

FSCS was set up under the Financial Services and Markets Act 2000. Under the terms of the Act all directors were appointed by the Financial Services Authority until 1 April 2013, and thereafter by the FCA and the PRA.

Independent non-executive directors

Lawrence Churchill CBE, Chairman

Margaret (Liz) Barclay (Deputy Chairman and Senior Independent Director with effect from 1 June 2015)

Marian Glen

Charles McKenna

Caroline (Jayne) Nickalls

Robert (Paul) Stockton

Philip Wallace (Deputy Chairman and Senior Independent Director until 31 May 2015)

David Weymouth

Executive directors

Mark Neale CB, Chief Executive

Katherine (Kate) Bartlett, Director of Operations

Aleksander (Alex) Kuczynski, Director of Corporate Affairs

Rommel Pereira, Director of Central Services (resigned from the Board 31 May 2014)

Lawrence Churchill CBE (Chairman)

Re-appointed 1 April 2015 for an initial six months (see Composition of the Board)

Lawrence is currently the Senior Independent Director at Bupa, Chairman of the Independent Governance Committee at Prudential, Chairman of Applegate Marketplace, a Trustee of Age UK and the International Longevity Centre (UK), and a Governor of the Pensions Policy Institute. His executive career included being Chief Executive of UK, Irish and International Life at Zurich Financial, Executive Chairman of Unum and CEO of NatWest Life and Investments. Non-executive roles included Chairman of NEST Corporation, Chairman of the Pension Protection Fund, Member of the Actuarial Standards Board, and Director of the Financial Ombudsman Service and the Personal Investment Authority.

Lawrence brings over 30 years of Board experience in insurance and investments, and a deep interest in governance and risk management, driven by a passion for ensuring the right outcomes for consumers.

Liz Barclay (Deputy Chairman and Senior Independent Director from 1 June 2015)

Re-appointed 1 July 2014 for a three-year term

Liz is currently a writer, presenter and contributor for a number of programmes and documentaries for BBC Radio, as well as being a personal finance and consumer rights commentator for newspapers and magazines. She is the author of several business books, runs MoneyAgonyAunt.com, a consumer and personal finance website, and chairs national and international conferences.

Additionally, Liz is a member of the Financial Services Consumer Panel and the Equity Release Council Standards Board, a Trustee of the Credit Union Foundation, Chair of Camden Citizens Advice Bureaux Service, an ambassador for the Money Advice Trust and an honorary member of the Trading Standards Institute. Liz also trains in presentation, communication and interview skills.

Marian Glen
Appointed 1 February 2013 for a three-year term

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

Charles McKenna
Appointed 1 February 2013 for a three-year term

Charles has a background in law and spent over 30 years with law firm Allen & Overy, including 22 years as a partner specialising in corporate, financial services and regulatory. He has an extensive understanding of international business activity and challenges, including strategy development, corporate governance, risk management, corporate finance, restructuring and insolvency, joint ventures and other commercial arrangements. Charles also has a wealth of experience and expertise in the financial services sector where he advised banks, investment managers and brokers, financial institutions and regulatory bodies. In the 1980s, he was involved in the formation of the Securities Association, the first UK self-regulating organisation, which included advising on its constitution and rulebook. He served for three years on the Board of Hart Citizens Advice Bureau.

Caroline (Jayne) Nickalls
Re-appointed 1 July 2014 for a three-year term

Jayne is an experienced leader of transformational business change in both the public and private sectors, with a particular focus on digital service delivery in complex environments. Formerly Chief Executive of Directgov, Jayne spent six years leading the Directgov business (through the Cabinet Office and Department for Work and Pensions) from start-up to an established, successful business at the heart of the Government's digital strategy. Previously, she was responsible for the delivery function of Chordiant Software in Northern Europe. There, she led and managed the delivery of a wide range of enterprise solutions to clients across a number of industries with large consumer bases, particularly financial services. Jayne is also a non-executive director of Jadu Limited.

Paul Stockton
Re-appointed 1 December 2014 for a three-year term

Paul has been Group Finance Director at Rathbone Brothers plc, a FTSE 250 company, for over six years, and has gained exposure to a wide range of financial services businesses throughout his career. He has worked in the insurance sector and, in his current role, has gained considerable experience of private client investment management, banking and asset management. Through his work in the industry he has developed a strong understanding of issues relating to financial services, sales, consumer issues, corporate governance and regulatory compliance. Paul became Head of FSCS's Audit Committee from 1 June 2015.

Philip Wallace (Deputy Chairman and Senior Independent Director)
Retired from the Board 31 May 2015

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, including many cases in the financial services sector. Since his retirement, Philip has had a number of non-executive roles including the Chairmanship of the Insolvency Service Steering Board, which he took up in 2007. Philip was Chairman of the Audit Committee.

David Weymouth
Re-appointed 1 July 2014 for a three-year term

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

Executive directors

Mark Neale
(Chief Executive)
Re-appointed 1 May 2013 for a three-year term

Formerly Director General at HM Treasury responsible for Budget, Tax and Welfare until May 2010, Mark spent four years leading on the development of tax policy and delivery of the annual Budget and Pre-Budget Report, managing fiscal risk and welfare policy, including reducing child poverty. Previously he was Director General for Security at the Home Office with responsibility for Counter-terrorism and Organised Crime. This included the creation of the Serious Organised Crime Agency, and development of the Government's counter-terrorism strategy. Mark has also been responsible for housing benefit reform as Director for Children and Housing at the Department for Work and Pensions, and was Finance Director of the Employment Service. Mark has also been an independent member of the Council of the University of Roehampton since 2010.

Aleksander (Alex) Kuczynski
(Director of Corporate Affairs)
Re-appointed 1 February 2013 for a three-year term

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

Kate Bartlett
(Director of Operations)
Re-appointed 1 February 2013 for a three-year term

Kate is Director of Operations at FSCS. This division brings together the functions handling the end-to-end experience for claimants from initial contact, claims handling, post-decision queries plus the management of associated data and documentation. 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.

Directors' Remuneration Report

Certain parts of this report are subject to audit, and these are marked in the relevant sections.

Annual report on remuneration

Non-executive directors' fees are reviewed and set by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Prior to 1 April 2013, this was the responsibility of the Financial Services Authority. FSCS is responsible for setting the remuneration for executive directors. The Remuneration and Human Resources Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval. The Chief Executive is not present when this remuneration package is being considered. The remuneration packages of the other executive directors are determined by the Remuneration and Human Resources Committee. A fuller description of the work of the Remuneration and Human Resources Committee is given above.

Directors' remuneration table for 2014/15

Audited section	2014/15				
	Fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000
Non–executive					
Liz Barclay	25–30	0.2	–	–	25–30
Lawrence Churchill	75–80	3.8	–	–	75–80
Marian Glen	20–25	10.5	–	–	30–35
Charles McKenna	20–25	0.2	–	–	20–25
Jayne Nickalls	20–25	0.6	–	–	25–30
Paul Stockton	0[5]	0.2	–	–	0–5[5]
Philip Wallace	25–30	0.2	–	–	25–30
David Weymouth	25–30	–	–	–	25–30
Executive					
Kate Bartlett	180–185	1.6	5–10	15	205–210
Alex Kuczynski	210–215	2.2	25–30	40	280–285
Mark Neale	250–255	0.4	15–20	33	300–305
Rommel Pereira[6]	100–105[6]	0.7	–	7	110–115
Highest paid director's total remuneration[7] (£'000)					270–275
Median total remuneration for FSCS staff[7] (£)					45,889
Remuneration ratio[7]					5.9

2013/14					
Fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000
25–30	0.1	–	–	25–30
75–80	6.3	–	–	80–85
20–25	3.5	–	–	25–30
20–25	0.1	–	–	20–25
20–25	0.5	–	–	20–25
0[5]	0.1	–	–	0–5[5]
25–30	0.1	–	–	25–30
25–30	0.2	–	–	25–30
175–180	1.5	25–30	14	220–225
210–215	2.1	35–40	57	305–310
245–250	0.4	40–45	32	320–325
165–170	2.0	15–20	22	205–210
				290–295
				43,449
				6.7

Notes:

1 The Chairman and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any additional remuneration in respect of their roles as directors. Salaries and fees are stated for the financial year in respect of which they are earned. More details on directors' salaries and fees are given in the relevant section below.

2 'Taxable benefits' represent the gross value of benefits, whether cash or non-cash, that are chargeable to UK income tax. For executive directors, the figures in this part of the table include private medical cover and travel insurance. For all directors, the figures in this column include any taxable expenses directly and properly incurred in the performance of FSCS duties, which, for the Board as a whole, amounted to £20,700 in 2014/15 (2013/14: £12,000) (to the nearest £100). The majority of these additional taxable expenses relate to non-executive directors' travel to FSCS, and any associated subsistence, for attending Board and committee meetings and include the associated income tax and National Insurance liability, which is met by FSCS as agreed with HM Revenue & Customs.

3 'Performance-related bonus' is stated for the financial year in respect of which it is earned. More details on the bonus framework are given in the relevant section below.

4 'Pension' is shown as the amounts paid by the employer to defined contribution pension schemes, including any 'matching' contributions made by FSCS. Details are given below under 'Directors' pension entitlements'.

5 By arrangement and agreement with Paul Stockton's employing company, Mr Stockton does not receive a Board fee. Instead, the normal annual fee for non-executive directors of £24,500 is invoiced by, and paid to, his employing company. The invoiced amounts include VAT, so the annual amount payable in respect of Mr Stockton's non-executive directorship of FSCS for 2014/15 was £29,400. No part of this benefit passes to Mr Stockton.

6 Rommel Pereira resigned from the Board on 31 May 2014 and left FSCS on 31 July 2014. Remuneration is reflected accordingly in the table and under 'Payments for loss of office' below. The salary figure given in the table for Mr Pereira comprises basic salary plus payment in lieu of notice and payment in lieu of holiday.

7 This section of the table shows the relationship between the remuneration of the highest paid director and the median remuneration of the organisation's workforce. The banded remuneration of the highest paid director in 2014/15 was £270,000–£275,000 (2013/14: £290,000–£295,000). This was 5.9 times (2013/14: 6.7) the median remuneration of the workforce, which was £45,805 (2013/14: £43,449). For this purpose, total remuneration includes salary, bonus and taxable benefits. It does not include pension contributions. Full details of the remuneration of the highest paid director are given below under 'Highest paid director' and in Note 7 to the financial statements.

Highest paid director

Audited with the notes to the financial statements

The highest paid director, the Chief Executive (2014: the Chief Executive), received aggregate remuneration of £271,142 (comprising basic salary of £251,828, bonus of £18,887 and other emoluments of £427) (2014: £290,463 (comprising basic salary of £246,891, bonus of £43,206 and other emoluments of £366)). Contributions to a money purchase arrangement under FSCS's pension scheme have been made of £32,738 (2014: £32,096). The Chief Executive did not receive additional remuneration in respect of his role as director.

Payments for loss of office

Rommel Pereira left FSCS under redundancy terms on 31 July 2014. He received his contractual entitlements and a redundancy compensation payment of £29,094.23. He received salary and benefits up to 31 July 2014 and his contractual entitlement to a payment in lieu of notice of £42,025.00 for the subsequent three-month period as well as a payment in lieu of holiday of £5,172.30, as reflected in the 'Directors' remuneration table for 2014/15' above. Mr Pereira's bonus payment in respect of his 2013/14 performance was reported in 2013/14, so is shown in the 2013/14 comparatives. FSCS also contributed £7,800 towards Mr Pereira's legal fees in respect of the compensation arrangements and £5,290.56 in respect of career transition coaching.

Directors' remuneration framework

Directors' fees and salaries

Non-executive directors
The current non-executive director fees, including those of the Chairman, were set in April 2011 and have been unchanged since then.

The Board fees paid to the Chairman, Lawrence Churchill, in 2014/15 were set at £75,000 per annum (2013/14: £75,000), and fees paid to other independent non-executive directors or their employers were set at £24,500 per annum (2013/14: £24,500). Additional fees paid or payable to the chairmen of the Audit Committee, Risk Committee and Remuneration and Human Resources Committee were set at £5,000 per annum (2013/14: £5,000). During the year, Philip Wallace was Chairman of the Audit Committee, David Weymouth was Chairman of the Risk Committee and Liz Barclay was Chairman of the Remuneration and Human Resources Committee. The FSCS Chairman, Lawrence Churchill, was also the Chairman of the Nomination Committee but does not receive an additional fee for this role. Similarly, there is no additional fee payable to the Deputy Chairman and Senior Independent Director, Philip Wallace, in respect of these roles.

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

First, the salaries of executive directors should be determined on the same basis as for other staff and should be subject to the same affordability constraint. This means that the pay of executive directors should not be allowed to grow in aggregate faster than the underlying growth in the FSCS pay bill generally. Pay growth for the coming year was taken as two per cent, although this did not preclude some differentiation in the salary increases awarded to executive directors subject to this overall constraint.

Second, the growth in the salaries of individual executive directors should be set with regard to external benchmarks for equivalent roles. For this purpose, FSCS regards the median salary for equivalent roles as the appropriate benchmark. This is to ensure that, broadly, FSCS matches market rates in order to motivate and retain, but not necessarily to pay significantly more or less generously than the market.

Salaries for executive directors were subject to a market pay review carried out by external consultants in 2013/14. This market review of salaries was carried out for all FSCS salaries, and involved collecting pay data with the aim of helping to set FSCS's own pay rates at the appropriate level in order to recruit and retain the staff it needs.

The salaries of executive directors were reviewed and determined in line with the above principles and by reference to the performance assessments and benchmark data.

Performance-related bonus

Audited section
Executive directors were eligible to be considered for a performance-related bonus. These bonuses are not available to non-executive directors.

The key principle underpinning the bonus system is that bonuses should be non-consolidated performance awards reflecting the contribution of the executive director concerned to the performance of FSCS as a whole. Objectives are set for each executive director, and include an element of strategic objectives linked to the performance of the organisation as a whole. These are measured and reviewed during the course of the year and at year-end, along with other aspects of individual performance. There is a cap of 20 per cent of salary on these bonuses.

Directors' pension entitlements

Audited section
During the year, one director (2013/14: one) had a prospective entitlement to a defined benefit pension as well as accruing retirement benefits under the money purchase pension scheme. Three additional directors (2013/14: three) also accrued retirement benefits during the year under the money purchase pension scheme only. The independent non-executive directors are not entitled to a pension funded by FSCS.

The executive directors in post during the year were members of the defined contribution (money purchase) pension scheme, on the same terms as for other employees. FSCS makes a contribution equal to six per cent of basic salary, which increases to eight per cent after two years of service and 10 per cent after five years of service. Employees may make a contribution to the plan, and FSCS will match this with an employer's contribution up to a maximum of an additional five per cent of basic salary.

The defined benefit (final salary) pension scheme closed to future accrual on 30 June 2011. Defined benefit pension entitlements accrued for Alex Kuczynski as a result of participation in the defined benefit pension scheme from his date of joining the Pension Scheme on 20 April 1998 to the date of the Pension Scheme closing to future accrual on 30 June 2011. The accrued pension is the pension that the member is entitled to receive when he reaches pension age, albeit that this increases in line with the Pension Scheme's rules between 31 March 2015 and 8 July 2025 (his normal retirement date).
Mr Kuczynski may elect to retire earlier than his normal retirement date but the pension will be subject to an actuarial reduction. Due to the nature of these defined benefit pension rights being different from retirement benefits accruing in a defined contribution scheme, further details are given in the table below:

Name of director	Normal retirement date	Accrued pension at 31 March 2015 £'000	Real increase in pension £'000	CETV at 31 March 2015 £'000	CETV at 31 March 2014 £'000	Real increase in CETV £'000
Alex Kuczynski	08/07/2025	30	0	988	716	272

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the defined benefit pension scheme benefits accrued by a member at a particular point in time. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement if the member chooses to leave a scheme and transfer their accrued benefits. The 'Real increase in CETV' reflects the change in CETV using actuarial factors based on market conditions at the start and end of the period. The 'Real increase in CETV' is net of the increase in accrued pension due to inflation.

Other benefits

Executive directors are entitled to receive other benefits. Some of these, such as private medical cover and travel insurance, are detailed in the remuneration table above under 'taxable benefits', and pension benefits are described in the section above. Other benefits available to executive directors, in common with other employees, include life assurance, flexible working, flu vaccinations, season ticket loans, gym subsidy, childcare vouchers, the cycle-to-work scheme, annual professional subscriptions and access to the employee assistance programme helpline.

Remuneration for executive directors holding other non-executive positions

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

Mark Neale
Chief Executive
7 July 2015

List of acronyms

B&B	Bradford & Bingley plc
BAU	Business as usual
BCI	Best Companies Index
CETV	Cash equivalent transfer value
CIIA	Chartered Institute of Internal Auditors
CSR	Corporate social responsibility
DBS	Dunfermline Building Society
DGSD	Deposit Guarantee Schemes Directive
DIGF	Iceland Depositors' and Investors' Guarantee Fund
DMO	Debt Management Office
EFDI	European Forum of Deposit Insurers
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
IFA	Independent Financial Adviser
IFRS	International Financial Reporting Standards
IP	Insolvency practitioner
KSF	Kaupthing Singer & Friedlander Limited
LIBOR	London Inter-Bank Offer Rate
MELL	Management Expenses Levy Limit
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
SAR	Special Administration Regime
SIPP	Self-Invested Personal Pension
SQA	Service quality assurance
SRR	Special Resolution Regime
VFM	Value for money

Section 11

Strategic Report for the year ended 31 March 2015

The directors of Financial Services Compensation Scheme Limited (FSCS) present their Strategic Report for the year ended 31 March 2015.

Overview of the business

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA), to administer a single compensation scheme for consumers in respect of regulated financial services activities, should an authorised financial services firm be unable, or be likely to be unable, to meet its liabilities. FSCS assumed its responsibilities at midnight on 30 November 2001 (a date referred to as N2), when FSMA came into force, and has fulfilled those responsibilities throughout the year ended 31 March 2015.

FSCS is funded by levies on firms authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). For this purpose, firms are allocated to 'classes' which reflect the nature of the business they conduct. This enables the costs of failures to be passed to firms conducting similar business.

FSCS prepares financial statements both for itself and for each of the classes. FSCS's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The class accounts have been prepared on a different basis in accordance with Section 218 of FSMA and the Combined FCA/PRA Handbook.

Under the current FEES rules which took effect on 1 April 2013, the amount that can be raised by FSCS levy in the year (compensation costs and specific management expenses) will vary, depending on the funding class. Only FCA classes will receive support from other classes; so for PRA classes the amount that FSCS can levy in any year is the individual class limit. For FCA classes, it is the amount of the relevant FCA retail pool.

FSCS pursues recoveries from the estates of failed firms and third parties where it is reasonable and cost-effective to do so. In the class accounts, recoveries are credited when notification is received in respect of dividends from insolvency practitioners, or notified and agreed in respect of other recoveries, which have not been received by the reporting date. Where no notification is received, recoveries are credited in the class accounts on receipt. In FSCS's financial statements, recoveries are recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors).

FSCS's costs are made up of compensation payments and management expenses (see Note 1 (b) and (d) of the class accounts). FSCS makes compensation payments funded by the classes, which are shown in both the FSCS and class accounts. Compensation offers are accrued at the reporting date if they are due and have been made, accepted and fully valued.

FSCS has made payments referred to as deemed compensation under Statutory Orders. The liability is incurred on the Order date and adjusted for any balancing payments made between the parties, and updated as further information is received.

Levy income comprises a compensation cost levy and management expenses levy. The compensation cost levy is used to fund payments made to or on behalf of claimants and is allocated to the relevant funding class. Firms in each class contribute to the related compensation costs, in line with their PRA or FCA tariff data. The management expenses levy is used to fund FSCS's overheads and is split between base costs and specific costs. All firms contribute to the base costs which are the costs of running FSCS which are not dependent on levels of activity. Specific costs are the costs of assessing claims, making payments, and any other costs which can be directly attributable to a particular class. The specific costs are allocated by FSCS to each class in accordance with the principles contained within the FCA and the PRA FEES rules. The base costs are not allocated to classes but are allocated against the FCA/PRA fee blocks by which they are levied.

Under the powers provided by FSMA, FSCS has continued to fulfil its responsibilities throughout the year. The Annual Report includes commentary on FSCS's key performance indicators as described in Section 5.

Results and performance

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

Levies in respect of compensation costs of £237,137,000 (2014: £(4,514,000)) have increased during the year. The primary driver of this increase is a reduction in recoveries, but also reflects an increase in compensation costs in the year.

Compensation costs amounted to £326,589,000 (2014: £243,362,000). This increase is as a result of higher noise-induced hearing loss (NIHL) claims and other insurance claims, higher Self-Invested Personal Pensions (SIPPs)-related claims volumes, and continuing levels of Payment Protection Insurance (PPI) claims over the year. Further details can be found in Section 5.

Each year, levies raised reflect our best estimate of future recoveries and any capital shortfall associated with the 2008/09 banking failures. Recoveries of £89,452,000 (2014: £247,876,000) reflect both cash recoveries received during the year of £560,452,000 (as shown in the financial statements of the classes) and the net change in recoveries accrued. This net change of £471,000,000 (2014: £104,786,000) is the difference between each year's best estimate of anticipated recoveries. Additional details can be seen within Note 8. £493,975,000 of the cash recoveries received in the year was used to repay FSCS borrowing with HM Treasury as shown in Note 14.

During the year, recoveries in excess of our estimates were received which provided an opportunity to repay Heritable Bank plc, LBI hf and London Scottish Bank plc loans. This is shown in Note 14. The receipt of recoveries in excess of those estimated has generated a payable due to levy payers of the Deposits class of £183,988,000 as shown in Note 13. It is expected that the remaining balance on the Kaupthing Singer & Friedlander Limited loan will be repaid during the year ended 31 March 2016, which would leave only the Bradford & Bingley plc loan remaining.

We also expect that £16,003,332,000 (2014: £16,488,921,000) will be receivable in relation to future recoveries associated with the 2008/09 banking failures. This is based upon the best information available to the directors at 31 March 2015. The loans continue to accrue interest with £397,403,000 (2014: £445,719,000) charged during the year (see Note 14), and relevant amounts levied to firms in the Deposits class before 1 September 2015.

FSCS's results show a surplus after tax of £43,000 (2014: £5,447,000), as shown on page 122, reflecting a net actuarial loss arising on the final salary pension scheme assets and liabilities. A more detailed review of the performance of FSCS can be found in Section 7. Administration expenses and interest payable of £468,872,000 (2014: £502,213,000) in the year include a net credit of £1,291,000 which is the defined benefit pension scheme contributions of £1,611,000 less the current service cost of £320,000 (see Note 25) (2014: £1,639,000, £1,906,000 and £267,000 respectively).

Other operating income includes the gross amount of management expenses and interest payable recoverable from levy payers (see Note 8), and base cost levies from firms within the FCA and PRA fee blocks, of £470,163,000 (2014: £503,852,000).

From 24 March 2015, FSCS entered into a £750,000,000 revolving syndicated loan facility at a floating rate of interest linked to LIBOR.

The provision brought forward from last year of £552,000,000 relating to Dunfermline Building Society has been decreased to £448,000,000 based on the best information available to the directors and reflecting an interim payment of £100,000,000 which was made to HM Treasury on 1 October 2014. As stated in Notes 3 and 15, however, the outcome could yet be different and the final amounts, once agreed, may potentially result in a further adjustment to the provision.

A more detailed review of the performance of FSCS can be found in Sections 5 to 9.

Future developments

Further matters relating to FSCS's future outlook are referred to in Section 3 and in Sections 5, 6, 7 and 8 – including the importance for FSCS to modernise the service, raise awareness of FSCS, and continue to engage in contingency planning.

Principal risks and uncertainties

The principal external risks to FSCS arise from the global financial markets and UK economic outlook and market conditions for firms, which in turn affect the financing of compensation costs, recoveries and FSCS's operations, including its own resourcing through staff and outsourcers. These issues are referred to in 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 risks and uncertainties identified in the financial statements are:

- the assumptions supporting the funding of borrowings and the pending review of the loan terms which are referred to in Note 14 and in Section 7;
- the value of recoveries through dividends from the estates of the 2008/09 banking failures, as explained in Note 14 and in Section 7;
- the provision for net costs of the failure of Dunfermline Building Society, as explained in Note 15 and in Section 7; and
- the current valuation of defined benefit pension deficit, as explained in Note 25.

By order of the Board

Mark Neale
Chief Executive
7 July 2015

Directors' Report for the year ended 31 March 2015

The directors of Financial Services Compensation Scheme Limited (FSCS) present their report, together with the audited financial statements of FSCS on pages 122 to 160 and its classes on pages 161 to 173 for the year ended 31 March 2015.

The directors have chosen to prepare these financial statements in accordance with International Financial Reporting Standards (IFRS). This has been done to enhance the quality of the financial information with the aim of making the financial statements easier to compare and understand internationally and to increase transparency.

The directors

The directors of the company who were in office during the year and up to the date of signing the financial statements, all of whom are independent non-executive directors unless stated, were as follows:

Mark Neale – Chief Executive and Executive Director

Katherine (Kate) Bartlett – Executive Director

Aleksander (Alex) Kuczynski – Executive Director

Rommel Pereira – Executive Director – resigned 31 May 2014

Margaret (Liz) Barclay

Caroline (Jayne) Nickalls

Robert (Paul) Stockton

Philip Wallace – resigned 31 May 2015

David Weymouth

Lawrence Churchill

Marian Glen

Charles McKenna

Mark Adams – appointed 1 June 2015.

Directors' remuneration

Details of directors' remuneration is shown in the Remuneration Report and in Note 6 Directors' remuneration.

Liability insurance

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

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the income or expenditure of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained in Section 10. Information on the use of financial instruments by the company is disclosed in Note 16. In particular, the company's exposure to credit risk, liquidity risk and interest rate risk are separately disclosed in that note.

Going concern

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

Independent auditors

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

By order of the Board

Mark Neale
Chief Executive
7 July 2015

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Financial Service Compensation Scheme Limited's (FSCS's) affairs as at 31 March 2015 and of the result for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I certify that I have audited the financial statements of FSCS for the year ended 31 March 2015 under the Financial Services and Markets Act 2000. The financial statements comprise: the statements of comprehensive income, financial position and cash flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Overview of my audit approach

Application of materiality

I applied the concept of materiality both in planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements.

The choice of materiality requires professional judgement and for FSCS's financial statements was set at £90m, which is approximately 0.5 per cent of total assets, a benchmark that I consider to be the principal consideration for users in assessing the financial performance of the entity. I applied a lower level of materiality to the income and compensation payments because I consider that the users of these financial statements are more sensitive to misstatements in these areas. This lower materiality was set at £15m which is 1 per cent of the income received by FSCS.

As well as quantitative materiality, there are certain matters that, by their very nature, would influence the decisions of users if not corrected. These included, for example, the Remuneration Report and the disclosures of exit packages. Assessment of any such misstatements would take into account these qualitative aspects as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. Regularity is the principle that income and expenditure should accord with Parliament's intention, whether this be expressed through the relevant legislation, the relevant delegated authority or other aspects of the framework of authorities relevant to the entity. In planning and performing audit work in support of my opinion on regularity, and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £250,000, as well as differences below that threshold that, in my view, warranted reporting on qualitative grounds, including irregular transactions.

Total unadjusted audit differences reported to the Audit Committee would have decreased net assets by £7.7m.

The scope of my audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Risks significant to my audit

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year:

Risk	My response
Recoveries FSCS recovers funds from failed firms to offset compensation that has been paid out to its customers. An asset must be recognised when there is a realistic expectation that such recoveries will be received from the administration of a failed firm's estate. As at 1 April 2014, FSCS estimated it would recover £16.7bn from such failed firms. I identified a risk as there is a significant degree of judgement and uncertainty in estimating the value of these assets and their recoverability. Of this balance: • £794m was due to FSCS from two Icelandic banks (LBI hf and Kaupthing Singer & Friedlander Limited). Recoveries were subject to particular uncertainty due to the slowdown in frequency of repayments from the liquidation process, uncertainty about the Icelandic political environment and restrictions on the movement of Icelandic króna out of the country.	I tested the controls FSCS had in place to mitigate these risks including: • assessing the adequacy of management's review of their accounting estimates and assumptions used in calculating the recovery of receivables at the year-end; • reviewing FSCS's accounting papers to its Audit Committee on the valuation of recoveries; and • reviewing management's interaction and scrutiny of information provided to FSCS by UK Asset Resolution (the holding company of Bradford & Bingley plc). In December 2014, FSCS received £435m from LBI hf. I tested the receipt of these funds and confirmed that they had been correctly accounted for. I reviewed UK Asset Resolution's business plan and confirmed that this supports management's assertion that the recoveries due from Bradford & Bingley plc remain fully recoverable as at 31 March 2015.

Risk	My response
• £15.6bn was due from Bradford & Bingley plc and is subject to the winding down of underlying mortgage assets. The value of these assets is therefore sensitive to external factors in the wider economy such as interest rate rises.	In addition, I tested the completeness of other receivables through, for example, trend analysis and comparing with subsequent receipts, confirming that these recoveries are materially complete.
Revenue recognition Under International Standard on Auditing (ISA) (UK and Ireland) 240, there is a presumed significant risk of material misstatement owing to fraud arising from revenue recognition. In 2013/14, FSCS recognised a payable for the surplus levy income received compared with the expenditure incurred during the year, resulting in a nil result in the statement of comprehensive income. My work focused on the continued applicability of FSCS's revenue recognition policy rather than a general risk of income manipulation.	I performed procedures to ensure the circumstances and arrangements in place adequately support the Scheme's revenue recognition accounting policy. A key component of this is whether the firms to which refunds are owed remains materially stable year on year. I confirmed that the amounts to be returned carried over from 2013/14 were appropriately subtracted from the current year levy.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Financial Services and Markets Act 2000; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

Adequacy of accounting records and explanations received
I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

My duty to read other information in the Annual Report

Under the ISAs (UK and Ireland), I am required to report to you if, in my opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of FSCS acquired in the course of performing our audit; or
- otherwise misleading.

In particular, I am required to consider whether I have identified any inconsistencies between my knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which I consider should have been disclosed.

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

Respective responsibilities of the directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. I conducted my audit in accordance with ISA (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Report

I have no further observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP
10 July 2015

Financial statements of FSCS for the year ended 31 March 2015

Statement of comprehensive income

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Income:			
Levy income in respect of compensation costs	8	237,137	(4,514)
Recoveries	8	89,452	247,876
Compensation costs		(326,589)	(243,362)
		–	–
Other operating income:		468,915	507,660
Levy income in respect of base costs	8	17,578	17,735
Levy income in respect of specific costs	8	55,182	40,398
Levy income in respect of loan interest	8	397,403	445,719
Levy income in respect of pension obligations	8	(891)	3,979
Net interest on the net defined benefit obligation/(asset)	25	(357)	(171)
Administrative expenses	4	(71,469)	(56,494)
Interest payable	7	(397,403)	(445,719)
Surplus before tax		**43**	**5,447**
Surplus after tax		**43**	**5,447**
Other comprehensive income			
Remeasurements on Defined Benefit Pension Scheme	25	(43)	(5,447)
Total comprehensive result for the year		–	–

All of FSCS's operations are continuing.

A statement of changes in equity has not been presented as there were no equity balances brought forward or any changes in equity balances during the year.

The Notes on pages 125 to 160 form part of these financial statements.

Statement of financial position of FSCS as at 31 March 2015

	Note	2015 £'000	2014 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	927	988
Other non-current financial assets	*11*	16,339,023	16,749,042
		16,339,950	**16,750,030**
Current assets			
Trade and other receivables	*11*	615,043	943,600
Cash and cash equivalents	*12*	232,353	306,173
		847,396	**1,249,773**
Total assets		**17,187,346**	**17,999,803**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		–	–
Non-current liabilities			
Interest bearing loans and borrowings	*14*	15,654,509	16,590,877
Other non-current financial liabilities	*13*	61,645	55,460
Provisions	*15*	448,161	552,112
Employee benefit liability	*25*	7,675	8,566
		16,171,990	**17,207,015**
Current liabilities			
Bank overdraft	*12*	13,357	962
Trade and other payables	*13*	576,340	346,107
Loan interest payable	*14*	397,403	445,719
Provisions	*15*	28,256	–
		1,015,356	**792,788**
Total liabilities		**17,187,346**	**17,999,803**
Total equity and liabilities		**17,187,346**	**17,999,803**

The financial statements on pages 122 to 124 were approved by the Board of Financial Services Compensation Scheme Limited (Registered Number 3943048) on 4 June 2015 and signed on its behalf on 7 July 2015 by:

Lawrence Churchill
Chairman

The Notes on pages 125 to 160 form part of these financial statements.

Statement of cash flows of FSCS for the year ended 31 March 2015

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Operating activities			
Net cash generated from operations	*18*	1,152,715	1,231,879
Net cash flows from operating activities		**1,152,715**	**1,231,879**
Investing activities			
Purchases of property, plant and equipment	*10*	(236)	(131)
Net cash flows used in investing activities		**(236)**	**(131)**
Financing activities			
Decrease in loans	*20*	(792,975)	(655,407)
Returns on investments and servicing of finance	*19*	(445,719)	(429,421)
Net cash flows used in financing activities		**(1,238,694)**	**(1,084,828)**
Net increase in cash and cash equivalents		(86,215)	146,920
Cash and cash equivalents at 1 April	*21*	305,211	158,291
Net cash and cash equivalents at 31 March	*21*	**218,996**	**305,211**

Notes to the financial statements for FSCS for the year ended 31 March 2015

1 Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member. FSCS has no share capital and no ultimate controlling party.

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). Its full powers were assumed following the coming into force of powers of the Financial Services Authority (FSA), under FSMA, at midnight on 30 November 2001. The FSA was replaced by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) from 1 April 2013. FSCS, as Scheme Manager, operates eight broad funding classes based on identifiable industry sectors – Deposits, Life and Pensions Provision, General Insurance Provision, General Insurance Intermediation, Life and Pensions Intermediation, Investment Provision, Investment Intermediation, and Home Finance Intermediation.

The registered office is 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU.

2 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006, International Financial Reporting Standards (IFRS) as adopted by the European Union, and the directions issued by HM Treasury on the going concern basis. The directors are satisfied that FSCS is in a position to meet its obligations as they fall due given its statutory rights to raise levies on FCA/PRA authorised firms. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern accounting convention.

The FEES rules require FSCS to keep accounts which show the funds held to the credit of each class and the liabilities of that class. These accounts are set out on pages 161 to 173.

The principal accounting policies are set out below.

a) Revenue recognition

Compensation cost levy

FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match any difference between the compensation costs which FSCS has incurred net of the recoveries it has recognised as income during the period. Any excess funds are ultimately repayable to the levy payer (with shortfalls similarly recoverable from the levy payer), by way of a return or a reduction in next year's levy, in accordance with FSCS's funding rules.

Recoveries

Recoveries are deemed receivable when notification is received in respect of dividends from insolvency practitioners, or notified and agreed in respect of other recoveries, which have not been received by the reporting date. Where no notification is received or agreed, recoveries are recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors).

Other operating income

FSCS recognises levy revenue raised from authorised firms in respect of management fees to cover the administration costs of FSCS when incurred. The management expenses levy is used to fund FSCS's overheads and is split between base costs and specific costs. All firms contribute to the base costs which are the costs of running FSCS and are not dependent on levels of activity. Specific costs are the costs of assessing claims, making payments, and any other costs which can be directly attributable to a particular class.

As the pension deficit due to the defined benefit plan will eventually be funded through future levies on levy-paying firms, an asset and accrued levy income in respect of the pension deficit has been recognised in these financial statements.

b) Compensation costs

Compensation costs paid under various Orders are referred to as deemed compensation. Compensation costs which include interest paid to claimants are payable when offers made are due and accepted, or reinstatement cases, when fully valued.

Compensation costs are not recognised in respect of claims received which are still being assessed or pending a decision. A liability is recorded only when an offer is made because the eligibility and quantum of any claim cannot be known until the claim is assessed.

c) Financial instruments

Trade and other receivables

Receivables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that an asset is impaired. The allowance recognised is measured as the difference between an asset's carrying value and the estimated future cash flows deriving from the continued use of that asset, discounted if the effect is material.

As a result of the bank and building society failures in 2008/09, arrangements were made during 2008/09 to obtain unsecured loans with the Bank of England and HM Treasury. The facilities with the Bank of England were subsequently refinanced to cover accumulated interest and principal by HM Treasury. The outstanding principal under these facilities will be repaid through recoveries from the estates of defaulted firms with any shortfall raised through levies on levy-paying firms. Financial assets have been included within Trade and other receivables (Note 11) to reflect the estimated recoveries from the estates of defaulted firms and the estimated shortfall receivable through levies on levy-paying firms.

Following notice served by HM Treasury, FSCS has an obligation to contribute to the costs of resolution of Dunfermline Building Society (DBS) plus interest, but after recoveries, which will be financed through levies.
A financial asset has been recognised in respect of amounts due from levy payers in the Deposits class to fund the costs of resolution. This is in line with International Accounting Standard (ISA) 37 – Provisions, Contingent Liabilities and Contingent Assets, which states that if some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised as a separate asset, and not as a reduction of the required provision, when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

Trade and other payables

Payables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowings

Borrowings are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Borrowings are measured initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Interest is charged to the statement of comprehensive income over the term of the borrowings. Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans.

d) Special Resolution Regime

The Banking Act 2009 created a Special Resolution Regime (SRR) which gives the UK Authorities a statutory framework providing tools for dealing with distressed banks and building societies. Under the Act, and its regulations, FSCS may be required to contribute to the costs of resolution, but no more than the cost 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 FSCS, are recoverable from the relevant levy payers. FSCS's obligation is accounted for in accordance with IAS 37 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.

e) Welcome Financial Services Limited (Welcome)

FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of Payment Protection Insurance (PPI) policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims. Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome. Such payments are shown in the statement of financial position of FSCS as an asset and in Trade and other payables (current liabilities) since any excess payments will ultimately be repaid to Welcome under agreed terms. Compensation costs and recoveries are shown in FSCS statement of comprehensive income. The costs associated with the handling of claims are shown in FSCS statement of comprehensive income under administrative expenses and are recovered from Welcome Financial Services Limited.

f) Provisions, legal challenges and costs

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

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

g) Interest payable

Loan interest payable is charged to the statement of comprehensive income in the period according to the terms of the loans, as described in Note 14.

h) Interest receivable

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

i) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Property, plant and equipment are capitalised and depreciated over their estimated useful lives at the following rate:

- computers: 60 per cent per annum (reducing balance basis);
- furniture and equipment: 33 $^{1}/_{3}$ per cent per annum (reducing balance basis); and
- leasehold improvements: straight-line basis over the periods of the leases, commencing on occupancy.

j) Administrative expenses

These costs are included in the statement of comprehensive income on an accruals basis.

k) Operating leases

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

l) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the reporting date. All differences are charged to the classes.

m) Third party arrangements as agent

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

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

n) Taxation

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

o) Pension Scheme

FSCS operates both a defined benefit pension scheme (the Pension Scheme) and a money purchase scheme. The aggregate pension scheme asset/liability recognised in the statement of financial position is the excess or deficit of the present value of the Pension Scheme's assets over the value of the Pension Scheme's liabilities. The deficit will be funded by future levies. Further details are contained in Note 25.

Money purchase scheme

The costs of the money purchase scheme are charged to the statement of comprehensive income 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 statement of comprehensive income.
- 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 statement of comprehensive income on a straight-line basis over the period in which the increase in benefits vest. Any such items would be recognised as an expense in the statement of comprehensive income.
- Settlements or curtailments
  Settlements or curtailments are recognised in the statement of comprehensive income 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 Pension Scheme assets less interest on Pension Scheme liabilities. This item is recognised in the statement of comprehensive income.
- Actuarial gains and losses
  The actual return less expected return on Pension 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 reporting date are shown within other comprehensive income in the statement of comprehensive income.

p) Changes in accounting policy

i. New and amended standards adopted by FSCS:

There were no IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations effective for the first time in the financial year beginning on or after 1 April 2014 that have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year 1 April 2014 and not early adopted:

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

3 Accounting judgements and key estimation uncertainties

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

As explained in Note 14, FSCS refinanced the loans with HM Treasury relating to the 2008/09 banking failures with effect from 1 April 2012. FSCS and HM Treasury have agreed that the period of the loans will reflect the expected timetable to realise assets from the estates of each default. The loans have target repayment dates of 29 February 2024 for Bradford & Bingley plc and 31 March 2016 for the remainder. The expected timing of repayments from the estates of each default remains uncertain. Under the loan facilities agreed in 2012, FSCS and HM Treasury review the interest rates and target repayment dates every three years (where still outstanding) in light of market conditions and of actual repayments from the estates of the failed banks.

Following notice served by HM Treasury, FSCS has an obligation to contribute to the costs of resolution of DBS plus interest but after recoveries, which will be financed through levies. The FSCS figure for the total amount of the protected deposits, less the valuation of the total FSCS recoveries, in an insolvency counterfactual, will provide the cap on FSCS's contribution. HM Treasury appointed an independent valuer to work out what recoveries FSCS would have received had there been a payout by FSCS to DBS's approximately 260,000 depositors in the event of insolvency. We have decreased the provision in the financial statements for the year ended 31 March 2015 to £448,000,000 (2014: £552,000,000) based on the best information available to the directors at this time. The provision takes account of an interim payment of £100,000,000 which was made to HM Treasury on 1 October 2014. In accordance with our accounting policy, the provision has been calculated by discounting the expected future cash flows at a pre-tax rate that reflects the current time value of money and the risks specific to the liability. The final outcome may be different, however, and the final amounts, once agreed, may potentially result in a significant adjustment to the provision being required (see Note 15). When FSCS is notified by HM Treasury of the final agreed contribution required, the provision will be updated accordingly and the corresponding change made to the compensation cost.

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

4 Administrative expenses

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Staff costs	5	15,487	15,051
IT maintenance costs		2,105	1,893
Outsourcing costs		11,188	11,584
Welcome costs		1,233	1,739
Change programme costs		17,214	9,616
Depreciation – owned assets	10	297	306
Press and communications		4,108	3,874
Auditors' remuneration			
Statutory audit of the financial statements		177	276
Other audit services		9	–
Legal and professional fees		7,179	6,638
Bank charges		3,953	4,475
Operating lease rentals	17	536	536
Other		7,983	506
		71,469	**56,494**

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

5 Staff costs

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Wages and salaries, including the executive directors	11,170	10,448
Social security costs	1,349	1,265
Other pension costs	2,968	3,338
	15,487	**15,051**

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

The average number of employees of FSCS during the year was as follows:

	Year ended 31 March 2015	Year ended 31 March 2014
Executive Committee and Internal Audit	7	7
Operations	111	103
Central Services	56	58
Corporate Affairs	29	24
	203	**192**

Operations average headcount increased year on year after the decision to make 12 Capita employees, who were previously contracted to work for FSCS in the Customer Contact Centre, permanent members of our staff ahead of the Connect programme reorganisation. The above table also reflects a structural reorganisation, as 10 Knowledge Management staff transferred to Operations from Central Services as at 1 July 2014. The full impact of the restructure relating to the Connect programme will be seen in the year ending 31 March 2016.

Sickness absence

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

Exit packages

FSCS is required to disclose summary information of the use of exit packages, in accordance with the Accounts Direction issued by HM Treasury. The following table includes exit packages as they relate to all employees. Exit packages are accounted for in full in the year of departure.

Exit package cost band	Number of compulsory redundancies Year ended 31 March 2015	Number of other departures agreed Year ended 31 March 2015	Total number of exit packages by cost band Year ended 31 March 2015	Total number of exit packages by cost band Year ended 31 March 2014
< = £10,000	4	3	7	2
£10,001–£25,000	3	11	14	–
£25,001–£50,000	1	12	13	–
£50,001–£100,000	2	9	11	–
£100,001–£150,000	–	–	–	–
£150,001–£200,000	–	–	–	–
Over £200,001	–	–	–	–
Total number of exit packages by type	**10**	**35**	**45**	**2**
Total resource cost (£'000)	**236**	**1,269**	**1,505**	**5**

FSCS is not required to follow the provisions of the Civil Service Compensation Scheme as its principal governance arrangement is with the FCA and PRA. Any FSCS exit packages are approved in line with our own internal procedures.

Special severance payments

There were seven special severance payments paid out during the year to 31 March 2015 totalling £30,900 (2014: 1 payment totalling £3,500).

Losses and special payments

There were no losses or special payments during the year to 31 March 2015 exceeding £300,000 individually or in total.

6 Directors' remuneration

During the year, there had been an average of eight independent non-executive directors (2014: nine) and three executive directors (2014: four). As at 31 March 2015, there were eight independent non-executive directors (2014: eight) and three executive directors (2014: four). Total remuneration paid to directors is as follows:

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Aggregate remuneration	1,128	1,187
Pension contributions – money purchase	95	125
	1,223	**1,312**

Retirement benefits during the year accrued to one director (2014: one) under FSCS's defined benefit scheme and three under the money purchase scheme (2014: four).

The highest paid director, the Chief Executive (2014: the Chief Executive), received aggregate remuneration of £271,142 (comprising basic salary of £251,828, bonus of £18,887 and other emoluments of £427) (2014: £290,463 (comprising basic salary of £246,891, bonus of £43,206 and other emoluments of £366)). Contributions to a money purchase arrangement under FSCS's Pension Scheme have been made of £32,738 (2014: £32,096). The Chief Executive did not receive additional remuneration in respect of his role as director.

The fees paid to the Chairman are set at £75,000 per annum (2014: £75,000) and the fees paid to the independent non-executive directors or their employers are set at £24,500 per annum (2014: £24,500). Additional fees paid to the chairmen of the Audit Committee, Remuneration Committee, Contingencies Planning Committee and Risk Committee were set at £5,000 per annum (2014: £5,000). In addition, business-related expenses totalling £15,687 (2014: £11,171) were reimbursed to the independent non-executive directors. The Chairman and the other independent non-executive directors are not entitled to a pension funded by FSCS.

7 Interest payable

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Loan interest – HM Treasury	*14*	**397,403**	**445,719**

8 Reconciliation of income from levy payers and recoveries to class accounts

In FSCS's financial statements, levies are recognised on an accruals basis taking into account the costs which have been incurred and any recoveries it has made. In the financial statements of the classes, levies are recognised on a cash received basis. The table below reconciles the total of all constituent parts of levy income for the year reported in the statement of comprehensive income with the levies received from levy payers as shown in the classes financial statements:

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Levy income recognised in the statement of comprehensive income		
Levy income in respect of compensation costs	237,137	(4,514)
Levy income in respect of base costs	17,578	17,735
Levy income in respect of specific costs	55,182	40,398
Levy income in respect of loan interest	397,403	445,719
Levy income in respect of pension obligations	(891)	3,979
Total levy income	**706,409**	**503,317**
Add:		
Exchange (gains)/loss, interest received and tax	325	866
Net change in funds carried forward as shown in the financial statements of the classes	838,950	716,020
Less:		
Net change in recoveries accrued	(471,000)	(104,786)
Pension obligations	891	(3,979)
Levies received from levy payers as shown in the financial statements of the classes (including base cost levies)	**1,075,575**	**1,111,438**

Of the total levies received from levy payers as shown in the financial statements of the classes, £299,000,000 (2014: £363,000,000) was used to repay loans with HM Treasury (see Note 14).

In FSCS's financial statements, recognition of recoveries includes recoveries where no notification is received or agreed, when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). Levies and recoveries in the classes financial statements are prepared on a cash basis. The table below reconciles the recoveries in the statement of comprehensive income and the classes financial statements:

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Recoveries recognised in the statement of comprehensive income	89,452	247,846
Net change in recoveries accrued	471,000	104,786
Recoveries as shown in the financial statements of the classes	**560,452**	**352,662**

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

Recoveries recognised in the financial statements of FSCS can be analysed as follows:

Year ended 31 March 2015	Accrued at 31 March 2015 £'000	Accrued at 31 March 2014 £'000	Net change in recoveries accrued £'000	Cash distributions received in the year £'000	Recognised in the statement of comprehensive income £'000
Current:					
Recoveries receivable in respect of other defaults	20,048	13,140	6,908	66,220	73,127
Recoveries receivable in respect of the 2008/09 banking failures	181,629	481,012	(299,383)	494,233	194,850
Less: amounts held in Icelandic escrow account	(35,901)	(37,396)	1,495	–	1,495
Non-current:					
Recoveries receivable in respect of other defaults	61,645	55,460	6,185	–	6,185
Recoveries receivable in respect of the 2008/09 banking failures	15,821,703	16,007,909	(186,205)	–	(186,205)
	16,049,124	**16,520,124**	**(471,000)**	**560,452**	**89,452**

Year Ended 31 March 2014	Accrued at 31 March 2014 £'000	Accrued at 31 March 2013 £'000	Net change in recoveries accrued £'000	Cash distributions received in the year £'000	Recognised in the statement of comprehensive income £'000
Current:					
Recoveries receivable in respect of other defaults	13,140	10,910	2,230	111,402	113,632
Recoveries receivable in respect of the 2008/09 banking failures	481,012	404,402	76,609	241,261	317,870
Less: amounts held in Icelandic escrow account	(37,396)	(35,698)	(1,698)	–	(1,698)
Less: recoveries announced but not yet received	–	(61,514)	61,514	–	61,514
Non-current:					
Recoveries receivable in respect of other defaults	55,460	57,760	(2,300)	–	(2,300)
Recoveries receivable in respect of the 2008/09 banking failures	16,007,909	16,249,050	(241,141)	–	(241,141)
	16,520,124	**16,624,910**	**(104,786)**	**352,662**	**247,876**

Following a judgment of the Icelandic Supreme Court on 24 September 2013, future recoveries from LBI hf are affected by the exchange rate of a number of currencies including the Icelandic króna. This has led to recognition of an exchange (loss)/gain of £(20,940,000) (2014: £32,524,000) using the year-end exchange rates, although this may be reversed in future periods depending on movements in exchange rates.

Management expenses and interest payable

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

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Deposits	411,166	454,177
General Insurance Provision	3,035	2,466
General Insurance Intermediation	12,984	12,682
Life and Pensions Provision	298	167
Life and Pensions Intermediation	6,612	4,595
Investment Provision	292	417
Investment Intermediation	17,224	10,912
Home Finance Intermediation	974	701
Amount allocated – specific costs and interest	**452,585**	**486,117**
Amount allocated – base costs	**17,578**	**17,735**

Other operating income of £470,163,000 (2014: £503,852,000), as referred to in the results and performance section of the Strategic Report, comprises interest payable of £397,403,000 (2014: £445,719,000), management expenses (specific costs) of £55,182,000 (2014: £40,398,000), and management expenses (base costs) of £17,578,000 (2014: £17,735,000).

9 Compensation payments relating to 2008/09 banking failures

During the year, FSCS has made compensation payments 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 financial statements. Compensation payments made for HM Treasury are treated as amounts paid as agent and do not pass through the statement of comprehensive income.

As at 31 March 2015, compensation payments in the year in respect of the 2008/09 banking failures[2] and their allocation for funding responsibility were:

	HM Treasury £'000	HM Treasury, for DIGF £'000	FSCS £'000	Year ended 31 March 2015 Total £'000	Year ended 31 March 2014 Total £'000
Bradford & Bingley plc	–	–	–	–	–
Heritable Bank plc	–	–	–	–	–
Kaupthing Singer & Friedlander Limited	–	–	–	–	100
LBI hf – Icesave	–	–	–	–	34
London Scottish Bank plc	–	–	44	44	38
Year ended 31 March 2015	–	–	**44**	**44**	–
Year ended 31 March 2014	**(1)**	**34**	**139**	–	**172**

1. Tryggingarsjoour innstaeoueigenda og fjarfesta – established pursuant to Act No. 98/1999 of the Icelandic Parliament
2. Bradford & Bingley plc, Heritable Bank plc, LBI hf, and its UK branch and brand Icesave, Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc

10 Property, plant and equipment

	Computers £'000	Furniture and equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 April 2014	2,019	436	779	3,234
Additions in the year	58	91	87	236
Disposals	–	–	–	–
At 31 March 2015	2,077	527	866	3,470
Accumulated depreciation				
At 1 April 2014	(1,889)	(215)	(142)	(2,246)
Charge for the year	(122)	(96)	(79)	(297)
Disposals	–	–	–	–
At 31 March 2015	(2,011)	(311)	(221)	(2,543)
Net book value at 31 March 2015	**66**	**216**	**645**	**927**
Net book value at 31 March 2014	**130**	**221**	**637**	**988**

11 Receivables

Trade and other receivables: amounts falling due within one year

	Note	31 March 2015 £'000	31 March 2014 £'000
Amounts due from the FCA	*22*	1,983	402
Levies receivable, net of provision:			
General Insurance Provision		153	22
General Insurance Intermediation		307	62
Life and Pensions Intermediation		19,251	13
Investment Provision		46	47
Investment Intermediation		410	823
Home Finance Intermediation		40	1
In respect of base costs		1	21
Net amounts due from levy payers in the following classes:			
Deposits		386,039	444,729
Home Finance Intermediation		371	–
In respect of base costs		1,711	–
Recoveries receivable in respect of other defaults		20,048	13,140
Recoveries receivable in respect of the 2008/09 banking failures		181,629	481,012
Other receivables		92	116
Prepayments		2,962	3,212
		615,043	**943,600**

Levies receivable, net of provision, do not appear in the class accounts as they are recognised on a cash received basis.

Recoveries receivable in respect of the 2008/09 banking failures of £181,629,000 (2014: £481,012,000) includes dividends receivable from Kaupthing Singer & Friedlander Limited and LBI hf (formerly Landsbanki Íslands hf). As at 31 March 2015, £35,901,000 (2014: £37,396,000) was held in an Icelandic escrow account, and classified as a receivable (falling due within one year) as opposed to cash and cash equivalents. This is due to restrictions on foreign exchange transactions imposed by the Icelandic Authorities. The currency restrictions were introduced as a temporary protective measure although at this time it is not known when the restrictions will be lifted.

Recoveries receivable in respect of other defaults of £20,048,000 (2014: £13,140,000) includes £974,000 (2014: £2,430,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class, and £19,074,000 (2014: £10,710,000) from firms declared in default in the Investment Intermediation class. These are estimated based on the best information available to the directors at 31 March 2015. However, the timing of the final outcome is uncertain. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable (see Note 13).

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

	Note	31 March 2015 £'000	31 March 2014 £'000
Amounts due from levy payers of the Deposits class in respect of Dunfermline Building Society	15	448,000	552,000
Amounts due from levy payers of the Deposits class in respect of the 2008/09 banking failures		0	125,107
Amounts due from levy payers in respect of pension deficit		7,675	8,566
Recoveries receivable in respect of the 2008/09 banking failures		15,821,703	16,007,909
Recoveries receivable in respect of other defaults		61,645	55,460
		16,339,023	**16,749,042**

Recoveries receivable of £15,821,703,000 (2014: £16,007,909,000) relate to the 2008/09 banking defaults. Recoveries receivable in respect of other defaults of £61,645,000 (2014: £55,460,000) includes £54,042,000 (2014: £55,460,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class, and £7,603,000 (2014: £nil) from firms declared in default in the Investment Intermediation class. These are estimated based on the best information available to the directors at 31 March 2015. However, the timing of the final outcome is uncertain, although it is not expected to be within 12 months of the reporting date. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable (see Note 13).

Based on the best information available to the directors at 31 March 2015, total recoveries receivable of £16,003,332,000 (2014: £16,488,921,000) relate to the 2008/09 banking defaults, of which £181,629,000 (2014: £481,012,000) is shown within amounts falling due within one year and £15,821,703,000 (2014: £16,007,909,000) is shown within amounts falling due after more than one year.

Balances with other government bodies

Amounts falling due within one year	31 March 2015 £'000	31 March 2014 £'000
Balances with other central government bodies	–	–
Balances with local authorities	–	–
Balances with public corporations	1,983	402
Sub-total: intra-government balances	**1,983**	**402**
Balances with bodies external to government	613,060	943,198
Total receivables	**615,043**	**943,600**

Amounts falling due after more than one year	31 March 2015 £'000	31 March 2014 £'000
Balances with other central government bodies	15,654,000	15,654,000
Balances with local authorities	–	–
Balances with public corporations	–	–
Sub-total: intra-government balances	**15,654,000**	**15,654,000**
Balances with bodies external to government	685,023	1,095,042
Total receivables	**16,339,023**	**16,749,042**

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

As at 31 March 2015, FSCS had facilities for business purposes of £770m, comprising a 364-day sterling revolving credit facility of £750m expiring on 23 March 2016, and an overdraft facility of £20m. Any usage of the revolving credit facility is subject to Board approval.

	31 March 2015 £'000	31 March 2014 £'000
Cash at bank	232,353	306,173
Cash on short-term deposit	0	0
	232,353	**306,173**
Bank overdraft	(13,357)	(962)
	218,996	**305,211**

Cash book balances which include cheques or other effects which are drawn but not presented are shown as bank overdrafts above, and presented within Trade and other payables on the statement of financial position. The cash at bank includes £30,924,000 (2014: £45,394,000) received from Welcome Financial Services Limited referred to in Note 2(e). This sum is ring-fenced and can only be used to pay costs relating to Welcome.

The remaining cash at bank balance includes funds received by FSCS by way of levy or otherwise for the purposes of the compensation scheme and are to be managed as FSCS considers appropriate. FSCS holds any amount collected from a specific costs levy or compensation costs levy to the credit of the classes.

13 Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2015 £'000	31 March 2014 £'000
Compensation payable		4,598	2,997
Net amounts held on behalf of levy payers:			
General Insurance Provision		74,072	84,417
General Insurance Intermediation		27,786	18,269
Life and Pensions Provision		274	586
Life and Pensions Intermediation		28,265	16,319
Investment Provision		15,768	29,595
Investment Intermediation		8,152	83,337
Home Finance Intermediation		–	249
Social security and other taxes		399	372
Due to claimants and/or Welcome		28,893	46,285
Accruals		9,620	7,866
Deferred income in respect of base costs		–	11,767
Amounts due to HM Treasury	22	27,564	28,581
Loans	14	143,393	–
Net amounts due to levy payers in respect of recoveries receivable	11	20,048	13,140
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures		183,988	–
Other payables		3,520	2,327
		576,340	**346,107**

The £27,564,000 due to HM Treasury (2014: £28,581,000) includes an amount of £3,125,000 (2014: £3,125,000) that relates to loans drawn down in advance of compensation payments.

The £28,893,000 (2014: £46,285,000) due to claimants and/or Welcome relates to payments received from Welcome. As explained in Note 2(e), payments from Welcome are only used to pay compensation and other costs relating to Welcome and any excess amount will ultimately be repaid to Welcome.

The £183,988,000 (2014: £nil) due to levy payers of the Deposits class in respect of the 2008/09 banking failures represents the current fund balance of that class after taking into account the future recoveries FSCS expects to receive from the estates of those firms declared in default (the timing and final outcome are uncertain). Once the final outcome is known and the recoveries have been received, any excess funds will be repayable to the levy payers, by way of a return or a reduction in future years' levy, in accordance with FSCS's funding rules.

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

	Note	31 March 2015 £'000	31 March 2014 £'000
Amounts due to HM Treasury			
Loans	*14*	15,654,509	16,590,877
Net amounts due to levy payers in respect of recoveries receivable	*11*	61,645	55,460
		15,716,154	**16,646,337**

Balances with other government bodies

Amounts falling due within one year	31 March 2015 £'000	31 March 2014 £'000
Balances with other central government bodies	171,356	28,953
Balances with local authorities	–	–
Sub-total: intra-government balances	**171,356**	**28,953**
Balances with bodies external to government	404,984	317,154
Total payables	**576,340**	**346,107**

Amounts falling due after more than one year	31 March 2015 £'000	31 March 2014 £'000
Balances with other central government bodies	15,654,509	16,590,877
Balances with local authorities	–	–
Sub-total: intra-government balances	**15,654,509**	**16,590,877**
Balances with bodies external to government	61,645	55,460
Total payables	**15,716,154**	**16,646,337**

14 Loans

As a result of the 2008/09 banking failures, various arrangements were made during 2008/09 to obtain unsecured loans with HM Treasury and the Bank of England. The facilities with the Bank of England were subsequently re-financed to cover accumulated interest and principal by HM Treasury. Details of loans with HM Treasury are:

Loans

	Principal outstanding as at 31 March 2014 £'000	Drawdown from (and repayment to) HM Treasury £'000	Recoveries £'000	Compensation payments on behalf of HM Treasury £'000	Principal outstanding as at 31 March 2015 £'000
Loan in respect of:					
Bradford & Bingley plc	15,654,509	–	–	–	15,654,509
Heritable Bank plc	20,382	(8,000)	(12,382)	–	0
Kaupthing Singer & Friedlander Limited	331,953	(127,000)	(61,560)	–	143,393
LBI hf – Icesave	470,844	(125,000)	(345,844)	–	0
London Scottish Bank plc	113,189	(39,000)	(74,189)	–	0
	16,590,877	**(299,000)**	**(493,975)**	–	**15,797,902**

FSCS continues to be an active member of the creditors' committees of the failed banking estates and also continues to receive dividends in respect of these claims. These recoveries are used to reduce the borrowing that FSCS arranged with HM Treasury in order to compensate the customers of the failed banks. FSCS received recoveries distributions of £493,975,000 during the year ended 31 March 2015, of which £435,307,000 came from the LBI hf recovery. All cash received was used to offset the HM Treasury loans. This has enabled FSCS to pay off three of the five loans (Heritable Bank plc, LBI hf and London Scottish Bank plc) during the year ended 31 March 2015. FSCS expects to fully repay a fourth loan (Kaupthing Singer & Friedlander Limited) during the year ending 31 March 2016, leaving as outstanding only the Bradford & Bingley plc loan.

Loan interest payable

	Principal outstanding as at 31 March 2015 £'000	Interest outstanding as at 31 March 2015 £'000	Interest outstanding as at 31 March 2014 £'000
Loan in respect of:			
Bradford & Bingley plc	15,654,509	384,521	422,187
Heritable Bank plc	0	259	1,049
Kaupthing Singer & Friedlander Limited	143,393	5,043	8,656
LBI hf – Icesave	0	6,266	11,261
London Scottish Bank plc	0	1,314	2,566
	15,797,902	**397,403**	**445,719**

Principal terms and conditions

FSCS has loan facilities agreed with HM Treasury for each default. The outstanding principal under these facilities is only repayable through recoveries from the estates of defaulted firms and levies on levy paying firms. Under the terms of the original facilities, as the loans were not repaid by the target repayment date of 31 March 2012, FSCS re-financed the agreement with HM Treasury with effect from 1 April 2012. FSCS and HM Treasury have agreed the period of the loans will reflect the expected timetable to realise assets from the estates of each default. The loans have target repayment dates of 29 February 2024 for Bradford & Bingley and 31 March 2016 for the remainder. Under the loan facilities agreed in 2012, FSCS and HM Treasury review the interest rates and target repayment dates every three years (where still outstanding) in light of market conditions and of actual repayments from the estates of the failed banks. This three-yearly review is currently ongoing and at present the existing terms continue by mutual agreement.

Under the terms of The Bradford & Bingley plc Transfer of Securities and Property etc. Order 2008, FSCS shall not recover less than it would have recovered if that Order had not been made and Bradford & Bingley had gone into liquidation. This will entail comparing the value realised by the existing run-down of the Bradford & Bingley estate with the value that would have been realised in the event of liquidation and may affect the amounts ultimately payable by levy payers in respect of Bradford & Bingley.

Interest

Under the terms of the re-financed loans, interest accrued within a financial year (Interest Accrual Period) becomes due and payable six months after the last day of the Interest Accrual Period (being 1 October), and is calculated at 12 month LIBOR plus 100 basis points, adjusted monthly. This rate will be subject to a floor equal to the Treasury's own cost of borrowing as represented by the rate published by the Debt Management Office for borrowing of an equivalent duration. There will be an annual cap on the amount of interest the industry will have to pay through FSCS levies. This cap will be set on the advice of the PRA and take into account what the deposit-taking sector can afford having regard to other FSCS and regulatory commitments. Any interest charges exceeding the annual cap will be capitalised and repaid from levies on deposit-takers.

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

The loan interest of £397,403,000 is recoverable from levy payers in the Deposits class by way of a compensation costs levy, and is payable to HM Treasury on 1 October 2015.

15 Provisions

	As at 31 March 2014 £'000	Change in the year £'000	Utilised in the year £'000	Unwinding of discount £'000	As at 31 March 2015 £'000
Restructuring	–	661	–	–	661
Compensation cost	–	27,595	–	–	27,595
Dilapidations	112	49	–	–	161
Dunfermline	552,000	(13,455)	(100,000)	9,455	448,000
Total provisions	**552,112**	**14,850**	**(100,000)**	**9,455**	**476,417**
Current		28,256	–	–	28,256
Non-current	552,112	(13,406)	(100,000)	9,455	448,161
	552,112	**14,850**	**(100,000)**	**9,455**	**476,417**

Restructuring

In the year, FSCS has undertaken a major restructuring of the organisation which has resulted in some staff redundancies. A provision of £661,000 (2014: £nil) reflects the costs of all redundancies notified.

Compensation cost provision

Compensation costs include £27,595,000 estimated for Alpari (UK) Limited. This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the amount of these claims using the best information available to the directors at this time. There are significant judgements which had to be made in arriving at this estimate and the final outcome could be significantly different.

Dilapidations

Provision is made for dilapidations under the lease for the current premises at St Botolph Street (see Note 17).

Dunfermline Building Society

Following notice served by HM Treasury, FSCS has an obligation under the Special Resolution Regime to contribute to the costs of resolution of Dunfermline Building Society, plus 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 reduced by £104,000,000 in the financial statements for the year ended 31 March 2015 following an interim payment of £100,000,000 to HM Treasury on 1 October 2014. The estimate of this provision is based on an insolvency counterfactual.

This amount will be due to HM Treasury and, as shown in Note 11, recoverable from the levy payers in the Deposits class. However, the timing of the final outcome is uncertain, although it is not expected to be within 12 months of the reporting date. The final amount may be different and, once agreed, may potentially result in a significant adjustment to the provision being required (see Note 3).

16 Financial risk management

The company's financial risk management policy is disclosed below:

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss to FSCS by failing to discharge an obligation. FSCS's principal financial assets are cash deposits, together with levy and other receivables.

FSCS's credit risk falls into two main categories:

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

ii. the placement of those levies as deposits with various counterparties: FSCS only invests with those financial institutions that meet its minimum credit rating as assigned by credit rating agencies. FSCS also spreads its deposits across a number of counterparties in order to avoid concentration of credit risk.

The table below shows the credit rating and exposure of FSCS's most significant counterparties at the reporting date. These credit ratings are produced by Moody's. The credit rating of amounts due from levy payers have been approximated using the weighted average credit rating of the top 10 levy payers in each class. This is on the basis that any shortfall in the administration process will be met by levying the financial services industry in each class.

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

	As at 31 March 2015		As at 31 March 2014	
	Credit rating	Exposure £'000	Credit rating	Exposure £'000
Trade and other receivables: amounts falling due within one year:				
Amounts due from the FCA	Not rated	1,983	Not rated	402
Levies receivable, net of provision	Not rated	20,208	Not rated	989
Net amounts due from levy payers of the following classes:				
Deposits	Baa2	386,039	Baa2	444,729
Home Finance Intermediation	Not rated	371	–	–
In respect of base costs	Not rated	1,711	–	–
Recoveries receivable in respect of other defaults	Not rated	20,048	Not rated	13,140
Recoveries receivable in respect of the 2008/09 banking failures	Not rated	181,629	Not rated	481,012
Other receivables	Not rated	92	Not rated	116
Prepayments	Not rated	2,962	Not rated	3,212
Trade and other receivables: amounts falling due after one year:				
Amount due from the levy payers in the Deposits class in respect of Dunfermline Building Society	Baa2	448,000	Baa2	552,000
Amounts due in respect of the 2008/09 banking failures	–	–	Baa2	125,107
Amounts due from levy payers in respect of pension deficit	Not rated	7,675	Not rated	8,566
Recoveries receivable in respect of the 2008/09 banking failures	Not rated	15,821,703	Not rated	16,007,909
Recoveries receivable in respect of other defaults	Not rated	61,645	Not rated	55,460
Cash and short-term deposits	Aa1	232,353	Aa1	306,173

Liquidity risk

Liquidity risk is the risk that FSCS is unable to meet its payment obligations associated with its financial liabilities as they fall due. FSCS manages its liquidity by carefully monitoring the projected income and expenditure related to its day-to-day business. Each month FSCS identifies liquidity up to the point when it next expects to levy the majority of fees. FSCS also has available to it for liquidity purposes, £770m facilities, comprising a 364-day sterling revolving credit facility of £750m expiring on 23 March 2016, and an overdraft facility of £20m at a fixed margin above bank rate. Any usage of the revolving credit facility would be subject to Board approval.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's exposure to the risk of changes in market interest rates relates primarily to the company's long-term debt obligations with floating interest rates (see Note 14).

The interest payable on these loans is dependent on the timing of recoveries obtained from the estates of defaulted firms relating to 2008/09 banking failures as these would be used to repay the principal of the HM Treasury loans. The interest payable in any given period is uncertain because the amount and timing of recoveries are uncertain. However, the interest rate risk is ultimately passed on to and absorbed by the levy payers.

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

As at 31 March 2015	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	–	143,393	–	15,654,509	15,797,902
Trade and other payables	106	13,432	562,801	61,645	–	637,984
Loan interest payable	–	–	397,403	1,996,062	2,011,589	4,405,054
	106	**13,432**	**1,103,597**	**2,057,707**	**17,666,098**	**20,840,940**

As at 31 March 2014	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	–	–	936,368	15,654,509	16,590,877
Trade and other payables	2	10,563	335,542	55,460	–	401,567
Loan interest payable	–	–	445,719	2,848,146	3,829,907	7,123,772
	2	**10,563**	**781,261**	**3,839,974**	**19,484,416**	**24,116,216**

Currency risk

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

Fair values

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, other current assets and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, loans from HM Treasury and the associated financial assets recoveries receivable in respect of the 2008/09 banking failures is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Set out below is a comparison by class of the carrying amounts and fair values of the company's financial instruments that are carried in the financial statements. Financial assets and financial liabilities which have a fair value that approximately equals their carrying amounts are not disclosed in the table below.

	Carrying amount		Fair values	
	As at 31 March 2015 £'000	As at 31 March 2014 £'000	As at 31 March 2015 £'000	As at 31 March 2014 £'000
Financial assets				
Recoveries receivable in respect of Specified Deposit Defaults	15,967,431	16,451,520	13,453,465	13,137,975
Financial liabilities				
Loans	15,797,902	16,590,877	17,124,853	18,390,626

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

17 Payments under lease agreements

Year ended 31 March 2015	Less than 1 year £'000	Between 2 and 5 years £'000	Greater than 5 years £'000	Total £'000
Future minimum rentals payable under non-cancellable operating leases are as follows:				
Land and buildings	797	3,187	1,394	5,378
Other	15	–	–	15
	812	**3,187**	**1,394**	**5,393**

Year ended 31 March 2014	Less than 1 year £'000	Between 2 and 5 years £'000	Greater than 5 years £'000	Total £'000
Future minimum rentals payable under non-cancellable operating leases are as follows:				
Land and buildings	797	3,187	2,191	6,175
Other	33	15	–	48
	830	**3,202**	**2,191**	**6,223**

On 20 December 2011, FSCS signed a lease for its new premises at 10th Floor, Beaufort House, 15 St Botolph Street, London. The lease term is from 31 December 2011 to 30 December 2021.

18 Reconciliation of the profit/(loss) on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the statement of comprehensive income and statement of financial position movements:

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Surplus on ordinary activities before interest and tax		397,446	451,166
Depreciation	*10*	297	306
Loss on disposal		–	–
Decrease in receivables		738,576	672,530
Increase/(decrease) in payables		93,024	102,692
Difference between pension charge and cash contributions		(934)	(1,468)
Increase/(decrease) in provisions for liabilities and charges		(75,694)	6,653
Net cash inflow from operating activities		**1,152,715**	**1,231,879**

19 Returns on investments and servicing of finance

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Interest paid	*7, 14*	(445,719)	(429,421)
		(445,719)	**(429,421)**

20 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
(Increase)/decrease in cash at bank and short-term deposits in the year	86,215	(146,921)
Decrease in loans	(792,975)	(655,407)
Decrease in net debt	(706,760)	(802,328)
Net funds at 1 April	16,285,667	17,087,994
Net funds at 31 March	**15,578,907**	**16,285,667**

21 Analysis of change in net funds

	As at 31 March 2014 £'000	Cash inflows/ (outflows) £'000	As at 31 March 2015 £'000
Cash at bank and short-term deposits	306,173	(73,820)	232,353
Bank overdraft	(962)	(12,395)	(13,357)
	305,211	**(86,215)**	**218,996**

22 Transactions with related parties

During the year, FSCS entered into transactions with the FCA as a related party. The FCA and PRA appoint, and have the right to remove, directors to the Board of FSCS and they establish the rules under which FSCS operates. The FCA and PRA are considered to be related parties but not controlling parties during the year.

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £1,144,345,000 (2014: £1,072,848,000) including £844,719,000 raised as a levy for the interest and capital repayment on the loans relating to the 2008/09 banking failures on 25 July 2014. Related collections of £1,123,546,000 (2014: £1,111,438,000) were received. The agency fee for the service was £354,000 (2014: £294,000).

Overall, payments less receipts of £1,125,127,000 (2014: £1,111,855,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2015 of £1,983,000 (2014: £402,000).

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

HM Treasury is not considered to be a related party or a controlling party. However, in the interest of transparency, full disclosure of the transactions with HM Treasury has been made. These transactions with HM Treasury comprise loan drawdowns and repayments, loan interest fees, loan commitment fees and compensation payments on behalf of HM Treasury.

All loan drawdowns, repayments and interest fees in the year as well as the balance owed at the year-end are disclosed in Note 14. During the year commitment fees of £nil (2014: £nil) and administration fees of £9,000 (2014: £9,000) were paid to HM Treasury.

At 31 March 2015, FSCS owed HM Treasury £27,564,000 (2014: £28,581,000) due to loans drawn down in advance of compensation payments of £3,125,000 (2014: £3,125,000) and £24,439,000 (2014: £25,456,000) relating to the HM Treasury share of dividends declared by insolvent estates not yet received (see Note 13).

During the year, FSCS made compensation payments on behalf of HM Treasury of £nil (2014: £(1,000)) and on behalf of HM Treasury, for Iceland Depositors' and Investors' Guarantee Fund (DIGF), of £nil (2014: £34,000) (see Note 9).

FSCS has also made a provision at 31 March 2015 of £448,000,000 (2014: £552,000,000) for amounts owed to HM Treasury as a result of FSCS's obligation under the Special Resolution Regime to contribute to the net costs of the resolution of Dunfermline Building Society (see Note 15).

23 Contingent liabilities

FSCS may have other 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 FSCS. In any event, any liabilities that crystallise would normally be recoverable from the appropriate class and would not fall to FSCS as designated Scheme Manager.

24 Going concern

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

25 Retirement benefits

FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Pension Scheme), which was closed to new staff and closed to future accrual on 30 June 2011.

Money purchase scheme

The non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001. FSCS makes contributions of six per cent, with incremental increases of two per cent after two years' service, and a further two per cent after five years. The staff member may make voluntary contributions, to which up to a further five per cent will be matched by FSCS.

Amounts paid by FSCS into the money purchase scheme amounted to £1,681,000 and £150,000 was outstanding to be paid at 31 March 2015 (2014: £1,519,000 and £130,000 respectively).

Defined benefit pension scheme with money purchase underpin (hybrid pension scheme)

FSCS operates a funded scheme with defined benefits payable that are underpinned by the value of notional money purchase units allocated to members in respect of service prior to 1 April 2002. Assets are held in separate Trustee-administered funds. An actuarial valuation of the Pension Scheme was carried out as at 1 April 2012. The valuation used the projected unit method and was carried out by Buck Consultants Limited, professionally qualified actuaries.

The Trustees have the primary responsibility for governance of the Pension Scheme. Benefit payments are from Trustee-administered funds and the Trust is governed by UK regulation. Responsibility for governance of the pension scheme, including investment decisions and contribution rates, lies jointly with the company and the Trustees. The Trustees comprise representatives of FSCS and members in accordance with the Trust Deed and Rules.

Principal actuarial assumptions at the statement of financial position date are:

	31 March 2015 % (p.a.)	31 March 2014 % (p.a.)
Discount rate	3.20	4.50
Salary increase rate	N/A	N/A
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.10	3.30
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	2.00	2.10
RPI inflation assumption	3.20	3.50
CPI inflation assumption	2.20	2.30

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: 100 per cent S1PMA light for males and 75 per cent S1PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2011, with a 1.25 per cent per annum long-term trend rate from 2008 onwards, allowing for individual members' year of birth.

For the 31 March 2015 disclosures, 75 per cent of members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum using the cash commutation factors in place as at 31 March 2015. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2015 disclosures, 80 per cent of male and 70 per cent of female members are assumed to be married, with males assumed to be three years older than females. The assumption is consistent with last year's proportion married assumption.

The assumptions were chosen by FSCS, with professional advice.

At 31 March 2015, the Pension Scheme's assets were invested in a diversified portfolio that consisted primarily of equities.

The fair value of the Pension Scheme's assets are set out below:

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

As at 31 March 2014	Quoted £'000	Unquoted £'000	Total £'000
Global equities	10,316	–	10,316
Property	–	1,372	1,372
Index-linked gilts	2,643	–	2,643
UK corporate bonds	2,052	–	2,052
Hedge funds	–	1,376	1,376
Cash and net current assets	427	–	427
Total assets	**15,438**	**2,748**	**18,186**

The assets as at 31 March 2015 are consistent with the Pension Scheme's investment strategy as set by the Trustees. As the Pension Scheme matures, it is intended to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. This involves an asset liability management framework that has been developed to achieve long-term investments that are in line with the obligations under the Pension Scheme. Within this framework the objective is to match assets to the pension obligations by investing in long-term fixed interest and index-linked securities with maturities that match the benefit payments as they fall due and in the appropriate currency. FSCS actively monitors the duration and the expected yield of the investments that are matching the expected cash flows arising from the pension obligations.

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

The amounts recognised in the statement of financial position are as follows:

	31 March 2015 £'000	31 March 2014 £'000
Fair value of assets	22,335	18,186
Present value of obligations	(27,194)	(20,443)
Funded status	**(4,859)**	**(2,257)**
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling')	(2,816)	(6,309)
Net defined benefit asset/(obligation)	**(7,675)**	**(8,566)**

Movement in net defined benefit asset/(obligation) over the year	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Net defined benefit asset/(obligation) at the beginning of the year	(8,566)	(4,587)
Employer contributions	1,611	1,906
Expense recognised in income statement	(677)	(438)
Remeasurement gain/(loss) recognised in other comprehensive income	(43)	(5,447)
Net defined benefit asset/(obligation) at the end of the year	(7,675)	(8,566)

Changes in effect of the asset ceiling over the year	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Adjustment at the beginning of the year	(6,309)	0
Interest income	(284)	0
Change in adjustment in excess of interest	3,777	(6,309)
Adjustment at the end of the year	**(2,816)**	**(6,309)**

Changes in present value of the defined benefit obligation	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Opening defined benefit obligation	20,443	20,001
Interest cost	914	939
Distributions	(276)	(75)
Experience (gains)/losses	–	–
Losses/(gains) on curtailments	–	–
Actuarial (gains)/losses	6,113	(422)
Closing defined benefit obligation	**27,194**	**20,443**

Sensitivity analysis of the Pension Scheme liabilities

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

	Change in assumption	Impact on Scheme liabilities £'000
Discount rate reduced by	0.25%	29,020
Discount rate increased by	0.25%	25,517
Inflation and associated pension increases reduced by	0.25%	28,718
Inflation and associated pension increases increased by	0.25%	25,597
Life expectancy decreased by	one year	26,391

Description of risks to which the Pension Scheme exposes FSCS

If the Pension Scheme assets do not move in line with Pension Scheme liabilities then a deficit may arise. As the Pension Scheme matures, FSCS intends to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). Increases in life expectancy will increase Pension Scheme liabilities. The inflation-linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

Changes in fair value of the Pension Scheme assets	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Opening fair value of assets	18,186	15,414
Contributions paid by employer	1,611	1,906
Interest income	841	768
Return on Scheme assets excluding interest income	2,293	440
Distributions	(276)	(75)
Administration expenses	(320)	(267)
Closing fair value of assets	**22,335**	**18,186**

Expenses recognised in the income statement	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Administration expenses	320	267
Net interest on the net defined benefit obligation/(asset)	357	171
Total expense/(income)	**677**	**438**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Return on Pension Scheme assets excluding interest income	2,293	440
Experience (losses) arising on the Pension Scheme liabilities	–	–
Changes in financial assumptions underlying the present value of the Pension Scheme liabilities	(6,113)	(101)
Changes in demographic assumptions underlying the present value of the Pension Scheme liabilities	–	523
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling') in excess of interest	3,777	(6,309)
Net actuarial losses recognised in the period	**(43)**	**(5,447)**

	£'000
Best estimate of employer contributions to be paid over following year	1,611
Expected future benefit payments	
Year ending 31 March 2016	216
Year ending 31 March 2017	146
Year ending 31 March 2018	236
Year ending 31 March 2019	235
Year ending 31 March 2020	273
Five years ending 31 March 2025	2,389

As required by IAS 19, the projected unit method has been used to determine the liabilities.

FSCS has agreed with the Trustees that the funding objective is to aim to ensure that the Pension Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the Scheme Specific Funding regulations (the Pension Scheme operates under the Pensions Act 2004 regulatory framework).

The latest triennial actuarial valuation was as at 1 April 2012. On completion of the 2012 valuation, FSCS agreed to pay contributions of £1.5m per annum from November 2013 onwards to eliminate the deficit by 31 October 2020.

The valuation of the Pension Scheme's liabilities for accounting purposes has been carried out at a different date from when the Pension Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions. Therefore the figures quoted in this note are different from those disclosed in the last actuarial valuation report as would usually be expected. The figures set out in this note are calculated according to the requirements of the accounting standard IAS 19. Separate calculations will be carried out for the Trustees and possibly the sponsor, to monitor and control the funding of the Pension Scheme using assumptions selected by the Trustees.

FSCS estimates the duration of the Pension Scheme liabilities on average to fall due around 26 years.

Financial Services Compensation Scheme: Classes

Financial statements for the year ended 31 March 2015

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

As explained in Chapter 6 of the FEES rules of the Combined FCA/PRA Handbook, for funding purposes, and effective from 1 April 2013, FSCS is split into classes, comprising: Deposits; Life and Pensions Provision; General Insurance Provision; General Insurance Intermediation; Life and Pensions Intermediation; Investment Provision; Investment Intermediation; and Home Finance Intermediation (FEES 6 Annex 3). FSCS must keep accounts which show:

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

2) the liabilities of that class.

The financial statements for FSCS's classes for the year ended 31 March 2015, with comparatives, including the equivalent fund balances for the year ended 31 March 2014, are set out as follows:

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

2) he/she has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that FSCS auditors are aware of that information.

Statement of directors' responsibilities in respect of the financial statements

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

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

By order of the Board

Mark Neale
Chief Executive
7 July 2015

FSCS classes:

Statement of fund movements for the year ended 31 March 2015

Funding sub-class code	Total		Compensation costs net of recoveries relating to the 2008/09 banking failures		Deposits SA01		General Insurance Provision SB01	
	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
Compensation and interest	**(326,589)**	(243,362)	(44)	(39)	(116)	(15,669)	(85,027)	(89,992)
Exchange gain/(loss)	**(452)**	(958)	–	–	(938)	59	210	–
Other income	–	–	–	–	–	–	–	–
Recoveries received	**560,452**	352,662	494,233	241,261	620	822	8,268	14,744
	233,411	108,342	494,189	241,222	(434)	(14,788)	(76,549)	(75,248)
Attributable management costs:								
Specific costs	**(55,182)**	(40,398)	–	–	(13,763)	(8,458)	(3,035)	(2,466)
Specified Deposit Defaults interest	**(397,403)**	(445,719)	–	–	(397,403)	(445,719)	–	–
	(452,585)	(486,117)	–	–	(411,166)	(454,177)	(3,035)	(2,466)
Interest received:								
Gross before tax	**159**	116	–	–	149	116	4	2
Tax at 20%	**(32)**	(24)	–	–	(30)	(23)	(1)	(0)
	127	92	–	–	119	93	3	2
Levies received	**1,071,449**	1,091,851	299,000	363,000	561,986	434,719	72,250	114,891
Cross-subsidy transfer	–	–	–	–	–	–	–	–
Repayment of recoveries	–	–	–		–		–	
Funds brought forward	**(17,336,170)**	(18,050,340)	(16,576,632)	(17,180,853)	(984,573)	(950,420)	81,251	44,071
Funds carried forward	**(16,483,768)**	**(17,336,170)**	**(15,783,443)**	**(16,576,632)**	**(834,068)**	**(984,573)**	**73,920**	**81,251**

	General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Provision SD01		Investment Intermediation SD02		Home Finance Intermediation SE02	
	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
	(21,126)	(46,382)	(16)	–	(35,249)	(18,716)	(210)	(41)	(183,127)	(71,286)	(1,674)	(1,237)
	61	–	1	–	34	–	95	–	85	(1,017)	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	4,428	7,888	–	–	517	207	36,356	25,369	16,030	62,346	–	25
	(16,637)	(38,494)	(15)	–	(34,698)	(18,509)	36,241	25,328	(167,012)	(9,957)	(1,674)	(1,212)
	(12,984)	(12,682)	(298)	(167)	(6,612)	(4,595)	(292)	(417)	(17,224)	(10,912)	(974)	(701)
	–	–	–	–	–	–	–	–	–	–	–	–
	(12,984)	(12,682)	(298)	(167)	(6,612)	(4,595)	(292)	(417)	(17,224)	(10,912)	(974)	(701)
	1	(4)	0	0	1	1	2	0	2	1	(0)	0
	(0)	1	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(0)	0	(0)
	1	(3)	0	0	0	1	2	0	2	1	(0)	0
	39,299	69,045	–	–	34,508	13,763	(49,776)	96	112,180	96,285	2,002	52
	–	–	–	–	–	–	–	–	–	–	–	–
	–		–		–		–		–		–	
	17,800	(67)	586	752	15,818	25,158	29,548	4,541	79,797	4,380	236	2,097
	27,479	**17,800**	**273**	**586**	**9,016**	**15,818**	**15,723**	**29,548**	**7,743**	**79,797**	**(410)**	**236**

FSCS classes:
Statement of assets and liabilities at 31 March 2015

Funding sub-class code	Total		Compensation costs net of recoveries relating to the 2008/09 banking failures		Deposits SA01		General Insurance Provision SB01	
	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
Current assets								
Net amounts due from FSCS	**145,859**	231,803	–	–	–	–	80,115	84,395
Taxation	–	0	–	–	–	–	–	–
Term deposits and cash at bank	**13,570**	12,710	–	–	13,230	12,376	340	334
	159,429	244,513	–	–	13,230	12,376	80,455	84,729
Current liabilities								
Net amounts due to FSCS	**(398,770)**	(444,729)	–	–	(398,568)	(444,729)	–	–
Taxation	**(32)**	(17)	–	–	(30)	(17)	(1)	(0)
Bank overdrafts	**(12,952)**	(7,304)	–	–	(700)	(203)	(6,534)	(3,480)
	(411,754)	(452,050)	–	–	(399,298)	(444,949)	(6,535)	(3,480)
Long-term liabilities								
Net amounts due to FSCS	**(16,231,443)**	(17,128,632)	(15,783,443)	(16,576,632)	(448,000)	(552,000)	–	–
Total net assets/ (liabilities)	**(16,483,768)**	**(17,336,170)**	**(15,783,443)**	**(16,576,632)**	**(834,068)**	**(984,573)**	**73,920**	**81,249**

	General Insurance Intermediation SB02		Life and Pensions Provision SC01		Life and Pensions Intermediation SC02		Investment Provision SD01		Investment Intermediation SD02		Home Finance Intermediation SE02	
	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
	27,681	18,207	273	586	10,738	16,306	15,723	29,548	11,330	82,514	–	248
	–	1	–	(0)		(0)	–	(0)	–	(0)	–	(0)
	–	–	–	–	–	–	–	–	–	–	–	–
	27,681	18,208	273	586	10,738	16,305	15,723	29,548	11,330	82,514	–	248
	–	–	–	–	–	–	–	–	–	–	(202)	–
	(0)	–	(0)	–	(1)	0	(0)	0	(0)	–	0	–
	(202)	(407)	–	–	(1,721)	(487)	(0)	(0)	(3,587)	(2,717)	(208)	(11)
	(202)	(407)	(0)	–	(1,722)	(487)	(0)	0	(3,587)	(2,717)	(410)	(11)
	–	–	–	–	–	–	–	–	–	–	–	–
	27,479	**17,800**	**273**	**586**	**9,016**	**15,818**	**15,723**	**29,548**	**7,743**	**79,797**	**(410)**	**236**

FSCS classes:

Statement of base costs and related levies at 31 March 2015

Base cost fund account	FCA fee block													
	Total		Minimum fee A000		FCA prudential fee AP00		Deposit takers A001		Home Finance providers A002		General Insurance A003		Life Insurance A004	
	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
Levies received	**997**	6,004	114	188	199	355	390	(235)	119	328	141	286	229	596
Base costs allocated	**(8,789)**	(8,867)	(384)	(400)	(333)	(245)	(1,329)	(1,334)	(341)	(345)	(486)	(491)	(821)	(829)
Balance at 1 April 2014	**7,026**	9,889	235	447	111	–	790	2,360	189	205	292	497	503	736
Funds carried forward	**(766)**	**7,026**	**(35)**	**235**	**(23)**	**111**	**(149)**	**790**	**(33)**	**189**	**(53)**	**292**	**(89)**	**503**

Base cost fund account	PRA fee block									
	Total		Deposit takers PA01		General Insurance PA03		Life Insurance PA04		Society of Lloyd's PA06	
	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
Levies received	**3,129**	13,583	1,397	9,923	806	1,601	886	1,961	40	97
Base costs allocated	**(8,789)**	(8,867)	(6,091)	(6,411)	(1,144)	(1,066)	(1,482)	(1,325)	(71)	(66)
Balance at 1 April 2014	**4,715**	–	3,512	–	536	–	636	–	31	–
Funds carried forward	**(945)**	**4,715**	**(1,182)**	**3,512**	**198**	**536**	**40**	**636**	**(0)**	**31**

FCA fee block																	
Society of Lloyd's A006		Fund managers A007		Operators/ trustees collective investment schemes A009		Firms dealing as principal A010		Advising/ arranging (not holding client money) A013		Corporate Finance advisers A014		Home Finance mediation A018		General Insurance mediation A019		Firms holding client money or assets, or both A021	
2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000
2	(23)	365	677	139	339	(1,021)	2,112	575	99	100	258	109	153	19	(230)	(482)	1,100
(6)	(7)	(926)	(863)	(286)	(240)	(985)	(1,087)	(1,450)	(871)	(269)	(271)	(335)	(338)	(552)	(558)	(286)	(989)
5	35	503	688	144	45	1,798	773	856	1,628	173	187	189	374	470	1,258	767	656
1	**5**	**(58)**	**503**	**(3)**	**144**	**(208)**	**1,798**	**(19)**	**856**	**4**	**173**	**(37)**	**189**	**(63)**	**470**	**(1)**	**767**

The financial statements on pages 162 to 167 were approved by the Board of Financial Services Compensation Scheme Limited, as designated Scheme Manager of the classes, on 4 June 2015 and signed on its behalf on 7 July 2015 by:

Lawrence Churchill
Chairman

FSCS: Notes to the classes financial statements for the year ended 31 March 2015

1 Accounting policies

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

a) Basis of accounting

The FEES rules require FSCS to keep accounts which show the funds held to the credit of each class and the liabilities of that class.

The financial statements have been prepared under the historical cost convention and on the basis that Financial Services Compensation Scheme Limited, as the designated Scheme Manager, will exercise its responsibilities under FSMA and the FEES rules to recover management expenses and compensation costs on behalf of the classes, as defined for funding purposes in the Combined FCA/PRA Handbook. The financial statements have been prepared on a going concern basis in accordance with Note 10 of the classes financial statements and Notes 14 and 24 of FSCS's financial statements and:

- Section 218 of the Financial Services and Markets Act 2000;
- the Combined FCA/PRA Handbook (in particular rule COMP 2.2.5);
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35); and
- the accounting policies set out here and overleaf.

The eight classes are classified based on identifiable industry sectors:

- Deposits;
- Life and Pensions Provision;
- General Insurance Provision;
- General Insurance Intermediation;
- Life and Pensions Intermediation;
- Investment Provision;
- Investment Intermediation; and
- Home Finance Intermediation.

The first three classes are referred to as the PRA classes, while the last five are referred to as the FCA classes.

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 insolvency practitioners, or notified and agreed in respect of other recoveries, which have not been received by the Balance Sheet date. Where no notification is received, recoveries are credited on receipt.

d) Management expenses

Management expenses comprise base costs, being the management expenses not attributable to any particular class, and specific costs, which are the remaining costs which cover the handling, payment of compensation, and any other costs which can be directly attributable to a particular class. The specific costs are allocated by FSCS to each class and in accordance with the levy principles contained within FEES rules 6.4.5, 6.4.6 and 6.4.7. The base costs are not allocated to classes but are shown against the FCA and PRA fee blocks by which they are levied (FEES rules 6.1.10).

e) Interest receivable

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

f) Levies

The classes are funded by levies on firms authorised by the FCA and/or the PRA. It raises levies, on behalf of the classes, which are credited to the classes on a cash received basis. Levies refunded are accounted for on payment. Where requests for the remission or rebate of a levy have been made, this is only recognised in the classes when the payment is made. Under the previous FEES rules, once a sub-class reached its annual compensation costs levy limit, the connected sub-class in the broad class (the 'receiving sub-class') was required to contribute to any further compensation costs levy (again up to an annual limit). Levies received during the year from a receiving sub-class were shown as levies received in the sub-class accounts of the receiving sub-class, together with a corresponding transfer out to the connected sub-class. Under the new funding arrangements, which took effect on 1 April 2013, the amount that can be raised by levy in the year will vary, depending on the funding class. Only FCA classes will receive support from other classes and so for PRA classes the amount that FSCS can levy in any year is the individual class limit. For FCA classes, it is the amount of the relevant FCA retail pool. Levies received during the year from a receiving FCA class are shown as levies received in the class accounts of the receiving FCA class, together with a corresponding transfer out to the relevant FCA class. Any provision or contingent liability recognised in FSCS for levy rebates is only recognised in the class accounts when cash payment is actually made.

g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the Balance Sheet date. All differences are taken to the statement of fund movements.

h) Cash flow

No statement of cash flow is prepared because, in the opinion of the directors, this would not provide any useful information in addition to that already provided in the statement of fund movements, and statement of assets and liabilities.

i) Taxation

Interest income is recognised gross of tax. The related tax on interest income is charged to the statement of fund movements.

j) Special Resolution Regime

The Banking Act 2009 created a Special Resolution Regime (SRR), which gives the UK Authorities a statutory framework for dealing with distressed banks and building societies. Under the Act, and its regulations, FSCS may be required to contribute to the costs of the SRR, but no more than the cost 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 FSCS, are recoverable from the 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.

k) Welcome Financial Services Limited (Welcome)

FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of PPI policies and its restructuring arrangements provide for it to make payments to FSCS to fund compensation costs and the costs associated with handling claims. Payments made by Welcome to FSCS are ring-fenced and will only be used to pay for costs relating to Welcome. Such payments are shown in the statement of financial position of FSCS as an asset and in Trade and other payables (current liabilities), since any excess payments will be repaid to Welcome. Compensation costs and recoveries are shown in the class accounts only and ultimately the costs associated with the handling of claims are shown in FSCS's statement of comprehensive income under administrative expenses and are recovered from the Insurance Intermediation class. An equivalent amount is then released from FSCS to the class to fund these costs.

l) Accounting judgements and key estimation uncertainties

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

2 Compensation costs

Payments to valid claimants are funded in accordance with the FEES rules and are summarised within 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 2008/09 banking failures of £44,000 (2014: £139,000) is shown below.

	Year ended 31 March 2014 £'000	FSCS manual payments £'000	Year ended 31 March 2015 £'000
Bradford & Bingley plc	15,654,509	–	15,654,509
Heritable Bank plc	464,676	–	464,676
Kaupthing Singer & Friedlander Limited	2,589,250	–	2,589,250
LBI hf – Icesave	1,434,144	–	1,434,144
London Scottish Bank plc	238,865	44	238,909
	20,381,444	**44**	**20,381,488**

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 financial statements in accordance with Note 1(c).

As explained in Notes 9 and 14 to the FSCS's financial statements, the 2008/09 banking failures compensation costs, including net deemed compensation costs, are funded through borrowings. The principal is repayable through recoveries with any remaining balance levyable. FSCS re-financed the agreement with HM Treasury with effect from 1 April 2012. FSCS and HM Treasury have agreed the period of the loans will reflect the expected timetable to realise assets from the estates of each default. The loans have target repayment dates of 29 February 2024 for Bradford & Bingley plc and 31 March 2016 for the remainder. FSCS and HM Treasury have agreed that the terms of the agreement will be reviewed every three years in light of market conditions and of actual repayments from the estates of the failed banks.

4 Management expenses

Management expenses charged by FSCS to the classes include payments made in the year for the FSCS Pension Scheme. Administrative expenses of FSCS, however, reflect IAS 19 adjustments with a charge for the current service cost in the year. This treatment ensures current funding of the payments as and when they are made.

As stated above, (Note 1(d)), management expenses are allocated to classes and FCA and PRA fee blocks under the FCA and the PRA rules.

5 Interest received

Interest received comprises:

	Rate	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Term deposits	Available money market rates	–	1
Other bank accounts	Available rates	159	115
		159	**116**

6 Levies received

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

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 statement of assets and liabilities.

As at 31 March 2015, FSCS is a party to various joint accounts with claims administration companies and 'run-off agents' engaged by the insolvency practitioners involved with the General Insurance Provision class to make payments to policyholders. The balances of these accounts at 31 March 2015 of £340,000 (2014: £334,000) are included within term deposits and cash at banks in the General Insurance Provision class in the statement of assets 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 had served notice on FSCS, revised during 2011/12, placing an obligation on FSCS to contribute to the costs of the resolution, plus interest, but after recoveries, which will be discharged by FSCS through levies.

Based on the best information available to the directors, the brought forward provision has been reduced by £104,000,000 in the financial statements of FSCS for the year ended 31 March 2015, and is recoverable from the Deposits class. In the financial statements of the classes, this amount has been shown as a creditor in the Deposits class, due to FSCS after more than one year, and charged to compensation costs in the same class.

However, the final outcome may be different and the final amounts, once agreed, may result in a further adjustment to the provision. When FSCS is notified by HM Treasury of the final agreed contribution required, the creditor amount will be updated accordingly and the corresponding change made to the compensation cost.

9 Welcome Financial Services Limited (Welcome)

Compensation costs of £2,487,000 (2014: £5,496,000) and management expenses of £1,213,000 (2014: £1,405,000) relating to Welcome PPI payments were incurred in the year. In addition, compensation costs of £107,000 (2014: £64,000) and management expenses of £232,000 (2014: £767,000) relating to Welcome non-PPI payments were incurred in the year. This is shown under the Insurance Intermediation class in the statement of fund movements for the year ended 31 March 2015. These amounts have been recovered from Welcome Financial Services Limited.

10 Going Concern

At 31 March 2015, the classes had a total deficit of £16,483,768,000 (2014: £17,336,170,000) as a result of compensation costs and management expenses being paid out in advance of levies being received.

At 31 March 2015, the total deficit included current liabilities of £411,754,000 of which £398,770,000 was due to FSCS (2014: £452,050,000 and £444,729,000 respectively). The amount due to FSCS is due to compensation costs and management expenses being paid in advance of levies being received. Levies are recognised in the class accounts on a cash received basis, in accordance with the accounting policies, and so future levies that will be raised to settle this liability are not recognised.

At 31 March 2015, the classes had a long-term liability of £16,231,443,000 (2014: £17,128,632,000) due to FSCS. The amount due to FSCS is due to compensation costs being paid in advance of levies and recoveries being received. This liability has been funded by the loan facilities with HM Treasury, taken out by FSCS to fund the compensation costs relating to the major banking failures of 2008/09 (see Note 14 to FSCS's financial statements). This liability will only be repayable through recoveries or dividends from the estates of defaulted firms, and to the extent there is a shortfall, levies from levy paying firms. In accordance with the accounting policies of the classes, recoveries are only 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. Therefore, there is no recognition for future recoveries or levies that will be used to pay the liability.

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

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

I have audited the financial statements of the Financial Services Compensation Scheme: Classes for the year ended 31 March 2015, which comprise the statement of fund movements, the statement of assets and liabilities, the statement of base costs and related levies, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, set out on page 161, the directors of FSCS are responsible for the preparation of the financial statements and for being satisfied that they have been properly prepared. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practice Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the directors of FSCS, in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the Combined FCA/PRA Handbook (in particular rule COMP 2.2.5);
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28); and
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35).

I report to you my opinion as to whether the financial statements are properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the Combined FCA/PRA Handbook (in particular rule COMP 2.2.5);
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35); and
- the accounting policies set out on pages 168–170.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the classes' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion, the financial statements for the year ended 31 March 2015 have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the Combined FCA/PRA Handbook (in particular rule COMP 2.2.5);
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35); and
- the accounting policies set out on pages 168–170.

Opinion on regularity

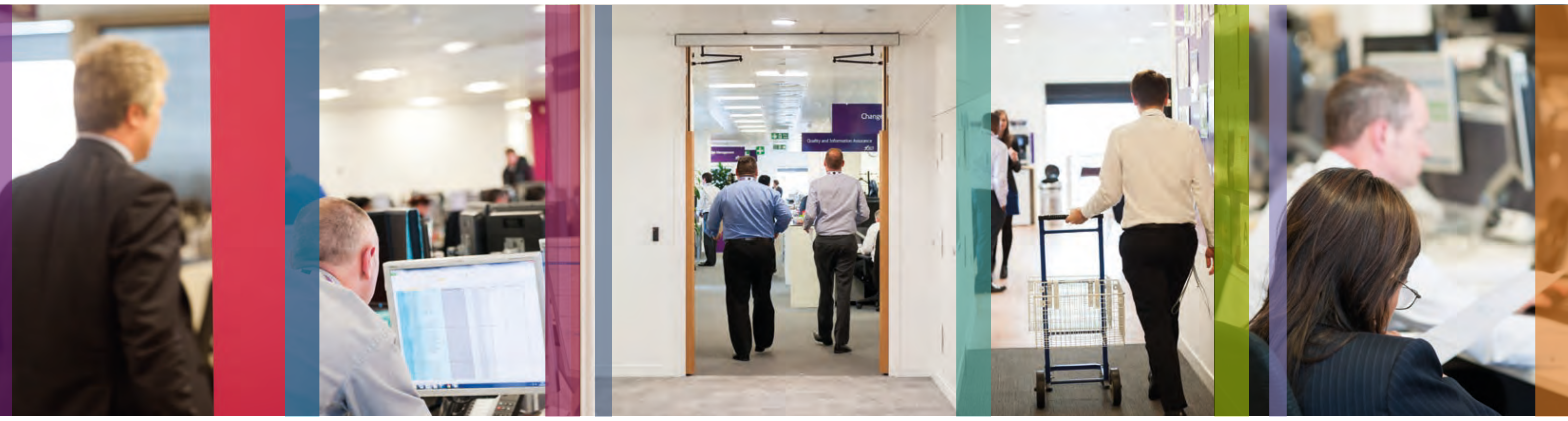
In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Matters on which I report by exception

I have nothing to report in respect of the following matters where I have agreed under the terms of our engagement to report to you if, in my opinion:

- adequate accounting records have not been kept for the classes, and proper returns adequate for the audit have not been received from any third parties; or
- I have not received all of the information and explanations I required for my audit.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP
10 July 2015



By phone on:
0800 678 1100 or
020 7741 4100

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

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

[Online enquiry form]

Email:
enquiries@fscs.org.uk

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