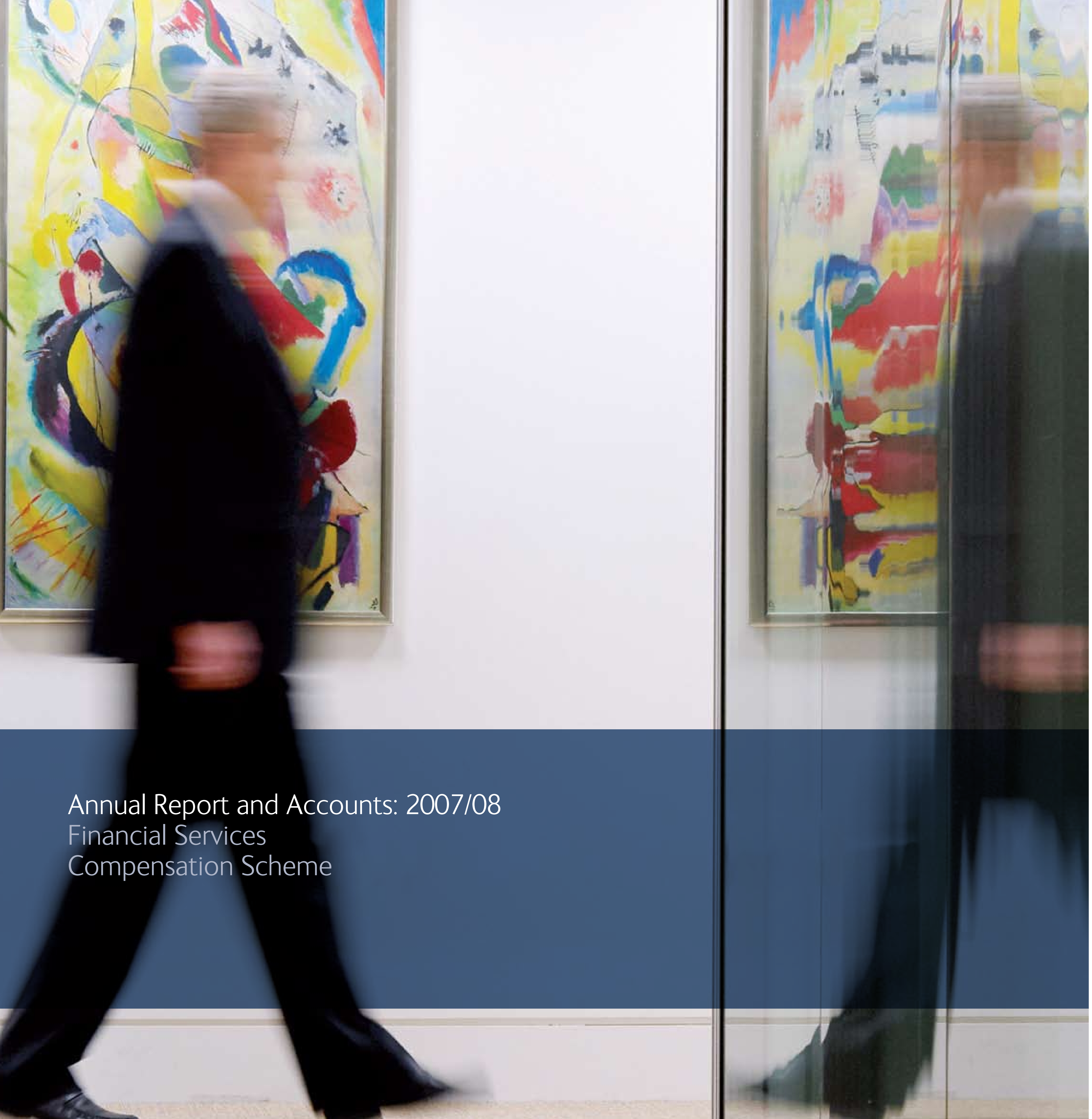
fscs Financial Services Compensation Scheme

Annual Report and Accounts: 2007/08

Financial Services Compensation Scheme


Annual Report and Accounts: 2007/08
Financial Services
Compensation Scheme

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About Us

The Financial Services Compensation Scheme (FSCS) is the UK's statutory fund of last resort for customers of financial services firms. This means that FSCS can pay compensation if a firm is unable, or is likely to be unable, to pay claims against it. It is a non-profit making independent body, created under the Financial Services and Markets Act 2000 (FSMA). It is funded by levies on authorised financial services firms.
The service is free to consumers.

FSCS aims to achieve and be recognised for sustained professionalism and fairness in providing financial compensation, in a reasonable time and at reasonable cost. Using this as our guiding framework, we define objectives and targets for each year and publish them in our Annual Plan and Budget. You can download copies of our publications from our website at www.fscs.org.uk/industry/publications/industry.

For more information about our work, please see Section 8: 'Understanding Our Work' on page 96.

Contacts:

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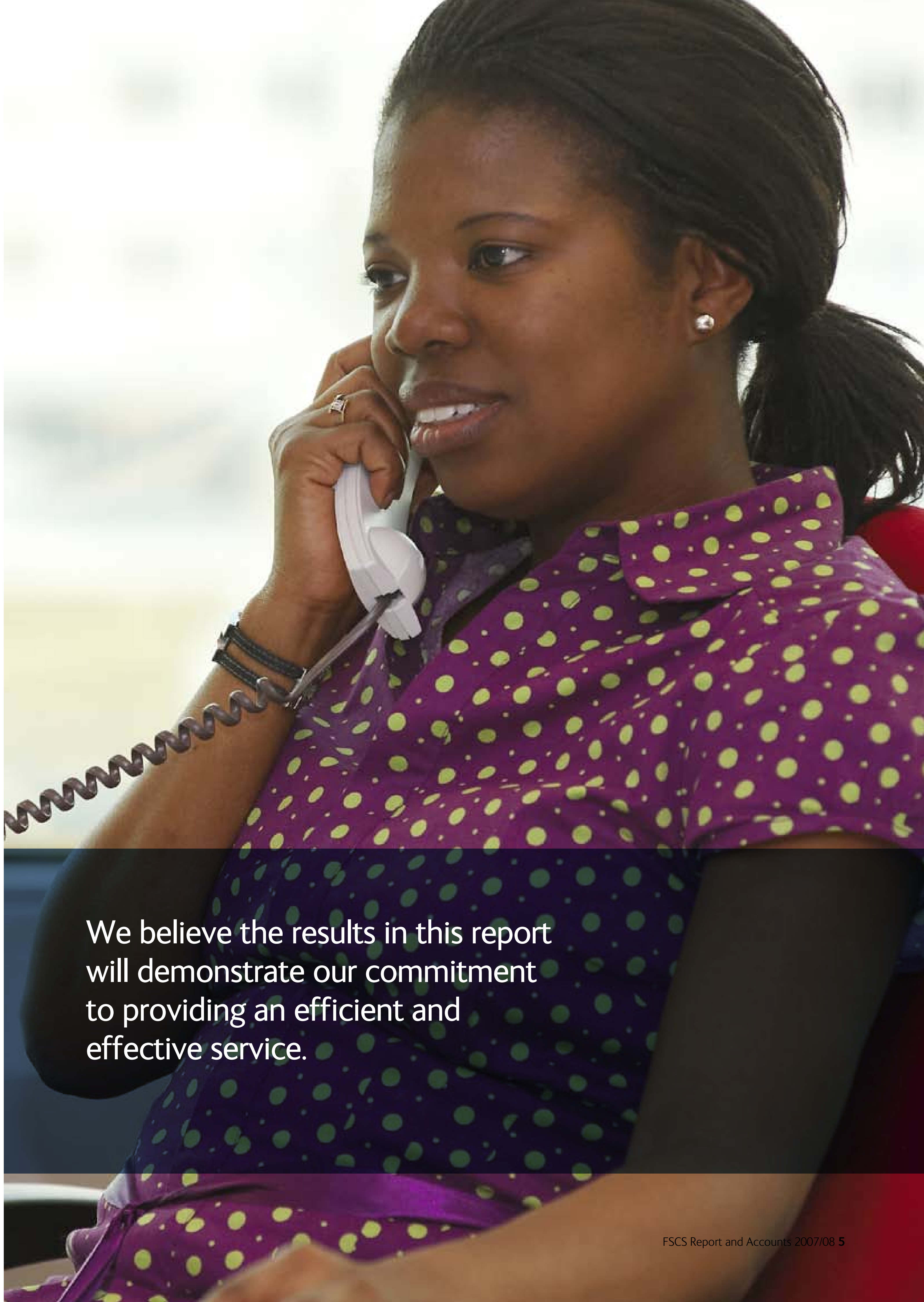
Web: www.fscs.org.uk

Write to: Financial Services Compensation Scheme, 7th Floor, Lloyds Chambers, 1 Portsoken Street, London, E1 8BN



Section 1
Chairman's Statement

Summary

- FSCS paid more than £82m in compensation and completed close to 22,000 claims in 2007/08.
- FSCS has now paid more than £1bn in compensation since it was set up in 2001.
- FSCS streamlined claims administration to allow payments to members of failed credit unions within days.
- FSCS completed preparations to implement a new, fairer and more robust funding system.
- FSCS worked closely with HM Treasury, the Bank of England and the Financial Services Authority on reforms to strengthen the arrangements for UK deposit protection.

Chairman's Statement

David Hall

"Amidst the challenge and uncertainty of an extraordinary year, FSCS resolved close to 22,000 claims, significantly improved waiting times for consumers and paid more than £82m in compensation..."

The financial services industry faced enormous challenges in 2007/08, a year which will be remembered for the first run on a UK bank since the 19th century. Whilst the very difficult market conditions which prevailed from August 2007 onwards might have been expected to generate increased claims volumes for FSCS in 2007/08, the opposite occurred, showing again how difficult it is to predict what business will come our way.

Amidst the challenge and uncertainty of an extraordinary year, FSCS resolved close to 22,000 claims, significantly improved waiting times for consumers and paid more than £82m in compensation, bringing the total compensation paid by FSCS since we were set up to over £1bn.

Market turbulence and compensation reform

The credit crunch and the run on Northern Rock highlighted a number of questions around the legislative framework which governs our work, exposing a gap between public expectations and the limitations the current framework imposes on us, particularly in paying compensation quickly. These affect the degree to which we can protect consumers and help to maintain market confidence.

FSCS worked closely with the Tripartite authorities (HM Treasury, the Financial Services Authority and the Bank of England) on proposals to strengthen the UK system for depositor protection. We and the Tripartite authorities recognised how important it was to ensure the debate benefited from the practical experience and knowledge within FSCS. There were lessons to be learned and we were keen to contribute to the process in a meaningful way for the benefit of consumers and the industry. An important change was made by the FSA in October 2007 when it increased the limit for deposit protection to 100% of £35,000.

Discussion on compensation reform has focused on whether the limit needs to be higher, how best to achieve speedy payout, and whether the industry might be expected to pay into a pre-fund in case of future need. Whatever results from the next round of consultation, and the legislation that follows, needs to be robust, straightforward and easy to explain to consumers and the industry. It needs to take account of the increasingly global, increasingly integrated financial services market in which we operate.

The Treasury Select Committee, in its report on the run on Northern Rock, recognised the value of the work done by FSCS under the current model saying "it has coped well with the collapse of smaller institutions, such as credit unions...." The Committee also recognised that the deposit protection arrangements needed strengthening to allow quicker payout in the event of larger failures.

In 2008/09 we intend to build on our work on compensation reform to help make sure that the legislation as implemented provides the best possible compensation scheme for UK consumers and the industry.

Customer focus

While the external focus has been on our depositor protection role, we settled claims against failed firms from across the industry in 2007/08, from insurers to independent financial advisers and credit unions. Our statutory framework requires us to make a range of checks to ensure that a claim is valid. In doing so, we were meticulous in our work, applied our rules carefully, and judged each claim on its merits. This means that not all claims resulted in a payment but consumers can take comfort that each claim receives thorough attention and levypayers can feel confident the compensation claims they pay for are fully justified.

During the year, our drive to improve our service to consumers continued. For example, as Loretta Minghella, Chief Executive, explains in her report, we continued to deal quickly and efficiently with credit union claims. We now deal with more than 96% of credit union claims within two weeks of receiving an application.

Our claims handling strategy, which combines our own staff with those of our outsourcers, has served us well over the last three years. In a changing environment and in the light of experience, we now need to think about whether it will remain the best operating model for FSCS in the future. We started a strategic review of our operating model in 2007/08 and completing it will be an important feature of our work in 2008/09.

2008/09 is also likely to pose further challenges for the industry because of the on-going turbulence in the markets. FSCS is attuned to the challenges and uncertainties and we will continue to test and improve our contingency planning arrangements as we did in 2007/08 to be ready for failures that might come within our remit.

Funding review

During the last financial year, the FSA announced a new funding system for FSCS following a detailed review of the previous arrangements and consultation with the industry.

We welcomed the news that the new system would start on 1 April 2008. It offers a fairer, more robust and sustainable way of funding UK compensation and puts FSCS in a better position to deal with a wider range of failures. After much work both within FSCS and at the FSA, we were ready for the changes when the new regime went live on 1 April.

Board contributions

2007/08 was also a year in which we strengthened our Board by adding two members while saying farewell to a third. Jonathan Clark joined the Board as an executive director and Max Taylor joined us as a non-executive director. They are excellent additions to the Board and bring with them a wealth of industry experience. I would like to express my sincere gratitude to Ron Devlin, our former Director of Claims, who retired from the Board in June. He made an exceptional contribution to the Scheme and we wish him well for the future.

I commend this report to you.

David Hall
Chairman

"In 2008/09, we intend to build on our work on compensation reform to make sure that the legislation provides the best possible compensation scheme for UK consumers and the industry."

Section 2
Chief Executive's Report

Summary

- FSCS improved delivery to claimants against a backdrop of huge challenges for the industry.
- FSCS expenses were £6m under budget for the year after cost-saving measures and lower than expected volumes of claims.
- FSCS made almost £20m in recoveries in 2007/08, which helped to offset the £82m spent on compensation.
- £40m was refunded to the general insurance contribution group firms in January 2008.

Chief Executive's Report

Loretta Minghella

"We have completed some of the most complex and long-standing claims on our books, while also processing new claims within our target times, all well under budget. That is good news for consumers and good news for the industry."

As the Chairman has explained, 2007/08 was a year of achievement and huge challenges, changes and pressures that will continue to influence our work for the next few years.

Away from the spotlight on the banking sector, we were dealing with a diverse portfolio of compensation claims across the industry. Depite the demands of the turbulent environment, FSCS delivered some notable successes.

Improving performance

We set and published clear, challenging service standards and targets in our Plan and Budget against which stakeholders could measure our performance. We ended the year achieving our core target of completing 90% of new claims within six months of receiving an application.

This target applied across the wide range of claims FSCS has to resolve, including mortgage endowment claims. In practice we expect to deliver much more quickly where claims are straightforward and in cases of acute hardship. As a result, we continued to look at ways to streamline our processes during the year. We improved our turnaround times for handling claims when credit unions failed. For example, the members of the Edmonton Credit Union in North London and the Streetcred Credit Union in Rochdale benefited from prompt action by FSCS which meant that the first payments were made in less than ten days of the credit unions closing their doors. We were rewarded with praise from consumers and the MP for Rochdale who said: "Thousands of people faced uncertainty over whether they could access their much needed savings before Christmas. My staff and I have spoken with the FSCS on a number of occasions and I am delighted to say they were meticulous in their dealings. This has been a difficult time for thousands of residents but this organisation's attitude and help has been first class."

Our efforts to focus on the customer paid real dividends during 2007/08. We reduced our work in progress very significantly by 31 March 2008. At the end of March 2007, 28% of outstanding claims were over six months old. That figure had reduced to under 8% by the end of March 2008. This means that we have completed some of the most complex and long-standing claims on our books while also processing new claims within our target times. That is good news for consumers and for the industry.

Projects

In our Plan and Budget: 2007/08 we set out a series of nine projects that we would carry out to make further efficiency gains and process improvements. These projects affected all parts of the organisation and included enhancing our project management capacity, introducing a new reward system, improving quality management and performance measurement.

All the demands on us during the autumn meant that we had to re-prioritise aspects of our project work. Nonetheless, we still delivered five of the nine projects we published in the Plan and Budget and partially completed the other four, carrying the work forward into this year. These projects are an investment in FSCS that will continue to benefit consumers and the industry. Please see page 20 for more information on our projects for the year.

Containing costs

We have to respond to however many (or few) claims come our way and our Director of Claims, Jonathan Clark, explains in his section how we manage this uncertainty.

Claims volumes during 2007/08 were lower than previously forecast, particularly for mortgage endowment and pensions review claims. In this environment of highly uncertain but declining claims volumes we took a hard look at our non-outsourcing costs and took measures to contain them during the year. For example, in the second half of the year, we did not renew fixed term staff contracts and did not undertake much of the additional recruitment we had originally planned.

Our flexible operating model, featuring in-house and outsourced claims handling, also proved its worth during the year. With claims volumes reducing, it helped us to contain costs with the outsourcers because our outsourcing costs vary with claims volumes. We came in £6m under budget for the year as a result of this and continued efforts to contain our operating costs.

Our work on recoveries continued to help offset the cost of compensation, which also benefits the firms which pay our levy. FSCS seeks to recover the costs of compensation where it is cost-effective to do so. While there can be legal and other costs associated with pursuing recoveries and we can never be certain of the outcome, during the financial year FSCS made recoveries of £19.9m. Partly due to recoveries and partly to lower than expected compensation costs, we were able to make a £40m levy refund to firms in the A3 general insurance contribution group early in 2008.

International developments

The turmoil in the markets in 2007/08 demonstrated how quickly developments in one country can spread to the rest of the world. The problems in the sub-prime market in the United States led to uncertainty in the worldwide markets and eventually to the credit crunch in the UK.

International developments over recent years mean that a single failure is more likely to have an impact on consumers in several countries than when FSCS was set up.

FSCS has long-standing and productive working relations with other compensation schemes in Europe and beyond. We were founder members of the European Forum of Deposit Insurers (EFDI) and we also continued to co-operate with our colleagues in Europe on issues of common concern, including the European Commission's review of the Deposit Guarantee Schemes Directive.

One issue that featured during the year was "topping up." This happens when a deposit-taking or investment firm established and authorised in another European Economic Area (EEA) state joins FSCS to "top up" the level of protection beyond the limits of its home state scheme to FSCS levels for business done from a UK branch. By the close of 2007/08, 13 EEA firms had joined the FSCS, some for deposit business and some for investment business.

We have our own bilateral agreements with compensation schemes in Europe on how we would work together should the need ever arise. We are working with colleagues in the EFDI to develop further how we could respond most effectively should a cross-border failure occur.

Compensation reform – looking to the future

The events that shook market confidence before and following the run on Northern Rock are still being felt at FSCS and in the industry.

FSCS dedicated a significant amount of senior management time and resource to formulating our contribution to the critical debate about how best to reform the UK system of deposit protection.

During the autumn, consumer and media interest in compensation was running high. At the height of the problems at Northern Rock, our customer services team was inundated with enquiries from consumers while our communications team fielded significantly increased volumes of media enquiries about the Scheme and how it operates. One of the consequences of these problems in the markets was that they helped increase awareness of FSCS. They also drove home for us how important it will be for any changes to compensation to be as straightforward and easy to explain as they are to apply.

FSCS has worked closely with the Tripartite authorities throughout the debate, and the lessons of the last year range from a deeper understanding of the potential fragility of consumer confidence to the aspects of the current complex framework of UK compensation which now need strengthening.

The reform proposals issued for consultation by the Tripartite authorities have major implications for the industry and consumers alike. We believe it is important to consider the package of proposed reforms as a whole. For example there are a range of proposals designed to increase speed of payout, from requiring insolvency practitioners to co-operate with FSCS through to simplifiying the list of those entitled to compensation.

Chief Executive's Report

Really speedy payouts will only be possible if a coherent package of reforms to the statutory framework has been implemented in full. Such changes are needed both to protect consumers and to preserve financial stability.

The reforms will pose challenges for FSCS and for the industry to implement. The prize at the end of it will be a better framework for FSCS that will inspire greater consumer confidence.

That is why FSCS continues to engage with the process of change to make sure that it benefits from our practical experience of delivering compensation. By doing so, we believe that a stronger, more sustainable UK compensation scheme will result.

Working with stakeholders

Our commitment to maintaining positive relationships with our stakeholders was a central feature of FSCS's work again in 2007/08. We worked closely with all the Tripartite authorities and the Financial Ombudsman Service.

Our efforts to reach out to consumers and consumer organisations included providing information and bulletins to Citizen's Advice Bureaux as well as money advice workers and local authority trading standards departments. We distributed more than 21,000 copies of our printed publications, ran advertisements in the local media and ensured FSCS messages were carried across all sections of the media and on the internet.

We maintained contact with the full range of industry organisations. We held a full industry forum in January 2008 and held regular bi-lateral meetings with stakeholders from across the industry.

We gave written and verbal evidence to the Treasury Select Committee during its inquiry on financial stability (which led to the Committee's report on the run on Northern Rock) and briefed a number of MPs during the year on the work of FSCS.

Funding for the future

The FSA's review of our funding system was completed in 2007/08. We welcomed the news from the FSA that we would move to the new system at the beginning of April 2008.

We now have a more sustainable and equitable funding system that will allow us to deal with a greater range of failures. One of the central features of the new system is its "widening pool" of contributions within and between the new classes. Sitting above the five classes and their sub–classes is a general retail pool to which all firms would contribute if a major failure occurred. This gives us a potential total annual levy amount of more than £4bn. It is a significant step forward in achieving sustainability and provides a sound platform on which to build during the current banking and compensation reform discussions.

Getting ready to implement the new regime was a major undertaking for FSCS. Our work to develop the systems and processes to underpin the new arrangements touched all parts of the organisation. It involved revamping our computer systems and training for all staff to record their time differently to reflect the new levy classes.

Managing the transition from the old system to the new one was at times difficult. Preparing the Plan and Budget: 2008/09 and the levy that followed were complicated by the transitional arrangements. These meant that all contribution group balances (except for deposits) at 31 March 2008 would go back to firms in those groups as credit or debit notes as part of the levy process.

You can find more information about the move to the new system on page 101.

Our staff

Our staff and those employed at our outsourcers were the cornerstone of our success during the last year. They coped with changing volumes and uncertainty in the environment in which we operate and continued delivering a high quality service for consumers and the industry. They rose to the challenges of the year with professionalism and determination to deliver. I would like to thank them for their dedication and hard work.

In conclusion, while 2007/08 was a year of challenges and achievements for FSCS, it was also a year in which FSCS improved its service to consumers and contained costs for levy payers, reinforcing our commitment to being as efficient and effective as possible. 2008/09 will hold new challenges for the Scheme. We look forward to addressing them and continuing to develop FSCS in the years ahead.

Loretta Minghella
Chief Executive

While 2007/08 was a year of challenges and achievements for FSCS, it was also a year in which FSCS improved its service to consumers and contained costs for levy payers, reinforcing our commitment to being as efficient and effective as possible.

Section 3
Delivering Consumer Compensation

Summary

For the financial year 2007/08

- 269 firms were declared in default.
- Total compensation payments amounted to over £82m, including almost £46m for general insurance claims.
- Total claims received were 16,490, a reduction of 33% on 2006/07.
- Endowment claims were the biggest driver of new claims at 7,410.
- Splits claims completed during the year totalled 3,470.

Delivering Consumer Compensation

Jonathan Clark

"Our commitment to a high quality service is absolute. It is something on which we will continue to build."

2007/08 was an interesting year to join the FSCS. I took over from Ron Devlin who had done a huge amount of work to improve our performance and systems for the benefit of consumers.

FSCS is a demand-led organisation and our role means we respond to industry failures when they occur as well as claims arising from business closures that may have occurred years before. We manage a very diverse spread of claims from across the full spectrum of financial services, including general and life insurance, investments, deposits and mortgage advice and arranging.

Managing significant uncertainty around the numbers and timing of claims that we might receive is challenging, especially with the continuing turbulence in market conditions.

We have three main tools at our disposal in helping to manage our work in an uncertain environment. The first is forecasting. The second is contingency planning. And the third is a flexible claims handling strategy with a strong emphasis on managed outsourcing to deal with peaks and troughs in demand.

Forecasting

FSCS is constantly trying to improve its forecasting to anticipate what might come its way. Forecasting is hugely difficult even with the best possible information from the industry, the FSA, the Financial Ombudsman Service and our own claims trends.

For example, our original forecast for 2007/08 in the Plan and Budget was that we would complete about 26,000 new mortgage endowment claims. At the end of the year, the figure was around 13,600 because of lower volumes of claims coming in. This was consistent with the experience in the rest of the industry. The long tail of claims will continue into 2008/09.

By contrast, whilst it is difficult to predict the claims that could come our way, we projected that we would receive about 1,200 new general investment claims (excluding splits) and by the end of the year had received almost exactly this number. However, there will always be limits to what FSCS can do to predict the type and volume of claims it may receive in the future. This is the main reason that we have a flexible strategy for dealing with claims and rely on outsourcing to help manage these claims.

Our caseload in 2007/08 included starting work on Pacific Continental Securities. The potential costs of claims against the firm were the subject of media speculation that the compensation bill could be extremely high. We worked with the liquidators during the year but by 31 March we were not in a position to assess the likely volume or value of the claims should the firm be declared in default. We continue to liaise with the liquidators into 2008/09 to get the information that we need to resolve claims. As a result, we decided not to levy the industry until we had more information. It is probable that we will have to levy for these costs during 2008/09 and we will, of course, keep claimants and the industry informed of developments.

Contingency planning

The heightened turbulence in the financial markets also underscored the importance of the contingency planning that we carried out during the year.

Our contingency planning focussed on operational processes and how we can maintain service in the midst of a significant surge in claims volumes. Our work included carrying out practical contingency testing of a claims related area and also a disaster recovery exercise to test our business continuity plans. This enabled us to further refine our plans and preparations for events ranging from a significant failure to responding to a crisis affecting our building.

Claims handling strategy

FSCS deploys a strategy that includes using a mix of in-house teams and outsourcing to handle claims.

Underpinning our approach is a commitment to providing an efficient service to consumers and a cost-effective service to the industry. Throughout the year, we enhanced our systems to improve customer care and carried out a number of business improvement initiatives. These included simplifying and streamlining the claims process to speed claims decisions as well as projects to enhance our use of technology.

In 2007/08, we made good progress in reducing the number of older, complex claims in our work in progress. The statistics for the last three years show solid advances in addressing the time it can take to process complex claims such as mortgage endowments. At the end of the last three financial years the percentages of work in progress aged six months or more amounted to:

- 38% at 31 March 2006
- 28% at 31 March 2007; and
- 7% at 31 March 2008.

This continuing improvement represented a notable success for our in-house teams and outsourcers during the year and was good news for consumers and for the industry. We achieved this while employing fewer staff and so were able to reduce our costs as fewer claims came in.

Quality

To support our claims handling strategy, we ensured that the firms that processed claims on our behalf met stringent quality standards. We monitored their performance regularly throughout the year.

We apply the same high standards across all FSCS claims teams. Getting decisions right the first time by following our procedures is a high priority. This is essential in the interests of consumers and managing our resources in the best way possible. We build quality into our claims handling by ensuring review at key stages in the process.

The FSCS Quality Programme Unit reviews a sample of decisions weekly to check claims decisions are robust and consistent with our procedures. They report on the results regularly to the Audit Committee.

During 2007/08, one of the aims we highlighted in our Plan and Budget was to improve our quality management programme. A review led to changes and improvements including a new system for evaluating decisions focusing on the impact on claimants. This is allowing us to identify, respond to and learn from priority issues and concerns even more quickly. As a result, quality continued to improve during the year.

Our commitment to a high quality service is absolute. It is something on which we will continue to build.

Jonathan Clark
Director of Claims

Splits in focus

2007/08 was the year in which FSCS began to process claims against Exeter Fund Managers Ltd and BFS Investments Plc for split capital investment trusts. Declaring the two firms in default paved the way for FSCS to pay claims against them.

As part of our preparations, we had been doing much to ascertain the nature of claims we would receive, getting input from experts on the products sold, consulting legal advisors and determining the process we would use to assess any claims. We knew how important it would be to have a robust process for handling the claims and sound criteria against which to judge them.

One of the important elements of getting ready for the claims was liaising with key industry and trade organisations. Early on there was no clear indication of the likely volume or value of claims or where the liability for claims would fall. Recognising the very complex nature of the issues around splits and the claims they might generate, FSCS decided (with the support of the industry) that it would not levy for the costs until these factors became clear. The Scheme did not levy for the costs in 2006/07 or 2007/08 as a result.

The Scheme started processing claims against the two firms during 2007/08. This allowed FSCS to assess the costs of compensation for splits claims and also to determine which contribution groups would be liable for the costs. One early estimate put the possible bill to the levy payer at more than £27m. The total levy is not now expected to reach that level due to lower than forecast volumes of claims and a lower than anticipated uphold rate.

By the end of 2007/08, FSCS had completed more than 3,470 splits claims with the costs being borne mainly by the former A7 (BFS) and A9 (Exeter) contribution groups. This meant that the two contribution groups had a final fund balance deficit of £9.28m at 31 March 2008 going into the new FSCS funding regime. This is being passed back to qualifying firms in the former contribution groups with their levy for 2008/09.

Firms in the D1 investments (fund management) sub-class are also being levied to fund their share of the costs of new claims for the year 2008/09.

Firms in the D2 investments intermediation sub-class will pay a proportion of their levy towards the costs of splits claims attributable to intermediaries. Based on experience to date, this is likely only to relate to a small percentage of splits claims overall.

FSCS expects to deal with the bulk of the remaining splits claims during 2008/09 but claims may continue into 2009/10.

Delivering Consumer Compensation

During 2007/08, FSCS undertook a number of projects to help generate efficiency gains and process improvements. They included:

- Development of a suite of internal performance measures and an infrastructure to implement, manage and control them. Partially completed and carried into 2008/09.
- Implementation of claims process improvements. Completed and on-going work.
- Establishing a new approach to quality assurance which covers all aspects of our service. Phase one completed and phase two carried into 2008/09.
- A review of claims policies and procedures manuals to ensure consistency, clarity and for more rapid transfer of processes to outsourcers, particularly for new areas of claims. Completed.
- Development of our IT systems to improve functionality and the flow of information between teams. Completed.
- The development of further online services on the FSCS website. Partially completed and carried into 2008/09.
- The strengthening of our project management capacity to develop and deliver training, tools and improved standards to support the sustained and successful delivery of projects. Completed.
- Management development training, including project management, and technical training for staff. Completed.
- Implementation of a new approach to rewarding our staff. This was designed to ensure that we attract and retain the people and skills we need by ensuring FSCS remuneration remains competitive and incentivises the best performance. Phase one completed. Phase two scheduled for 2008/09.

Summary of claims by product

Type of claim	Claims received 2007/08	Claims completed 2007/08
Mortgage endowments	7,410	13,625
Splits	4,705	3,470
Other investments	1,160	1,520
Total investments	**13,275**	**18,615**
Pensions review & FSAVCs	390	505
Deposits (credit unions)	2,680	2,750
Insurance intermediaries	110	70
Mortgage advice	35	20
Total claims	**16,490**	**21,960**
Insurance payments*		9,451

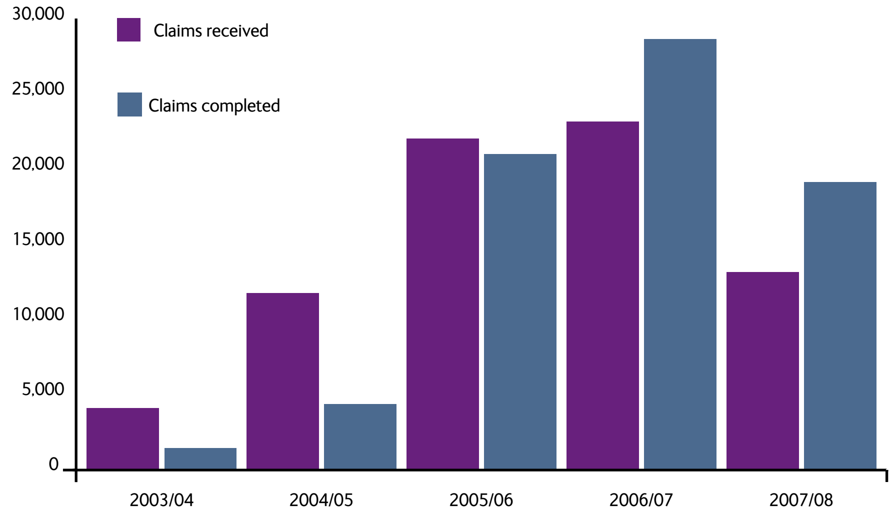
* Insurance claims are usually handled by the appointment run-off agent and then presented to FSCS for checking and payment.

Summary total claims figures

During 2007/08 FSCS:

- received 16,490 new claims, compared to 24,540 in 2006/07 – a reduction of 33%.
- completed 21,960 claims, compared to 31,260 in 2006/07 – a reduction of 30% reflecting lower volumes of new claims.

Investment claims and decisions made



Investment claims

- 13,275 new claims were received during the year, compared to 22,790 in 2006/07, a reduction of 42%.
- 18,615 claims were completed during the year, compared to 27,550 in 2006/07, a reduction of 33%.
- 13,625 mortgage endowment claims completed. 45% resulted in an offer of compensation.
- 3,470 splits claims were completed. 16% resulted in an offer of compensation.
- 1,520 other general investment claims were completed. 27% resulted in an offer of compensation.

Average compensation payments for investments were:

- £1,800 for mortgage endowment claims.
- £5,500 for splits claims.
- £15,150 for other general investment claims.

Pensions review and free standing additional voluntary contribution claims

- 390 new claims were received during the year, compared to 683 in 2006/07, a reduction of almost 43%
- 505 claims were completed during the year, a reduction of 72%.
- 75% of decisions resulted in an offer of compensation.
- The average compensation payment was £27,750.

Whilst this work is tailing off as predicted, our current forecast is that this work will continue at a low level into 2009.

Delivering Consumer Compensation

Accepting deposits

- 2,680 new claims were received during the year, compared to 1,025 in 2006/07, an increase of more than 160%.
- 2,750 claims were completed during the year, an increase of almost 55%. Over 96% of credit union claims were completed within two weeks.
- 98% of decisions resulted in an offer of compensation.
- The average compensation payment was £480.

General insurance

- 9,451 payments were made in 2007/08.
- Compensation payments totalled £45.8m.

Insurance mediation

- 110 new claims were received during the year, compared to 35 in 2006/07, an increase of over 214%.
- 70 claims were completed during the year, compared to 100 in 2006/07, a reduction of 30%.
- 91% of decisions resulted in an offer of compensation.
- The average compensation payment was £1,350.

Home finance advice and arranging

- 35 new claims were received during the year, compared to seven in 2006/07, an increase of 400%.
- 20 claims were completed during the year, compared to five in 2006/07, an increase of 300%.
- 60% of decisions resulted in an offer of compensation.
- No payments have been made as at 31 March 2008 as we waited for offers to be accepted.

Case study

Lorna McFarland from Rochdale had been banking with a credit union on behalf of her two children. She and her partner also held their own savings accounts with the credit union from members of their family who also held accounts there.

The sudden closure of the credit union shocked Lorna, who commented: "I couldn't believe it had gone out of business, as it was such a big organisation. I was outside the premises when it was closed down, and there was very little explanation of what was happening. People were in tears, as a lot of them had savings there or had their wages paid in to their accounts, no one knew what was going to happen to their money. Without FSCS, I would have lost everything, and so many people would have been completely devastated."

Lorna read about FSCS in the Rochdale Observer, after FSCS announced in a press release it would be sending application forms to members of the credit union to enable them to claim compensation from the Scheme. She was hugely relieved to find that the existence of FSCS meant she and her family would not lose their life savings. She said: "FSCS was very easy to deal with, the forms were not complicated at all and FSCS reimbursed all our savings, which was a huge relief....If the Scheme didn't exist, so many people would have been completely devastated. With the uncertainty of recent financial events, it is good to know there is a safety net for people in case things go wrong. Thanks to FSCS, Christmas was on again."

Case study

Noreen Stabler, from Musselburgh, East Lothian decided to take out health insurance with an insurance broker, which she saw advertised in the magazine published by her health club.

She said: "The health care insurance being offered by the firm looked very attractive, because of the low lump sum and monthly payments I was required to make. I have had some medical problems in the past and that, coupled with my age, meant I was looking for medical insurance which provided good cover that I could rely on. The firm looked like it would offer me that and at a good price. The monthly premium I was paying was significantly less than other schemes offering similar cover, so I jumped at the chance of joining."

"I found the closure of the firm quite distressing as it left me without any access to private medical care. I was delighted to find FSCS were able to help me."

"FSCS processed my application amazingly quickly and I was over the moon with the compensation offer. It really would have been very difficult for me if FSCS hadn't been able to help. I would have lost money that I wouldn't have been able to replace at this stage of my life, so I was grateful the Scheme was there to help."

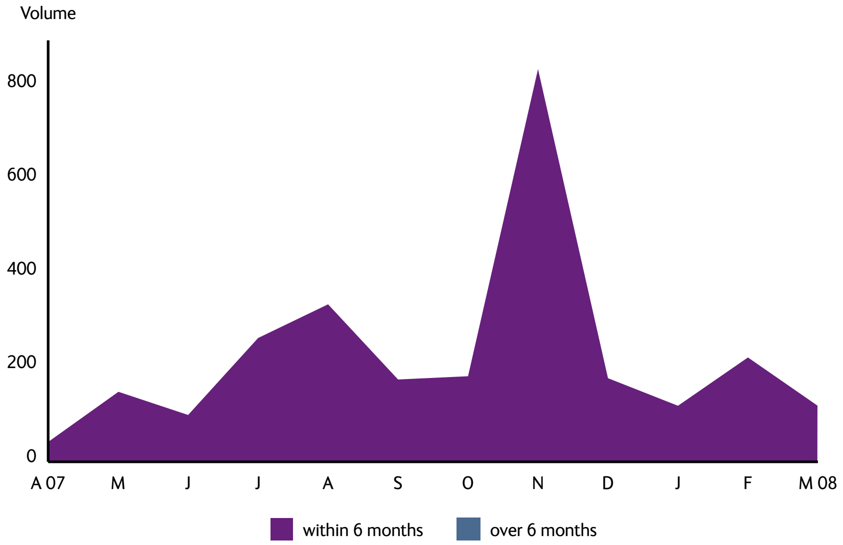
Performance against service standards

Once we have established that a claim may be within our jurisdiction, we will send out an application form within five working days in 90% of cases:

During 2007/08, we sent application forms out within five working days in at least 90% of cases once we had determined that a claim was within our remit. The average time taken to respond to requests for application forms was 1.5 days during 2007/08.

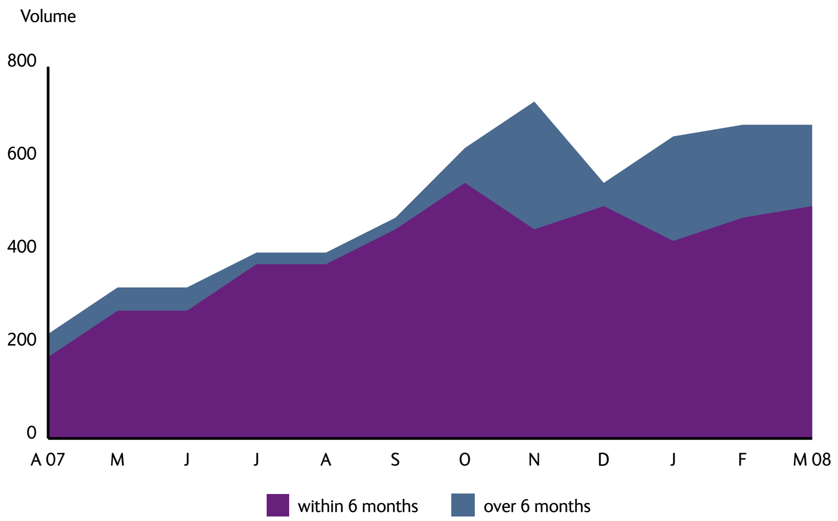
We aim to complete 90% of new claims within 6 months of receipt where a firm is in default.

Deposit claims completed



In relation to deposit claims we have achieved a turnaround of 99% of cases within three months across the year and in particular we dealt with over 96% within two weeks.

General investments including splits – completed claims in 2007/08

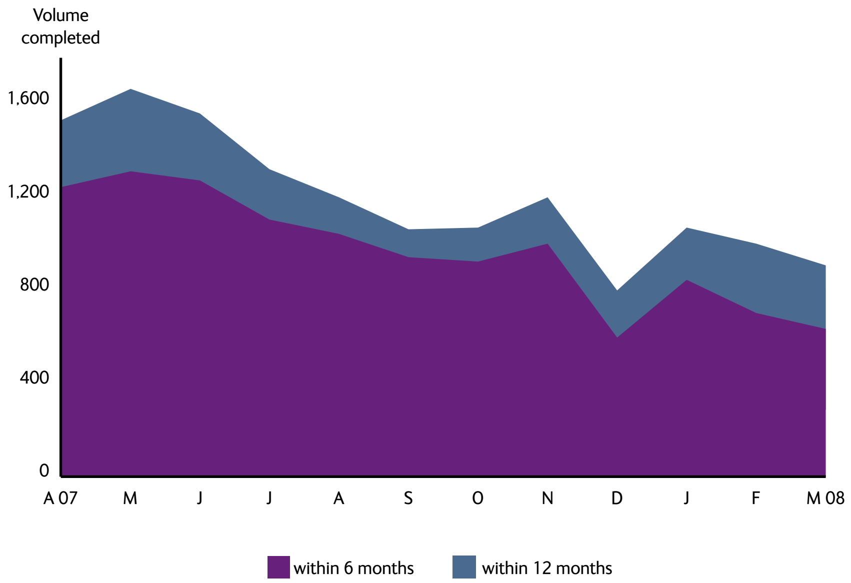


On average over the year, 76% of General Investment claims completed were aged below 6 months. We have achieved this with a workload that has increased throughout the year.

We have ensured that cases which had previously been outstanding due to the need to develop bespoke procedures were addressed and the cases over 12 months have continued to be reduced in a managed way. This has meant significant closure of cases aged six months or over in recent months. There are, however, a small number of cases remaining where we have yet to determine fair methods of quantification and these receive our continuing attention.

Delivering Consumer Compensation

Endowment claims completed in 2007/08



Over the year, on average, 82% of mortgage endowment claims, including those in progress at the start of the year, were completed within six months of receipt.

Claims over six months were generally those where there was a high degree of complexity but we have now significantly speeded up our process for developing and implementing procedures to deal with these cases. This is reflected in our position at March 2008 when our work in progress for cases over six months was reduced to seven per cent. This is a significant improvement on our position at the start of the year.

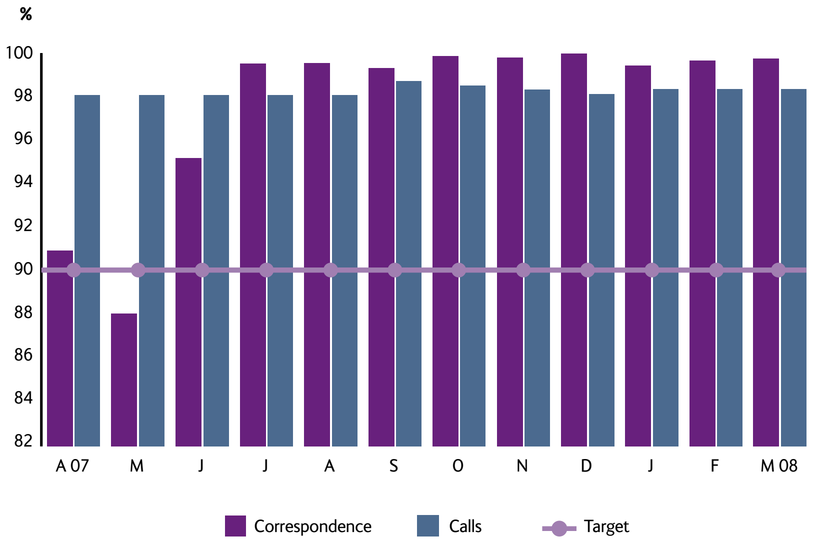
Where mortgage endowment claims were both received and completed in 2007/08, 94% of these were completed within six months.

Compensation payments made within 10 working days of acceptance of an offer (target: at least 90%)

- 98% of payments have been issued within 10 working days.
- The remaining 2% are related to Pensions Review claims. Of these, 100% of pension annuity payments have been issued within 10 working days. Pension reinstatements are more complex and take longer to resolve

Enquiries resolved in 2007/08

The percentage of correspondents answered within 15 working days (target: at least 90%) and percentage of telephone calls answered within 48 hours (target: at least 90%)



Managing consumer enquiries

Two teams handle the majority of queries received from consumers. The Customer Services Team (CST) deals with most letters, e-mails and telephone calls received at the Scheme, and all complaints and Parliamentary correspondence. These relate to claims that are being considered by FSCS, and general enquiries.

The Initial Enquiries Team (IET) deals with queries relating to potential claims, and handles the distribution and receipt of application forms.

- 43,500 calls were handled by CST in 2007/08. This is a reduction of 49% on last year's figure.
- This reduction was despite a large number of calls following the Northern Rock publicity, and press comment about the deposit compensation limits.
- Nearly 30,000 written enquiries were received by CST and IET in 2007/08, a reduction of 35% on last year's figure.

In 2007/08 the Customer Services Team's target was to resolve 90% of all telephone calls within 48 hours, which was comfortably achieved each month.

The team also aimed to resolve 90% of all written enquiries within 15 working days. This was a new target for the year (down from 20 working days). The team exceeded the new target with the exception of May when it achieved 88%, and has consistently been above 98% since July, despite higher volumes of enquiries during the autumn.

Parliamentary correspondence

64 pieces of Parliamentary correspondence were received in 2007/08, the majority of which related to the Investment sub-scheme. 44 of the 64 enquiries were in respect of the decision reached on a claim, whilst 20 related to requests for updates, or were general enquiries.

Queries and complaints

During 2007/08, The Scheme received a total of 277 complaints. This is 9% less than the total (304) received in 2006/07.
– 253 investors complained about the decision made on their claim;
– 22 investors made a complaint about the handling of their claim; and
– There were two complaints about the behaviour of staff, neither of which were upheld.

In 2007/08, a high proportion of complaints again related to decisions reached on claims. Most of these complaints were in respect of mortgage endowment claims, disputing the rejection of the claim, or the amount of compensation offered. However, a number of splits-related complaints were received in the second half of the year.

The number of complaints is again low in relation to the total claims dealt with (21,960). This represented less than 1.3% of the total number of claims completed this year.

The Independent Investigator

If a claimant is unhappy with the response from FSCS to a complaint about its handling of their claim, they can ask for this to be reviewed under our formal complaints procedure. The final step involves a review of the complaint by FSCS's Independent Investigator. The Independent Investigator's role is to carry out an unbiased and independent check on whether the Scheme has properly handled a claim, without deciding whether the decision is correct.

Throughout 2007/08, the Independent Investigator was Rear Admiral Richard Irwin CB, a member of the Criminal Injuries Compensation Appeals Panel and a former Chairman of the West Sussex Health Authority.

Five complaints were referred to him during the year, two less than in 2006/07. His reviews raised the following recurring themes:

- Delays in processing claims.
- Lack of clarity in FSCS correspondence with claimants, particularly when explaining the progress of a claim or the reasons why a particular decision has been made.

We are continuing to review our processes and information to ensure our services are accessible and our processes understandable. We are also continuing to use feedback through complaints and customer surveys to help us monitor our performance and make improvements to our processes and general customer service.

Section 4
Financial Summaries

Summary[1]

For the financial year 2007/08

- Total compensation payments amounted to £82.93m.
- Total levies raised amounted to £93.07m.
- A levy refund to general insurers amounted to £40m.
- Total recoveries receivable amounted to just under £20m.
- Total management expenditure amounted to £25.86m.
- Fund balances at 31 March 2008 amounted to £108.81m.

From 1 December 2001 – 31 March 2008

- Total compensation payments amounted to £1.04bn.
- Total levies raised amounted to £830.65m.
- Total management expenses amounted to £115.42m.
- Total recoveries received amounted to £380.27m.

[1]Interest received and opening fund balances are not included in these figures.

Financial Summaries

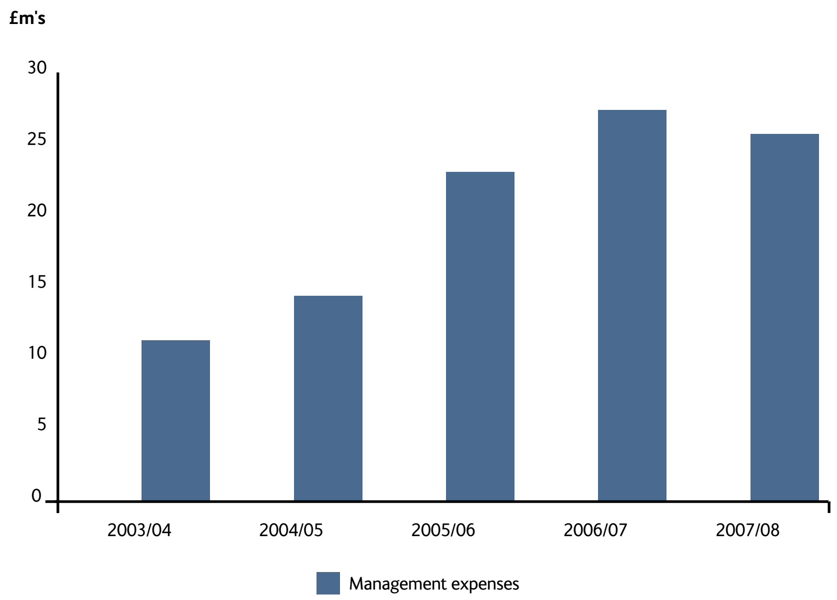
Management expenses

Our Management Expenses Levy Limit (MELL) is set annually by the FSA after consultation. It limits the amount FSCS can levy and spend on management costs.

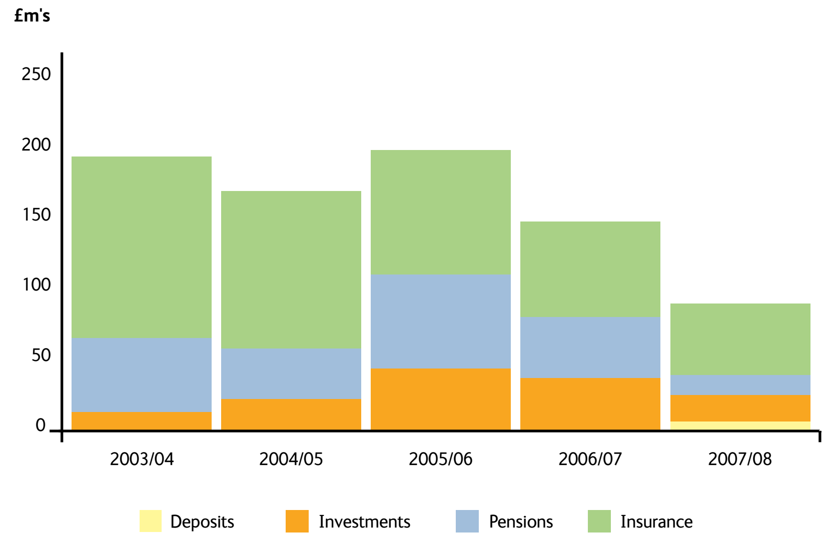
For further information on how FSCS is funded see pages 99 to 101.

FSCS's Management Expenses Levy Limit for 2007/08 was £37.52m, based on forecast budget expenditure of £32.04m plus a reserve contingency of £5.48m. Total actual management expenses for 2007/08 were £25.86m

Management expenses actual expenditure: 5 year trend



Compensation payments: 5 year trend

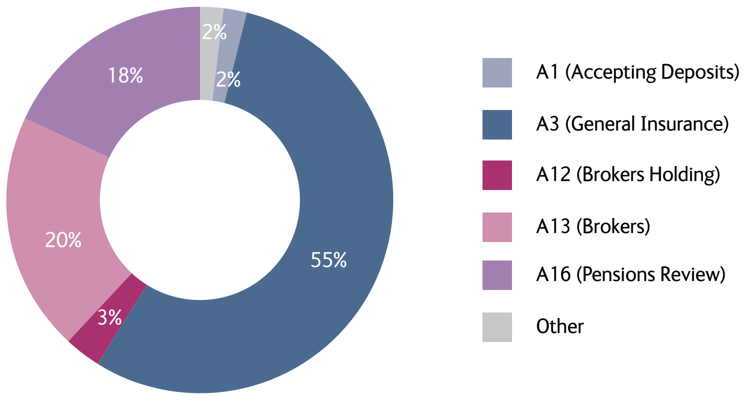


Compensation payments

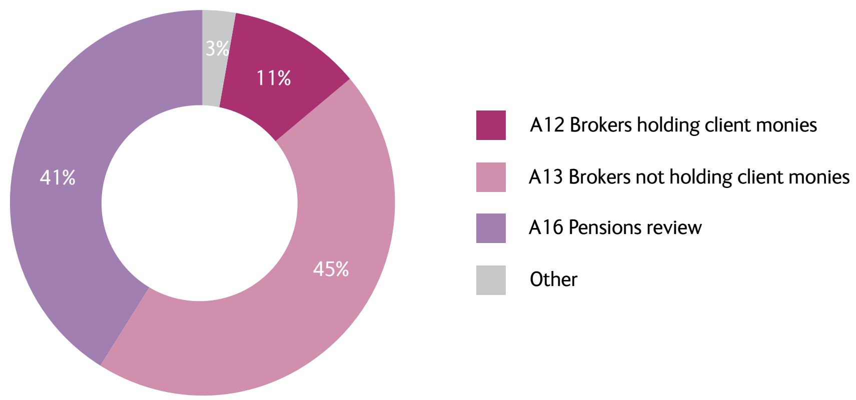
Total compensation payments for 2007/08 amounted to £82.93m.

Contribution group	£m
A1 (Accepting deposits)	1.25
A3 (General insurance)	45.76
A4 (Life assurance)	0.03
A7 (Fund managers holding)	0.27
A9 (Managers of AUTS)	1.77
A12 (Brokers holding)	2.34
A13 (Brokers)	16.60
A16 (Pensions Review)	14.84
A19 (Insurance mediation)	0.07
	82.93

2007/08 Compensation payments by contribution group



2007/08 Levies by contribution group



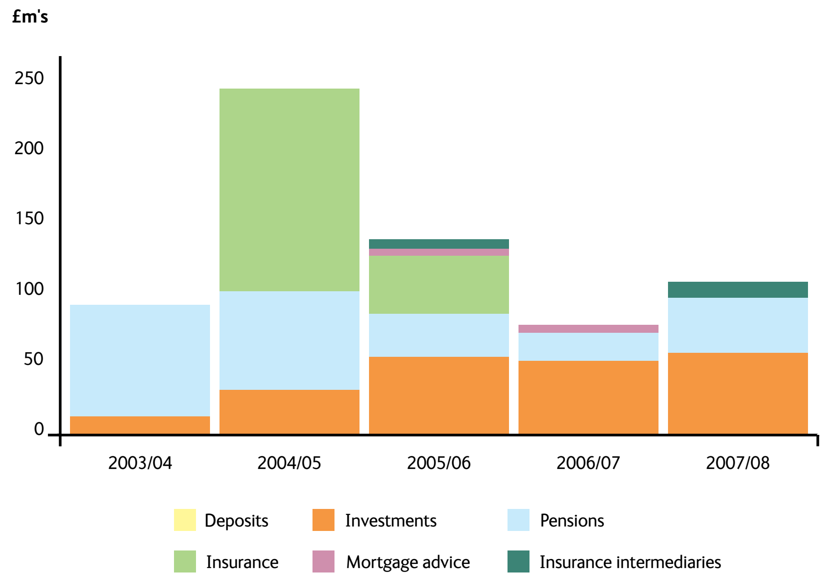
Levies

During 2007/08 the levy collected was £93.07m. (Excluding a refund to A3, General Insurance firms, of £40m in January 2008).

Contribution group	£m
A3 (General insurance)	(0.59)
A4 (Life assurance)	0.56
A7 (Fund managers)	0.52
A9 (Managers of AUTs)	0.11
A10 (Dealing as principal)	0.27
A12 (Brokers holding)	10.48
A13 (Brokers)	41.90
A14 (Corporate finance advisory)	0.13
A16 (Pensions Review)	37.75
A18 (Home finance advice and arranging)	0.01
A19 (Insurance mediation)	1.93
	93.07

Financial Summaries

Levies: 5 year trend



Recoveries

During 2007/08 FSCS made recoveries of £19.9m.

Under FSCS rules, we are required to pursue recoveries where "reasonably possible and cost-effective". Our Recoveries Policy is available on our website at www.fscs.org.uk

Fund balances

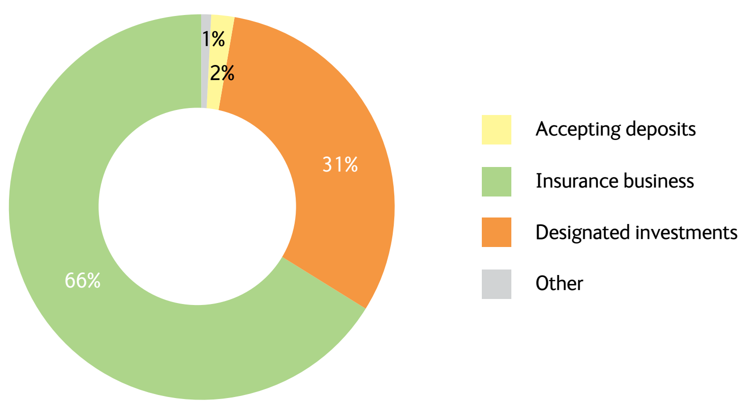
Fund balances as at 31 March 2008 amounted to £108.81m.

Forecasting funding requirements

For 2007/08 forecasting we took into account the forecast fund balances for each contribution group at the start of the levy period, estimated net interest receipts and potential recoveries likely to be received. We considered the resources needed to handle the different types of claims, their likely costs and the likely value of compensation payments. We then calculated the required levy amount to ensure the forecast fund balance at the end of the financial year was sufficient to cover the required funding until the date of the next levy collection.

With the exception of the Accepting Deposit fund balance, which is carried forward against future costs*, all fund balances as at 1 April 2008 will be given back to qualifying firms as a credit or charged as a debit in 2008/09. This enabled FSCS to raise the first levy for the new funding regime, implemented from 1 April 2008, from a base of zero, levying the new sub-classes from that date.

Fund balances by Sub-scheme as at 31 March 2008



Fund balances by Sub-scheme at 31 March 2008	**£m**
Accepting deposits	1.83
Designated investments	33.01
Insurance business	72.41
Insurance mediation	1.40
Home finance advice and arranging	0.16
	108.81

The total contribution group fund balances amounted to £108.81m as follows:

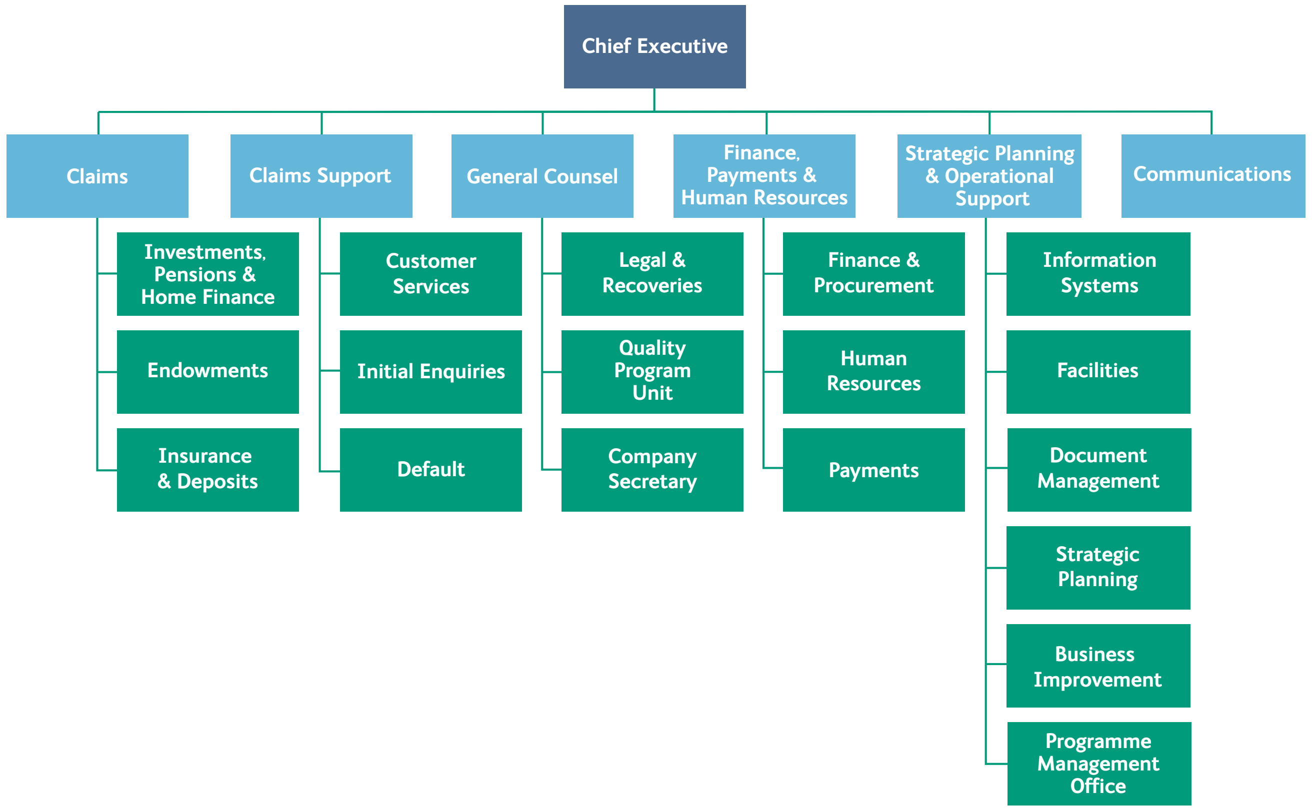
Contribution group	**£m (debit)**
A1 Accepting deposits	1.83
A3 General insurance	72.24
A4 Life insurance	0.17
A7 Fund managers, holding client money**	(1.03)
A9 Managers of an AUT**	(8.25)
A10 Dealers as principal	0.05
A12 Brokers holding client monies	6.00
A13 Brokers not holding client monies	23.33
A14 Corporate advisers	0.05
A16 Pensions review	12.86
A18 Home finance advice and arranging	0.16
A19 General insurance mediation	1.40
	108.81

* The transitional requirements for money transferred from the Deposit Protection Board restricts the use of this money to deposit claims and related funding needs. The funds will continue to be used to pay claims against deposit-takers, such as credit unions, and have been used to reduce the 2008/09 funding requirement in the deposit class under the new funding regime.

** The deficits in A7 and A9 relate to the costs of split capital investment trusts claims against Exeter and BFS. The majority of Exeter claims have been allocated to the A9 contribution group and most BFS claims have been allocated to the A7 contribution group.

Section 5
Operational Review and Corporate Governance

Operational Review & Corporate Governance



Staff and resources

Our claims strategy involves using a mix of in-house teams and outsourcers to help manage fluctuating claims volumes whilst retaining key skills.

Staff numbers

Staff levels at the year end were 191. In the light of declining claims volumes in the first half of the year, we did not proceed in the second half of the year with some planned recruitment and renewal of fixed term contracts. This means that over the year 50 staff left FSCS: 16 of the leavers were on fixed-term contracts, with the remainder being made up of 33 permanent staff resignations and one retirement. This gave a staff turnover rate of 25%, compared to 15% during 2006/07. Staff numbers by grade, and movement during the year, were as follows:

Staff per grade

	As at 31 March 2008	As at 31 March 2007
Administration Assistant	31	37
Claims Officer	37	46
Senior Claims Officer	82	90
Assistant Manager	24	24
Senior Manager & Head of Division	16	13
Chief Executive	1	1
Totals:	**191**	**211**

Staff mix at 31 March 2008

- Our staff mix comprised 83 women and 108 men (2006/07: 94 and 117).
- 35% of staff were 30 or younger, with 13% more than 50 years of age (2006/07: 34% and 9%).
- The average age of staff members was 36, with the youngest being 17, and the eldest being 62 (2006/07: 35, 20, 67).

Skills and training

Our staff are encouraged to develop professional qualifications relevant to their work, and hold a range, including Financial Planning Certificates (FPCs) at levels 1, 2 and 3, and Chartered Insurance Institute qualifications.

We spent £206,500 during the year, compared to £241,300 during 2006/07, on a mixture of management skills, technical training and continuing professional development. The lower spend reflected the falling staff numbers in the second half of the year.

Operational Review & Corporate Governance

The Board

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

Non-executive directors

David Hall (Chairman)
– appointed 1 March 2006
A consultant to the Board of C Hoare & Co, a member of the Advisory Board of Campbell-Lutyens (a specialist advisory investment bank in private equity), and a Non-executive Director of Ricardo Plc. From 1973–2000 he was at Boston Consulting Group, where his roles included Senior Vice President serving on the firm's Worldwide Executive Committee, Chairman Worldwide Financial Services Practice Group, Chairman Global Practice Groups and Chairman Global Human Resources. David has an MA in economics from Jesus College Cambridge, and an MSc from London Business School.

Anthony Ashford
– appointed 1 February 2007
Currently the Chairman of the HSBC Pensions Trust and a Non-executive Director of AIB (UK) Limited and the Jubilee Sailing Trust. He worked for HSBC from 1985 until 2005, rising to the position of General Manager, Personal Banking and Executive Committee member in 2000. He previously worked for Thomas Cook and British Steel Corporation.

Terence Connor
– reappointed 1 June 2008
A non-executive Director of Kleinwort Capital Trust plc, the Shephard Group, Which? and Activate UK, where he chairs various committees. He is a strategy consultant for SMEs in the media and publishing sectors and began his city career as a media analyst for James Capel & Co and Smith New Court. He joined Mirror Group plc in 1993 and became an executive Director as part of the team appointed to rebuild the company.

Alexandra (Sandy) Kinney
– reappointed 1 June 2008
A non-executive Director and Chairman of the Audit Committee for the Skipton Building Society, as well as an advisor on Risk and Performance Management to the boards of a number of insurance companies and investment banks. She retired from her role as a senior Financial Services Partner at PricewaterhouseCoopers and was previously at KPMG.

Richard Pratt
– reappointed 1 June 2007
Financial Services Regulatory Consultant, and Ombudsman for KPMG. Formerly Director General of the Jersey Financial Services Commission from 1999 to 2003, formerly Director External Affairs at the London International Futures and Options Exchange (LIFFE). Previous career as a civil servant, principally with the Treasury.

Rosalind Reston
– appointed 1 February 2007
A solicitor, authorised insolvency practitioner and accredited mediator. Also a non-executive director of Sports Resolutions (UK). Until 2006, she was a partner in Lovells, where she was involved in banking, fraud and insolvency matters and acted for a wide variety of banks and other financial institution.

John (Max) Taylor
– appointed 1 September 2007
Recently retired from, and now adviser to, insurance broker Aon UK. Prior to joining Aon in January 2001, he completed a three-year term as Chairman of Lloyd's, the Insurance Market. He is Chairman of the Mitsui-Sumitomo Insurance London Companies, Chairman of the Council of the University of Surrey and a Director of The Henderson Smaller Companies Investment Trust plc.

Catherine (Kate) Williams
– reappointed 1 June 2007
A licensed insolvency practitioner and a member of the Institute of Chartered Accountants in England and Wales (ICAEW). Previously worked as Director in the Deloitte & Touche Corporate Recovery Department and at Lloyd's as Head of Corporate Member Solvency in its Risk Management Department.

Christopher Woodburn
– reappointed 1 June 2008
A member of the Investigation Committee of the ICAEW, who previously was the Chief Executive of the General Insurance Standards Council. He was an executive Director and then Deputy Chief Executive of the Securities Association between 1988 and 1991. He has also held various directorships including Chief Executive at the Securities and Futures Authority.

Executive Directors

Loretta Minghella (Chief Executive)
– reappointed 1 May 2007
A lawyer by background; formerly a legal adviser and prosecutor in the DTI's Investigations Division, Head of Enforcement Law and Policy Support function at the SIB, Head of Enforcement Law, Policy and International Co-operation at the FSA and former Chair of the International Organisation of Securities Commissions' Standing Committee on Enforcement and Exchange of Information.

Jonathan Clark (Director of Claims)
– appointed 1 July 2007
A chartered loss adjuster and chartered insurance practitioner. Formerly Technical Director for Casualty & Construction, and Marketing Director and Director of IT for Ellis and Buckle. From 1997, he held a number of roles at Crawford & Company including Senior Vice President International Quality and Compliance and member of the Executive Team. Jonathan was treasurer of the Chartered Insurance Institute and Chairman of the Faculty of Claims.

Retired from the Board during 2007/08
Ronald Devlin, OBE
(appointed 1 October 2006)

Corporate Governance

The FSCS Board remains committed to high standards of corporate governance. Accordingly, the Board has agreed to follow the provisions of the updated Combined Code on Corporate Governance issued in June 2006. FSCS recognises that the Code applies only to UK listed companies. However, the Board believes that it would be beneficial to both FSCS and its stakeholders if FSCS were to adopt the approach of a listed company by following the provisions of the Code and reporting on the extent to which it has complied with the Code. The first part of this section, therefore, explains how FSCS has applied the main and supporting principles of Section 1 of the Code, and the second part reports on FSCS's compliance with the Code by explaining where it has departed from some of the Code's provisions.

Operational Review & Corporate Governance

The Board

1. Composition of the Board

The FSCS Board currently comprises 11 directors, nine of whom are non executive directors, including the Chairman. The two executive directors are the Chief Executive and the Director of Claims.

All directors are appointed by the Financial Services Authority (the FSA). The appointment (and removal) of the Chairman is also approved by HM Treasury. Appointments of non-executive directors are made within the spirit of the principles set out by the Committee on Standards in Public Life, using an external search consultancy, open advertising and transparent recruitment processes.

Biographical details of the directors, given on pages 36 and 37 of the Annual Report, demonstrate the broad range of experience and expertise that directors bring to the Board. Directors are subject to a conflict of interest policy to prevent any potential interference with the independence of their judgement on Board matters. Subject to any such potential conflicts of interest that may be declared on individual matters from time to time, all of the non executive directors are considered to be independent, within the meaning expressed in Code provision A.3.1.

2. Induction, appraisals, training and development

On appointment, new directors go through an FSCS-delivered induction programme and, depending on recent experience, director training. The FSCS induction is split into two parts. The first involves being briefed by FSCS's senior managers on the operation of the Scheme and the various functions within the organisation. The second involves receiving more detailed briefings from the claims teams on the different claims processes at FSCS. New directors also take this opportunity to 'sit in' with some of the claims teams to see, first hand, the work involved in processing claims. Similar claims briefings were also given to other directors during 2007/08. This helps to refresh directors' knowledge of existing claims practices, or to explain new or revised processes.

Directors are also given training, usually from external providers, on their duties and responsibilities as directors. Such training is delivered not only on appointment to the Board, but also on an occasional basis as a way of maintaining and refreshing directors' knowledge in this area. Aside from training given to individual directors following their appointment to the Board, the last refresher to the whole Board was carried out in November 2005 by way of a bespoke one day workshop on directors' duties and responsibilities, tailored to the needs of the FSCS Board. Consideration will be given to holding a similar workshop in 2008, and this would be in addition to any other training given to individual directors in the meantime.

Separately, the Audit Committee needs to be updated generally on current best practice for Audit Committees. The Audit Committee last attended a bespoke workshop in September 2006. This was geared specifically for FSCS and also looked at the way in which FSCS's Audit Committee then operated. It concluded that the Audit Committee was operating satisfactorily, in line with good corporate governance principles, although a number of minor changes were suggested and subsequently implemented partly in 2007/08.

In addition to receiving briefings and training on both FSCS issues and directors' duties and responsibilities, directors are regularly updated on developments in the industry. One of the ways in which the Board can engage with both the FSA and the industry is to receive occasional briefings from relevant external bodies, and in 2007/08 directors received a number of briefings from senior FSA officials. The Chairman and some of the non executive directors also attended some of the industry meetings set up in 2007/08. These provided FSCS with a further opportunity to engage positively with the industry, and these were found to have been both constructive and helpful. The Chairman and Chief Executive also continued to meet trade bodies on a regular basis.

All directors are given a formal annual appraisal by the Chairman. Since 2006, the directors' appraisal system has involved a more structured and comprehensive mechanism for obtaining feedback on directors' performance, which comes from a number of different sources. The Chairman's own performance is similarly assessed, and his formal appraisal is conducted by a non executive director selected for carrying out this task.

3. Operation of the Board

The Board met 12 times during the year. A formal schedule of matters reserved to the Board has been documented and agreed in order to provide a framework for the Board's decision making. In accordance with this schedule, the Board has responsibility for a number of statutory requirements, primarily those deriving from company law and the Financial Services and Markets Act 2000, as well as governing the strategic direction and the financial operation of the Scheme. It is responsible for setting policy and ensuring that appropriate internal control measures are in place. The Board believes that it receives and has access to relevant information on a timely basis, in order to make appropriate decisions. The Board has benefited from a number of improvements and refinements to the format and content of the operational and financial reports to the Board following a review by a small working group of directors and managers set up in 2006/07. The Company Secretary, appointed by the Board, attends all Board and Committee meetings, and is responsible for ensuring that Board procedures are followed and that appropriate records are kept. Directors are permitted to obtain independent professional advice, as required, on any matter that might assist them in the furtherance of their duties.

During the year, the Board carried out its annual review of its performance and the way in which it has operated during the year. This Board evaluation exercise was aided by the use of a document containing a comprehensive set of criteria, with each director being invited to comment and make an assessment on each criterion. Senior managers were also invited to offer similar feedback on the operation and performance of the Board as a whole. The results of this exercise and the implications for the Board were discussed at one of the Board's two strategy days. These strategy days also gave the Board the opportunity to review the key risks and strategic direction of the Scheme going forward. In addition, they allowed directors to decide how to enhance their effectiveness as a Board by meeting more frequently outside formal Board meetings, both with and without the Executive team, to reflect on strategic matters.

The Board has charged the two Board Committees with various tasks, including making certain decisions on its behalf, giving guidance to the Executive and making recommendations to the Board on a range of subjects. This Committee framework is discussed below.

Committees of the Board

1. Finance and Administration Committee

The Finance and Administration Committee met five times during the year. It currently comprises six members: four non executive directors and the two executive directors (the Chief Executive and the Director of Claims). The Committee's role is to assist the Board in fulfilling its oversight responsibilities by reviewing the strategic, management and operational activities of the Scheme. This is achieved by receiving and considering reports, providing challenge and support to the Executive on matters arising, and reporting and making recommendations to the Board where appropriate.

The Committee reviews:

- the operations of the Scheme's functional areas;
- the management accounts;
- the levy assumptions and proposals;
- the Scheme's Plan and Budget;
- banking and treasury matters, on which the Committee also has delegated decision-making authority from the Board;
- remuneration issues, including making recommendations to the Board on the Chief Executive's remuneration package; and
- succession planning for the executive team.

During the year, the Committee considered, in particular, FSCS's management accounts, the financial forecasts, certain banking and treasury management matters, the Plan and Budget and the finance strategy. In addition, the Committee discussed a number of reports on the non claims functions of FSCS, the progress of the various projects being undertaken by FSCS to make efficiency gains and process improvements, and executive remuneration (including the Chief Executive's remuneration package prior to Board approval). The Committee also concluded a review of its role and remit, and created a fresh annual programme for its meetings and updated its terms of reference.

Operational Review & Corporate Governance

2. Audit Committee

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

- the Annual Accounts;
- the accounting policies;
- the financial reporting system;
- the system of internal control;
- the appointment and performance of both internal and external auditors;
- the audit processes and results (for both internal audit and external audit);
- risk management;
- compliance with laws and regulations;
- whistle blowing arrangements; and
- arrangements for promoting health and safety at work;

During the year, in addition to the above items, this Committee considered quality assurance reports on claims, internal audit reports, the rolling internal audit programme, the company's insurance arrangements and the directors' training log. The Committee conducted reviews of the effectiveness of both the external audit and internal audit processes, and also carried out its annual review of the effectiveness of the Committee (in April 2008). In addition, the Board revised the Committee's terms of reference in May 2007 after taking recommendations from the Committee in the light of its previous review.

The Committee also developed further its thinking on risk management, and took additional steps to consider not only FSCS's Risk Register but also individual key risks in more depth. This is explained under 'Internal controls' later in this section.

3. Composition of the board committees

Committee Membership (as at 31 March 2008)	Audit Committee	Finance & Administration Committee
Non-executive directors:		
David Hall		
Anthony Ashford		✓
Terence Connor		✓
Alexandra (Sandy) Kinney	✓	
Richard Pratt		•
Rosalind Reston	✓	
John (Max) Taylor		
Catherine (Kate) Williams	•	
Christopher Woodburn		✓
Executive directors:		
Jonathan Clark		✓
Loretta Minghella		✓

• = Committee Chairman

4. Attendance at Board and Committee Meetings

The following table shows directors' attendance at meetings of the Board, the Audit Committee and the Finance and Administration Committee during the year, together with their dates of appointment and current expiry dates.

One meeting of the Finance & Administration Committee was held solely for the purpose of considering the Chief Executive's remuneration, so was held without executive directors being present

Note: Richard Pratt and Catherine (Kate) Williams were appointed as Trustees of the FSCS Pension Scheme on 1 June 2005. There were five Trustee meetings during the year.

	Board	Audit Committee	Finance & Administration Committee	Appointment date	Expiry of current term
Number of meetings held:	12	4	5		
Non-executive directors:					
David Hall	11/12			1 Mar 2006	31 Mar 2009
Anthony Ashford	9/12		4/5	1 Feb 2007	31 Jan 2010
Terence Connor	11/12		5/5	1 Jun 2005	31 May 2008
Alexandra (Sandy) Kinney	10/12	4/4		1 Jun 2005	31 May 2008
Richard Pratt	11/12		5/5	1 Jun 2004	31 May 2009
Rosalind Reston	11/12	4/4		1 Feb 2007	31 Jan 2010
John (Max) Taylor	8/8			1 Sep 2007	31 Aug 2010
Catherine (Kate) Williams	10/12	4/4		1 Jun 2004	31 May 2009
Christopher Woodburn	12/12		5/5	1 Jun 2005	31 May 2008
Executive directors:					
Jonathan Clark	9/9		2/2	1 Jul 2007	30 Jun 2010
Ronald Devlin	3/3		1/2*	1 Oct 2006	retired 30 Jun 2007
Loretta Minghella	10/12		4/5*	6 Dec 2004	30 Nov 2010

*One meeting of the Finance & Administration Committee was held solely for the purpose of considering the Chief Executive's remuneration, so was held without executive directors being present'

5. Other Committees and Working Parties

The Claims Decisions Committee met three times during the year. This Committee meets on an ad hoc basis to consider marginal or unusual claims and difficult claims issues. Its membership comprises three directors: one executive director and any two non-executive directors.

In addition, the Board created the Splits Working Group, including three non-executive directors. This Working Group was set up to allow additional director level input into FSCS's preparations and processes for handling splits claims, and continued its work into 2007/08.

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 arrangements for internal control have been in place throughout the year and are kept under regular review by the Board. During the year, the Board undertook the annual review of the appropriateness and effectiveness of the internal controls, drawing on reports from management and advice from the Audit Committee. The Board is satisfied that there appear to be no significant control weaknesses requiring remedial action.

The main components of FSCS's system of control comprise the following:

- clear lines of responsibility and delegated authority throughout the organisation;
- clearly documented procedures and Board-approved operational policies;
- the identification of risks in the Risk Register and the ongoing assessment and monitoring of those risks and the arrangements for managing them;
- the reviewing of the regular reports from the Scheme's Quality Programme Unit and the work of the auditors (both internal and external); and
- regular monitoring of performance against plans and targets by management.

In addition, the Board regularly reviews FSCS's performance against its Plan and Budget, and receives monthly and quarterly reports on the operational and financial position of the Scheme, including budgets and forecasts, as well as reports from the Finance and Administration Committee. The Board also receives reports from the Audit Committee on, amongst other things:

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

The following examples illustrate the additional work that FSCS has carried out during the period covered by this Report in order to satisfy itself that there are appropriate controls throughout the organisation:

1. The Audit Committee has continued to review the process by which risks are managed and monitored at FSCS. As a result, FSCS's Risk Register, which identifies and prioritises key risks to the organisation and highlights the relevant controls for each risk area, was further refined during the year, and this is recognised as a continuing process. The Risk Register is reviewed and updated regularly by management, and is also considered by the Audit Committee at each meeting. From 2007, the Audit Committee has also taken the opportunity to discuss, in more depth, individual key risks. These risks are explored in more detail at meetings, and allow the Committee to help analyse the extent to which each of these key areas of risk can be managed by the Scheme. The Committee reports to the Board after each Committee meeting, and as a matter of good practice, the Board itself now considers the Risk Register twice a year.
2.The Audit Committee has continued to ensure that the internal audit programme is aligned to the Scheme's risk assessment work, and that internal audit reports are linked to the relevant risks identified in the Risk Register.
3. The Audit Committee receives reports on the quality assurance (QA) reviews of claims processes at each of its meetings. These QA reviews are carried out by FSCS's internal Quality Programme Unit (QPU), and identify issues that are considered further in order to establish whether any improvements could be made or remedial measures put in place.
4. FSCS's internal auditors, Deloitte, have continued to conduct reviews and provide reports on various aspects of the Scheme's work. The Head of QPU oversees this work, and the Audit Committee considers, and reports to the Board on, the internal audit plan and the reviews carried out. During the year, the Audit Committee has considered internal audit reports on case management, general computer controls, document management, critical models, outsourced mortgage endowment claims, fraud risk, compensation payments, the general ledger, corporate governance, business contingency and disaster recovery planning, business planning

Operational Review & Corporate Governance

and budgetary control, and the human resources function. The internal auditors carry out reviews in accordance with an agreed rolling programme of audit areas, and management follows up the agreed recommendations. The internal auditors also report on the follow up work on recommendations made in previous internal audit reports.

5. The Audit Committee has considered further the Scheme's approach towards outsourcing parts of its claims processing, and has considered the risks and controls associated with that area.

6. The Audit Committee took the opportunity to review the appropriateness and coverage of FSCS's various insurances in the context of the risks they served to mitigate.

7. The Board and its Committees continued to consider changes to claims processes and policies, FSCS's approach towards recoveries, the number and nature of complaints received by the Scheme, recommendations made by the Independent Investigator in his reports, and the Scheme's contingency planning for large business failures in the industry.

8. The Board also discussed extensively, on a regular basis, issues relating to the Funding Review and banking and compensation reform to ensure that FSCS was sufficiently engaged and involved in discussions on these subjects. These areas are reported on separately in the Annual Report.

Principal risks and uncertainties

The Scheme's risk management processes are described above. As a result, FSCS has established that key risks to the Scheme's business arise from the following: the ability to respond effectively to significant changes in claims volumes; potential changes in legislation and regulatory approach; risks associated with increased 'management stretch'; and potential risks associated with the new funding regime whilst it is in transition. Processes in place to manage these key risks and other risks identified are also detailed in the section above.

Financial risk management

The company's operations, and those of its Sub-schemes, expose it to 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 bank overdrafts and loan facilities, cash and short-term money market deposits. Other instruments such as trade receivables and trade payables arise directly from the business operations but no financial derivatives are held. Related risks are managed in accordance with Board-approved policies that are closely monitored, regularly reviewed and, where appropriate, externally benchmarked.

- Credit risk – Monies are placed across a panel of counterparties which are banks with high credit ratings assigned by international credit rating agencies.
- Liquidity risk – The company maintains a balance between readily available funds to meet cash flow requirements and flexibility in placing money-market deposits with the counterparties over periods not exceeding six months. Overdrafts, bank loan facilities and finance leases are also available for use.
- Interest rate risk – Interest bearing money is placed on terms to achieve competitive returns from the counterparties at the time each deposit is made. Based on the current levels of net debt, interest rate risk is not considered to be material.
- Currency risk – To the extent that liabilities arise in currency other than £ sterling, these are covered by equivalent currency deposits, placed on terms within the policies agreed by the Board which mitigate the other financial risks which might also relate to sterling deposits. It is company policy not to engage in any speculative transaction of any kind.

Directors' remuneration

Non executive directors' fees are reviewed by the FSA, which sets the fees. The Finance and Administration Committee considers the full remuneration package for the Chief Executive, and makes recommendations to the Board for approval (in both cases the Chief Executive is not present when her remuneration package is being considered). Remuneration details of directors are given in the Directors' Report on page 49, and in note 60 to the financial statements.

Compliance with the Combined Code

FSCS complied throughout the period covered by this report with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance (revised in June 2006), except the following:

- A.1.2 & A.3.3 (senior independent director);
- A.4.1 to A.4.3 and A.4.6 (Nomination Committee);
- A.7.1 (length of directors' appointments);
- B.1.1 & B.2.2 (remuneration for Executive directors and the Chairman);
- B.2.1 (Remuneration Committee);
- B.2.3 (remuneration of non-executive directors); and
- C.3.2 (Audit Committee approving remuneration of the external auditor).

All appointments to the FSCS Board are made by the FSA, with the Chairman's appointment (and removal) also being approved by HM Treasury. Accordingly, FSCS does not require a separate nominations committee. The FSA, with input from FSCS where required, considers areas such as the balance of skills, knowledge and experience on the Board, rotation on the Board and directors' fees. FSCS also has an active supporting role with the FSA in respect of the recruitment of FSCS's non executive directors. Such input includes assisting in the drafting of job specifications for directors as vacancies arise and assisting in the interview and shortlisting processes.

FSCS does not have a separate remuneration committee, although the Finance and Administration Committee has, as part of its remit, responsibility for certain remuneration matters. The remuneration of the non executive directors, including the Chairman, is determined by the FSA, and FSCS assists the FSA by providing estimated time commitments of non executive directors on an annual basis. The remuneration package of the Chief Executive is considered annually by the Finance and Administration Committee, and is approved by the Board (in both cases without the Chief Executive being present). Performance is taken into account in this annual review, and executive director remuneration now incorporates a performance related element. The Director of Claims, a Head of Division, is also an executive director on the Board but reports to the Chief Executive. Accordingly, whilst the Finance and Administration Committee considers the general remuneration framework for Heads of Division, it is the Chief Executive who sets the remuneration of the Director of Claims after consultation with the committee.

The Memorandum of Association states that directors' appointments are to be made for periods not exceeding four years, at which time directors may be submitted for reappointment, although the Combined Code recommends that directors should be subject to re election at intervals of no more than three years. The Board's rotation system uses a staggered approach by varying the terms of appointment and re appointment usually between one, two and three years. The first appointments to the Board, in 2000, were for periods of two, three or four years. All subsequent appointments and reappointments have been made for three years or less, in line with the Combined Code. The Combined Code also recommends that there should be a recognised senior independent director, other than the non executive Chairman, to whom concerns can be conveyed. Given the largely non executive structure of the Board, FSCS has operated without identifying such a senior director since its inception. The Board considered this issue at one of its strategy days in 2007, and agreed that the present system remained appropriate for FSCS. The Board has, however, agreed that it should select a non executive director to take the chair at Board meetings in the absence of the Chairman, and also a non executive director to carry out the formal appraisal of the Chairman following discussions with other directors. These roles are in the process of being allocated.

The Combined Code recommends that the Audit Committee approve the remuneration and terms of engagement of the external auditor. Until May 2007, the Audit Committee made recommendations to the Board for approval of the audit fee. However, as a result of the Board's changes to the Audit Committee's terms of reference in May 2007, it will now be for the Audit Committee to approve the external audit fee.

Section 6
Directors' Report and Accounts

Directors' Report and Financial Statements
for the year ended 31 March 2008

Directors' report
The directors of FSCS present their eighth report, together with the audited financial statements of the Company and its Sub-schemes for the year ended 31 March 2008.

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

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

Following on from the Funding Review carried out by the FSA, 2008/09 will be the first year of the new funding arrangements. Five new broad classes and related sub-classes will be introduced for the FSCS levies. For 2008/09, an FSCS levy will be raised from a zero base with the fund balances of the contribution groups used in previous years being returned to firms as part of the 'clean-break' exercise. This means that all contribution group balances at 31 March 2008, other than those for the Accepting Deposits sub-scheme which are carried into the 2008/09 levy calculations, will go back to the firms as credit or debit notes during the levy process.

Business Review
The company's results show an excess of income over expenditure of £611,000 (2007: excess £408,000), as shown on page 54, and a net actuarial gain arising on the final salary pension scheme assets and liabilities movements of £1,344,000 (2007: loss £440,000) in the Statement of Total Recognised Gains and Losses.

Management expenses of £25,856,000 (2007: £27,183,000) were incurred in the year all of which (2007: £26,516,000) have been recovered from the Scheme's Sub-schemes, comprising Accepting Deposits, Insurance Business, Designated Investment Business, Mortgage Advice and Arranging and General Insurance Mediation, as shown on pages 76 to 79. The £667,000 of management expenses recoverable from but not allocated to specific Sub-schemes as at 31 March 2007, relating to costs of handling Split Capital Investment Trust claims, is included in this year's recoveries from the relevant Sub-scheme.

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

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

The Directors

Details of the directors in the year to 31 March 2008, all of whom are non-executive unless stated, are as follows:

D J Hall (Chairman)

L C R Minghella (Chief Executive, and Executive Director)

R L Devlin, OBE (Executive Director) (retired on 30 June 2007)

T M Connor

A B E Kinney

R C Pratt

C M Williams

C H Woodburn

A J Ashford

R S Reston

J M W Clark (Executive Director) (appointed 1 July 2007)

J M P Taylor (appointed 1 September 2007)

Directors' emoluments
Total emoluments paid to directors are as follows:

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Aggregate emoluments	638	423
Pension contributions	43	44
	681	**467**

The highest paid director, the current Chief Executive, received aggregate emoluments in the year of £238,397 (comprising basic salary and bonus of £237,000 and other emoluments of £1,397) (2007: £189,118 comprising basic salary of £180,000 and other emoluments of £9,118), and contributions to a defined benefit arrangement under the company's pension scheme have been made of £30,794 (2007: £27,367). The Chief Executive did not receive additional remuneration in respect of the role as director.

Directors' Report and Financial Statements
for the year ended 31 March 2008

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

	Accrued Pension at 1 April 2007 (£ pa)	Accrued Pension at 31 March 2008 (£ pa)	Increase in Accrued Pension (in excess of inflation) (£ pa)	Transfer value of increase (£)
L C R Minghella	**4,073**	**6,110**	**1,879**	**16,533**

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

The fees paid to the Chairman are set at £70,000 per annum (2007: £55,000) and the fees paid to the non-executive directors are set at £20,000 per annum (2007: £17,000). Additional fees paid to the Chairmen of the Audit Committee and Finance and Administration Committee were set at £4,500 per annum (2007: £4,000) The Chairman and the non-executive directors are not entitled to a pension funded by the company.

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

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

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

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

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

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

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

Corporate governance and financial risk management
A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained in FSCS's Annual Report on pages 37 to 45.

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

By order of the Board

M Thomas
Secretary
20 May 2008

Report of the Auditors

Independent auditors' report to the members of Financial Services Compensation Scheme Limited for the year ended 31 March 2008

We have audited the financial statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2008, which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its result and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

London
9 July 2008

Financial Statements
for the year ended 31 March 2008

Income and Expenditure Account

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Administrative expenses	3	(25,339)	(26,816)
Interest payable	4	(79)	(62)
Other operating income, comprising:		26,064	27,309
Interest receivable and other income	8	208	126
Management expenses recoverable from Sub-schemes	9	25,856	26,516
Other management expenses receivable	11	–	667
Excess of income over expenditure on ordinary activities before tax		**646**	**431**
Taxation	8	(35)	(23)
Excess of income over expenditure on ordinary activities after tax		**611**	**408**

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

Statement of Total Recognised Gains and Losses (STRGL)

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Excess of income over expenditure		611	408
Actuarial gain/(loss) on pension scheme liabilities	6	1,344	(440)
Total recognised gains/(losses) relating to the year		1,955	(32)
Total gains/(losses) recognised since last annual report		**1,955**	**(32)**

The Notes on pages 57 to 73 form part of these financial statements.

Balance Sheet as at 31 March 2008

	Note	2008 £'000	2007 £'000
Fixed assets	10	**2,185**	**2,647**
Current assets			
Debtors: amounts falling due within one year	11	4,980	14,663
Cash at bank and short term deposit	12	5,628	2,017
Total current assets		**10,608**	**16,680**
Creditors: amounts falling due within one year			
Sub-scheme borrowings	12	(199)	(164)
Creditors and accruals	13	(12,409)	(18,611)
Bank overdraft	12	–	(182)
Total current liabilities		**(12,608)**	**(18,957)**
Total assets less current liabilities		**185**	**370**
Creditors: amounts falling due after one year			
Sub-scheme borrowings	12	–	(199)
Provision for liabilities and charges	14	(185)	(154)
Amounts payable under finance leases	15	–	(17)
		(185)	**(370)**
Total net assets/(liabilities) including pensions asset/(liability)		–	–
Pension asset/(liability)	6	578	(1,377)
Total net assets/(liabilities) including pensions asset/(liability)		**578**	**(1,377)**
Reserves	16	**578**	**(1,377)**

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited on 20 May 2008.

David Hall
Chairman

The Notes on pages 57 to 73 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 March 2008

	Note	2008	2007
		£'000	£'000
Net cash inflow from operating activities	17	4,331	1,518
Returns on investment and servicing of finance	18	(129)	(64)
		4,202	**1,454**
Taxation paid		**(34)**	**(26)**
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(195)	(1,511)
Net cash outflow from investing activities		**(195)**	**(1,511)**
Financing activities			
Sub-scheme borrowings		(164)	(165)
Capital element of finance lease payments		(16)	–
Net cash outflow from financing activities		**(180)**	**(165)**
Increase/(decrease) in cash	19	**3,793**	**(248)**

The Notes on pages 57 to 73 form part of these financial statements.

Notes to the Financial Statements
for the year ended 31 March 2008

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

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

2. Accounting policies
The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions, COMP and Fees Rules and applicable accounting standards, on a going concern basis. As shown on the balance sheet, FSCS has positive reserves and an excess of assets over liabilities that arise due to the inclusion of the pension asset in relation to the FSCS pension scheme valued in accordance with the principles set out in FRS 17.

The principal accounting policies are set out below.

a) Administrative expenses
These costs are included in the Income and Expenditure Account on an accruals basis.

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

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

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

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

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

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

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

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

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

Computer software is expensed when incurred.

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

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

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

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

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

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

i) Legal challenges and costs
On occasion, legal proceedings are threatened or initiated against 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.

3. Administrative expenses

the following amounts are included within administrative expenses:

	Note	Year ended 31 March 2008	Year ended 31 March 2007
		£'000	£'000
Depreciation			
Owned assets		641	555
Assets held under finance leases		16	20
Auditor's fees			
Audit work		88	84
Operating lease rentals	15	1,079	1,079

4. Interest payable

Interest payable comprises:

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Sub-scheme interest	49	21
Finance lease interest	30	41
	79	**62**

5. Staff costs

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Aggregate gross salaries, including the Executive Directors together with costs of seconded, contract and long-term temporary staff	8,293	8,196
Employer's national insurance contributions	879	869
Employer's pension contributions	1,529	1,290
	10,701	**10,355**

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

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

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Administration and Finance	42	43
Claims	163	162
	205	**205**

6. Retirement benefits

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

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

Amounts paid by the employer into the money purchase scheme amounted to £392,000 and £32,251 was outstanding to be paid at 31 March 2008 (2007: £296,000 and £30,000 respectively).

The company operates a funded scheme of the defined benefit type with assets held in separate trustee administered funds. The most recent actuarial valuation of the defined benefits pension scheme was at 31 March 2008. The valuation used the projected unit method and was carried out by Buck Consultants, professionally qualified actuaries.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are:

	2008 %	2007 %
Discount rate	6.70	5.40
Rate of increase in salaries	4.35	4.00
Rate of increase in pensions in payment	3.14	3.00
Expected return on plan assets	8.20	7.33
Inflation assumption	3.35	3.00

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

Pre-retirement: PMA00 for males and PFA00 for females, with future improvements to mortality projected in line with the medium cohort projection methodology, with a minimum underpin improvement of 1%, allowing for individual members' year of birth.

Post-retirement: PMA00 for males and PFA00 for females, with future improvements to mortality projected in line with the medium cohort projection methodology, with a minimum underpin improvement of 1% allowing for individual member's year of birth.

Based on the above post retirement mortality tables, life expectancy is 26 years for a male retiring at age 60 and 29 years for a female.

The mortality assumptions adopted for the disclosures as at 31 March 2008 have been updated, as advised by our independent external actuaries, to reflect improvements in members' expected longevity. The impact of this change is reflected in the changes in assumptions underlying the present value of the Scheme liabilities item of £2,489,000, shown within the Actuarial gain recognised in the STRGL of £1,344,000 above. The mortality assumption change contributes a loss of £8,000 to this item, offset by a gain of £2,497,000, mainly as a result of the higher discount rate.

The disclosures make no allowance for the option members have to commute pension for a Pension Commencement Lump Sum at retirement. Based on the current commutation terms offered by the Scheme, the introduction of a commutation assumption would not have a material effect on the disclosures. The scheme actuary has calculated that the introduction of an allowance for commutation would lead to an increase to the liabilities, based on the assumptions adopted for the 2008 pension disclosures and the current scheme commutation terms of 0.4% (assuming that 75% of members on average take the maximum retirement lump sum available).

At 31 March 2008 the Scheme's assets were invested in a diversified portfolio that consisted primarily of equities. The fair value of the Scheme's assets as a percentage of the total invested assets and target allocations are set out below:

	31 March 2008		Planned 31 March 2008	31 March 2007	
	£'000	%	%	£'000	%
Equities	5,962	73	75	5,488	71
Hedge Funds	1,234	15	15	–	–
Property	648	8	10	757	10
Bonds	–	–	–	970	13
Cash	346	4	–	485	6

In conjunction with the Trustees, FSCS has recently conducted an asset-liability review for the Scheme. These studies are used to assist the Trustees and FSCS to determine the optimal long-term asset allocation with regard to the structure of liabilities within the Scheme. The results of the study are used to assist the Trustees in managing the volatility in the underlying investment performance and the risk of a significant increase in the Scheme deficit.

The amounts recognised in the balance sheet are as follows:

	31 March 2008	31 March 2007	31 March 2006
	£'000	£'000	£'000
Total market value of assets	8,190	7,700	6,617
Present value of Scheme liabilities	(7,612)	(9,077)	(7,962)
Net pension asset/(liability)	**578**	**(1,377)**	**(1,345)**

Changes in the present value of the defined benefit obligation	Year ended 31 March 2008	Year ended 31 March 2007
	£'000	£'000
Opening defined benefit obligation	9,077	7,962
Current service cost	608	606
Interest cost	508	424
Benefits paid	(92)	(242)
Actuarial (gain)/loss	(2,489)	327
Closing defined benefit obligation	**7,612**	**9,077**

The sensitivity of the principal assumptions used to measure the scheme liabilities are set out below:

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Increase/decrease by 7.5%
Rate of inflation*	Increase/decrease by 0.25%	Increase/decrease by 7.5%
Rate of salary growth	Increase/decrease by 0.25%	Increase/decrease by 2.1%
Longevity	Increase/decrease by 1 year	Increase/decrease by 2%

* Including the effect of an increase in the pension increase assumption and rate of salary growth of 0.25%.

Changes in the fair value of scheme assets	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Opening fair value of scheme assets	7,700	6,617
Expected return	600	474
Contributions by employer	1,127	964
Benefits paid	(92)	(242)
Actuarial (loss)	(1,145)	(113)
Closing fair value of scheme assets	**8,190**	**7,700**

Actual return on scheme assets	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Actual return	**(545)**	**361**

The amounts recognised in the income and expenditure account are as follows:

Analysis of the amount charged to operating profit	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Current service cost	608	606
Past service cost	–	–
Total operating charge	**608**	**606**

Analysis of amount credited to interest receivable and other income	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Expected return on pension scheme assets	600	474
Interest on pension scheme liabilities	(508)	(424)
Net return	**92**	**50**

FSCS expects to contribute £1,155,000 to its defined benefit pension plan during 2008/09.

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Actual return less expected return on assets	(1,145)	(113)
Experience gains/(losses) arising on Scheme liabilities	11	(231)
Changes in assumptions underlying the present value of the Scheme liabilities	2,478	(96)
Actuarial gain/(loss) recognised in STRGL	**1,344**	**(440)**

The pension scheme assets are held in a separate Trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. FSCS has a policy that two of the four trustees should be nominated by members of the fund, with these member nominated trustees being current active members.

FSCS provides retirement benefits to some of its former and approximately 25% of its current employees through a defined benefit scheme. The level of retirement benefit is principally based on salary earned in the last year of employment. The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected in the balance sheet. The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The accumulated benefit obligation is an actuarial measure of the present value of benefits for service already rendered, but differs from the projected unit method in that it includes no assumption for future salary increases. At the balance sheet date the accumulated benefit obligation was £6,990,000.

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

Following the 1 April 2006 actuarial valuation, FSCS's ordinary contribution rate was increased, with effect from 1 April 2007, from 25.2% of pensionable salaries to 27.3% of pensionable salaries plus £90,000 p.a. in respect of expenses of administration, representing regular contributions. In addition FSCS agreed to contribute regular payments of £40,000 each month from April 2007 until March 2012, representing regular deficit reduction contributions. FSCS has agreed with the trustees that it will aim to eliminate the deficit by March 2012. FSCS and the Trustees will monitor funding levels and the progress of the deficit reduction on an annual basis. The next triennial valuation is due to be completed as at 1 April 2009. FSCS considers that the contribution rates agreed with the Trustees at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly.

The valuation of the scheme's liabilities for accounting purposes has been carried out at a different date from the scheme's last actuarial valuation 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 FRS17, separate calculations will be carried out for the Trustees to monitor and control the funding of the Scheme using assumptions selected by the Trustees.

FSCS estimates the present value of the duration of the Scheme liabilities on average fall due over 30 years.

Five year history of experienced gains and losses	31 March 2008 £'000 – %	31 March 2007 £'000 – %	31 March 2006 £'000 – %	31 March 2005 £'000 – %	31 March 2004 £'000 – %
Difference between expected and actual return on Scheme assets	(1,145)	(113)	858	197	515
Percentage of Scheme assets	(14.0)	(1.5)	13.0	4.3	13.2
Experience gains and (losses) on Scheme liabilities	11	(231)	(114)	(624)	10
Percentage of present value of the Scheme liabilities	0.1	(2.5)	(1.4)	(10.3)	0.2
Total amount recognised in statement of total recognised gains and (losses)	1,344	(440)	(311)	(707)	508
Percentage of the present value of Scheme liabilities	17.7	(4.8)	(3.9)	(13.4)	11.1

*Note: The asset values for years prior to 2008 have not been re-stated to show the value of the assets at bid rather than mid market value.

7. Directors' emoluments

Details of director's emoluments are shown in the directors' report on pages 49 to 50.

8. Interest receivable and other income

During the year, FSCS received interest of £115,751 less tax of £34,725 at 30% and £92,000 relating to the expected return on pension scheme assets less the interest on pension scheme liabilities. (2007: interest of £76,000 less tax of £23,000 at 30%, £50,000 net return on pension scheme assets).

9. Management expenses recoverable from Sub-schemes

Management expenses allocated to Sub-schemes, and recoverable from them were:	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Accepting Deposits	2,236	1,523
Insurance Business	2,618	1,969
Designated Investment Business	20,082	22,283
Home Finance Advice & Arranging	182	145
General Insurance Mediation	738	596
	25,856	**26,516**

10. Fixed assets

	Computers £'000	Furniture & equipment £'000	Building improvements £'000	Total £'000
Cost				
Opening balance	1,772	1,104	2,772	5,648
Additions in the year	102	40	53	195
At 31 March 2008	**1,874**	**1,144**	**2,825**	**5,843**
Accumulated depreciation				
Opening balance	(1,427)	(610)	(964)	(3,001)
Charge for the year	(180)	(148)	(329)	(657)
At 31 March 2008	**(1,607)**	**(758)**	**(1,293)**	**(3,658)**
Net book value at 31 March 2008	**267**	**386**	**1,532**	**2,185**
Net book value at 31 March 2007	**345**	**494**	**1,808**	**2,647**

The tangible fixed assets includes an amount of £33,000 (2007: £49,000) in respect of furniture and equipment held under finance leases, as follows:

Assets held under finance leases	Year ended 31 March 2008 £'000
Cost	
Opening balance	111
Additions in the year	–
At 31 March 2008	**111**
Accumulated depreciation	
Opening balance	(62)
Charge for the year	(16)
At 31 March 2008	**(78)**
Net book value at 31 March 2008	**33**
Net book value at 31 March 2007	**49**

11. Debtors: amounts falling due within one year

	Note	31 March 2008 £'000	31 March 2007 £'000
Amount due from the FSA	21	63	24
Levies receivable, net of provision:			
Insurance Business		–	5
Designated Investment Business		226	209
Home Finance Advice & Arranging		1	2
General Insurance Mediation		7	1
Recoverable costs		–	667
Net amounts due from Sub-schemes:			
Accepting Deposits		841	737
Designated Investment Business		2,665	6,887
Amounts due in respect of recoveries and compensation payments		511	5,150
Other debtors		106	117
Prepayments		560	864
		4,980	**14,663**

The recoverable costs debtor last year related to management expenses incurred on Split Capital Investment Trust claims. This amount was funded in the year to 31 March 2008.

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

As at 31 March 2008 the company had facilities for business purposes of £52m, comprising a 364 day sterling revolving credit facility of £50m, at a floating rate of interest based on LIBOR; and an overdraft facility of £2m at a fixed margin above base rate. Since the balance sheet date a revised credit facility agreement has been reached which would expire 364 days from 3 May 2008 with a further Term-Out Loan option of 3 months from the expiry date of 2 May 2009.

	31 March 2008 £'000	31 March 2007 £'000
Cash at banks	950	–
Cash on short term deposit	4,678	2,017
	5,628	2,017
Overdraft	–	(182)
	5,628	**1,835**
Sub-scheme borrowings:		
Amounts falling due within one year	(199)	(164)
Amounts falling due between one and two years	–	(199)
	(199)	**(363)**
	5,429	**1,472**

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

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

As permitted by Fees rule 6.3.18, which came into force on 1 March 2003, a bank loan and related interest was fully repaid on 17 March 2003, and substituted, in part, by Sub-scheme borrowings of £1,885,000 from the Insurance Business Sub-scheme. Of the balance at 1 April 2007 of £363,000, £164,000 was repaid during the year (2007: £528,000 and £165,000 respectively). Interest is payable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies.

13. Creditors and accruals

	Note	31 March 2008 £'000	31 March 2007 £'000
Compensation payable		1,469	2,717
Net amounts due to Sub-schemes:			
Insurance Business		5,778	10,608
Home Finance Advice & Arranging		161	211
General Insurance Mediation		214	92
Levy payable – Insurance		18	–
Corporation taxation		15	14
Other taxation & social security costs		242	248
Accruals		2,113	3,330
Other creditors		2,379	1,372
Finance leases	15	20	19
		12,409	**18,611**

14. Provisions for liabilities and charges

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

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Opening balance	154	122
Increase in the year – charged to Income and Expenditure account	31	32
	185	**154**

15. Payments under lease agreements

Future minimum payments

Finance leases	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Amounts payable:		
Within one year	26	46
Between one and five years	–	26
	26	72
Less: Finance charges allocated to future periods	(6)	(36)
	20	**36**
Shown as:		
Due within one year	20	19
Due after more than one year but not more than five years	–	17
	20	**36**

Operating leases		Leases expiring		
Amounts payable in year to 31 March 2008	One to two years £'000	Two to five years £'000	Over five years £'000	Total £'000
Office rental	–	–	1,043	1,043
Equipment rental	35	1	–	36
Total	**35**	**1**	**1,043**	**1,079**

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

16. Reserves

	31 March 2008 £'000	31 March 2007 £'000
Excess of income over expenditure on		
ordinary activities after tax	611	408
Amount recognised in STRGL	1,344	(440)
	1,955	(32)
Brought forward	(1,377)	(1,345)
Reserves carried forward	**578**	**(1,377)**

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

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

	31 March 2008 £'000	31 March 2008 £'000	31 March 2007 £'000	31 March 2007 £'000
Excess of income over expenditure on ordinary activities before interest and tax		517		367
Interest transfer from Sub-schemes		13		21
Corporation tax charge		35		23
		565		411
Depreciation		657		575
Compensation paid	(84,178)		(154,745)	
Recoveries received	24,538		34,870	
Levies received	93,072		73,104	
Levies refunded	(39,995)		–	
Funds transferred from Sub-schemes	6,563	–	46,771	–
Decrease/(increase) in debtors		9,683		(3,344)
(Decrease)/increase in creditors		(6,574)		3,876
Net cash inflow from operating activities		**4,331**		**1,518**

18. Returns on investments and servicing of finance

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Gross interest received	116	76
Net return on pension scheme assets less liabilities	92	50
	208	126
Interest paid (see note 4)	(79)	(62)
	129	**64**

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

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
(Increase)/decrease in cash and short term deposits in the year	(3,793)	248
Cash used to repay Sub-scheme borrowings	(164)	(165)
(Reduction)/increase in net debt	(3,957)	83
Net funds at 31 March 2007	(1,472)	(1,555)
Net funds at 31 March 2008	**(5,429)**	**(1,472)**

20. Analysis of change in net funds

	Opening balance £'000	Cash inflows/(out flows) £'000	At 31 March 2008 £'000
Sub-scheme borrowings	(363)	164	(199)
Cash and short term deposits	2,017	3,611	5,628
Bank overdraft	(182)	182	–
	1,472	**3,957**	**5,429**

21. Transactions with related parties

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

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

During the year, the FSA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £93,648,222 and related collections were received of £93,629,340 (2007: £73,109,000 and £73,125,000 respectively). The charge for the service was £246,000 (2007: £235,000).

Overall, payments, less receipts, of £93,590,161 (2007: £73,193,000) were made by the FSA to FSCS, leaving amounts due by the FSA to FSCS at 31 March 2008 of £62,860 (2007: £24,000).

On 14 January 2008, FSCS made a repayment of levy monies to A3 general insurance firms of £39,994,761 which was handled under the Agency Agreement referred to above.

During the year the FSA provided services relating to the funding review changes that will be implemented on 1 April 2008 and FSCS seconded two members of staff to the FSA. The net charge to the FSCS for these was £32,858.

The FSA is a party to the lease agreement for the company's premises at 7th floor, 1 Portsoken Street, London (see Note 15) as guarantor of performance of the lease.

22. Capital commitments

No capital commitments were authorised and contracted for but not provided in the financial statements (2007: £nil).

23. Contingencies

The company may have contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities to FSCS. In any event, any liabilities that crystallise would normally be recoverable from the appropriate Sub-scheme.

Financial Services Compensation Scheme
Sub-schemes and Contribution Groups for the year ended 31 March 2008

As explained in Chapter 6 of the Fees rules of the FSA's Handbook, for funding purposes FSCS is split into Sub-schemes, comprising: the Accepting Deposits Sub-scheme; the Insurance Business Sub-scheme; the Designated Investment Sub-scheme; the Home Finance Advice and Arranging Sub-scheme and General Insurance Mediation Sub-scheme (Fees 6.1.7G). Within each Sub-scheme, there is one or more contribution group (Fees 6.1.8G). The FSCS must keep accounts which show: (1) the funds held to the credit of each Sub-scheme and relevant contribution group; and (2) the liabilities of that Sub-scheme and relevant contribution group (Fees 6.3.14R).

The powers of the FSA under FSMA became effective as at midnight on 30 November 2001. The financial statements for FSCS' Sub-schemes and contribution groups are for the year ended 31 March 2008, with comparatives for the year ended 31 March 2007, as set out as follows:

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

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

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

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

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

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

By order of the Board

M Thomas
Secretary
20 May 2008

Sub-scheme Accounts – Summary
Financial statements for the year ended 31 March 2008

Fund movements	Note	Total	2006/07	Accepting Deposits	2006/07	Insurance Business	2006/07	Investment Business	2006/07	Home Finance Advice & Arranging	2006/07	General Insurance Mediation	2006/07
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation costs	2	(82,930)	(149,470)	(1,250)	(1,208)	(45,789)	(66,060)	(35,818)	(82,093)	0	0	(73)	(109)
Recoveries receivable		19,899	39,977	689	317	18,627	35,522	583	4,138	0	0	0	0
Exchange (loss)/gain		(33)	(124)	0	0	(33)	(124)	0	0	0	0	0	0
		(63,064)	(109,617)	(561)	(891)	(27,195)	(30,662)	(35,235)	(77,955)	0	0	(73)	(109)
Management expenses:	3												
Base costs		(4,349)	(3,628)	(890)	(793)	(966)	(817)	(1,843)	(1,461)	(151)	(138)	(499)	(419)
Specific costs		(21,507)	(22,888)	(1,346)	(730)	(1,652)	(1,152)	(18,239)	(20,822)	(31)	(7)	(239)	(177)
Total for the current year		(25,856)	(26,516)	(2,236)	(1,523)	(2,618)	(1,969)	(20,082)	(22,283)	(182)	(145)	(738)	(596)
Recoverable splits costs from the previous year		(667)	0	0	0	0	0	(667)	0	0	0	0	0
Total management expenses funded in the year		(26,523)	(26,516)	(2,236)	(1,523)	(2,618)	(1,969)	(20,749)	(22,283)	(182)	(145)	(738)	(596)
Interest receivable	4	8,960	9,677	276	301	6,569	8,356	2,061	990	3	7	51	23
Taxation		(2,725)	(2,897)	(84)	(90)	(1,998)	(2,500)	(627)	(298)	(1)	(2)	(15)	(7)
		6,235	6,780	192	211	4,571	5,856	1,434	692	2	5	36	16
Net management expenses		(20,288)	(19,736)	(2,044)	(1,312)	1,953	3,887	(19,315)	(21,591)	(180)	(140)	(702)	(580)
		(83,352)	(129,353)	(2,605)	(2,203)	(25,242)	(26,775)	(54,550)	(99,546)	(180)	(140)	(775)	(689)
Levy received	5	53,077	73,104	0	0	(40,029)	4	91,169	72,374	11	246	1,926	480
Net in / (out) flow in the fund		(30,275)	(56,249)	(2,605)	(2,203)	(65,271)	(26,771)	36,619	(27,172)	(169)	106	1,151	(209)
Funds at start of year		139,086	195,335	4,433	6,636	137,684	164,455	(3,606)	23,566	325	219	250	459
Funds at end of year		**108,811**	**139,086**	**1,828**	**4,433**	**72,413**	**137,684**	**33,013**	**(3,606)**	**156**	**325**	**1,401**	**250**
Statement of assets and liabilities at 31 March 2008													
Current assets													
Interest receivable		377	1,031	0	1	262	1,022	115	8	0	0	0	0
Net amounts due from FSCS	6	7,535	11,274	0	0	5,995	10,971	1,166	0	160	211	214	92
Term deposits and cash at banks	7	123,367	151,143	3,334	5,240	68,344	132,248	50,473	13,372	21	117	1,195	166
		131,279	163,448	3,334	5,241	74,601	144,241	51,754	13,380	181	328	1,409	258
Current liabilities													
Taxation payable		(1,620)	(1,786)	(63)	(56)	(1,020)	(1,540)	(512)	(185)	(25)	(1)	0	(4)
Interest payable		(19)	0	0	0	0	0	(19)	0	0	0	0	0
Net amounts due to FSCS	6	(4,903)	(7,841)	(841)	(737)	0	(5)	(4,055)	(7,096)	0	(2)	(7)	(1)
Bank overdrafts	7	(15,926)	(14,735)	(602)	(15)	(1,168)	(5,012)	(14,155)	(9,705)	(0)	(0)	(1)	(3)
		(22,468)	(24,362)	(1,506)	(808)	(2,188)	(6,557)	(18,741)	(16,986)	(25)	(3)	(8)	(8)
Total net assets/(liabilities)		**108,811**	**139,086**	**1,828**	**4,433**	**72,413**	**137,684**	**33,013**	**(3,606)**	**156**	**325**	**1,401**	**250**

Approved for and on behalf of the Financial Services Compensation Scheme Limited on 20 May 2008 David Hall Chairman.
The notes on pages 80 to 82 form part of these financial statements

Sub-scheme Accounts - Insurance Business
Financial statements for the year ended 31 March 2008

	Note	Total Insurance Business	2006/07	General Insurance A3	2006/07	Life Insurance A4	2006/07
		£'000	£'000	£'000	£'000	£'000	£'000
Fund Movements							
Compensation costs	2	(45,789)	(66,060)	(45,758)	(65,901)	(31)	(159)
Recoveries receivable		18,627	35,522	18,627	35,472	0	50
Exchange (loss)/gain		(33)	(124)	(33)	(124)	0	0
		(27,195)	(30,662)	(27,164)	(30,553)	(31)	(109)
Management expenses:	3						
Base costs		(966)	(817)	(264)	(221)	(702)	(596)
Specific costs		(1,652)	(1,152)	(1,611)	(1,146)	(41)	(6)
		(2,618)	(1,969)	(1,875)	(1,367)	(743)	(602)
Interest receivable	4	6,569	8,356	6,555	8,316	14	40
Taxation		(1,998)	(2,500)	(1,994)	(2,488)	(4)	(12)
		4,571	5,856	4,561	5,828	10	28
Net management expenses		1,953	3,887	2,686	4,461	(733)	(574)
		(25,242)	(26,775)	(24,478)	(26,092)	(764)	(683)
Levy received less insurance sub-scheme repayment of £40m	5	(40,029)	4	(40,584)	4	555	0
Net in/(out) flow in the fund		(65,271)	(26,771)	(65,062)	(26,088)	(209)	(683)
Funds at start of year		137,684	164,455	137,306	163,394	378	1,061
Funds at end of year		**72,413**	**137,684**	**72,244**	**137,306**	**169**	**378**
Statement of assets and liabilities at 31 March 2008							
Current assets							
Interest receivable		262	1,022	261	1,017	1	5
Net amounts due from FSCS	6	5,995	10,971	5,981	10,971	14	0
Term deposits and cash at banks	7	68,344	132,248	68,185	131,864	159	384
		74,601	144,241	74,427	143,852	174	389
Current liabilities							
Taxation payable		(1,020)	(1,540)	(1,018)	(1,533)	(2)	(7)
Net amount due to FSCS	6	0	(5)	0	(5)	0	0
Bank overdrafts	7	(1,168)	(5,012)	(1,165)	(5,008)	(3)	(4)
		(2,188)	(6,557)	(2,183)	(6,546)	(5)	(11)
Total net assets		**72,413**	**137,684**	**72,244**	**137,306**	**169**	**378**

Sub-scheme Accounts – Investment Business Contribution Groups
Financial statements for the year ended 31 March 2008

Fund movements	Note	Total Investment Business £'000	2006/07 £'000	IFA pensions review claims (Formerly A16) £'000	2006/07 £'000	Other Designated Investment contribution groups £'000	2006/07 £'000	Fund managers holding client money/assets A7 £'000	2006/07 £'000	Managers of an AUT, ACDs and depositaries A9 £'000	2006/07 £'000
Compensation costs	2	(35,818)	(82,093)	(14,836)	(50,296)	(20,982)	(31,797)	(274)	0	(1,764)	0
Recoveries receivable		583	4,138	26	4,070	557	68	0	0	0	0
Exchange (loss)/gain		0	0	0	0	0	0	0	0	0	0
		(35,235)	(77,955)	(14,810)	(46,226)	(20,425)	(31,729)	(274)	0	(1,764)	0
Management expenses:	3										
Base costs		(1,843)	(1,461)	0	0	(1,843)	(1,461)	(463)	(364)	(91)	(67)
Specific costs		(18,239)	(20,822)	(1,270)	(2,267)	(16,969)	(18,555)	(730)	0	(5,547)	(48)
Total for the current year		(20,082)	(22,283)	(1,270	(2,267)	(18,812)	(20,016)	(1,193)	(364)	(5,638)	(115)
Recoverable splits costs from the previous year		(667)	0	0	0	(667)	0	(67)	0	(567)	0
		(20,749)	(22,283)	(1,270)	(2,267)	(19,479)	(20,016)	(1,260)	(364)	(6,205)	(115)
Interest receivable/(payable)	4	2,061	990	272	279	1,789	711	(48)	3	(401)	7
Taxation		(627)	(298)	(82)	(84)	(545)	(214)	0	(1)	0	(2)
		1,434	692	190	195	1,244	497	(48)	2	(401)	5
Net management expenses		(19,315)	(21,591)	(1,080)	(2,072)	(18,235)	(19,519)	(1,308)	(362)	(6,606)	(110)
		(54,550)	(99,546)	(15,890)	(48,298)	(38,660)	(51,248)	(1,582)	(362)	(8,370)	(110)
Levy received	5	91,169	72,374	37,760	24,580	53,409	47,794	519	365	105	0
Net in/(out) flow in the fund		36,619	(27,172)	21,870	(23,718)	14,749	(3,454)	(1,063)	3	(8,265)	(110)
Fund at start of year		(3,606)	23,566	(9,006)	14,712	5,400	8,854	32	29	13	123
Fund at end of year		**33,013**	**(3,606)**	**12,864**	**(9,006)**	**20,149**	**5,400**	**(1,031)**	**32**	**(8,252)**	**13**
Statement of assets and liabilities at 31 March 2008											
Current assets											
Interest receivable		115	8	12	0	103	8	0	0	0	0
Net amounts due from FSCS	6	1,166	0	0	0	1,166	0	129	0	1,037	0
Term deposits and cash at banks	7	50,473	13,372	15,075	0	35,398	13,372	75	70	604	28
		51,754	13,380	15,087	0	36,667	13,380	204	70	1,641	28
Current liabilities											
Taxation payable		(512)	(185)	(66)	0	(446)	(185)	0	(1)	0	0
Interest payable		(19)	0	0	0	(19)	0	(2)	0	(17)	0
Net amounts due to FSCS	6	(4,055)	(7,096)	(1,235)	0	(2,820)	(7,096)	0	(37)	0	(15)
Bank overdrafts	7	(14,155)	(9,705)	(922)	(9,006)	(13,233)	(699)	(1,233)	0	(9,876)	0
		(18,741)	(16,986)	(2,223)	(9,006)	(16,518)	(7,980)	(1,235)	(38)	(9,893)	(15)
Total net assets/(liabilities)		**33,013**	**(3,606)**	**12,864**	**(9,006)**	**20,149**	**5,400**	**(1,031)**	**32**	**(8,252)**	**13**

The notes on pages 80 to 82 form part of these financial statements.

Sub-scheme Accounts – Investment business Contribution Groups – continued
Financial statements for the year ended 31 March 2008

Fund movements	Note	Dealers as principal A10 £'000	2006/07 £'000	Brokers holding client money/assets A12 £'000	2006/07 £'000	Brokers – not holding client money/assets A13 £'000	2006/07 £'000	Corporate advisers A14 £'000	2006/07 £'000
Compensation costs	2	0	0	(2,341)	(4,800)	(16,603)	(26,997)	0	0
Recoveries receivable		0	0	488	0	69	68	0	0
Exchange (loss)/gain		0	0	0	0	0	0	0	0
		0	0	(1,853)	(4,800)	(16,534)	(26,929)	0	0
Management expenses:	3								
Base costs		(244)	(193)	(309)	(246)	(635)	(513)	(101)	(78)
Specific costs		0	0	(1,868)	(2,843)	(8,820)	(15,664)	(4)	0
Total for the current year		(244)	(193)	(2,177)	(3,089)	(9,455)	(16,177)	(105)	(78)
Recoverable splits costs from the previous year		0	0	(20)	0	(13)	0	0	0
		(244)	**(193)**	**(2,197)**	**(3,089)**	**(9,468)**	**(16,177)**	**(105)**	**(78)**
Interest receivable/(payable)	4	6	2	342	236	1,885	459	5	4
Taxation		(2)	(1)	(83)	(71)	(458)	(138)	(2)	(1)
		4	1	259	165	1,427	321	3	3
Net management expenses		(240)	(192)	(1,938)	(2,924)	(8,041)	(15,856)	(102)	(75)
		(240)	(192)	(3,791)	(7,724)	(24,575)	(42,785)	(102)	(75)
Levy received	5	273	186	10,486	1,525	41,899	45,669	127	49
Net in / (out) flow in the fund		33	(6)	6,695	(6,199)	17,324	2,884	25	(26)
Funds at start of year		21	27	(699)	5,500	6,009	3,125	24	50
Funds at end of year		**54**	**21**	**5,996**	**(699)**	**23,333**	**6,009**	**49**	**24**
Statement of assets and liabilities at 31 March 2008									
Current assets									
Taxation		0	0	0	0	0	0	0	0
Interest receivable		0	0	16	0	87	8	0	0
Net amounts due from FSCS	6	0	0	0	0	0	0	0	0
Term deposits and cash at banks	7	63	46	7,060	0	27,540	13,175	56	53
		63	46	7,076	0	27,627	13,183	56	53
Current liabilities									
Taxation payable		(1)	0	(69)	0	(375)	(183)	(1)	(1)
Interest payable		0	0	0	0	0	0	0	0
Net amounts due to FSCS	6	(4)	(25)	(579)	0	(2,234)	(6,991)	(3)	(28)
Bank overdrafts	7	(4)	0	(432)	(699)	(1,685)	0	(3)	0
		(9)	(25)	(1,080)	(699)	(4,294)	(7,174)	(7)	(29)
Total net assets/(liabilities)		**54**	**21**	**5,996**	**(699)**	**23,333**	**6,009**	**49**	**24**

The notes on pages 80 to 82 form part of these financial statements.

Notes to the Sub-scheme Financial Statements for the year to 31 March 2008

1. Accounting policies

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

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

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

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

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

e) Levies
Levies raised are credited on receipt. Levies refunded are debited on payment.

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

g) Legal challenges and costs
On occasion, legal proceedings are threatened or initiated against 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 to be settled.

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

2. Compensation costs

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

3. Management expenses

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

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

4. Interest receivable

Interest receivable comprises:

		Year ended 31 March 2008	Year ended 31 March2007
		£'000	£'000
Term deposits	Available money market rates	8,598	8,707
Other bank accounts	Available rates	350	949
Sub-scheme borrowings	Bank of England's repo rate	12	21
		8,960	**9,677**

5. Levy received

Levy invoice amounts and cash receipts arise mainly from the transactions carried out under agreement for FSCS by the FSA. Further similar transactions are dealt with directly by the Scheme Manager, which explains why amounts on Sub-scheme accounts summary (pages 76 to 79) do not agree directly with Note 21 – Transactions with related parties.

6. Loans receivable and Sub-scheme borrowings

Sub-scheme borrowings of £1,885,000 were made under Fees rule 6.3.18R from the Insurance Business Sub-scheme to FSCS in March 2003. Of the balance at 1 April 2007 of £363,000, £164,000 was repaid during the year (2007: £528,000 and £165,000 respectively). Interest is receivable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies.

7. Term-deposits and cash at banks

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

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

As at 31 March 2008, FSCS is a party to various joint accounts with claims administration companies involved with the Insurance Business Sub-scheme to make payments to policyholders. The balances of these accounts at 31 March 2008 of £296,000 (2007: £199,000) are included within Term-deposits and cash at banks in the Insurance Business Sub-scheme statement of assets and liabilities.

8. Contingencies

FSCS may from time to time have contingent liabilities in respect of legal claims arising in the ordinary course of business. Any liabilities that crystallise would normally be recoverable from the appropriate Sub-scheme.

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

We have audited the financial statements of Financial Services Compensation Scheme for the year ended 31 March 2008 which comprise the Movement in the Sub-schemes Funds, the Statements of Assets and Liabilities, and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

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

and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing. We report to you our opinion as to whether the financial statements are properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- The FSA Handbook (in particular rule COMP 2.2.5);
- The FSA-FSCS Memorandum of Understanding (section 24 to 26);
- The accounting policies set out on page 80.

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

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

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

Opinion
In our opinion the financial statements for the year ended 31 March 2008 have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- The FSA Handbook (in particular rule COMP 2.2.5);
- The FSA–FSCS Memorandum of Understanding (section 24 to 26);
- The accounting policies set out on page 80.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

London
9 July 2008

Section 7
Default Declarations and Statistics

Summary

- 269 firms were declared in default by FSCS during 2007/08 compared with 587 in 2006/07. 251 were investment firms, nine were credit unions, eight were insurance brokers, and one was a mortgage broker, and one insurer.
- As at 31 March 2008, the total number of firms declared in default was 3,723 (FSCS: 1 December 2001 – 31 March 2007; Investors Compensation Scheme: 28 August 1988 – 30 November 2001).

Default Declarations and Statistics

In default, or not in default?

Before FSCS can consider claims for compensation against a firm, we must determine the financial position of the firm responsible for the claim. FSCS can only consider claims if the firm is unable, or likely to be unable, to meet claims against it, so that we can declare the firm in default.

The majority of defaults declared by FSCS relate to the investment sector. A reduction in the number of default declarations made by FSCS during 2007/08 reflects the lower volumes of mortgage endowment and pension review claims being dealt with.

Firms declared in default in 2007/08 are listed on pages 90 to 93.

Default declarations – Questions FSCS seeks to answer

Who is legally liable for the claim?

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

What type of firm is it?

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

What is the status of the firm?

Depending on the legal status of the firm, FSCS will need to take a different approach to establishing its financial position. Many firms are no longer authorised (described as 'departed'). FSCS looks at firms that are trading, dormant, dissolved or in insolvency; and owners of unincorporated firms where one or more individuals may be in bankruptcy or unable to meet claims against them.

Where are the owners?

It is generally quite straightforward to find out information about a limited company and to determine its financial position. However, many of the departed firms we investigate are sole traders or partnerships. If a firm stopped trading many years ago, locating its owners can be difficult and time-consuming.

Is the firm in default?

FSCS will establish whether a firm is in default by comparing the total value of liabilities, including claims, against the assets available to the firm or its principals, including any professional indemnity cover. How we establish whether a firm is in default will depend on the type of firm involved.

Limited companies

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

Partnerships and sole traders

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

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

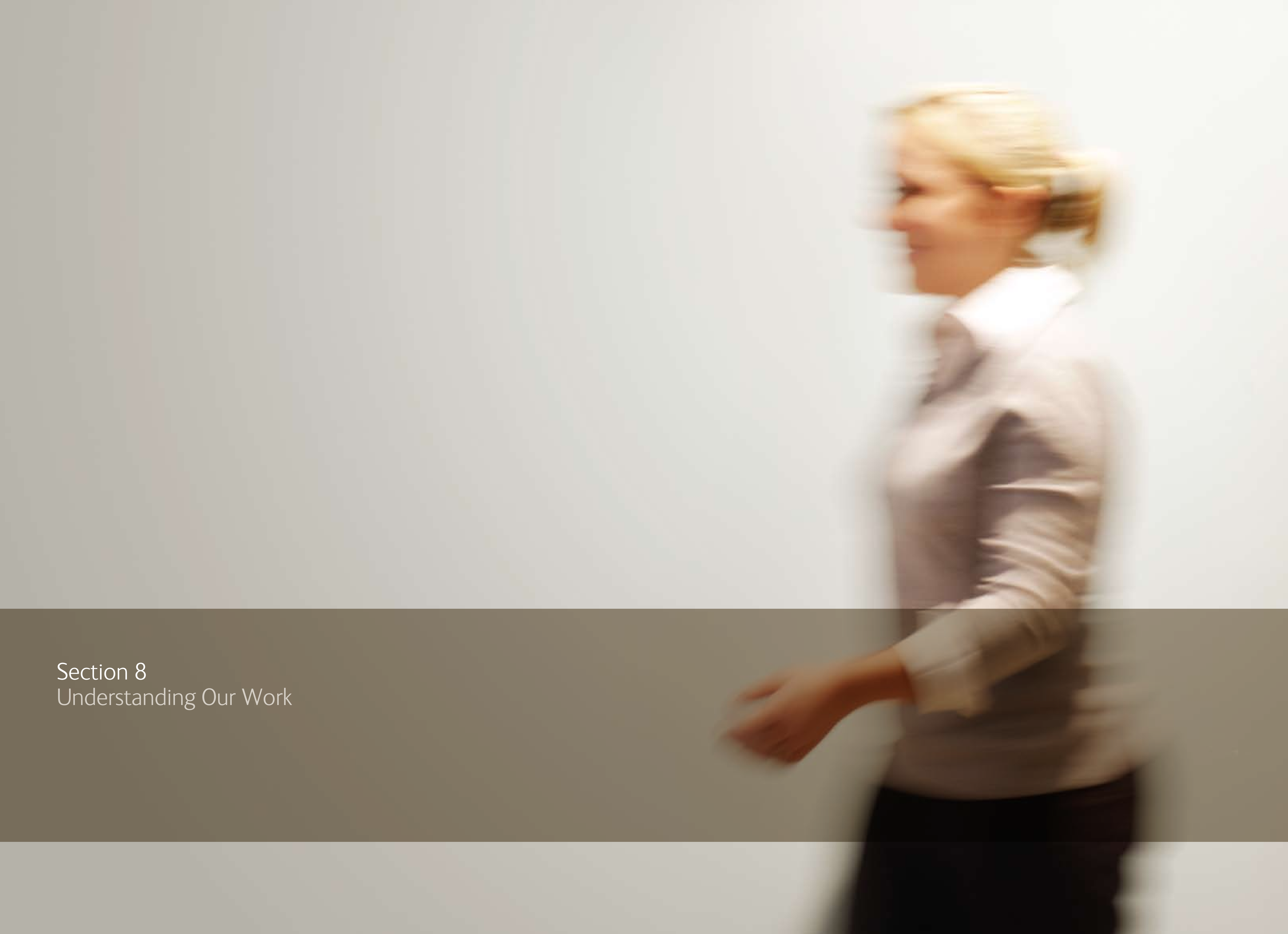
We regularly publish lists of firms that have been declared in default and have a searchable default database on our website.

Default declarations 2007/08

A A Mutual International Insurance Company Limited	01-May-07
A Hampton (deceased) t/a A Hampton & Co (Insurance Advisers)	11-May-07
A J Brown & Partner	03-Jan-08
A Singh t/a Kirens Financial Services	15-May-07
Aberforth Assurance Financial Planning t/a Walker Roberts	11-May-07
Acorn Financial Services (Gillingham) Limited	11-Apr-07
Acorn Independent Financial Advisors Limited	04-May-07
Aisling Financial Services	29-Aug-07
Alan Gibbs Mortgage & Financial Services	23-Oct-07
Alan Upton (Financial Services) Limited	31-Aug-07
Alba 83 Limited	07-Dec-07
Alexander Carter (UK) Limited formerly Alexander Carter (Insurance Brokers) Limited	20-Mar-08
Allan Furst Associates	23-Oct-07
Alvi's Investment Services Limited	27-Jun-07
Amalgamated Insurance & Mortgage Services (Winchester) Limited	24-May-07
Amherst Financial Services Limited	27-Jun-07
Analysis Financial Services (Sheffield) Limited	27-Apr-07
Argyle Estate Agents	17-Sep-07
Arian Financial Services Limited	09-Jul-07
Ashill, Parrish and Company Limited	31-Aug-07
Assister Limited	31-Oct-07
B F S Investments Plc (Formerly Broker Financial Services Investment Management Limited, Broker Financial Services PLC)	13-Nov-07
Balmoral Corporate Insurance Brokers Limited formerly Corporate Insurance Brokers Limited Ritchie Sherret Limited	07-Dec-07
Beaumont Taylor Consultancy Services Limited	08-Nov-07
B H P Insurance Services	26-Mar-08
Birch & Co (Insurance Services) Limited	07-Feb-08
Blays Independent Insurance and Financial Advisors	12-Feb-08
Blessmanor Limited	23-May-07
Bradex Insurance Brokers Limited t/a Bradex Life & Pensions Consultants	07-Feb-08
Brady & Rickers Limited	26-Mar-08
Bridamar Life Investments and Pensions	21-May-07
Bridge Financial Services Limited	03-Apr-07
Broadlands Independent Financial Services Limited	24-Jan-08
Butterfields Financial Services	25-Jul-07
Bybrooke Insurance Services Limited	05-Jun-07
C Cantwell (deceased) t/a Mortgage & Pension Selection	27-Apr-07
C Nuttall & H Nuttall t/a Dolmore Financial Planning	03-Jan-08
C R Bird (deceased) formerly t/a Eastwood Consultants	09-Jan-08
C Richards t/a Merchant Financial Services	20-Mar-08
C T F Fagan & Company Limited	25-Jun-07
Caia Park (Wrexham) Credit Union Limited	21-Dec-07
Cairn Independent Limited	21-Feb-08
Carron (Annan) Limited	31-Aug-07
Cars 4 U (UK) Limited	20-Mar-08
Cathedral Mortgage & Insurance Brokers	03-Dec-07
Central Properties Limited	27-Jun-07
Chambers Independent Financial Advisers Limited	23-Oct-07
Chartahouse Financial Services Limited	03-Apr-07
Chequers Financial Services Limited	28-Sep-07
Chessman Insurance Consultants Limited	31-Aug-07
Chilington Limited (previously Charles Stapleton & Co Limited)	27-Apr-07
Chris Westcott Financial Services	25-Jul-07
City Mortgage Services Limited	23-Oct-07
Claire and Company	19-Sep-07
Clarke Roxburgh & James Limited	03-Dec-07
Clarke Roxburgh & Willis Limited	13-Jun-07
Clarke Roxburgh (Malvern) Limited	27-Apr-07
Clyde Associated Finance Limited (Formerly Clyde Associated Insurance Services Limited)	20-Jun-07
Clyde Coast Financial Consultancy	27-Sep-07
Clydesdale Credit Union Limited	01-May-07
Coburns Financial and Investment Consultants L.L.P.	31-Oct-07
Colebrook Ludgate and Company Limited t/a Hall Insurance Services (formerly t/a Colebrook Insurance Brokers)	23-May-07
Colin G Austen & Co (Insurance Brokers) Limited formerly t/a Colin G Austen (Insurance Brokers) Limited	07-Feb-08
Colin Smith (deceased) t/a Colin Smith Insurance Brokers	04-Oct-07
Confidential Life & General Insurance Consultants Limited t/a Own A Home Mortgage & Insurance Centre	12-Dec-07
Corby Community Credit Union Limited	25-Jul-07
Coventry Money Centre Limited	03-Apr-07
Creed Insurance Services	23-May-07
Crystal Insurance Services	03-Dec-07
Cumbria Financial Management Limited previously Ross Lloyd Financial Services Limited, Ross Lloyd Hannah (Financial Services Limited, Ross Lloyd Northway (Financial Services) Limited	08-Nov-07
Custodian Financial & Insurance Services	09-Jul-07
Cuthbert Service (Life & Pensions) Limited	05-Oct-07
D & H O'Hare Insurance Brokers Limited	18-Jan-08
D & J Edwards t/a Eastwood Life Assurance	22-Jun-07
D Irwin t/a Dennis Irwin Financial Services	11-Apr-07
D Lay (deceased) t/a Crofton Assurance Service	31-Aug-07
D Stock and M Halford t/a Halford Stock & Company Financial Advisory Service and D Stock t/a David Stock & Co	25-Jun-07
D Wilkinson (deceased) t/a The Wivenhoe (Military) Insurance Brokers	14-Jun-07
D Williams (deceased) t/a Dunwoody Williams (formerly D J Williams Esq)	20-Mar-08
Danamere Financial Services Limited	26-Jul-07
David Brown Insurance Services Limited	07-Dec-07
David Bruce and others formerly t/a Bruce & Partners	28-Jan-08
David Purnell & Company	01-Oct-07
David Rees Finance & Insurance Services Limited	25-Jul-07
Derek Charlwood, ESQ	20-Mar-08
Derek Parry (Life and Pensions) Limited	08-Jun-07
E C Ewart and Son	08-Oct-07
Edgeworth Limited formerly Edgeworth (Insurance Broking) Limited	11-May-07
Edmonton Credit Union Limited	28-Jan-08
Effective Financial Planning Limited	31-Oct-07
Ember Insurance Services Limited formerly Ember Insurance Brokers Limited	30-Aug-07
Emerson Park Financial Services Limited	27-Apr-07
Entelechy Financial Management Limited	31-Aug-07
Enterprise Insurance	01-Oct-07
Eurorisk Consultants Limited	19-Sep-07
Exeter Fund Managers Limited	01-May-07
Ezzedout 7 Limited formerly Europea Insurance Management Limited and Europea – IMG Limited	20-Dec-07
F Richards t/a Frank Richards & Company	05-Apr-07
Ferries Credit Union Limited	02-Jul-07
Fleetwood and District Credit Union Limited	12-Jun-07
Frilsons Insurance Brokers (formerly Frilsons Insurance Services)	04-Jun-07
FS Assurance Limited	30-Aug-07
G Benville t/a Kingsfield	26-Mar-08
G Rosser (deceased) t/a G O Rosser Insurance Services	23-May-07
G Stevens (deceased) t/a Stevens, Coates & Secrett & Co	03-Apr-07
Garner & Son (Life & Pensions) Limited	04-Jun-07
Gerard W Schofield (Insurance Services) Limited	12-Dec-07
Gilchrist Consultants Limited	03-Dec-07
Giles Leslie & Company Limited	04-Jun-07
Goldcrest Financial Planning Limited	21-Nov-07
Grange & Co UK Limited formerly Steve Turton Financial Services Limited	28-Jan-08
Greenchain Limited	12-Jun-07
Grosvenor Financial Services Limited	13-Feb-08
H Appleton (Life & Pensions) Limited	12-Jun-07
H M Financial Management Limited	14-Sep-07
H Selby Bennett (deceased)	08-Nov-07
Hamilton Insurance Brokers	27-Sep-07
Hamlet Mortgage & Insurance Services	03-Apr-07
Hannah & Lawton (Insurance Brokers) Limited	13-Feb-08
Hayden Financial Services Limited	27-Sep-07
Heritage Investments (I.F.A.) Limited	22-Jun-07
Holt Park Insurance Brokers	27-Apr-07
Houghton Marsh Financial Services Limited	09-Jul-07
Hugh Raymond Associates formerly C.H.R. Associates	01-Feb-08
Hullmate Limited formerly BDO Binder Hamlyn Financial Services (Anglia) Limited	19-Sep-07
I Brandon t/a Frank Richards & Company	23-Oct-07
Ian Murdoch & Company	20-Jun-07
ICM Group Limited	13-Feb-08
Independent Financial Advisory Service	09-Jul-07
Insurewright (UK) Limited	03-Oct-07
Interalpha Financial Services Limited	31-Oct-07
Investment & Mortgage Centre (Essex) Limited	30-Jul-07
J E & M E R Barnes	30-Aug-07

J E Oakley & Son (Midlands) Limited	16-Apr-07
J H Halley (Insurance Centre) Limited formerly J.H. Halley (Insurance Brokers) Limited	10-Mar-08
J Pearce, N Roe and M Underdown t/a Trinity Financial Services	04-May-07
J Trevethan (deceased) t/a John Trevethan & Son Mortgage & Insurance Consultant	27-Apr-07
J Wright t/a Investment Management Service	22-Jan-08
Jackson Downham Insurance Brokers Limited (formerly Foamead Limited)	11-May-07
John H F Lacey Life & Pension Limited	27-Jun-07
John Kimpton & Company Limited	31-Aug-07
John Rae & Company (Insurance Brokers) Limited	31-Oct-07
K J McMullan Financial Services Limited formerly T H Graham & McMullan Limited	16-Jul-07
Keedale Insurance Brokers Limited	07-Feb-08
Kingscroft Insurance Brokers Limited (formerly Kingscroft Insurance Brokers Limited)	11-Oct-07
Knott Financial Services Limited (previously Chris Knott Financial Services Limited)	07-Dec-07
L A Adams (Insurances) Limited	31-Aug-07
L Tattum & Co Limited	22-Jan-08
Leonard Beaumont (Insurance Brokers) Limited	13-Jul-07
Lindaye Investments Limited	04-May-07
Linhope Financial Associates	06-Feb-08
Ludlow Trading Limited formerly t/a L N Greenall (Ludlow) Ltd	30-Aug-07
M Borlace formerly t/a Borlace Financial Planning	30-Aug-07
M Hughes, P Thorpe & P Owens t/a Castle Insurance & Mortgage Services	25-Feb-08
M M Limited (formerly McMullen & Partners Limited)	01-Feb-08
M W (Pensions & Investments) Limited formerly M W Insurance Brokers Limited	28-Mar-08
M Waller t/a Michael Rogers Associates	03-Apr-07
Macfarlane Bruce & Company Limited formerly t/a Nairn Estate Agents	25-Jul-07
Maitland Limited	31-Oct-07
Marcus Hearn (Life & Pensions) Limited	08-May-07
Marshall Williams & Company Limited	08-May-07
Martin Short and Partners Limited	27-Jun-07
McCarthy Jennings Petrie & Company Limited	05-Sep-07
McHugh & Company Financial Services Plc	08-Jun-07
McLean Shaw Financial Services Limited	03-Dec-07
Metropolitan Insurance Brokers Limited	10-Jan-08
Michael Beer Financial Services Limited	23-Oct-07
Mike Swann Financial Management Limited	20-Dec-07
Millennium Financial Planning Limited	03-Jan-08
Millfield Partnership Limited	11-Apr-07
Morden Park Insurance Brokers Limited	11-Apr-07
Moreland Jones Insurance Services	25-Feb-08
N Fox t/a Fox Insurance Brokers	03-Apr-07
N P S Financial Services	27-Apr-07
Needler Financial Services Limited	20-Dec-07
North Eastern Brokers Limited	17-Jan-08
Northern Financial Management Limited (formerly t/a Eastern Financial Services and Asset Financial Management)	19-Feb-08
Octopus Mortgages Limited	20-Dec-07
P A Management Limited (previously Munro Financial Consultants Limited, Munro & McKenzie (Life & Pensions) Limited, Munro & McKenzie Limited)	26-Jul-07
P Burke – Newberry t/a Preferential Mortgages & Finance	05-Mar-08
P J Borchard & Company Limited t/a Borchard Finance	06-Feb-08
P M P Financial Services Limited	16-Jul-07
P R Kingston Limited	20-Mar-08
P S Mosse (Life & Pensions) Limited	03-Dec-07
P T Cracknell (Life & Pensions) Limited	24-Jan-08
Pandya Insurance & Financial Consultants Limited	16-Apr-07
Parker Group Financial Services Limited	04-May-07
Patersons Consulting Limited formerly Patersons Limited	30-Aug-07
Patterson King Limited	30-Aug-07
Paul Turner Insurance Services	26-Mar-08
Paul Villers Insurance Consultants Limited	31-Aug-07
Perry and Perry (North Devon) Limited	10-Sep-07
Peterlee Credit Union Limited	25-Mar-08
Pitchford & Jones	28-Mar-08
Planned Assurance Services Limited	20-Jun-07
Portfolio Management Services Plc	25-Jul-07
Powell Price & Co (H'FD) Limited	11-Mar-08
Powell Price & Company Limited	03-Dec-07
Premier Asset Management	04-Sep-07
Premier Investment Solutions Limited formerly Meanwood (Life & Pensions) Limited	10-Sep-07
Primedale Financial Services Limited	24-May-07
Principal Insurance Services Limited	31-Aug-07

Professional Indemnity Select Limited	12-Jun-07
Pure Dynamictrust Financial Services Limited	23-May-07
R A Logan Financial Consultants Limited	13-Jun-07
R B C Mannin Limited	27-Apr-07
R B P M Limited t/a Yellow Brick Road	07-Dec-07
R Brereton (deceased) t/a Pike Smith & Kemp Mortgage Services	04-Sep-07
R Carter t/a Hamiltons	17-Apr-07
R H Van der Molen, Esq formerly Executive & Employee Benefits Services & Company	17-Apr-07
R J Financial Services Limited formerly F K Financial Services Limited	21-Nov-07
R M G Lemon t/a Michael Lemon & Company	04-Jun-07
R Powell t/a R & B Powell Insurance Services	31-Oct-07
R Ralph formerly t/a Ralph & Bostock Financial Services	20-Mar-08
Radbourne Roden & Company (Financial Services) Limited	04-May-07
Ragnud Limited formerly Danamere Financial Services Limited (subsequently Ragnud Limited)	21-May-07
Rawsthorn Lee & Company	20-Jun-07
Read & Rhone (Insurance Brokers) Limited	25-Jul-07
Redcliffe Associates Partnership Limited	08-Nov-07
Roger Hearn Limited (formerly Dommersen and Hearn Limited)	08-Nov-07
Roger V Davenport Insurance Consultants Limited	31-Oct-07
Romaine Noir Limited	07-Dec-07
Ross Anderson Management Services Limited	05-Jun-07
Rotton Park/Winson Green Credit Union Limited	03-Mar-08
Rowan Forrester Limited	10-Sep-07
Rowland & Company	03-Dec-07
Russell Brewer Investments Limited	16-Jul-07
S P A Financial Management Limited formerly Jamieson Kingswood & Co Limited	20-Dec-07
Sealea Limited t/a Oaklands Insurances and Stilwells	21-May-07
Servewell Securities Limited	14-Sep-07
Shields Financial Services Limited	09-Jul-07
Sierra (Life & Pensions) Limited	07-Dec-07
Skelmersdale Credit Union Limited	23-Apr-07
Smith, Martyn & Company Limited	05-Jun-07
Specialist Risks Limited	03-Dec-07
Stephen Grant Patrick, Esq	31-Aug-07
Sterling Asset Management Financial Planning	08-Oct-07
Stony Stratford Life & Pensions Limited formerly Mobund (Life and Pensions) Limited	14-Sep-07
Streetcred Credit Union Limited	23-Oct-07
Stuart Alexander Financial Services Limited	27-Apr-07
T & A Taylor t/a Taylors (Life & Pensions)	08-Nov-07
T Bell, D Morris and G Hunter t/a Newton Financial Services	01-Feb-08
T Bramley t/a County Insurance Consultants & County Estates	30-Aug-07
T C Russell t/a Abacus Associates	11-Jan-08
T F Bell & Company (Life & Pensions) Limited	19-Sep-07
T J Silvester Pensions & Investments	28-Mar-08
T J Sudbury and Company Limited formerly t/a Day-Sudbury Associates Limited	30-Aug-07
T Royance (deceased) t/a PLT Financial Services	08-Jun-07
The I M R Group Limited	08-Feb-08
The Independent Partnership Limited 0384/00	31-Aug-07
The Mortgage Bureau	09-Jul-07
The Wincester Financial Consultancy Limited	13-Feb-08
Thomson Loudon Limited	03-Apr-07
Tooke Financial Services Limited	22-Jun-07
Torevell Dent Financial Management Limited (in Liquidation)	29-Aug-07
Tri Trust Mortgage & Insurance Services	08-Nov-07
Trudanna (Life & Pensions Consultants) Limited	11-May-07
Upshire Life and Pensions Limited formerly Manson (Waltham Abbey) Limited	30-Aug-07
Urbangate Limited	11-Apr-07
W Bennett and L Bennett t/a Bristol Investment Services	14-Sep-07
W D Bentley (Banbridge) Limited	16-Apr-07
W E Montague (deceased) t/a Wimborne Insurance Brokers	01-Feb-08
W H Dowle (Life & Pensions) Limited	10-Jan-08
Walkers Insurance Services Limited	06-Feb-08
Western Investment Consultants (Hereford) Limited	16-Jul-07
Westminster and Overseas Insurance Services Limited	09-Jul-07
Williams and Whybrow Limited	11-Apr-07
Wilson & Parmar Limited formerly Wilson & Parmar (Insurance Brokers) Limited	24-Jan-08
Your Health Plus Insurance Services Limited	12-Jun-07



Section 8
Understanding Our Work

Understanding Our Work

FSCS is the UK's statutory fund of last resort for customers of financial services firms. It 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 aims to provide an effective and efficient compensation service for UK consumers and to help to maintain confidence in the financial services sector. The service is free to consumers.

Its primary role is to protect consumers against incurring financial losses when firms regulated by industry watchdog the Financial Services Authority (FSA) (and previous financial regulators) are unable, or likely to be unable, to pay claims against them relating to:

- Deposits;
- Life and general insurance policies;
- Investment business;
- Home finance advice and arranging, eg mortgage business (on or after 31 October 2004); and
- insurance broking (for business conducted on or after 14 January 2005).

There are limits to its powers. For example, there are limits to the amount of compensation FSCS can pay and it pays compensation only for financial loss. The rules ("COMP") governing the operation of FSCS are made by the FSA. The COMP rules are contained within the FSA's Handbook of rules and guidance, under "Redress, Compensation".

FSCS protects:

Deposits
Compensation limit: £35,000

(100% of the first £35,000), per person, for the total of their deposits (less borrowings) with that firm. Deposits in all currencies are covered.

FSCS provides protection for customers of authorised firms which take deposits, such as banks, building societies and credit unions. If a firm is unable to repay its depositors, or is likely to be unable to do so, FSCS will be triggered. This may happen, for example, if a firm is subject to an insolvency action, such as liquidation or administration. FSCS may also be triggered when the FSA considers that an authorised firm is unable to repay its depositors, or is likely to be unable to do so (described by us as being "in default". For more information see page 86).

On 1 October 2007, the FSA increased FSCS's compensation limits for deposits from £31,700 (100% of the first £2,000 and 90% of the following £33,000) to 100% of the first £35,000. For claims against credit unions declared in default before 1 October 2007, the maximum level of compensation is £31,700 (100% of £2,000 and 90% of the next £33,000).

Insurance (general and life) Compensation limits:

Long-term insurance (such as pension policies and life assurance): 100% of the first £2,000, plus 90% of the value of the policy or claim (as valued in a liquidation).
General insurance: 100% of the first £2,000 plus 90% of the remainder of the claim or return of premiums.
Compulsory insurance: 100% of the claim.

General insurers and life assurers

Policyholders are eligible for protection if they are insured by authorised insurance firms under contracts of insurance issued in the UK, or in some cases in the EEA, Gibraltar, Channel Islands or Isle of Man. Certain policies issued before 1 December 2001 for risks elsewhere in the world may also be protected. Lloyd's policies are covered from 1 January 2004 if the Central Fund fails.

Policyholder protection is triggered if an authorised firm is unable to meet claims against it, e.g. if it has been placed in provisional liquidation or administration.

We will try to safeguard policyholders, for example by arranging for their policies to be transferred to another firm. If this is not possible, we can pay compensation.

We do not cover re-insurance or marine, aviation, transport business or credit insurance.

General insurance policies: advice and arranging

Since 14 January 2005 consumers have been eligible for protection if they have bought general insurance policies through an authorised firm in the UK, or in some cases a firm's branch in the European Economic Area (EEA) on or after this date.

The Scheme is triggered if an authorised firm cannot meet claims against it. We may be able to help:

- If consumers have been mis-sold a policy and have lost money as a result.
- If the firm becomes insolvent and cannot return money owed to its customers.
- In cases of fraud.

FSCS will work with insolvency practitioners (if appointed) to establish the most effective method of processing claims, and has arrangements in place with outsourcers if we are required to directly handle claims.

Investment business Compensation limit: £48,000

(100% of the first £30,000 and 90% of the next £20,000) per person, per firm.

For investment claims, FSCS can provide protection if investors:

- Suffer losses arising from bad investment advice, poor investment management, mis-representation or fraud.
- If an authorised firm cannot return investments or money owed to its customers.

FSCS 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.

Home finance advice and arranging Compensation limit: £48,000

(100% of the first £30,000 and 90% of the next £20,000) per person, per firm

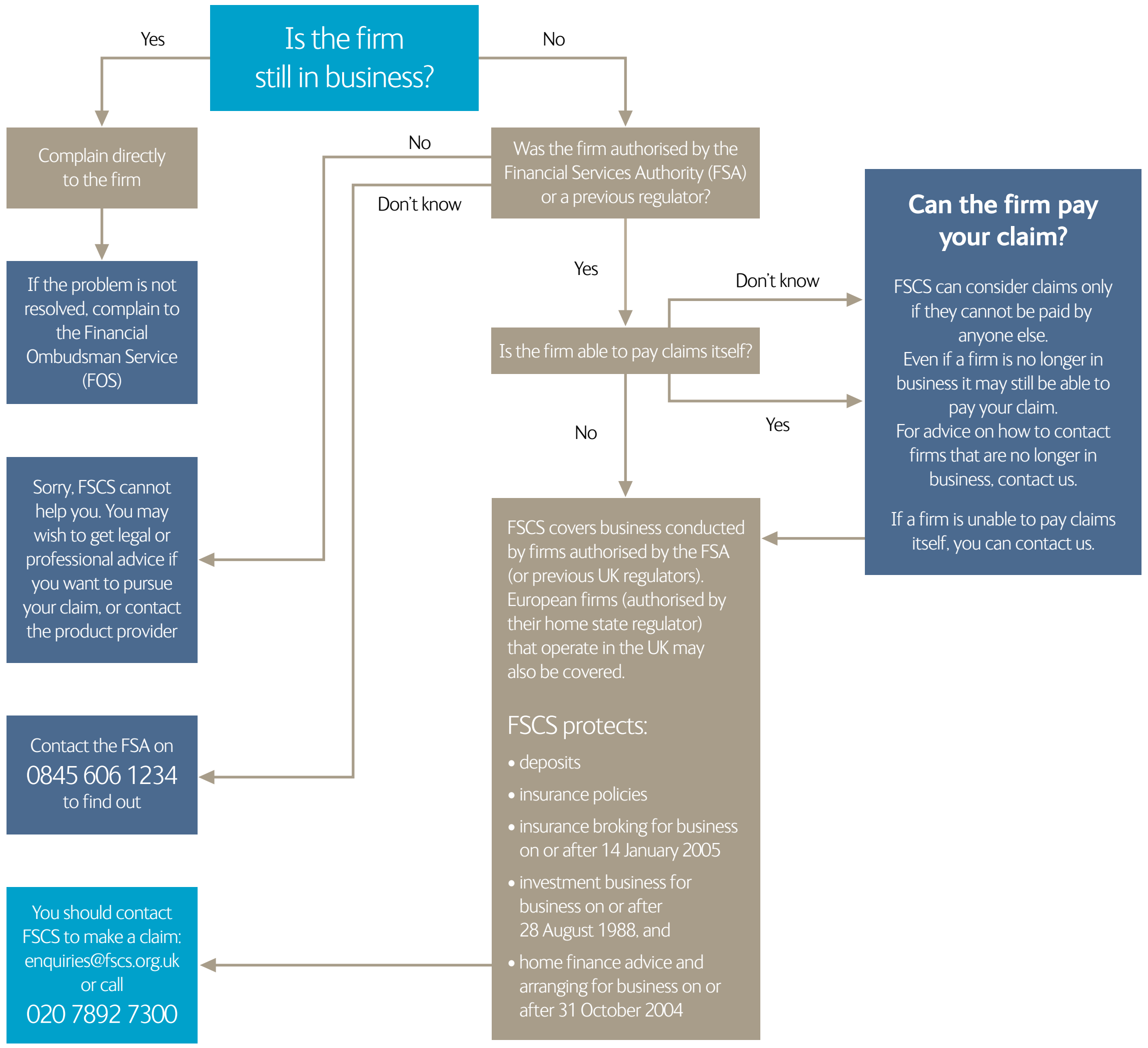
FSCS protection was extended to include home finance (e.g. mortgage) advice and arranging for business conducted on or after 31 October 2004. Here are some examples of areas of advice that may give rise
to claims:

- Where a consumer has not been advised about the different types of mortgage available, which resulted in them choosing a mortgage that was not suitable for them at the time.
- If specific details of the mortgage chosen are incorrect, e.g. a longer term has been selected than the consumer had intended or required.
- If a consumer was advised to switch mortgages but was not given an adequate explanation of why a switch should be made.
- If a consumer was advised to take out a lifetime mortgage that was unsuitable for their circumstances at the time.

Understanding Our Work

Can we help you?

An example of the process of how we handle an investment claim can be seen in the table below.
Use this flow chart to work out whether FSCS may be able to help you with your claim.



Claims eligibility

FSCS conducts a review of each claim to make sure it is eligible for compensation under our rules. We also follow guidance provided by the regulator where applicable, for example in considering Pensions Review and mortgage endowment claims, and we discuss approaches to handling claims with both the Financial Ombudsman Service and trade bodies.

We have no discretion to pay compensation to claimants if their claim falls outside our jurisdiction, and have a duty to our levy payers to ensure that we only pay compensation for eligible claims.

Where do claims come from?

Most of the individual claims we deal with relate to investments and come to FSCS "off the street". A consumer who thinks they may have lost money because of advice they received will usually try to contact the firm they dealt with. For endowment claims, they may have dealt with a financial adviser many years before and find that the firm is now no longer trading. If the firm cannot consider their claim for compensation, FSCS can step in.

Other claims relate to credit union defaults, insurance brokers and, occasionally, the defaults of larger investment firms.

How do we decide whether or not a claimant is eligible for compensation?

We look at each claim individually and consider, for example, if the product was mis-sold because the firm failed to describe or mis-described the risk to the investor. We gather and examine the evidence from the consumer, any client files that are available and any information forthcoming from product providers. We look at the consumer's experience of risk and investments when they bought the product to help us establish:

- whether the advice to take out the investment was suitable for the needs of the investor at the time; and
- whether the claimant was advised of the risks associated with the investment.

For investment claims (such as those relating to endowment policies) we must be satisfied that there is financial loss for which the firm is liable.

Investment claims – establishing financial loss

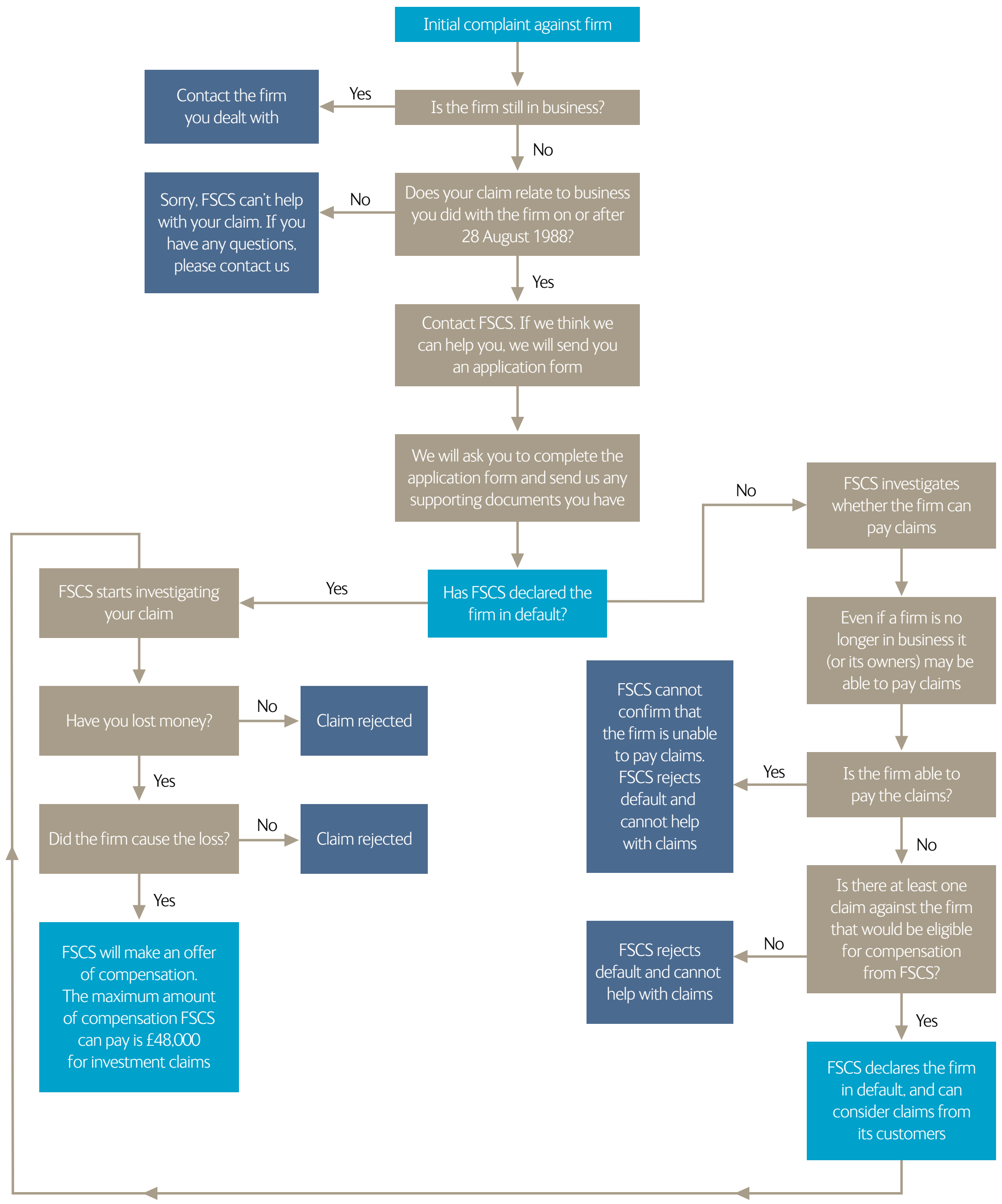
The aim of compensation is generally to put the consumer back to the position they would have been in had they not been given inappropriate advice. Under our rules, FSCS can only pay compensation that is essential in order to provide fair compensation. If we uphold a claim, in order to determine whether we can pay compensation we must then establish that the claimant has made a financial loss that has been caused by the activities of the firm they dealt with. We do not pay compensation just because an investment has not performed as a consumer had hoped it would, or to take account of a projected shortfall.

For endowment claims this generally means we compare the position of an investor's endowment mortgage with the position an investor would have been in had they taken a repayment mortgage (the risk-free alternative) as at the date we consider the claim. We also generally take into account any savings an investor made (for example, lower monthly outgoings) when calculating how much compensation may be due (but will consider whether this should not apply, on the facts of a claim). If we establish that the investor has suffered a financial loss, we will pay compensation for the loss suffered up to a maximum of £48,000 for investment claims.

Understanding Our Work

Investment claims flowchart

This flow chart is a basic guide to our investment claims process



How FSCS was funded during 2007/08

FSCS is funded by levies on authorised firms. FSCS's costs are made up of management expenses and compensation payments.

Management expenses

These are FSCS's running costs, and the amount that it can levy for them is subject to an annual limit set by the FSA after consultation. This was set at £30.24m in 2007/08. Management expenses are allocated between base costs and specific costs.

Base costs represent the fixed costs of the Scheme, before claim handling costs. All firms contributed to the base cost element, by reference to their FSA periodic fee.

Specific costs are the costs of assessing claims and paying compensation. They were allocated to the relevant contribution group, and firms paid by reference to the particular contribution group tariff.

Compensation payments

These are the amounts paid to claimants, or on their behalf.

Sub-schemes

Under the funding system in place during 2007/08, for levying purposes FSCS was split into Sub-schemes, as follows:

- Accepting Deposits;
- Insurance Business;
- Designated Investment Business;
- Home Finance Advice and Arranging (from 31 October 2004); and
- General Insurance Mediation (from14 January 2005).

Contribution groups

Each Sub-scheme contained one or more contribution groups, based on the FSA's fee blocks. Firms were allocated to a contribution group (or groups) according to their regulated permissions (i.e. the type of business they were authorised to transact).

Only firms within a specific contribution group (or groups) were levied for compensation payments and related management expenses for that type of business.

A list of the contribution groups in 2007/08 is below.

- A1 Deposit takers
- A3 General Insurance
- A4 Life Insurance
- A7 Fund managers
- A9 Managers of an AUT, ACDs and depositories
- A10 Dealing as principal
- A12 Investment advisory brokers holding client money or assets
- A13 Investment advisory brokers not holding client money or assets
- A14 Corporate finance advisory firms
- A16 IFA Pensions Review claims
- A18 Home finance (e.g. mortgage) advice and arranging
- A19 General insurance mediation

Levy limits:

The amount that FSCS can levy for management expenses is subject to an annual limit, the Management Expenses Levy Limit, set by the FSA after consultation.

There is also a limit to the amounts FSCS can levy to fund compensation payments in any one financial year. The limits that applied during 2007/08 are below:

- Deposits: no more than 0.3% of protected deposits (cumulative).
- Insurance business: no more than 0.8% of the participant firm's relevant annual net premium income.
- Designated investment business: no more than £400 million.
- Home finance (e.g. mortgage) firms: no more than 0.8% of a firm's annual eligible income.
- General insurance intermediaries: no more than 0.8% of annual eligible income.

A new funding structure was rolled out on 1 April 2008 following a review by the Financial Services Authority. This established classes and sub-classes of firms for funding purposes. You can find more information below.

Understanding Our Work

The new funding regime from 1 April 2008

FSCS is funded by levies on authorised firms. FSCS's costs are made up of management expenses and compensation payments.

Management expenses

Management expenses are FSCS' running costs and are split between base costs and specific costs.

- All firms contribute to the base costs – the costs of running the Scheme that are not dependent on levels of activity – in proportion to the annual fees they pay to the FSA.
- Specific costs are the costs of assessing claims and making payments. These are allocated to relevant classes and sub-classes.

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

Classes and sub-classes

The new FSCS funding model consists of five broad classes: life and pensions; deposits; investment; general insurance and home finance. With the exception of the deposits class, each broad class is divided into two sub-classes based on provider/intermediation activities.

Each of the "sub-classes" is made up of firms which are defined as providers or intermediaries and:

- Engage in similar styles of business with similar types of customer; and
- Share a common interest in protecting their collective good name.

Firms are allocated to sub-classes according to the type of business they are authorised to transact. A firm could be allocated to one or more classes according to its permitted activities.

The model operates on the basis that a sub-class will meet the compensation claims from defaults in that sub-class up to its threshold. Once a sub-class reaches its annual threshold the other sub-class in their broad class will be required to contribute to any further compensation costs. A final layer of cross-subsidy is then available from the general retail pool, through which the other broad classes support any broad class, which has reached its overall threshold, up to the overall limit. This is represented diagrammatically on page 103.

Thresholds

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

General retail pool

The general retail pool is above the broad classes. The total levy on all classes under the general retail pool provides an annual capacity of about £4.03bn to FSCS unless defaults arise in the home finance intermediation sub-class, in which case the total capacity is £4.10bn. This is due to the fact that the £70m contribution from home finance providers can be levied only for defaults in the home finance intermediaries' sub-class.

New levy limits

There are limits to the amounts FSCS can levy in a financial year. For compensation payments the limits for each class are:

- Deposit: £1,840m;
- Life and pension: £790m;
- General insurance: £970m;
- Investments: £370m; and
- Home finance: £130m.

Any costs exceeding these thresholds for each class would trigger the general retail pool and be shared more widely under the "widening circle" of funding set up for the new system. The general retail pool would only be triggered in the event of significant default or series of defaults.

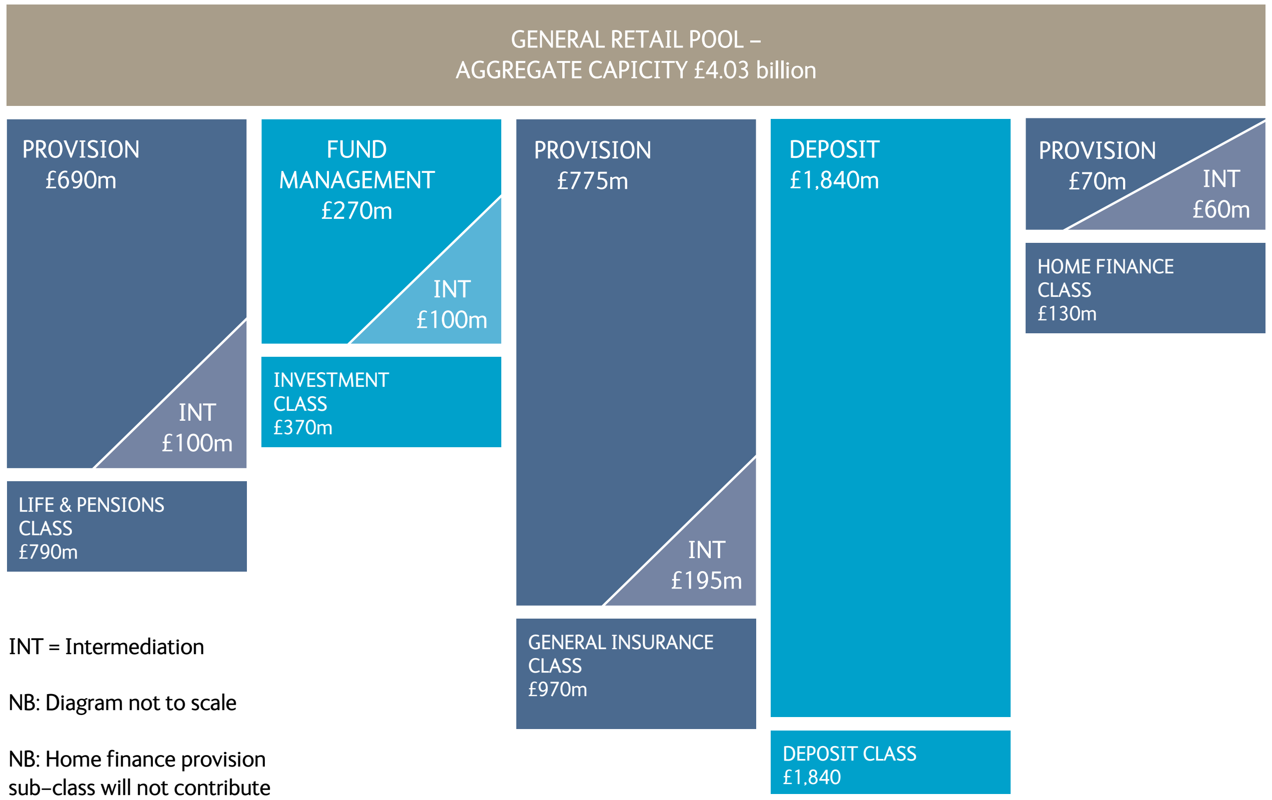
Transition to the new system

As part of the 'clean break' transitional arrangements for the new system, at the close of business on 31March 2008 FSCS has calculated the fund balances (credit and debit as appropriate) for each of the former contribution groups and identified how much each qualifying participant firm is either owed by, or owes to, the FSCS. FSA, acting as agents for FSCS will then include this firm-specific credit or debit with that firm's 2008/09 consolidated fees and levies invoice, in a way that is clearly identifiable.

For the avoidance of doubt, offers paid did not include claims made but not accepted or agreed, i.e. FSCS' work in progress which will be dealt with under the new rules after 1 April 2008.

Beginning in June 2008 during the normal fees and levies billing cycle, each firm will receive:

- a credit or debit note for their 2007/08 balance, excluding Deposit takers;
- a single invoice for regulatory fees and levies (FSA, FOS, FSCS and FRC) for 2008/09; and
- a letter that will state the total net amount to be paid to, or repaid by the FSA.



INT = Intermediation

NB: Diagram not to scale

NB: Home finance provision sub-class will not contribute to the general retail pool

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