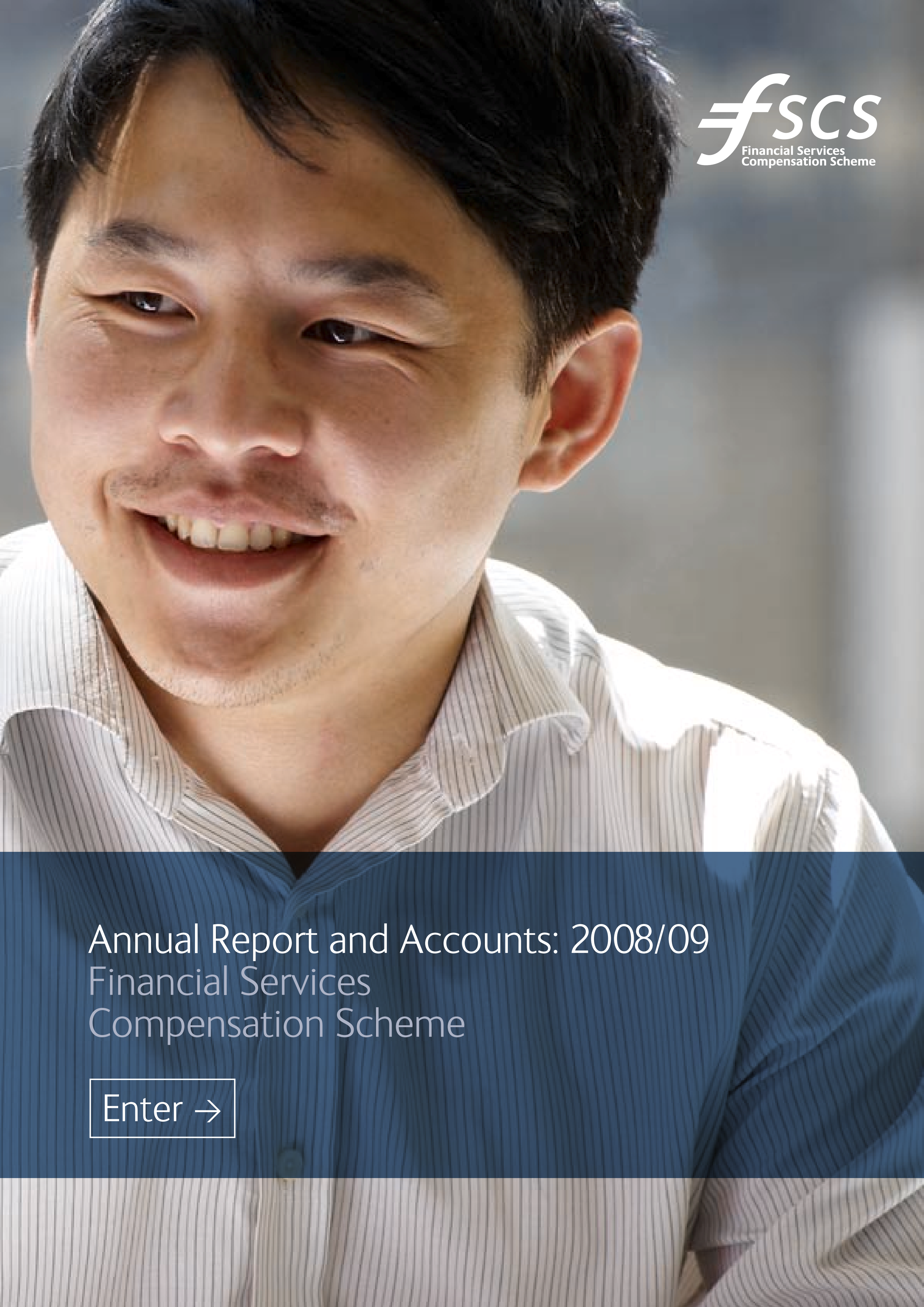

FSCS
Financial Services
Compensation Scheme

Annual Report and Accounts: 2008/09

Financial Services Compensation Scheme

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We believe the results in this report demonstrate our commitment to providing an efficient and effective service.

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 the 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). The FSCS is ultimately funded by levies on authorised financial services firms. The FSCS does not charge individual consumers for using its service.

For more information about our work, please see Section 11 'Understanding Our Work' on page 118.

Contacts:

Call our Customer Services Team on: 0800 678 1100 or 020 7892 7300
Email: enquiries@fscs.org.uk
Web: www.fscs.org.uk

Write to:

Financial Services Compensation Scheme,
7th Floor,
Lloyds Chambers,
1 Portsoken Street,
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Section 1:
Chairman's Statement

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Chairman's Statement
David Hall

David Hall

The FSCS has proven itself sufficiently robust to manage the extraordinary demands that have been placed on it in the last year.

The global financial crisis created an unprecedented set of demands on the FSCS in 2008/09. In the six months from the end of September, the FSCS paid out more than £21bn. This is in contrast to the period from its inception in 2001 until September 2008 when we had paid out some £1bn in compensation in total.

The failure of five banks, Bradford & Bingley plc (B&B), Landsbanki Islands hf (Icesave), Heritable Bank Plc (Heritable), Kaupthing Singer & Friedlander Limited (KSF) and London Scottish Bank Plc (London Scottish) required the FSCS to deliver compensation in new and different ways. We paid compensation to individual depositors in accordance with our well established statutory role in relation to the Icelandic bank failures and London Scottish. We also paid deemed compensation, the sums representing what we would have paid to individual claimants, for the bulk transfer of accounts in the cases of B&B, Heritable and KSF, implementing orders made under the Banking (Special Provisions) Act 2008. We agreed to act on behalf of HM Treasury both for the tax payer funded element of the compensation offered by the Government and in respect of Iceland's Depositors' and Investors' Guarantee Fund (DIGF) for the Icesave default. Just before the year end, the Dunfermline Building Society failed and although we were not called upon to pay compensation at that point, we expect to contribute to the net cost of the failure in due course.

This has been a period of enormous anxiety for a large number of consumers. We played our part in helping consumer confidence not just through paying compensation but also through effective communication via our website, in the media and directly to the depositors of the failed institutions as to when and how they could receive compensation. We responded to enquiries from concerned consumers at a level some three times greater than the previous year.

Given the scale of the crisis, and recognising the impact on the levy payer, the FSCS decided to fund the cost of compensation of these five banking defaults by borrowing from the Bank of England, subsequently refinanced by HM Treasury. Our Chief Executive, Loretta Minghella, explains more about these arrangements in her report. We will continue to work with the relevant insolvency practitioners and HM Treasury to ensure that recoveries are maximised as far as possible; substantial recoveries are expected in due course and further details are given in section 4. We will keep levy payers updated with as much information as we can about the level of future levies.

Whilst our involvement with these failures attracted the most publicity last year, we continued to pay compensation across a wide range of defaults. In particular, the Scheme dealt with two of the largest investment intermediary failures in recent years, Pacific Continental Securities (UK) Limited and Square Mile Securities Limited.

The FSCS has proven itself sufficiently robust to manage the extraordinary demands that have been placed on it in the last year across a widening remit. What has become clear, however, is the need to strengthen the Scheme in a number of ways. Public awareness of the Scheme's role is too low, our operating model requires development and there are real concerns in the industry about how we are funded. At the same time the Banking Act 2009 is targeting much faster payout for customers of a failed deposit taking institution from 1 January 2011. We intend to work closely with the Tripartite authorities (HM Treasury, the FSA and the Bank of England) on these issues in the coming year and welcome the proposed review of our governance and accountability arrangements and the proposed further re-examination of our funding announced in the White Paper on 8 July.

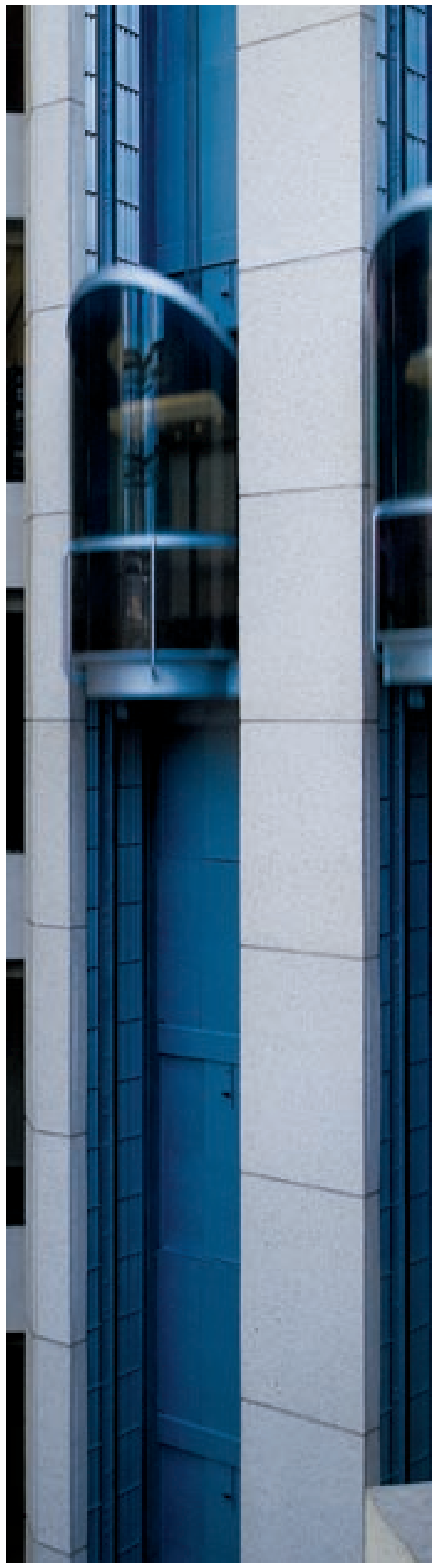
During the year, the FSCS appointed a new independent investigator to review complaints about how we handled claims. John Hanlon replaced Rear Admiral Richard Irwin CB, who did much during his term to promote a strong customer ethic in the FSCS for which we are grateful.

2008/09 was a year in which the Board of the FSCS was called upon to act in exceptionally difficult circumstances. I would like to thank them for their commitment and for the contribution they have made. Their lead ensured the FSCS responded effectively to the issues which confronted it.

On behalf of the Board, I would also like to thank Loretta and her staff for the hard work, dedication, and resilience they displayed. They responded extraordinarily well in the light of the challenges they faced.

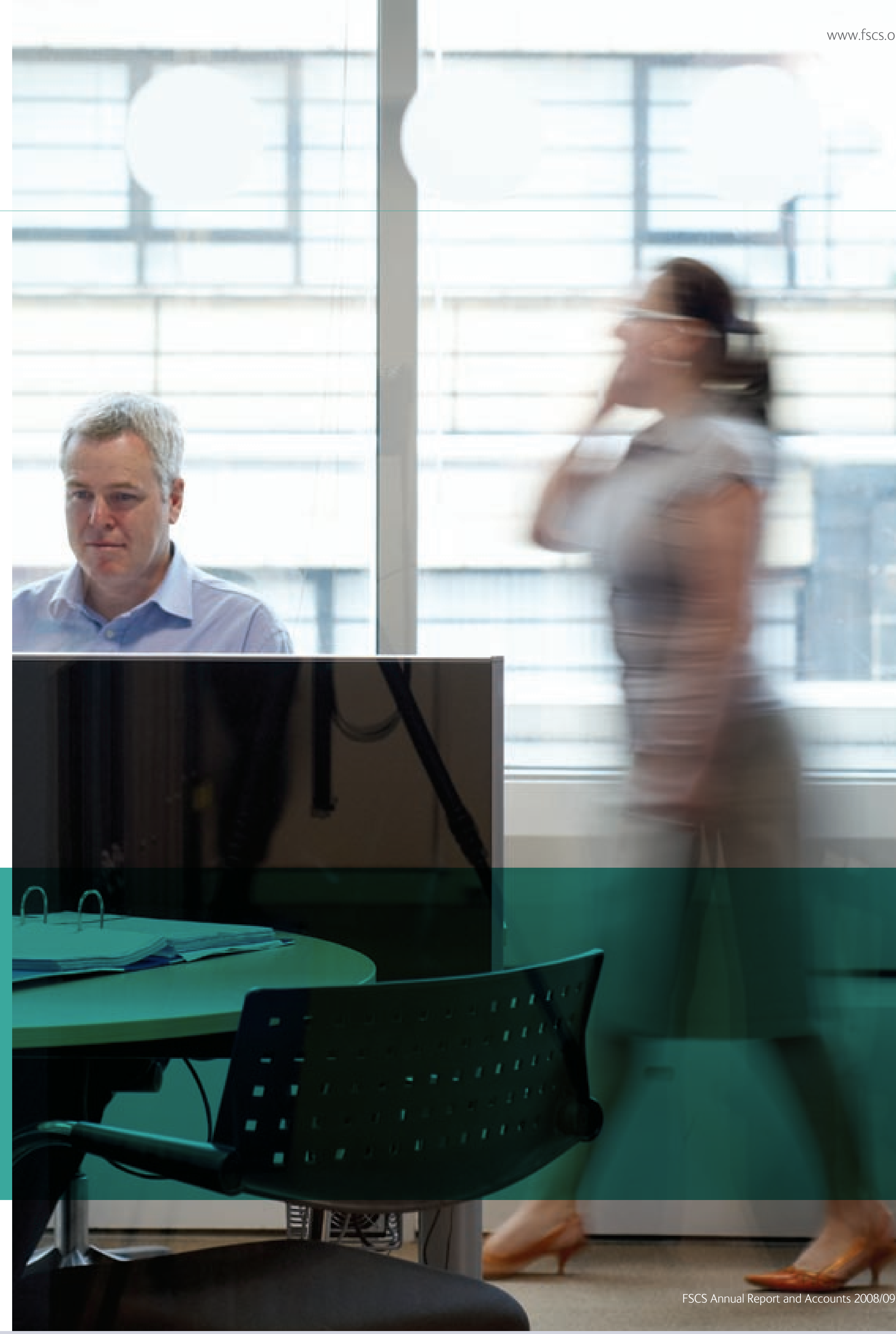
I commend this report to you.

David Hall
Chairman



In the six months from the end of September, the FSCS paid out more than £21bn.

Section 2:
Chief Executive's Report



Chief Executive's Report
Loretta Minghella

Loretta Minghella

Compensation was paid to protect the holders of about 3.5 million bank accounts.

At the start of the year, it was clear that the future would hold much change for the FSCS, including new legislation following the run on Northern Rock. However, we could not have predicted a financial crisis as severe as this one, requiring the FSCS to play such a significant role in protecting consumers and supporting financial stability.

Despite the turmoil in the markets, the first half of the year was relatively uneventful for the FSCS. We concentrated on resolving claims already in our work in progress, which steadily diminished to the point where at the start of September we had fewer than 3,000 claims to complete, lower than at any time since I joined the FSCS in 2004. At the same time, we continued to work closely with the Tripartite authorities on compensation reform and, mindful that the markets were very uncertain, refined our contingency planning with a view to being able to respond quickly if necessary.

With the failure of Lehmans on 15 September, events took a dramatic turn. Despite the fact that we were not directly involved, calls to our helpline rose to double the levels we experienced at the time of the Northern Rock run the year before. Significantly, the calls were not just about deposits in banks, but related to FSCS coverage right across our remit. It appeared to us that consumer confidence in the financial services industry generally was plummeting. The level of telephone and written enquiries received in the year as a whole reached over 234,000, compared to about 73,000 the previous year.

On 27 September 2008, Bradford & Bingley plc (B&B) became the first of five banks to be declared in default by the FSA during the year, closely followed by Heritable, KSF and Icesave on 7 and 8 October. London Scottish went into default on 30 November. The declaration of default triggered FSCS protection in each case. In the last week of the year, on 30 March, Dunfermline Building Society became the first deposit taker to fail since the passing of the new Banking Act the month before.

The FSCS paid some £21bn for the five bank defaults, about £18bn on its own behalf and the rest on behalf of HM Government and in respect of the liability of Iceland's Depositors' and Investors' Guarantee Fund.

Compensation was paid to protect the holders of about 3.5 million bank accounts, and has involved three bulk account transfer payments by way of deemed compensation and the processing of individual payments to holders of over 280,000 accounts.

Icesave presented the biggest operational challenge the Scheme has ever faced. For more information on bank defaults see Section 4.

Financing the compensation payments

Funding rules for the FSCS are made by the FSA and a new funding system was introduced on 1 April 2008, after a three-year review. Under this system, the FSCS is not permitted to maintain a standing fund to meet claims when needed. Rather, the FSCS is permitted to levy each year to enable it to meet its anticipated obligations in respect of compensation costs in the following twelve months and to meet management expenses for the financial year.

In relation to the five banking defaults, the FSCS originally borrowed the necessary funds through separate short-term facilities from the Bank of England and (for London Scottish) from HM Treasury. The Bank of England facilities have since been re-financed with longer term loans from HM Treasury.

All the loan facilities are on an interest-only basis for the first three years, and are calculated at 12 month LIBOR plus 30 basis points. The FSCS will pay interest in arrears, with interest for the period to 31 March each year being payable on 1 October of that year. So, for the period to 31 March 2009, interest will be payable on 1 October 2009, and so on.

Levies in the first three years for the five defaults will fall on the deposit-taking class of levy payers only. We agreed with HM Treasury an annual cap on the levy arising from the interest on these loans and related management expenses of £1bn per financial year for the period up to 31 March 2012. Any amounts above this annual £1bn cap will be waived by HM Treasury rather than recharged later. Recoveries received will be used to reduce the loans. The principal outstanding at 2012 will then be repaid on a timetable which will be determined by the FSCS and HM Treasury depending on market conditions at the time. Until the repayment timetable is agreed in 2012, it is not possible to say what levy class or classes will be levied for any outstanding principal. We recognise the challenges for levy payers in dealing with this uncertainty and plan to work closely with HM Treasury with a view to giving levy payers as much notice as possible about the likely impact on future levies.

Validation of payments made for bulk transfer of accounts

As explained above, the FSCS contributed by way of deemed compensation to the funding required to transfer the deposits of B&B to Abbey National and certain deposits of Heritable and KSF to ING. The FSCS's initial contributions of £14bn, £0.5bn and £2.5bn respectively represented the FSA's estimates of the liabilities eligible under Scheme rules.

The statutory instruments made to enable the transactions to secure deposits required the FSCS to satisfy itself after the event as to the accuracy of these estimates. We have therefore engaged independent consultants to validate the payments made. A similar methodology has been used in all cases:

- computer records containing details of all deposits and loans have been obtained from the relevant bank;
- these have been consolidated and matched to form a "Single Customer View" (SCV) with a single record for each depositor containing their overall aggregate balance;
- this balance has been capped at the maximum compensation limit in force at the time – £35,000 for B&B and £50,000 for Heritable and KSF; and
- the FSCS eligibility rules have been applied to exclude those that are ineligible e.g. large firms.

The detailed analysis for B&B and Heritable is nearing completion and we are close to reaching a view on the final numbers. Our latest estimates are £15.75bn and £0.457bn respectively. We anticipate that the final number for B&B will be between £15.56bn and £15.79bn. The main factors giving rise to the difference from the original estimates were the amounts on deposit that exceeded the relevant compensation limit, the amounts that were in transit at the date of default, and the accrued interest that needed to be added to balances at the date of default.

The validation for KSF is not as advanced and will be completed later in 2009. Once the outcome of the three validations is known, we will make arrangements for balancing payments for any net additional amounts to HM Treasury and will update levy payers about any impact on future levies.

Recoveries

Whilst the FSCS has a primary obligation to consumers to make sure that they get the compensation to which they are entitled in a timely manner, the FSCS takes very seriously its obligation to levy payers to ensure that it pursues recoveries wherever practicable. The recent banking failures have changed our role in recoveries as much as they have in relation to the delivery of compensation itself.

B&B continues to operate in run-off in respect of its pre-existing mortgage book. There is no insolvency practitioner and no creditors' committee. However, as a principal creditor of the B&B estate, the FSCS is entitled to a major portion of the recoveries. The Order under which the FSCS payment of compensation was made stipulates that "nothing... shall have the effect that the FSCS recovers less than it would have recovered if this Order had not been made and B&B had gone into liquidation following the declaration of default". The FSCS has been in dialogue with HM Treasury about how the estate will be run down. We expect to review regularly the

Chief Executive's Report
Loretta Minghella

progress of B&B's business plan and we have also been modelling the likely outcome for the FSCS, had B&B gone into liquidation.

For Heritable, KSF and London Scottish, the FSCS is playing a key role on the creditors' committees, with Ernst & Young, the administrators, to ensure the best possible recoveries for creditors.

Landsbanki is in a special process in Iceland akin to an administration. The FSCS is working to ensure that the maximum recoveries are obtained from Landsbanki in respect of the Icesave payments.

Dunfermline Building Society was the first deposit taker to be taken into special resolution under the Banking Act 2009. The Bank of England is managing the resolution. There is a bridge bank and a bank administration procedure but the FSCS does not sit on a creditors' committee: since the FSCS has not paid compensation up front, it is not entitled to recoveries. Instead HM Treasury will appoint an independent valuer who will work out what recoveries the FSCS would have received had there been a conventional payout. These will be netted against the amount the FSCS calculates it would have paid to depositors, to identify the maximum contribution the FSCS can be asked to make, once the costs of the resolution are known.

All these recovery processes are likely to take several years to complete, though the first dividends (in relation to KSF and Heritable) are expected to be made in 2009. It is anticipated that there will be significant dividends, which will reduce the ultimate cost to the levy payer. Further details are given in section 4.

In the spotlight

Parliamentary scrutiny of the FSCS increased again markedly in 2008/09. The FSCS appeared in front of the Public Bills Committee examining the Banking Bill and in front of the Treasury Select Committee twice during enquiries into the banking crisis. In its report on the banking crisis published in April 2009, the Treasury Select Committee highlighted our response to the banking failures. It said: "The FSCS deserves praise for the way in which it fundamentally increased its response to the unprecedented compensation claims arising from the default of five banks in just a few months. We are particularly impressed with the variety of innovative solutions deployed by the FSCS to suit the particular challenges facing them." We were grateful to have received this acknowledgement from the Committee for our contribution as well as the responses from the thousands of individual consumers who contacted us to compliment the speed and efficiency of the FSCS compensation process.

A small but important minority of claimants experienced some delays in receiving compensation and not all were satisfied with the service we provided. Such delays were largely outside our control. In relation to KSF, despite the best efforts of administrators Ernst & Young and our own teams, it proved difficult to extract comprehensive records from KSF with which to process claims. Our KSF experience demonstrated clearly the value of proposed reforms to the way banks hold data about their customers, so that speedy payments can be made in the event of a failure. Having said that, there were lessons for us to learn and we thank the depositors concerned for taking the time to contact us with constructive feedback. This helped us to identify ways in which we could improve our service. A selection of comments from consumers about our work on the banking failures can be found on page 29.

Banking Reform and Depositor Protection

The debate about compensation reform gained momentum throughout 2008 and into 2009, and the FSCS built on the work it did in 2007/08 to ensure the reform debate benefited from our practical experience of delivering compensation. During 2008, we worked closely with the Tripartite authorities on a number of consultations covering financial stability and depositor protection. This work culminated in the Banking Act 2009 which received Royal Assent on 12 February 2009.

The Banking Act builds on the Tripartite framework to enhance the ability of the Authorities to deal with crises in the banking system, to protect depositors and to maintain financial stability. The centrepiece is a new permanent special resolution regime (SRR), providing the Authorities with a range of tools to deal with banks and building societies that are failing. The Act also contained a range of other measures including provisions to increase the efficiency of the compensation arrangements.

In parallel with the work on the Banking Act, the FSCS worked closely with the FSA on a number of consultations setting out proposals for improving and speeding up the payout of compensation, increasing consumer awareness and understanding of the Scheme, and implementing changes required by amendments to the Deposit Guarantee Schemes Directive. For example, the second half of the year saw an increase in the level of consumer protection, with FSA raising the compensation limit for deposits from £35,000 to £50,000 per customer with effect from 7 October 2008. This reform work is ongoing and will be an important feature of the coming months.

The debate about compensation is likely to focus on how we are funded, whether we should be pre-funded and, if so, whether we should adjust levies for risk. There are arguments for and against pre-funding. We believe that having such a fund would help to cushion the impact of failures on the industry. That is why we welcome the debate about pre-funding and the provisions in the Banking Act 2009 that will enable it to be introduced.

International Relations

The FSCS remains a committed member of the European Forum of Deposit Insurers (EFDI) and is working with the EFDI in considering the changes and proposals relating to the Deposit Guarantee Schemes Directive. We are now also a member of the International Association of Deposit Insurers (IADI). In March 2009, the IADI issued with the Basel Committee a paper on the core principles for effective deposit insurance systems. The core principles addressed a range of issues including: deposit insurance coverage; funding; prompt reimbursement; public awareness; resolution of failed institutions; and cooperation with other safety net participants, including central banks and supervisors.

Along with HM Treasury and the FSA, we worked on the UK's response to the European Commission's call for evidence on the Investor Compensation Directive as well as European discussions on a possible Insurance Guarantee Directive.

In parallel with the work on the Banking Act, the FSCS worked closely with the FSA on a number of consultations setting out proposals for speeding up the payout of compensation...

Chief Executive's Report
Loretta Minghella

As part of the FSCS's commitment to the exchange of information and experience with other organisations, we visited our counterparts at the United States Federal Deposit Insurance Corporation (FDIC) in September 2008 and the Canada Deposit Insurance Corporation (CDIC) in March 2009. We have also hosted visits to the FSCS from organisations dealing with deposit, investment and insurance compensation in the United States of America, Jersey, Malaysia, Korea, Japan, Australia and Canada, as well as from across Europe.

Containing costs

The FSCS works hard to provide an efficient and cost effective service for consumers and levy payers alike. Whilst the second half of the year meant that we had to concentrate on providing services to consumers as quickly as possible in exceptional circumstances, we continued to be mindful of the need to manage our costs effectively. We finished the year with our management expenses at £31.47m (excluding loan interest) which is £6.73m more than the £24.74m projected in the Plan and Budget 2008/09. However, we incurred unplanned costs of £9.32m in handling the major banking defaults, some of which is attributable to third parties and will not be recovered from levy payers. Of our planned costs, our in-house staff costs were actually lower than the previous year at £10.02m despite our intensive work on contingency planning and preparation for the defaults of Pacific Continental Securities (UK) Limited and Square Mile Securities Limited. Given the huge increase in output, including a threefold increase in the volume of enquiries and a thirteen fold increase in claims completed, I believe we have demonstrated our commitment to containing costs.

Meeting our commitment to consumers

Of course, our remit is broader than the banking sector and throughout the year we continued to deal with defaults across the whole financial services industry.

In our Plan and Budget 2008/09, we anticipated that we would receive approximately 14,000 new claims during the year and would complete just under 18,000. Excluding the bank failures, by 31 March 2009 we received just over 11,000 new claims and completed almost the same number of claims across the full range of our work.

In the investment intermediaries area, the failures expected to generate the highest costs are Pacific Continental Securities (UK) Limited and Square Mile Securities Limited, both of which we declared in default in early 2009. Both failures were extremely complex, took time to declare in default and generated nearly 3,800 claims by the end of the financial year. As a result, the Scheme issued an interim levy of £38m to cover the first portion of the costs of the two defaults in March 2009. We continue to receive claims against the firms in 2009/10, and we will keep levy payers informed of our progress and the costs of compensation. We also handled a reducing volume of mortgage endowment, pension, splits and other investment mis-selling claims, as well as deposit claims relating to credit unions.

We have begun to receive a number of payment protection insurance claims this year, and although it is too early to say whether this will be a rapidly growing area of our work, as it has been for others, we do expect to receive more of these claims in 2009/10. During the year, the FSCS also started paying claims against mortgage brokers for the first time since mortgage advice and arranging came under regulation in 2004. We expect to receive increasing volumes of claims against mortgage brokers in 2009/10.

In the insurance area, the largest spend was on historic employers' liability covers issued by Chester Street Insurance Holdings Limited. We paid £40.33m in compensation during the year for this estate, an increase on the previous year of £14.17m. The claims mainly related to long tail industrial disease such as mesothelioma and noise-induced hearing loss. Asbestos related claims are expected to carry on rising for a number of years.

Our staff and outsourcers

Market volatility continued to have implications in 2008/09 for our operating model and contingency planning. Our operating model relies on the use of outsourcing to manage peaks and troughs in our work efficiently and effectively. Whereas internal headcount reduced, we engaged additional capacity at our outsourcers during the year to help us manage the significant increase in our work resulting from the bank failures and investment defaults. We used a range of providers to complement our in house teams and supply services including call handling, claims processing, project and risk management and legal and recoveries advice.

Our staff and outsourcers worked tirelessly during 2008/09 and were central to our success. They rose to the challenges posed by the bank failures whilst not losing sight of the importance of continuing to pay eligible claims in other areas of the FSCS business. They showed commitment and professionalism.

I would like to thank everybody involved for the major contribution they made to protecting consumers and maintaining financial stability.

Loretta Minghella
Chief Executive

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Section 3: Delivering Consumer Compensation – Summary

Key dates connected to major defaults during 2008/09

April 2008	May 2008	June 2008	July 2008	Aug 2008	Sept 2008	Oct 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	March 2009

- 27 Sept: Bradford & Bingley default.
- 7 Oct: Heritable Bank default.
- 8 Oct: Icesave default.
- 8 Oct: Kaupthing, Singer & Friedlander default.
- 30 Nov: London Scottish Bank default.
- 19 Jan: Pacific Continental Securities (UK) Limited default.
- 19 Feb: Square Mile Securities Limited default.
- 30 March: Dunfermline Building Society Special Resolution Regime (SRR).

Banking defaults

- Five banks were declared in default during 2008/09 and one building society entered the Special Resolution Regime (SRR).
- Total compensation payments for the bank failures, including bank transfers, amounted to £20.9bn.
- £2bn was paid in respect of Iceland's Depositors' and Investors' Guarantee Fund coverage and £0.8bn on behalf of HM Treasury. The balance of £18.1bn was paid out on the FSCS's own account.
- The total number of accounts for which customers have been compensated relating to the bank defaults is about 3.5 million.

Other defaults

- 119 firms were declared in default.
- Total compensation payments amounted to over £92m, including almost £51m for general insurance claims.
- Total claims received were 11,082, a reduction of 33% on 2007/08.
- Total claims completed were 10,887, a reduction of 50% on 2007/08.
- Claims in respect of Pacific Continental Securities (UK) Limited and Square Mile Securities Limited were the biggest drivers of new investment claims at 3,770.
- Splits claims completed during the year totalled 2,740.

Section 4:
Major Banking Defaults – Key Facts and Figures

During 2008/09, the FSCS has been instrumental in safeguarding depositors' money following the failures of five banks and one building society. This section provides details of these defaults.

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Major Banking Defaults – Key Facts and Figures

Bradford & Bingley plc

Date of default	27 September 2008
Method of resolution	Transfer of retail deposit taking business to Abbey National plc under the Banking (Special Provisions) Act 2008
Payments made by the FSCS on behalf of others as well as the the FSCS?	No. HM Treasury covering amounts of ineligible deposits and deposits over the FSCS limit of £35,000 per depositor
Number of customer accounts at date of default	3.6m
Number of accounts transferred	3.6m
Amount the FSCS contributed to cost of transfer	£14bn to date by way of deemed compensation
Validation required of amount paid on transfer?	Yes
Validation complete?	In progress. Latest estimate – £15.75bn within a range of £15.56bn to £15.79bn.
Number of accounts yet to be processed at 31 March 2009	N/A
Estimated value of accounts yet to be processed at 31 March 2009	N/A
Any insolvency proceedings?	No, in run-off. The FSCS will recover no less than it would have done in a liquidation
The FSCS on Creditors' committee?	N/A
Anticipated recoveries	B&B expects ultimately to repay the deemed compensation

The FSCS contributed £14bn to the cost of transferring the bank's retail deposit book to Abbey National plc on 29 September 2008, pursuant to an Order made under the Banking (Special Provisions) Act 2008. This gave depositors complete continuity of banking services, without having to engage individually with the compensation process.

The £14bn payment represented the FSA's estimate of the cost of compensation had the FSCS processed individual claims in respect of the 3.6m transferred accounts in the normal way. The Order required the FSCS to validate that estimate, recognising that it had been based on high-level data which – though recent – was not up to date. A major task during the year has been the painstaking analysis of the firm's data at the time of failure to ascertain more precisely what the FSCS would have paid if eligible individuals had been paid compensation in the normal case by case way. The work continues and has so far established that the amount which the FSCS would have paid could be between £15.56bn and £15.79bn with a current estimate of £15.75bn. Once the work is finalised, arrangements will be made to settle the additional amount.

Kaupthing Singer & Friedlander Limited (KSF)

Date of default	8 October 2008
Method of resolution	• Transfer of majority of deposit taking business to ING Direct under the Banking (Special Provisions) Act 2008 • Payout for remainder of eligible depositors by means of paper based applications to the FSCS
Payments made by the FSCS on behalf of others as well as the FSCS?	Yes – on behalf of HM Treasury to eligible depositors of amounts over the FSCS limit of £50,000 per depositor
Number of customer accounts at date of default	• c. 157,000 transferred to ING Direct • 7,236 not transferred
Number of accounts transferred/paid as at 31 March 2009	• c. 157,000 transferred to ING Direct • 4,542 individual accounts paid by the FSCS
Amount the FSCS contributed to cost of transfer/Value of accounts paid as at 31 March 2009	• £2.5bn contributed by the FSCS to cost of transfer less a repayment of £266.5m on 30 March 2009. Final amount still subject to validation by the FSCS • £166m paid by the FSCS for paper based claims – £125m paid on behalf of HM Treasury and the balance of £41m for the FSCS's own account
Validation required of amount paid on transfer?	Yes
Validation complete?	In progress
Number of accounts yet to be processed at 31 March 2009*	2,694
Estimated value of accounts yet to be processed at 31 March 2009	£371m
Any insolvency proceedings?	Yes – in administration
The FSCS on Creditors' committee?	Yes
Anticipated recoveries	Anticipated dividend: minimum 50 pence in the pound

*Accounts yet to be processed includes accounts which have not yet been claimed; claims we are still working on; and unmatured Fixed Term Deposits which will be paid shortly after maturity.

KSF is a UK subsidiary of an Icelandic bank, Kaupthing Bank hf. It went into administration on 8 October 2008. The FSCS contributed £2.5bn to cover the cost of transferring the firm's 157,000 online accounts, known as Kaupthing Edge accounts, to ING Direct. The amount paid is subject to a validation exercise, similar to that being carried out for Bradford & Bingley, which is still ongoing and we are not yet in a position to give an indication of the likely outcome.

The FSCS also handled individual claims for compensation in respect of KSF accounts not transferred to ING. A KSF claimant entitled under the FSCS rules to the protection of the compensation scheme can claim up to £50,000 from the FSCS. HM Government agreed to pay such claimants compensation for any losses above £50,000 and the FSCS administered those payments on HM Government's behalf.

Major Banking Defaults – Key Facts and Figures

Heritable Bank Plc

Date of default	7 October 2008
Method of resolution	• Transfer of majority of deposit taking business to ING Direct under the Banking (Special Provisions) Act 2008 • Payout for the remainder of eligible depositors by means of paper based applications to the FSCS
Payments made by the FSCS on behalf of others as well as the FSCS?	Yes – on behalf of HM Treasury to eligible depositors of amounts over the FSCS limit of £50,000 per depositor
Number of customer accounts at date of default	• 22,344 transferred to ING Direct • 422 not transferred
Number of accounts transferred/paid as at 31 March 2009	• 22,344 transferred to ING Direct • 323 individual accounts paid by the FSCS
Amount the FSCS contributed to cost of transfer/Value of accounts paid as at 31 March 2009	• £500m contributed by the FSCS to cost of transfer • £8m paid by the FSCS for paper based claims – £0.7m paid on behalf of HM Treasury and the balance of £7.3m for the FSCS's own account
Validation required of amount paid on transfer?	Yes
Validation complete?	In progress. Current estimate £457m
Number of accounts yet to be processed at 31 March 2009*	99
Estimated value of accounts yet to be processed at 31 March 2009	£1.5m
Any insolvency proceedings?	Yes – in administration
The FSCS on Creditors' committee?	Yes
Anticipated recoveries	Anticipated dividend: 70–80 pence in the pound

*Accounts yet to be processed includes accounts which have not yet been claimed; claims we are still working on; and unmatured Fixed Term Deposits which will be paid shortly after maturity.

Like KSF, Heritable is a UK subsidiary of an Icelandic bank, in this case Landsbanki Islands hf, and went into administration on 7 October 2008. The position is very similar to KSF but on a smaller scale: only 22,000 accounts were transferred to ING at a cost to the FSCS of £500m and about 420 other claims were received during the year. Again, the FSCS paid compensation as required under FSA rules, and administered top up payments for HM Government to those entitled to the FSCS protection for amounts over £50,000. The validation of the Heritable transfer payment is in progress and our current estimate is included in our accounts for the year. Work so far suggests that the amount we would have paid in relation to the transferred accounts would have been £457m rather than the £500m we actually paid last October, and if confirmed we will make arrangements to recover the overpayment, and the associated time value of money.

Landsbanki 'Icesave'

Date of default	8 October 2008
Method of resolution	Payout – electronic and paper based applications
Payments made by the FSCS on behalf of others as well as the FSCS?	Yes. Amounts up to €20,887 in respect of Iceland's Depositors' and Investors' Guarantee Fund; amounts over £50,000 per depositor on behalf of HM Treasury, both funded by HM Treasury in the first instance.
Number of customer accounts at date of default	298,290
Number of accounts paid as at 31 March 2009	273,142
Value of accounts paid as at 31 March 2009	£3.9bn – £2.1bn in respect of the coverage of Iceland's Depositors' and Investors' Guarantee Fund, £643m paid on behalf of HM Treasury and the balance of £1.2bn for the FSCS's own account
Validation required of amount paid on transfer?	N/A
Validation complete?	N/A
Number of accounts yet to be processed at 31 March 2009*	25,148
Estimated value of accounts yet to be processed at 31 March 2009	£660m
Any insolvency proceedings?	Yes, in Iceland
The FSCS on Creditors' committee?	Member of the informal creditors' committee
Anticipated recoveries	Uncertain

*Accounts yet to be processed include accounts which have not yet been claimed; claims we are still working on; and unmatured Fixed Term Deposits which will be paid shortly after maturity.

The default of Icesave presented the biggest operational challenge the FSCS has ever faced – but it was a challenge we rose to by developing an innovative solution to paying out a large number of claims in record time.

Icesave was the UK internet branch of Landsbanki Islands hf, an Icelandic bank with an EEA passport. The bank had 'topped up' into the FSCS, meaning that Iceland's Depositors' and Investors' Guarantee Fund was liable for the first €20,887 of any claim, and the FSCS for the amount above that to the UK limit of £50,000.

As was well documented at the time, Iceland's Depositors' and Investors' Guarantee Fund did not step forward at the point of failure to receive claims in respect of Icesave, leaving 214,000 UK depositors extremely anxious that they were going to lose their money.
In the event, the FSCS stepped in with HM Government to make sure that all those with UK Icesave accounts could receive their money back in full.

Within three weeks of the bank failing, the FSCS had set up an online process to compensate customers using a modified version of the failed bank's own internet banking platform. Multi-disciplinary teams drawn from the FSCS and its advisers worked intensively to re-design the front end of the website to make it compliant with statutory compensation requirements, set up the underlying banking processes and controls, resolve complex legal issues and ensure that the modified system was robust and secure. The innovative use of the failed firm's internet platform to pay compensation enabled 190,000 people to claim compensation in a process lasting only a few minutes each.

The bank's other customers have been invited to submit written applications and in total over 273,000 accounts were paid during the year.

Major Banking Defaults – Key Facts and Figures

London Scottish Bank Plc

Date of default	30 November 2008
Method of resolution	Payout – paper based applications
Payments made by the FSCS on behalf of others as well as the FSCS?	Yes – on behalf of HM Treasury to eligible depositors of amounts over the FSCS limit of £50,000 per depositor
Number of customer accounts at date of default	11,950
Number of accounts paid as at 31 March 2009	3,762
Value of accounts paid as at 31 March 2009	£90m – £10m paid on behalf of HM Treasury and the balance of £80m for the FSCS's own account
Validation required of amount paid on transfer?	N/A
Validation complete?	N/A
Number of accounts yet to be processed at 31 March 2009*	8,188
Estimated value of accounts yet to be processed at 31 March 2009	£159m
Any insolvency proceedings?	Yes – in administration
The FSCS on Creditors' committee?	Yes
Anticipated recoveries	Anticipated 30–60 pence in the pound

*Accounts yet to be processed include accounts which have not yet been claimed; claims we are still working on; and unmatured Fixed Term Deposits which will be paid shortly after maturity.

This bank failed on 30 November 2008 and is in administration. It had approximately 12,000 customers all holding fixed term deposit or notice accounts worth approximately £0.25bn. More than 9,000 individual claims were received in the year, and the majority of claimants are being paid compensation shortly after the maturity date of their deposits. Eligible claims below £50,000 are being met by the FSCS, and the FSCS is acting as HM Government's agent in paying eligible claims to the extent that they exceed the FSCS compensation limit.

Dunfermline Building Society

Date of default	30 March 2009
Method of resolution	Transfer of all retail deposit accounts to Nationwide Building Society, by instrument made under the Banking Act 2009
Payments made by the FSCS on behalf of others as well as the FSCS?	No
Number of customer accounts at date of default	c 260,000
Number of accounts transferred	c 260,000
Amount the FSCS contributed to cost of transfer	The FSCS contribution to costs of resolution to be calculated once the level of recoveries is known
Validation required of amount paid on transfer?	Yes
Validation complete?	In progress
Number of accounts yet to be processed at 31 March 2009	N/A
Estimated value of accounts yet to be processed at 31 March 2009	N/A
Any insolvency proceedings?	Building Society Special Administration Procedure
The FSCS on Creditors' committee?	N/A
Anticipated recoveries	N/A

On 30 March 2009, the authorities stepped in to help more than 260,000 customers of the Dunfermline Building Society. It was the first use of the new special resolution regime powers contained in the Banking Act 2009. We provided advice to the Bank of England on the possible use of depositor payout as a response and expect to help fund the resolution in due course. All retail deposits held at the building society were transferred to Nationwide Building Society.

HM Treasury provided £1.5bn to Nationwide to cover the liabilities that were not covered by the assets that Nationwide acquired. The Government has indicated that the costs of resolution will be met from recoveries from the Dunfermline's assets, and since the year end the FSCS has been notified that it will contribute towards any shortfall. This will be on a net basis at the end of the process, once the costs of resolution, the level of protected deposits and the level of recoveries the FSCS would have received in an insolvency have been calculated.

HM Treasury will appoint an independent valuer who will work out the recoveries the FSCS would have received had there been a conventional payout.

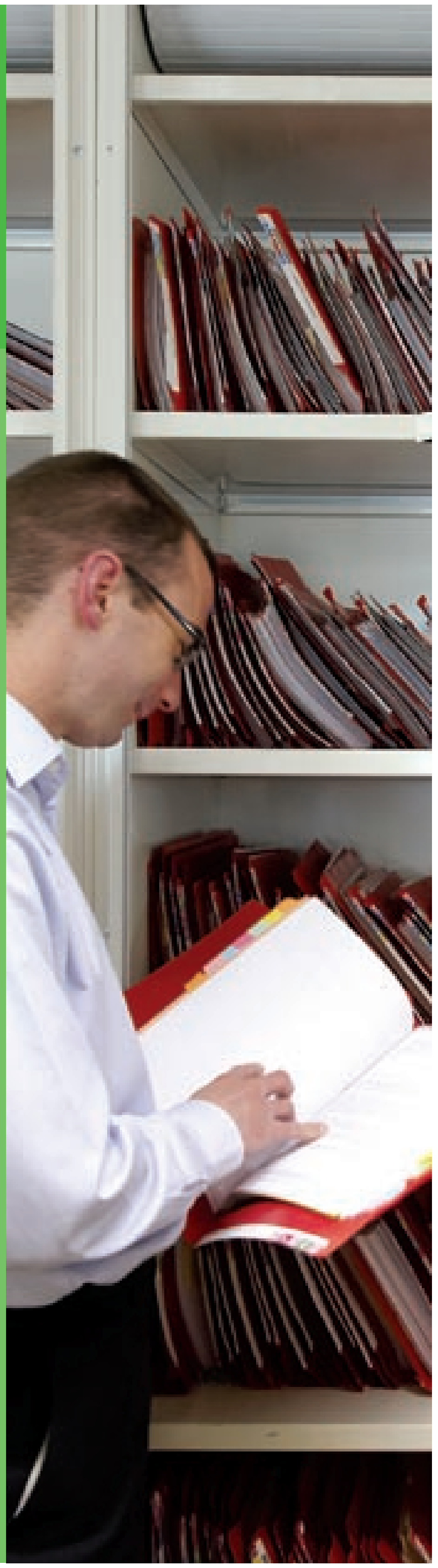
Icesave case study

John Deane

John Deane retired from the Royal Air Force after thirty years of service. John had invested some of his retirement money in Icesave and would have had to revise his retirement plans if the FSCS had not provided full compensation for the money he had invested in Icesave.

In January 2008, John put part of his retirement savings into Icesave because of the high interest rates they offered. He said: "I realised that Icesave stopped trading at the beginning of October, which was concerning as the money I had deposited in the bank made up part of my pension pot. I was aware of the FSCS before the bank collapsed and I had been careful not to go over the protected limit. The information provided by the FSCS was extremely helpful and the reports in the media increased my confidence that I would be compensated.

"I didn't expect to hear from the FSCS so quickly and was impressed with how promptly they managed to organise the electronic system in order to get my money back to me. A number of my colleagues also had savings with Icesave and everyone I know had an extremely positive experience."



Consumer comments on the FSCS's handling of the banking failures

The FSCS worked hard to compensate people affected by the banking failures during 2008/09. Below is a selection of comments illustrating the positive and negative experiences of claimants in receiving their compensation.

"It is amazing that you have managed to sort this all out for depositors in such a quick and neat way. Thanks for taking the effort to ensure that this was all so easy."

"It is now almost eight weeks since you received my application form for my Icesave accounts. I cannot understand why my money is taking so long to reach me."

"I cannot tell you how grateful I am for the compensation you have paid back to me. I don't know what I would have done if I had lost that money. Thank you so much for the painless process and for the constant reassurance issued during this very troubling time. Your service was flawless and I couldn't be more grateful."

"From the moment your organisation stepped in I found the online information clear, authoritative and reassuring and the question and answer section detailed and comprehensive. The speed with which the FSCS has completed the process has been impressive and you have every reason to be proud of your staff."

"I am most unhappy at the sequence of events and time involved in pursuing my claim."

"Throughout the process I felt that I was well informed by using your website and I have now received all of my funds, during this very worrying time it was very reassuring that I was in such competent hands."

"Maybe I am missing something here but why has it taken over four weeks... it's not rocket science."

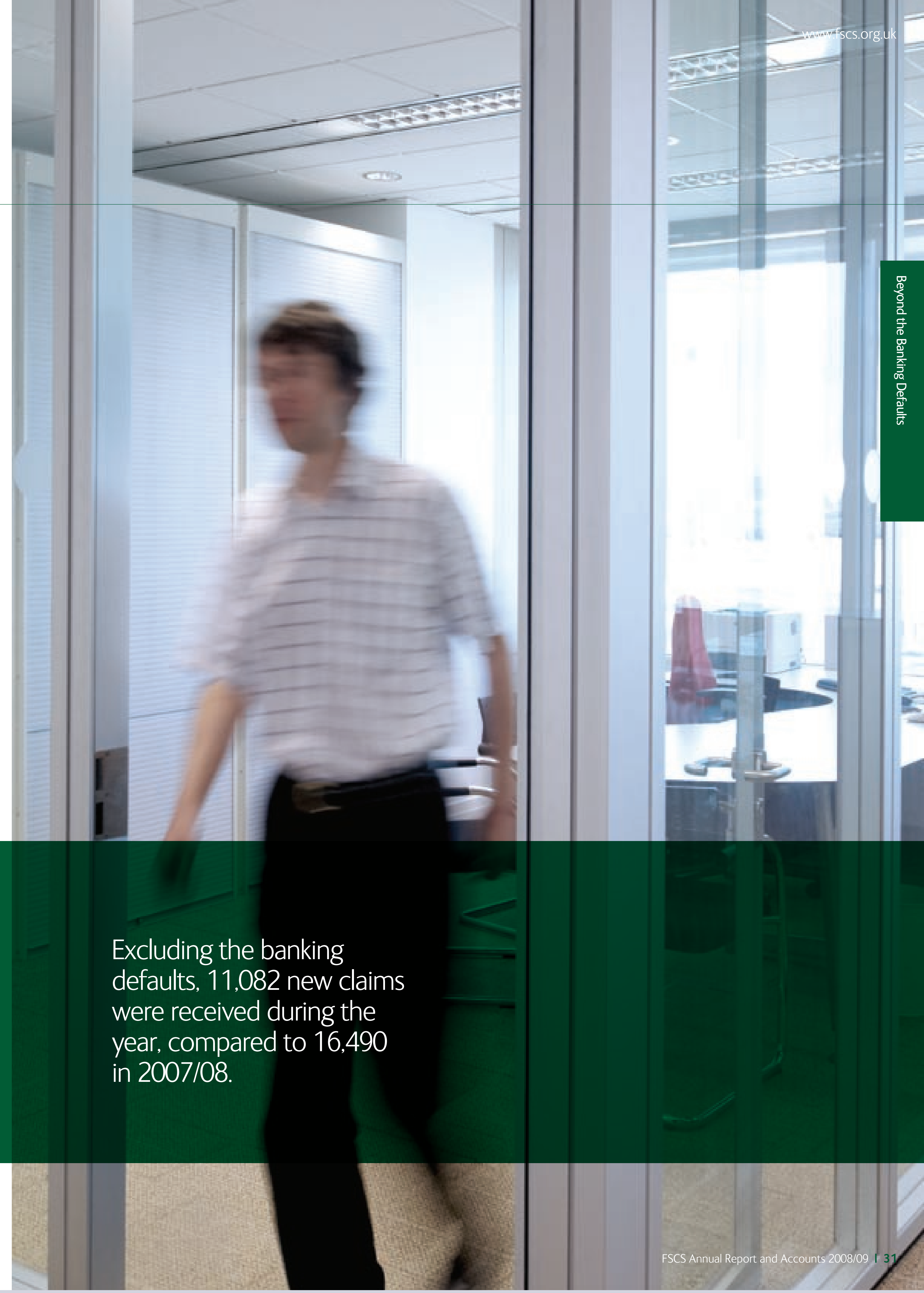
"It is the first time that they have done anything on this scale and I thought they did it very well."

Section 5:
Beyond the Banking Defaults

Summary of claims by product

Type of claim	Claims received 2008/09	Claims completed 2008/09
Splits	895	2,740
Pacific Continental Securities	2,410	890
Square Mile Securities	1,360	190
Other investments	860	800
Mortgage endowments	3,820	4,975
Pensions review & FSAVCs	313	428
Credit unions	605	660
Insurance intermediaries	740	150
Mortgage advice	79	54
Total claims	**11,082**	**10,887**
Insurance payments*		8,890

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

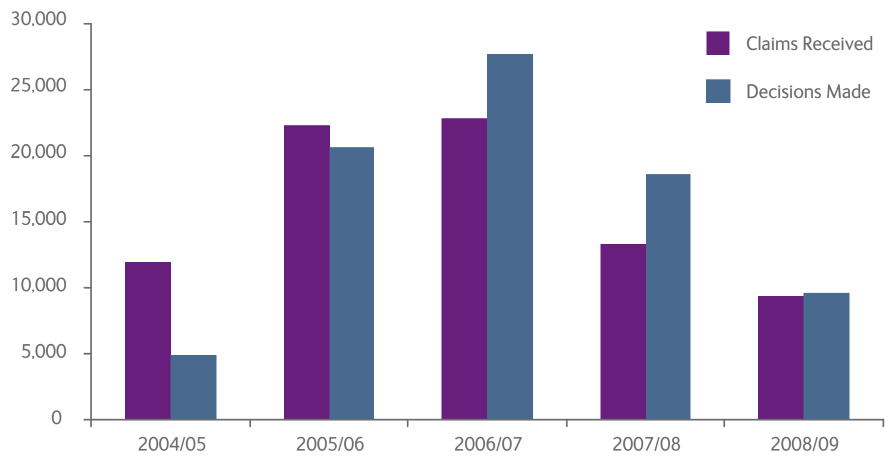


Excluding the banking defaults, 11,082 new claims were received during the year, compared to 16,490 in 2007/08.

Beyond the Banking Defaults

Investment claims*

Investment claims received and decisions made



- 9,345 new claims were received during the year, compared to 13,275 in 2007/08, a reduction of 30%.
- 9,595 claims were completed during the year, compared to 18,615 in 2007/08, a reduction of 48%.
- 2,740 splits claims were completed. 24% resulted in an offer of compensation.
- 1,880 other general investment claims were completed. 69% resulted in an offer of compensation.
- 4,975 mortgage endowment claims were completed. 49% resulted in an offer of compensation.

*Some investment claims, for example mortgage endowment claims, fall to be funded by the Life & Pensions class.

Average compensation payments for investments were:

- £8,820 for splits claims.
- £14,210 for other general investment claims.
- £2,290 for mortgage endowment claims.

Pensions review and free standing additional voluntary contribution claims (FSAVCs)

- 313 new claims were received during the year, compared to 390 in 2007/08, a reduction of almost 20%.
- 428 claims were completed during the year, compared to 505 in 2007/08, a reduction of 15%.
- 74% of decisions resulted in an offer of compensation.
- The average pensions review compensation payment was £29,217.

Credit unions

- Three credit unions were declared in default during the year, compared to 10 in 2007/08.
- 605 new claims were received during the year, compared to 2,680 in 2007/08, a reduction of more than 77%.
- 660 claims were completed during the year, a reduction of 76%.
- Over 69% of credit union claims were completed within four weeks, and 93% within 8 weeks.
- 93% of decisions resulted in an offer of compensation.
- The average compensation payment was £480.

General insurance provision

- 8,890 payments were made in 2008/09, compared to 9,346 in 2007/8.
- Compensation payments totalled £50.8m.
- The increase in total spend from £45.8m in 2007/8 to £50.8m in 2008/9 reflects the increasing cost of mesothelioma claims from Chester Street.
- The largest spend was on historic employers' liability covers issued by Chester Street. The compensation cost to the Scheme of this estate stands for the year at £40.3m.

Insurance intermediation

- 740 new claims were received during the year, compared to 110 in 2007/08, an increase of over 570%.
- 150 claims were completed during the year, compared to 70 in 2007/08, an increase of 115%.
- 56% of decisions resulted in an offer of compensation.
- The average compensation payment was £1,380.

The new claims received during the year were in relation to payment protection insurance (PPI). They are complex and required the FSCS to work out an approach for considering their eligibility and quantification, which has involved working closely with the FSA and the FOS.

Where we have not been able to settle claims during 2008/09, we have continued to do as much preparatory work as possible.

Home finance intermediation

- 2008/09 was the first year in which the FSCS paid claims against mortgage brokers.
- 79 new claims were received during the year, compared to 35 in 2007/08, an increase of 125%.
- 54 claims were completed during the year, compared to 20 in 2007/08, an increase of 170%.
- 24% of decisions resulted in an offer of compensation.
- The average compensation payment was £25,800.
- New claims are expected to continue in increasing volumes in 2009/10.

Pacific Continental Securities (UK) Limited case study

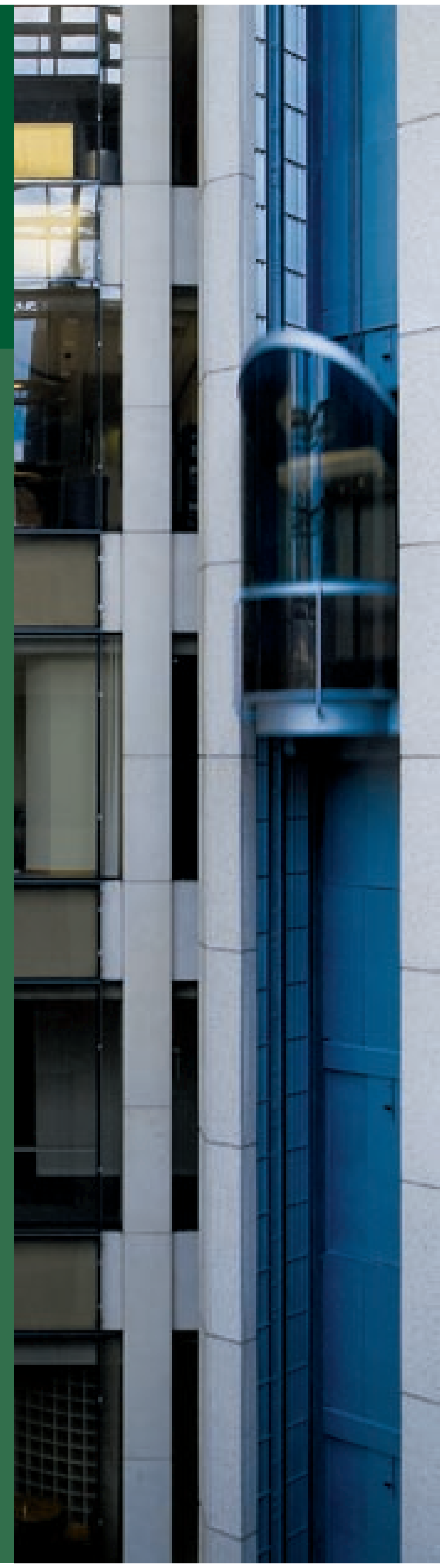
Robert Ratcliffe

Robert Ratcliffe, a retiree from Manchester, had been investing his money with Pacific Continental Securities (UK) Limited since September 2003, after being contacted by a representative from the firm.

Mr Ratcliffe realised there might be a problem when he failed to hear from the firm, and got no response when he tried on several occasions to contact the firm. "I never received annual information regarding my shares in the last year. I tried calling Pacific Continental Securities on numerous occasions to find out what was going on and no one answered."

Mr Ratcliffe received a letter from the FSCS informing him that Pacific Continental Securities (UK) Limited had been declared in default. He explains, "I felt extremely let down. Initially, I didn't know what was going on and I honestly thought we had lost all the money, but I was very pleased to find out that this was not the case.

I felt so relieved that a professional body such as the FSCS was able to deal with the situation. As someone who is in retirement, I was absolutely delighted with the outcome. I have found my experience with the FSCS excellent. The first gentleman who called me, approached me in a very professional manner and this reassured me that something was being done."



Performance against service standards (excluding Specified Deposit Defaults)

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 2008/09, 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.

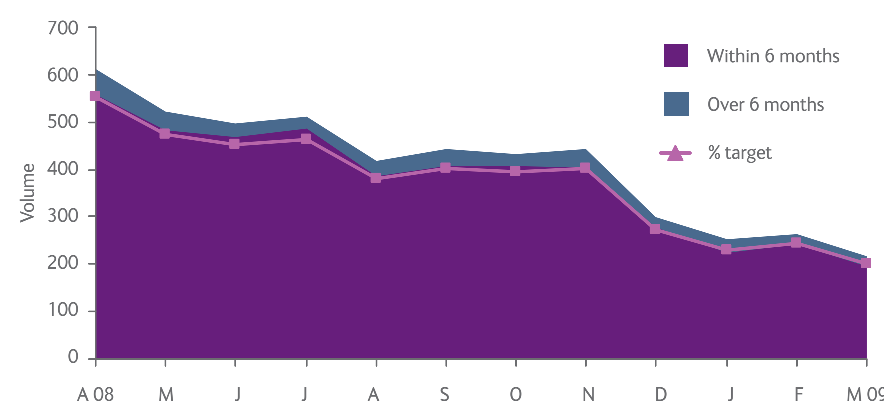
We aim to complete 90% of new claims within six months of receipt where a firm is in default. However, some products are subject to different turn around targets.

Details of how we performed against these targets, for the different product types, are set out below.

Endowment claims

Over the year, on average, 93% of mortgage endowment claims were completed within six months of receipt of an application form.

Endowment claims completed

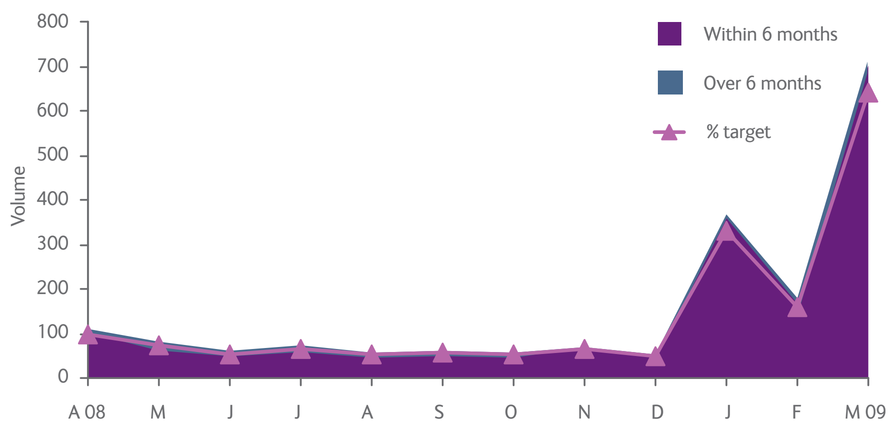


Beyond the Banking Defaults

General investment claims

On average, 95% of general investment claims were completed within the six month turnaround target (excluding Splits which were subject to a different target).

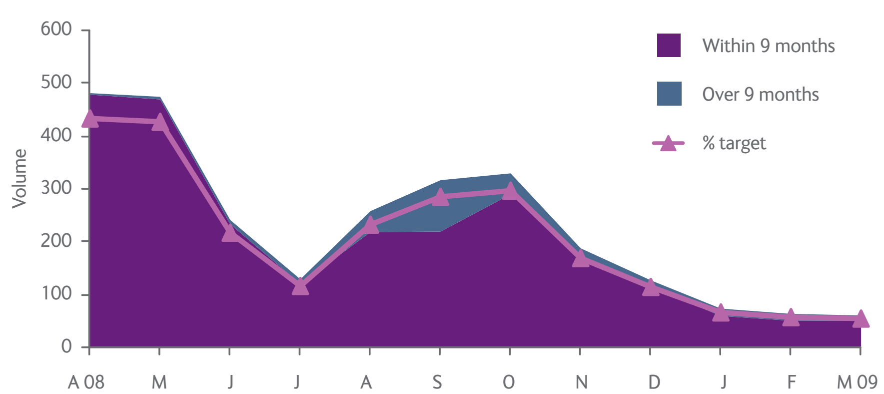
General investment claims completed



Splits claims

In the case of splits claims, we aim to complete 90% within 9 months. The longer timeframe reflects the claim receipt profile and complexities associated with this category of claim. We completed on average 90% of claims within the 9 month turnaround time.

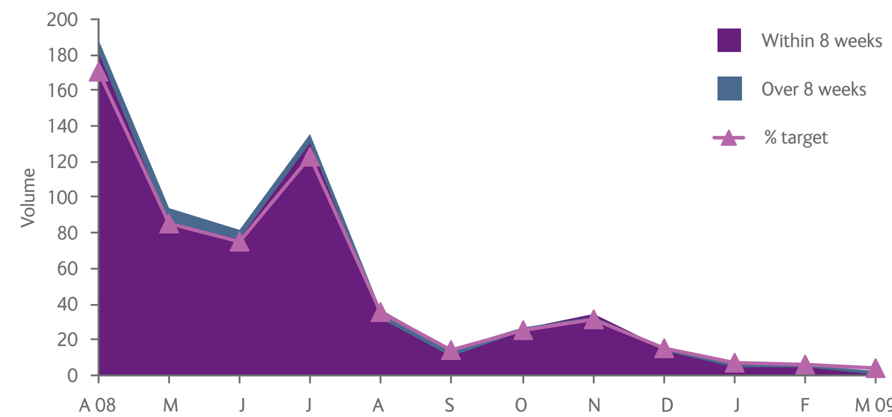
Splits claims completed



Credit union claims

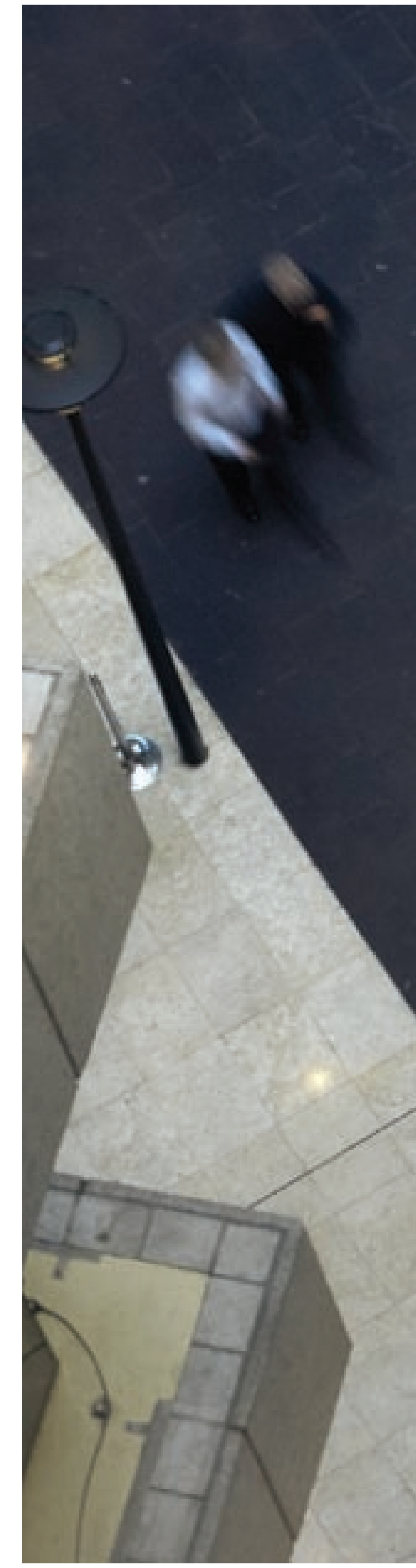
In relation to credit union claims, we have a target of completing 90% of claims within eight weeks. On average, 93% were completed within eight weeks (with 69% completed within four weeks).

Credit Union claims completed



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.



Section 6:
Customer Enquiries and Complaints

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 the 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.

- A total of 234,300 enquiries were received during 2008/09, an increase of nearly 220% on last year's figure.
- 165,600 calls were handled in 2008/09. This is an increase of 281% on last year's figure.
- 68,700 written enquiries were received in 2008/09, an increase of 129% on last year's figure.

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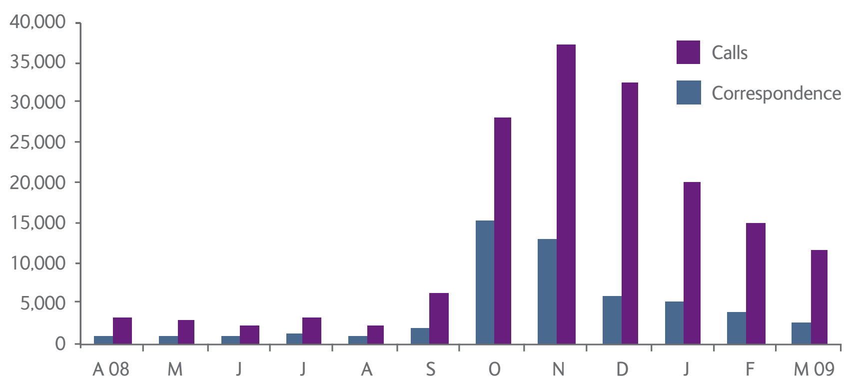
Customer Enquiries and Complaints

Number of telephone enquiries and items of correspondence received by the Customer Services Team by month



In 2008/09, the Customer Services Team's target was to resolve 90% of all telephone calls within 48 hours. This was achieved each month, despite the significantly higher number of calls taken this year.

The team also aimed to resolve 90% of all written enquiries within 15 working days. Again, this target was met each month, despite the greatly increased volumes of emails and letters received by CST since September 2008. These queries related to specific claims against the major banking defaults, and general enquiries about all aspects of the protection provided by the Scheme, particularly in relation to banks, building societies and insurance companies.

Parliamentary correspondence

142 items of Parliamentary correspondence were received in 2008/09, an increase of 122% on last year's figure. 91 of these related to the Deposit Class, and were either specific queries about banking default claims, or general enquiries about the deposit sector. 101 items of this correspondence were received direct from MPs, whilst 41 were referred to us from HM Treasury, where they had been contacted by an MP.

Complaints

During 2008/09, the Customer Services Team received a total of 382 complaints.

185 consumers complained about the decision made on their claim, whilst 197 made a complaint about the handling of their claim. This represents a major change to last year's split, when the vast majority of complainants were unhappy with the decision reached on their claim.

187 of the total complaints received in the year related to the Deposit Class. In the main, complainants expressed dissatisfaction with the time taken in processing of their claims. The volumes of complaints about splits and endowment claims reduced as the year went on.

The number of complaints represents less than 1% of the total claims dealt with this year. This compares with an equivalent figure of 1.3% in 2007/08.

The Independent Investigator

If a claimant is unhappy with the response from the 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 the 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 considering whether the decision is correct.

From 1 April to 30 September 2008, 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.

Two complaints were referred to Rear Admiral Irwin during the 6 months to 30 September. His reviews raised the following recurring themes:

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

From 1 October 2008, John Hanlon was appointed Independent Investigator. Mr Hanlon is a lawyer who has undertaken a wide range of non-executive, advisory and independent roles, including acting as Independent Case Examiner for the Child Support Agency, Jobcentre Plus and a number of other government agencies and businesses, as Regulator of Community Interest Companies, and as a Commissioner for the Scottish Care Commission. Mr Hanlon has provided a report to the Board for the period from 1 October 2008 to 31 March 2009, which is reproduced opposite:

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.

Report from the Independent Investigator

My role is to review how the Scheme has dealt with a claim to it. This review is limited to how a claim has been dealt with as regards its administrative and procedural aspects. My remit does not cover disagreements or disputes relating to the merits of a decision made on a claim.

Having been sent a case for review, I am required to report formally to the Board of the FSCS in writing on whether I consider the handling of a complaint by the Scheme was appropriate. I also highlight to the Board, where it is appropriate, any broader issues that may be of concern as the result of my investigation of a complaint.

A copy of my report in each case investigated is provided to the Scheme's Board, and to the complainant.

I took up my appointment on 1st October 2008. Since my appointment, I have been asked to investigate and report on two cases where complainants have been dissatisfied with the final response from the Scheme, following internal review of such complaints by the Scheme under its complaints procedures.

In both cases, the Scheme's Board has accepted my reports and recommendations.

In addition, I have made observations on any wider, procedural aspects the investigation of these complaints has, in my view, raised for the Scheme to consider in the future.

In a six month period, only two complainants have requested my independent review following the Scheme's internal review of a complaint. I would consider it is important to make clear that the complaints referred to both myself and my predecessor in this reporting year are a very small number having regard to the over 200,000 individual claims the Scheme received in the reporting period.

John Hanlon
Independent Investigator

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Section 7:
Financial Summaries

Summary

For the financial year 2008/09

- Total compensation payments amounted to £18.15bn[1], which together with current estimated validation adjustments of £1.71bn brings the total to £19.86bn.
- Levies received amounted to £132.62m, with a further interim levy on 30 March 2009 of £38.00m, totalling £170.62m.
- Levy credit notes were also issued for fund balances at 31 March 2008. These totalled £106.02m.
- Total recoveries receivable amounted to £17.97m.
- Total management expenditure amounted to £31.47m, including £9.32m related management expenses for the Specified Deposit Defaults (SDDs)[2].
- Loan interest accrued in the year amounted to £390.28m (excluding amount due from HM Treasury and Iceland's Depositors' and Investors' Guarantee Fund).
- Fund balances at 31 March 2009 amounted to a deficit of £20.16bn.

[1] This figure excludes the payments made on behalf of HM Treasury on its own account and on behalf of Iceland's Depositors' and Investors' Guarantee Fund. The figure for compensation including the amounts from HM Treasury and Iceland's Depositors' and Investors' Guarantee Fund is £20.99bn.

[2] Bradford & Bingley plc, Heritable Bank Plc, Landsbanki Islands hf, and its UK Branch and brand Icesave, Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc.

Financial Summaries

Management expenses

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

For further information on how the FSCS is funded see pages 125 and 126.

The FSCS's MELL for 2008/09 was originally set at £30.24m, based on forecast budget expenditure of £24.74m plus a reserve contingency of £5.50m. This was raised to £1bn in October 2008. Total actual management expenses for 2008/09 were £31.47m (excluding loan and other interest). Including loan interest payable of £390.28m and other interest payable of £36.16m this amounted to £457.91m.

References on these pages to SDDs are to the Specified Deposit Defaults, the five bank defaults in 2008/09.

Management expenses actual expenditure: 5 year trend (excluding interest)

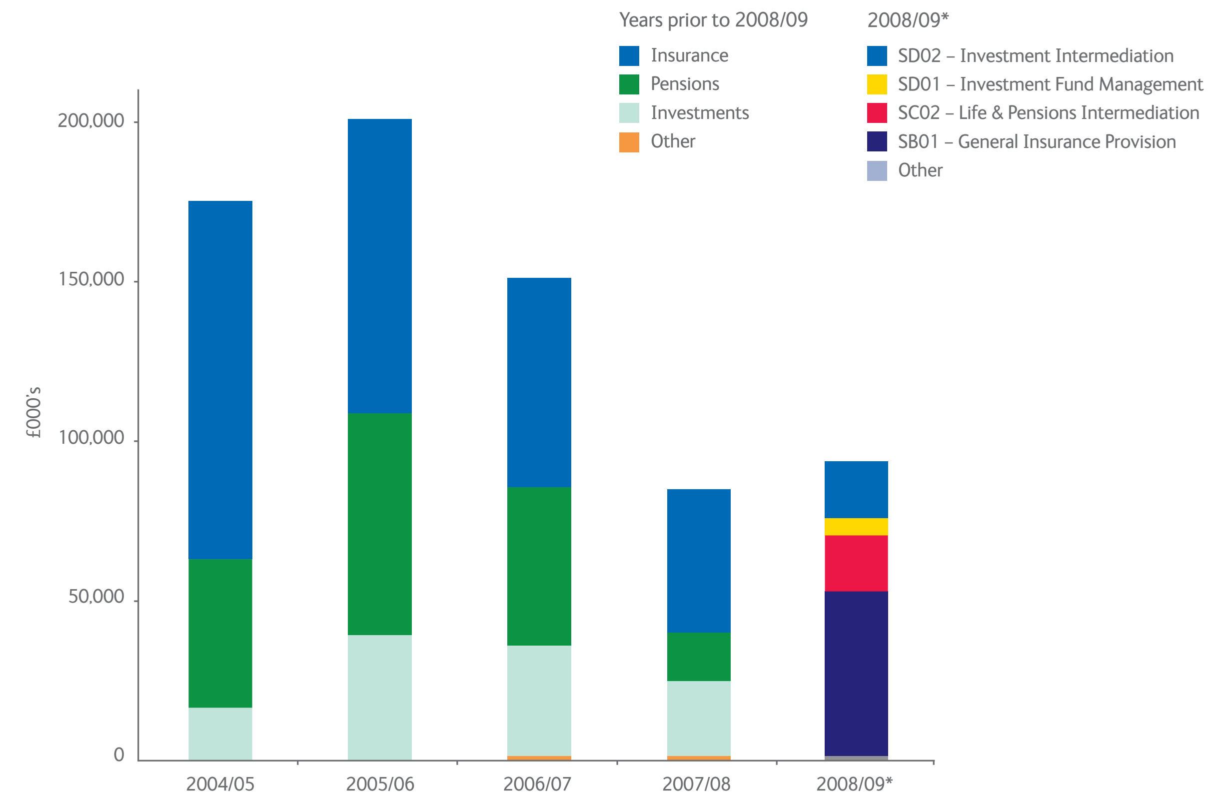
Compensation payments

Total compensation payments for 2008/09 amounted to £19.86bn (excluding payments made on behalf of HM Treasury and the Icelandic Depositors' and Investors' Guarantee Fund).

Compensation Payments	£m
SA01 – Deposit (excluding Specified Deposit Defaults (SDDs))	0.54
SB01 – General Insurance Provision	50.79
SB02 – General Insurance Intermediation	0.13
SC01 – Life & Pensions Provision	0.00
SC02 – Life & Pensions Intermediation	17.62
SD01 – Investment Fund Management	5.92
SD02 – Investment Intermediation	17.44
SE01 – Home Finance Provision	0.00
SE02 – Home Finance Intermediation	0.30
Total excluding SDDs	92.74
SDDs*	19,767.47
Total	19,860.21

*Includes current estimated validation adjustment of £1.71bn for Heritable and Bradford & Bingley.

Compensation payments (excluding SDDs): 5 year trends



*The FSCS moved to a new funding system on 1 April 2008. Under the new funding system, the Sub-classes changed so it is not possible to make direct comparisons between the the old and new system. The first key refers to the four years prior to 2008/09 with the old Sub-schemes. The second key refers to the year 2008/09 and the new Sub-classes.

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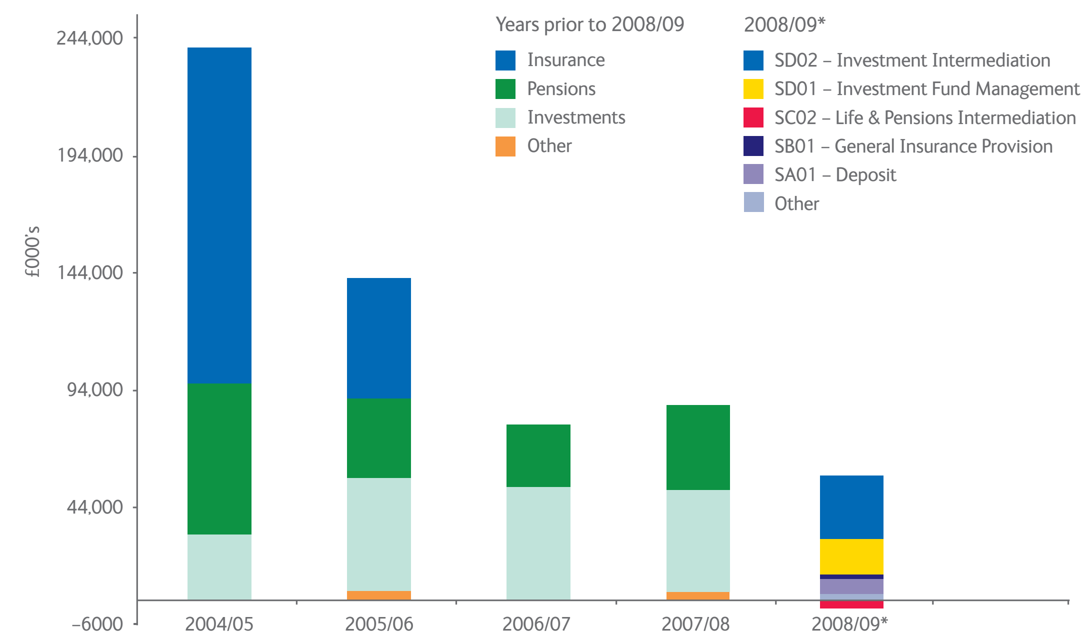
Financial Summaries

Levies

During 2008/09, the levies received and the further interim levy of £38.00m totalled £170.62m (excluding the credit notes issued as part of the "clean break" exercise to repay the contribution group balances at 31 March 2008, totalling £105.87m).

Sub-class	Gross before credit notes £m	Net of credit notes £m
SA01 – Deposit	5.06	5.06
SB01 – General Insurance Provision	73.69	1.75
SB02 – General Insurance Intermediation	2.01	0.63
SC01 – Life & Pensions Provision	0.98	0.63
SC02 – Life & Pensions Intermediation	32.58	(5.93)
SD01 – Investment Fund Management	7.76	17.04
SD02 – Investment Intermediation	47.10	44.13
SE01 – Home Finance Provision	0.00	0.00
SE02 – Home Finance Intermediation	1.44	1.44
	170.62	64.75

Levies: 5 year trends



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Forecasting funding requirements

For 2008/09 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 was carried forward against future costs**, all fund balances as at 1 April 2008 were given back to qualifying firms as a credit or charged as a debit in 2008/09. This enabled the 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

Fund balances as at 31 March 2009 amounted to a deficit of £20.16bn. This was after deducting £19.77bn compensation costs for Specified Deposit Defaults and £390.28m loan interest and other interest of £36.16m.

**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.

Financial Summaries

Fund balances by sub-class

Fund balances by Sub-class as at 31 March 2009

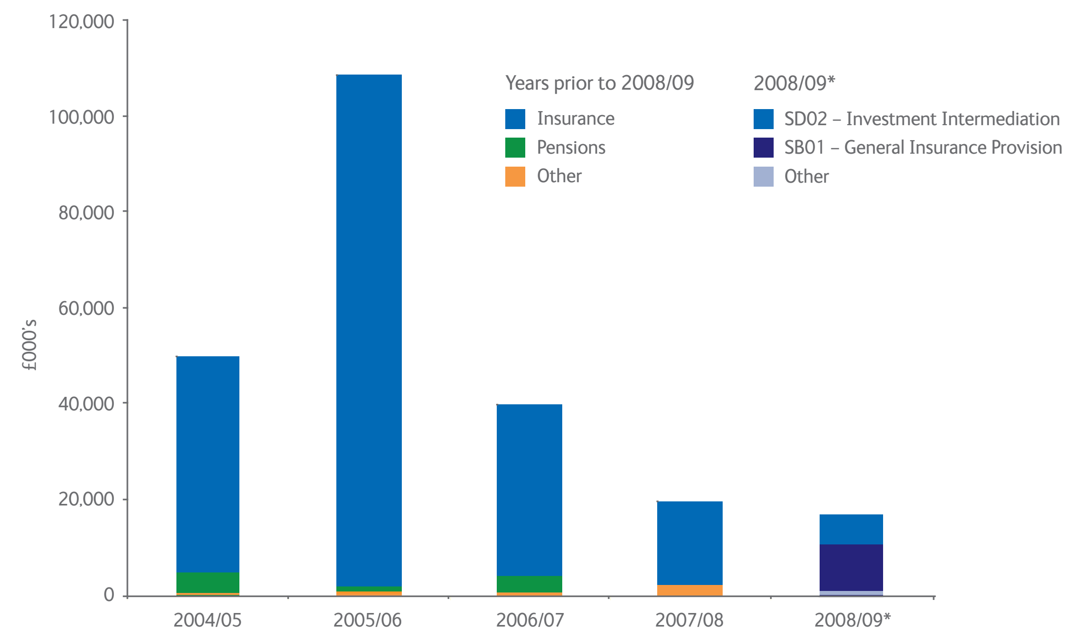
Sub-class	Balance £m
SA01 – Deposit	(433.19)
SB01 – General Insurance Provision	34.45
SB02 – General Insurance Intermediation	0.93
SC01 – Life & Pensions Provision	0.21
SC02 – Life & Pensions Intermediation	9.43
SD01 – Investment Fund Management	(1.61)
SD02 – Investment Intermediation	(6.27)
SE01 – Home Finance Provision	0.00
SE02 – Home Finance Intermediation	0.86
	(395.19)
SDD compensation costs*	(19,767.47)
	(20,162.66)

*Includes current estimated validation adjustment of £1.71bn for Heritable and Bradford and Bingley.

Recoveries

During 2008/09, the FSCS made recoveries of £17.97m. Under the 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.

Recoveries: 5 year trends



*The FSCS moved to a new funding system on 1 April 2008. Under the new funding system, the Sub-classes changed so it is not possible to make direct comparisons between the the old and new system. The first key refers to the four years prior to 2008/09 with the old Sub-schemes. The second key refers to the year 2008/09 and the new Sub-classes.

Financial Summaries

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Operational Review and Corporate Governance

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Operational Review and Corporate Governance
Organisation Chart and Staff

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.

Given the low claim volumes during the first half of the year, we seconded staff to the Financial Ombudsman Service until the year end. In the light of changing claims volumes during the latter part of the year, we hired a number of contractors and increased the capacity available through outsourcers to help deal with the banking defaults.

Staff numbers

Staff levels at the year end were 173, decreasing from 191. Over the year 21 staff left the FSCS. This gave a staff turnover rate of 11.5%, compared to 25% during 2007/08. Three staff joined the FSCS during the year.

Staff numbers by grade are as follows:

Staff per grade	As at 31 March 2009	As at 31 March 2008
Administration Assistant	27	31
Claims Officer	38	37
Senior Claims Officer	69	82
Assistant Manager	22	24
Senior Manager & Head of Division	16	16
Chief Executive	1	1
Totals	173	191

Comprising	As at 31 March 2009	As at 31 March 2008
Operational	159	181
Staff on external secondment and other staff on maternity or other long term leave	14	10
Total	173	191

Staff mix at 31 March 2009

- Our staff mix comprised 77 women and 96 men (2007/08: 83 and 108).
- 33% of staff were 30 or younger, with 11.2% more than 50 years of age (2007/08: 35% and 13%).
- The average age of staff was 37.4, with the youngest being 18, and the eldest being 63 (2007/08: 36, 17, 62).

Skills and training

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

We spent £121,645 during the year (2007/08: £206,500), on a mixture of management skills, technical training and continuing professional development. The lower spend reflected falling staff numbers and operational priorities during the second half of the year which meant that a number of training initiatives were deferred.

Operational Review and Corporate Governance
The Board

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. The FSCS is independent from the FSA, although accountable to it. Details of Board members as at 31 March 2009 are below. Since 31 March 2009, Richard Pratt and Catherine (Kate) Williams retired on 31 May 2009, and Jonathan Clark resigned on 15 May 2009. Mark (Ivan) Rogers and Philip Wallace were appointed directors on 1 June 2009.

Non-executive directors

David Hall (Chairman)
– reappointed
1 April 2009

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 (Terry) Connor
– reappointed
1 June 2008

A senior independent Director of New Star Private Equity Trust, a member of the Legal Services Board and a trustee of Africa Education Trust.
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.

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 Financial Futures and 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 Sport Resolutions (UK). Until 2006, she was a partner at the law firm Lovells, where she had worked for 21 years. Whilst at Lovells, she was involved in banking, fraud and insolvency matters and acted for a wide variety of banks and other financial institutions.

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 Council of the University of Surrey, a Director of Qatar Insurance Services and Chairman of the Mitsui Sumitomo Insurance London companies.

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.

Operational Review and Corporate Governance
Corporate Governance

Corporate Governance

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

The Board

1. Composition of the Board

At 31 March 2009, the FSCS Board comprised eleven directors, including nine non executive directors, including the Chairman, and two executive directors, the Chief Executive and the Director of Claims.

All directors are appointed by 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 54 and 55 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.

There were no changes in the composition of the Board during 2008/09. The FSA renewed the appointments of Terry Connor, Sandy Kinney and Chris Woodburn for a further three years from 1 June 2008 to 31 May 2011. The FSA, with HM Treasury's approval, also renewed the appointment of the Chairman, David Hall, for a further three years from 1 April 2009 to 31 March 2012.

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 the 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 the 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 are also given to other directors from time to time, although none were held during 2008/09, the last being in January 2008. When held, these help to refresh directors' knowledge of existing claims practices, and explain new or revised processes.

Directors are also given training, usually from external providers, on their duties and responsibilities as directors. Such training is delivered not only on appointment to the Board, but also on an occasional basis as a way of maintaining and refreshing directors' knowledge in this area. 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. A similar bespoke one day workshop on directors' duties and responsibilities, tailored to the needs of the FSCS Board, has been scheduled for October 2009.

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 the FSCS and also looked at the way in which the 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. A similar workshop will be held in 2009.

In addition to receiving briefings and training on both FSCS issues and directors' duties and responsibilities, directors keep up to date with developments in the financial services industry. One of the ways in which the Board has engaged with the industry in 2008/09 has been for the Chairman, Chief Executive and some of the non executive directors to attend the Industry Forum. The Chairman and Chief Executive also continued to meet trade bodies on a regular basis during the year.

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 aims to meet 11 times a year. However, because of the significant additional work that the FSCS had to undertake in relation to the five bank failures described earlier in this Annual Report (see Chairman's Statement and Chief Executive's Report for commentary on the Specified Deposit Defaults (SDDs)), there were 21 Board meetings during 2008/09.

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. During the year, the Board has benefited from further refinements to the format and content of the operational and financial reports to the Board, following an earlier review by a small working group of directors and managers. 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.

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.

Operational Review and Corporate Governance
Corporate Governance

Committees of the Board

1. Finance and Administration Committee

The Finance and Administration Committee met six 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, as part of its annual agenda schedule, the 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 the FSCS, the progress of the various projects being undertaken by the 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 developed a set of criteria against which its performance as a Committee could be assessed, and implemented a system for carrying out an annual review of its own effectiveness using these criteria. The Committee carried out the first of these annual performance assessments in February 2009, and concluded that there were no significant causes for concern, although further thought would be given to the timing of Committee meetings and to conducting a review of its terms of reference.

2. Audit Committee

The Audit Committee met five times during the year. It currently comprises four non executive directors (with the Chairman, 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 professional indemnity and directors' and officers' liability insurance arrangements, directors' expenses 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, although another review was carried out in June 2009, which was in respect of the Committee's 2008/09 performance.

The Committee also developed further its thinking on risk management, and took additional steps to consider not only the FSCS's Risk Register but also individual key risks in more depth, in particular those relating to the Scheme's work on the Specified Deposit Defaults (SDDs). This is explained under 'Internal controls' later in this section.

3. Composition of the Board Committees

Committee Membership (as at 31 March 2009)	Audit Committee	Finance & Administration Committee
Non-executive directors:		
David Hall		
Anthony Ashford		X
Terence Connor		X
Alexandra (Sandy) Kinney	X	
Richard Pratt		•
Rosalind Reston	X	
John (Max) Taylor	X	
Catherine (Kate) Williams	•	
Christopher Woodburn		X
Executive directors:		
Jonathan Clark		X
Loretta Minghella		X

• = 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.

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

Committee Membership (as at 31 March 2009)	Board	Audit Committee	Finance & Administration Committee	Appointment date	Expiry of current term
Number of meetings held:	21	5	6		
Non-executive directors:					
David Hall	21/21			1 Mar 2006	(renewed on 1 April 2009) 31 Mar 2012
Anthony Ashford	15/21		6/6	1 Feb 2007	31 Jan 2010
Terence Connor	19/21		5/6	1 Jun 2005	(renewed on 1 June 2008) 31 May 2011
Alexandra (Sandy) Kinney	17/21	4/5		1 Jun 2005	(renewed on 1 June 2008) 31 May 2011
Richard Pratt	16/21		6/6	1 Jun 2004	(renewed on 1 June 2007) 31 May 2009
Rosalind Reston	19/21	5/5		1 Feb 2007	31 Jan 2010
John (Max) Taylor	17/21	2/2*		1 Sep 2007	31 Aug 2010
Catherine (Kate) Williams	16/21	5/5		1 Jun 2004	(renewed on 1 June 2007) 31 May 2009
Christopher Woodburn	16/21		5/6	1 Jun 2005	(renewed on 1 June 2008) 31 May 2011
Executive directors:					
Jonathan Clark	20/21		3/6	1 Jul 2007	Resigned 15 May 2009
Loretta Minghella	21/21		6/6	6 Dec 2004	(renewed on 1 May 2007) 30 Nov 2010

* Member from December 2008

Operational Review and Corporate Governance
Corporate Governance

5. The Claims Decisions Committee

The Claims Decisions 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. There were no cases referred to this Committee during the year.

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. Both the Board and the Audit Committee have also considered and reviewed a number of additional control issues relating to the five 'Specified Deposit Defaults' (Bradford & Bingley plc, Landsbanki Islands hf (Icesave), Heritable Bank Plc, Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc). In response to the unprecedented levels and type of claims to the FSCS in respect of the 'Specified Deposit Defaults', the FSCS developed a new range of approaches to handling claims. These operational measures required the implementation of new systems and controls. Together with external advisers, the FSCS is undertaking a review of the systems and controls, which will assist the handling of similar defaults in the future.

The main components of the 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 the 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
- the FSCS's internal controls (which include financial, operational and compliance controls).

The following examples illustrate the additional work that the FSCS has carried out during 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 the FSCS. The FSCS's Risk Register, which identifies and prioritises key risks to the organisation and highlights the relevant controls for each risk area, was further refined during the year. This is treated as a continuous process, with the Risk Register changing over time in line with changes in the FSCS's priorities, activities and exposure to risk. The Risk Register is reviewed and updated regularly by management, and is also considered by the Audit Committee at each meeting. The Audit Committee also discusses certain key risks in more depth, which allows the Committee to 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. These QA reviews are carried out by the 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. The FSCS's internal auditors, Deloitte, have continued to conduct reviews and provide reports on various aspects of the Scheme's work as part of the annual programme and in response to events in the year. 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 the levy and expense allocation process, data protection, business continuity and disaster recovery planning, project management, purchasing and payments, the general insurance audit process and the quality programme. The internal auditors carry out reviews in accordance with an agreed rolling programme, 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 the changing face of the Scheme and its enhanced remit, and has looked into the risks and controls associated with those areas.

6. The Audit Committee took the opportunity to review the appropriateness and coverage of the FSCS's professional indemnity and directors' and officers' liability insurance cover in the context of the risks they served to mitigate.

7. The Board continued to consider claims processes and policies, the FSCS's approach towards recoveries and funding (including levies and exit levies), 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 compensation reform and the Banking Act 2009 to ensure that reforms took due account of the FSCS's views and experience.

9. During the year, the FSCS commissioned its external auditors, PricewaterhouseCoopers (PwC), to carry out some non audit work in relation to the Scheme's operating model. In order to ensure that the external auditors' objectivity and independence were safeguarded, the matter was referred to the Audit Committee in line with Board approved policy. The Committee concluded that, in the circumstances, PwC appeared not to be conflicted, that the external auditors' independence would not be impaired as a result of PwC carrying out the required non audit work, and that, therefore, it would be acceptable to allow PwC to carry out this work. In addition, the Board, on the recommendation of the Audit Committee, updated its policy on the engagement of the external auditors to carry out non audit services for the Scheme. A report is now submitted annually to the Audit Committee on any non audit work carried out by the external auditors, and a set of criteria has been agreed for establishing the circumstances in which the external auditors may be permitted to tender for such work.

Operational Review and Corporate Governance
Corporate Governance

Principal risks and uncertainties

The Scheme's risk management processes are described above. As a result, the FSCS has established that key risks to the Scheme's business arise from the following: the external business environment – increases in large business failures in the industry, the international perspective in relation to overseas firms topping up into the FSCS, and the Scheme's ability to respond effectively to significant changes in claims volumes; potential changes in legislation and regulatory approach; data quality issues, in particular the Scheme's reliance on obtaining data from the defaulting firms; risks associated with increased 'management stretch'; risks, including reputational risks, associated with the Scheme's general increased exposure, scrutiny and accountability; access to funding; control risks relating to increased complexity and higher volumes of claims; and increased reliance on third parties to carry out Scheme work.

Processes in place to manage these key risks and other risks identified are also detailed in the section above.

Financial risk management

The Scheme's operations, and those of its Sub-classes, 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 used comprise HM Treasury loan arrangements, bank overdrafts and loan facilities, cash and short-term money market deposits. Other instruments used 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 were placed across a panel of counterparties, comprising banks with high credit ratings assigned by an international credit rating agency. Following a review, deposits are now mostly made with the Bank of England.

Liquidity risk –The Scheme maintains a number of arrangements designed to secure adequate liquidity to meet its operational cash flow requirements, including HM Treasury borrowing facilities, commercial bank overdrafts and loan facilities.

Interest rate risk – Given the current levels of net debt and its exposure to interest rate movements, the potential use of instruments to mitigate interest rate risk is kept under review by the FSCS.

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 the FSCS's 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 pages 68 and 69 and in Note 8 of the financial statements.

Compliance with the Combined Code

The FSCS complied throughout the period covered by this report with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance (revised in June 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); and
- B.2.3 (remuneration of non-executive directors).

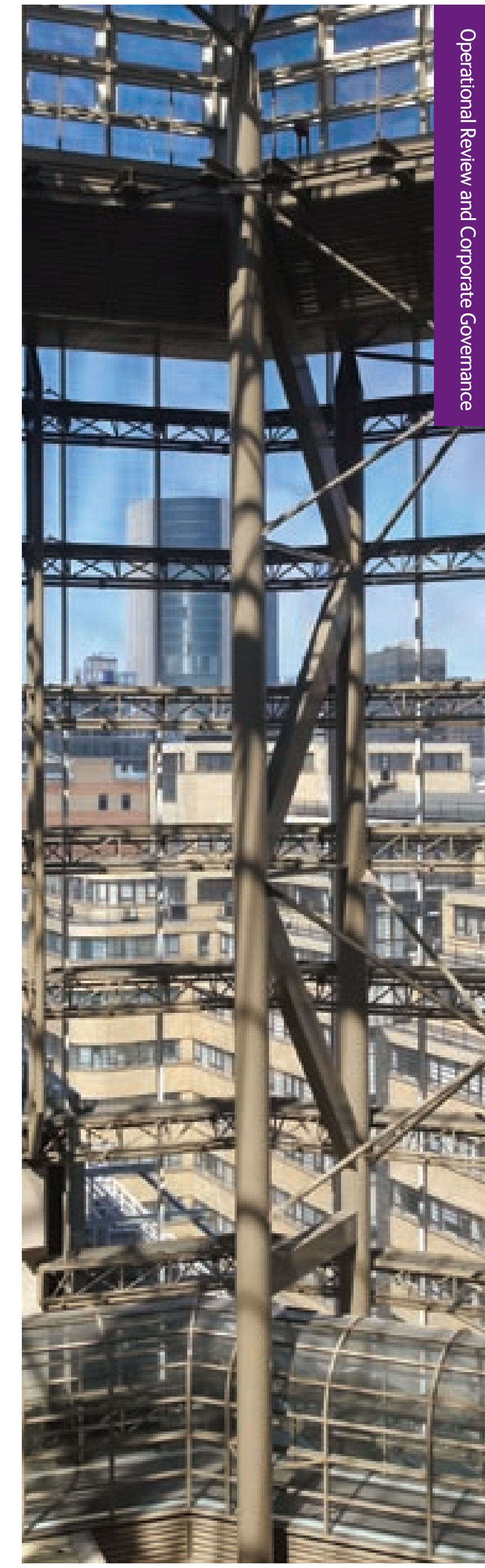
All appointments to the FSCS Board are made by the FSA, with the Chairman's appointment (and removal) also being approved by HM Treasury. Accordingly, the FSCS does not require a separate nominations committee. The FSA, with input from the FSCS where required, considers areas such as the balance of skills, knowledge and experience on the Board, rotation on the Board and directors' fees.

The FSCS also has an active supporting role with the FSA in respect of the recruitment of the 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.

The 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 the FSCS assists the FSA by providing relevant information to assist the FSA in this process. 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 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 reappointment 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 recommends that there should be a recognised senior independent director, other than the non executive Chairman, to whom concerns can be conveyed. Given the largely non executive structure of the Board, the FSCS has operated without identifying such a senior director since its inception. The Board has considered this issue, and agreed that the present system remained appropriate for the 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.



Section 9:
Directors' Report and Accounts

Directors' Report and Accounts
Financial Statements of the Financial Services Compensation Scheme Limited for the year ended 31 March 2009

Directors' report

The directors of Financial Services Compensation Scheme Limited (the FSCS) present their ninth report, together with the audited financial statements of the FSCS and its Sub-classes for the year ended 31 March 2009.

Principal activities

The 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. The FSCS 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 ended 31 March 2009.

Review of activities

Since receiving its powers under FSMA and the integration of the former compensation schemes at N2, the FSCS has continued to fulfil its responsibilities throughout the year.

During 2007/08, the FSA considered the funding of the FSCS, and issued the Funding Review Policy Statement, PS 07/19 in November 2007, with implementation effective 1 April 2008. The effect is to introduce five new Broad Classes and related Sub-classes, as defined for funding purposes in the FSA Handbook, with the removal, in all aspects other than for the levying of the base cost element of management expenses, of the former Schemes, Sub-schemes and contribution groups. Where appropriate, mappings are shown in Note 8 of the Sub-class accounts to provide consistent presentation in 2008/09 and comparatives of fund balances with the previous year.

In 2008/09, the FSCS levy was raised from a zero base with the fund balances of the Sub-schemes and contribution groups used in previous years being returned to firms as part of the 'clean-break' exercise. This meant that all contribution group balances as at 31 March 2008, other than those of the Accepting Deposit Sub-scheme, were carried into the 2008/09 levy calculations and returned to firms as credit or debit notes as a part of the levy process.

The events within the UK economy, particularly from the Autumn of 2008, and the defaults of several well publicised major banks, including Bradford & Bingley plc, Heritable Bank Plc, Landsbanki Islands hf – Icesave, Kaupthing Singer & Friedlander Limited and London Scottish Bank Plc, referred to as Specified Deposit Defaults (SDDs), have had a considerable impact on the activities of the FSCS.

The FSCS has, under Parliamentary orders, made payments referred to as 'deemed compensation' of £17.0bn, as explained further on page 105, and received £0.3bn as an adjustment, before 31 March 2009. These figures have been further adjusted in light of the latest information, as described on Page 106. These transactions are reflected as SDD compensation costs in the Sub-class accounts (see Notes 2 and 3) and Loans in the FSCS accounts.

Also, the FSCS made payments on behalf of HM Treasury beyond the eligibility limits, which are paid for through HM Treasury advances, with no direct impact on the FSCS levy payers. These transactions are reflected in the FSCS accounts and the Sub-class accounts, as more fully detailed in the respective financial statements.

The funding of these payments, together with further compensation costs and related management expenses, have been secured through borrowings. Interest is payable annually, funded through levies, and the principal repaid through expected future recoveries with any balance funded through future levies.

Future outlook

Further matters relating to future outlook are referred to in the Chairman's Statement, in the Annual Report. To the extent that the outlook encompasses loans, recoveries and repayment, they are referred to in the Chief Executive's report in the Annual Report. Recoveries will be paid to reduce the loans and the outstanding principal is due to be repaid from 2012 on a timetable which will be determined by the FSCS and HM Treasury depending on market conditions at the time. Until the repayment timetable is agreed in 2012, it is not possible to say which levy class or classes will be levied for any outstanding principal. The Chancellor of the Exchequer has confirmed that the Government stands behind the FSCS, so it can be relied on to be able to play its role in meeting future claims that arise.

Principal risks and uncertainties

The principal risks to the FSCS arise from the global financial crisis and UK economic outlook and market conditions for firms, which in turn affect the financing of compensation costs, recoveries and operational risks, particularly resourcing through staff and outsourcers. In addition, uncertainty remains about the cost of deemed compensation for the bulk transfer of accounts until the validations are completed. These issues are referred to in the Annual Report under their respective headings, in particular in the Chairman's Statement, on pages 8 and 9, the Chief Executive's Report on pages 12–17, and within the management of principal risks and uncertainties on page 62 of the section on Corporate Governance.

The principal uncertainties identified are: funding of borrowings which are referred to in Note 17; recoveries of management expenses from third parties, Note 10; the outcome of the validation process of deemed compensation and interest payable on the balancing adjustments to deemed compensation as explained within the Sub-class financial statements in Note 3 on page 106; and recoveries through dividends from the SDD estates, as explained in Note 17.

Business review

The FSCS's results show an excess of income over expenditure of £722,000 (2008: £611,000), as shown on page 73, and a net actuarial loss arising on the final salary pension scheme assets and liabilities movements of £1,666,000 (2008: £1,344,000 gain) in the Statement of Total Recognised Gains and Losses. A more detailed review of the performance of the FSCS can be found in section 7 of the Annual Report. Administration expenses and interest payable, of £479,631,000 (2008: £25,418,000) in the year including a net credit of £550,000 being the defined benefit pension scheme contributions of £1,136,000 less the current service cost of £586,000 (Note 7) (2008: £519,000, £1,127,000 and £608,000 respectively).

Directors' Report and Accounts
Financial Statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2009

Of the gross amount, £457,913,000 (2008: £25,856,000) is accounted for within the FSCS Sub-classes, as shown on page 102, and £22,268,000 (2008: nil) is due to be recovered from third parties, as shown on page 90. A more detailed review of the performance of the FSCS can be found in section 7 of the Annual Report.

Fixed assets

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

The directors

Details of the directors in the year to 31 March 2009, all of whom are non-executive unless stated, are as follows:

Anthony Ashford
Jonathan Clark (Executive Director)
Terence Connor
David Hall (Chairman)
Alexandra (Sandy) Kinney
Loretta Minghella (Chief Executive, and Executive Director)
Richard Pratt
Rosalind Reston
John (Max) Taylor
Catherine (Kate) Williams
Christopher Woodburn

Since 31 March 2009, Richard Pratt and Catherine (Kate) Williams retired on 31 May 2009, and Jonathan Clark resigned on 15 May 2009. Mark (Ivan) Rogers and Philip Wallace were appointed as directors on 1 June 2009.

Directors' emoluments

Total emoluments paid to directors are as follows:

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Aggregate emoluments	696	638
Pension contributions – defined benefit	32	31
money purchase	13	12
	741	681

Retirement benefits accrued to two directors (2008: three); one under the FSCS's defined benefit scheme (2008: one) and one under the money purchase scheme (2008: two).

The highest paid director, the current Chief Executive, received aggregate emoluments in the year of £279,493 (comprising basic salary of £235,000, bonus of £42,000 relating to the year ended 31 March 2008 and other emoluments of £2,493) (2008: £238,397 comprising basic salary of £210,000, bonus of £27,000 relating to year ended 31 March 2007, and other emoluments of £1,397), and contributions to a defined benefit arrangement under the FSCS's pension scheme have been made of £32,105 (2008: £30,794). The bonus awarded for the year to 31 March 2009 is £47,000 paid in 2009/10. The Chief Executive did not receive additional remuneration in respect of the role as director.

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

	Accrued Pension at 1 April 2008 (£ pa)	Accrued Pension at 31 March 2009 (£ pa)	Increase in Accrued Pension (in excess of inflation) (£ pa)	Transfer value of increase £
L. C. R. Minghella	6,110	8,330	1,915	24,466

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 £73,500 per annum (2008: £70,000) and the fees paid to the non-executive directors are set at £21,000 per annum (2008: £20,000). Additional fees paid to the Chairmen of the Audit Committee and Finance and Administration Committee were set at £4,750 per annum (2008: £4,500). In addition, business related expenses totalling £6,076 were reimbursed to the non-executive directors. The Chairman and the other non-executive directors are not entitled to a pension funded by the FSCS.

Liability insurance

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

Statement of disclosure of information to auditors

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

1) so far as each of them is aware, there is no information relevant to the audit of the FSCS financial statements for the year ended 31 March 2009 of which the auditors are unaware; and
2) the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the FSCS auditors are aware of that information.

Directors' Report and Accounts
Financial Statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2009

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

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the FSCS 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 FSCS 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 FSCS 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 FSCS and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the 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 the FSCS's Annual Report on pages 56 to 62.

Going concern

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

Auditors

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 July 2009

Report of the Auditors

Independent auditors' report to the members of Financial Services Compensation Scheme Limited for the year ended 31 March 2009

We have audited the financial statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2009, 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and 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.

In addition, we 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.

CONTENTS

Directors' Report and Accounts
Financial Statements of Financial Services Compensation Scheme Limited for the year ended 31 March 2009

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2009 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
20 July 2009

Directors' Report and Accounts
Financial Statements for the year ended 31 March 2009

Income and Expenditure Account

	Note	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Administrative expenses	4	(30,907)	(25,339)
Interest payable	5	(448,724)	(79)
Operating income, comprising:		480,353	26,064
Interest receivable and other income	9	172	208
Management expenses recoverable from:– Sub-classes and third parties	10	31,465	25,856
Interest payable recoverable from:–			
Sub-classes	10, 17	426,448	–
third parties	10, 17	22,268	–
Excess of income over expenditure on ordinary activities before tax		722	646
Taxation	9	–	(35)
Excess of income over expenditure on ordinary activities after tax		722	611

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

Statement of Total Recognised Gains and Losses (STRGL)

	Note	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Excess of income over expenditure		722	611
Actuarial (loss)/gain on pension scheme liabilities	7	(1,666)	1,344
Total recognised (loss)/gain relating to the year		(944)	1,955
Total (losses)/gains recognised since last annual report		(944)	1,955

The Notes on pages 76 to 100 form part of these financial statements.

Directors' Report and Accounts
Financial Statements for the year ended 31 March 2009

Balance Sheet as at 31 March 2009

	Note	2009 £'000	2008 £'000
Fixed assets	12	1,954	2,185
Current assets			
Debtors: amounts falling due within one year	13	499,751	4,980
Cash at bank and short term deposits	14	44,361	5,628
Debtors: amounts falling due after more than one year	13	22,343,893	–
Total current assets		22,888,005	10,608
Creditors: amounts falling due within one year			
Sub-class borrowings	14	–	(199)
Creditors and accruals	15	(2,009,623)	(12,409)
Bank overdraft	14	(2,036)	–
Loan interest payable	17	(412,552)	–
Total current liabilities		(2,424,211)	(12,608)
Total assets less current liabilities		20,465,748	185
Creditors: amounts falling due after one year			
Provision for liabilities and charges	16	(216)	(185)
Loans	17	(20,465,532)	–
		(20,465,748)	(185)
Total net assets excluding pension (liability)/asset		–	–
Pension (liability)/asset	7	(366)	578
Total net (liabilities)/assets including pension (liability)/asset		(366)	578
Reserves	19	(366)	578

Approved for and on behalf of
the Board of Financial Services
Compensation Scheme Limited
on 20 July 2009

David Hall
Chairman

The Notes on pages 76 to 100 form part of these financial statements.

Statement of Cash Flows for the Year Ended 31 March 2009

	Note	2009 £'000	2008 £'000
Net cash (outflow)/inflow from operating activities	20	(20,428,229)	4,331
Returns on investments and servicing of finance	21	(8)	(129)
		(20,428,237)	4,202
Taxation paid		–	(34)
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(399)	(195)
Net cash outflow from investing activities		(399)	(195)
Financing activities			
Sub-class borrowings		(199)	(164)
Increase in loans		20,465,532	–
Capital element of finance lease payments		–	(16)
Net cash outflow from financing activities		20,465,333	(180)
Increase in cash	22	36,697	3,793

Directors' Report and Accounts
Notes to the Financial Statements for the year ended 31 March 2009

1 Constitution

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

The FSCS was 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. The FSCS operates the various Sub-classes as Scheme Manager.

2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions, the COMP section and FEES manual of the FSA Handbook, and UK Generally Accepted Accounting Principles, on a going concern basis. As shown on the Balance Sheet, the FSCS has negative reserves and an excess of liabilities over assets that arise due to the inclusion of the pension liability in relation to the FSCS pension scheme valued in accordance with the principles set out in FRS 17. However, the Directors have considered the future outlook for FSCS (see page 67 of the FSCS's Annual Report), are satisfied that the FSCS is in a position to meet its obligations as they fall due and have prepared the financial statements on a going concern basis.

The financial statements presented here are those of the FSCS and do not consolidate or otherwise include the Sub-class transactions except insofar as the Sub-class transactions give rise to an obligation of the FSCS itself.

The principal accounting policies are set out below.

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

b) Pension scheme
The FSCS operates both a defined benefit pension scheme 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 or deficit of present value of the scheme's assets/liabilities over the value of the scheme liabilities/ assets. Further details are contained in Note 7.

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).

Leasehold improvements:
straight-line basis over the periods of the leases, commencing on occupancy.

Expenditure on computer software is written off when incurred.

d) Levies, compensation costs and other items handled on behalf of Sub-classes and third parties
The FSCS raises levies which are reflected as amounts due to the relevant Sub-classes.

Directors' Report and Accounts
Notes to the Financial Statements for the year ended 31 March 2009

The FSCS makes compensation payments on behalf of the Sub-classes, which are only shown in the Sub-class accounts. Compensation offers are accrued at the balance sheet date if they are due and have been made, accepted, and, for re-instatement cases, fully valued.

The FSCS makes payments referred to as deemed compensation under parliamentary orders, see the Directors' Report on page 66, and Notes 2 and 3 to the Sub-class financial statements. The liability is incurred on the order date, and adjusted for Balancing Payments made between the parties and updated as further information is received.

Recoveries notified before the year-end, but not received by that date, are accrued by the FSCS and reflected as amounts payable to the relevant Sub-class in accordance with FSMA and the FEES manual.

Management expenses comprise base costs, being the costs of running the Scheme, specific costs, which are the remaining costs which cover the handling and payment of compensation costs and loan interest payable. These expenses are allocated by the FSCS to each Sub-class in accordance with the principles contained within FEES manual.

e) Third party arrangements as agent
The FSCS does work and makes compensation payments on behalf of third parties, as agent, which are recoverable from such parties. Any amounts due from third parties are shown in the Balance Sheet.

Compensation payments paid to claimants as agent on behalf of third parties and recoverable from them in full are not shown in the Income and Expenditure Account.

Management expenses incurred in performing work on behalf of third parties are recovered from such parties by the FSCS and not allocated to the Sub-classes or funded by levy payers. These costs and the related recoveries are shown in the Income and Expenditure Account.

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

Interest to reflect the time value for money on any Balancing Payment compensation adjustment is accrued in the period, as described in Note 4 to the Sub-class accounts.

g) 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.

h) 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.

i) 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.

j) 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.

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

3 Accounting judgements and key estimation uncertainties

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

The key area relates to the estimates of adjustment to the deemed compensation arising from the verification process which are based on the latest reliable and most appropriate information available. Any change in these estimates on agreement with HM Treasury would affect the future levels of borrowings, the payment of interest and subsequent funding of principal through recoveries and levy. As explained in Note 17, to the extent that advances are not repaid through recoveries by 31 March 2012 an amortisation schedule will be agreed, taking into account prevailing market conditions at that time. Interest is payable on the adjustments and is accrued as at 31 March 2009. Once the adjustments are agreed, the interest payable or receivable by FSCS may change.

Such adjustments as may be necessary, are not expected to have a material impact on the financial statements of the FSCS.

4 Administrative expenses

The following amounts are included within administrative expenses:

	Note	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Depreciation	12		
Owned assets		630	641
Assets held under finance leases		–	16
Auditor's remuneration			
Audit services		316	88
Non-audit services		99	–
Operating lease rentals	18	1,079	1,079

5 Interest payable

Interest payable comprises:

	Note	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Sub-class interest		8	49
Loan interest	17	412,552	–
Time value for money interest		36,164	–
Finance lease interest		–	30
		448,724	79

6 Staff costs

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Aggregate gross salaries for staff, including the Executive Directors	7,613	8,293
Employer's national insurance contributions	863	879
Employer's pension contributions	1,543	1,529
	10,019	10,701

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 FSCS during the year was as follows:

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Administration and Finance	38	43
Claims	140	162
	178	205

7 Retirement benefits

The 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. The 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 FSCS.

Amounts paid by the employer into the money purchase scheme amounted to £407,000 and £31,000 was outstanding to be paid at 31 March 2009 (2008: £392,000 and £32,000 respectively).

The FSCS 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.

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

	31 March 2009 %	31 March 2008 %
Discount rate	6.90	6.70
Rate of increase in salaries	4.25	4.35
Rate of increase in pensions in payment	2.95	3.14
Expected return on plan assets	7.70	8.20
Inflation assumption	3.25	3.35

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

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

Based on the post retirement mortality tables, life expectancy is 27 years for a male retiring at age 60 and 30 years for a female.

The mortality assumptions adopted for the disclosures as at 31 March 2009 are the same as those used for the 31 March 2008 disclosures.

As in 2008 the disclosures make no allowance for the option members have to commute pension for a Pension Commencement Lump Sum at retirement.

At 31 March 2009 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 2009		Planned 31 March 2009	31 March 2008	
	£'000	%	%	£'000	%
Equities	5,748	79	75	5,962	73
Hedge Funds	1,034	14	15	1,234	15
Property	536	7	10	648	8
Cash	2	–	–	346	4

In conjunction with the Trustees, the FSCS conducted an asset/liability review for the Scheme in October 2006. These studies are used to assist the Trustees and the 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 2009 £'000	31 March 2008 £'000
Total market value of assets	7,320	8,190
Present value of Scheme liabilities	(7,686)	(7,612)
Net pension(liability)/asset	(366)	578

Changes in the present value of the defined benefit obligation	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Opening defined benefit obligation	7,612	9,077
Current service cost	586	608
Interest cost	536	508
Benefits paid	(235)	(92)
Actuarial gain	(813)	(2,489)
Closing defined benefit obligation	7,686	7,612

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 7.2%
Rate of inflation*	Increase/decrease by 0.25%	Increase/decrease by 7.2%
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 2009 £'000	Year ended 31 March 2008 £'000
Opening fair value of Scheme assets	8,190	7,700
Expected return	708	600
Contributions by employer	1,136	1,127
Benefits paid	(235)	(92)
Actuarial loss	(2,479)	(1,145)
Closing fair value of Scheme assets	7,320	8,190

Actual return on Scheme assets	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Actual return	(1,771)	(545)

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The amounts recognised in the Income and Expenditure Account are as follows:

Analysis of the amount charged to operating profit	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Current service cost	586	608
Past service cost	–	–
Total operating charge	586	608

Analysis of amount credited to interest receivable and other income	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Expected return on pension scheme assets	708	600
Interest on pension scheme liabilities	(536)	(508)
Net return	172	92

The FSCS expects to contribute £1,169,000 to its defined benefit pension plan during 2009/10.

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL):	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Actual return less expected return on assets	(2,479)	(1,145)
Experience gains arising on Scheme liabilities	24	11
Changes in assumptions underlying the present value of the Scheme liabilities	789	2,478
Actuarial (loss)/gain recognised in STRGL	(1,666)	1,344

The expected return on assets is the average of the best estimate of investment returns for each of the investment classes held, weighted by the holding at 31 March 2009.

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. The 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. The FSCS provides retirement benefits to some of its former and approximately 29% 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 £7,035,000.

The 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 the FSCS to withstand any adverse experience.

Following the 1 April 2006 actuarial valuation, the 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 the FSCS agreed to contribute regular payments of £40,000 each month from April 2007 until March 2012, representing regular deficit reduction contributions. The FSCS has agreed with the trustees that it will aim to eliminate the deficit by March 2012.
The 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. The 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. The FSCS estimates the present value of the duration of the Scheme liabilities on average to fall due over 30 years.

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Five year history of experience gains and losses:	31 March 2009 £'000	%	31 March 2008 £'000	%	31 March 2007 £'000	%	31 March 2006 £'000	%	31 March 2005 £'000	%
Difference between expected and actual return on Scheme assets	(2,479)		(1,145)		(113)		858		197	
Percentage of Scheme assets		(33.9)		(14.0)		(1.5)		13.0		4.3
Experience gains and (losses) on Scheme liabilities	24		11		(231)		(114)		(624)	
Percentage of present value of the Scheme liabilities		0.3		0.1		(2.5)		(1.4)		(10.3)
Total amount recognised in statement of total recognised gains and (losses)	(1,666)		1,344		(440)		(311)		(707)	
Percentage of the present value of Scheme liabilities		(21.7)		17.7		(4.8)		(3.9)		(13.4)

* 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.

8 Directors' emoluments

Details of directors' emoluments are shown in the directors' report (pages 68 to 69).

9 Interest receivable and other income

During the year, the FSCS received no interest as all interest received was attributable to the Sub-classes (2008: interest of £116,000 less tax of £35,000 at 30%).

Included within other income is £172,000 (Note 7) relating to the expected net return on pension scheme assets (2008: £92,000).

10 Management expenses and interest payable recoverable from Sub-classes and third parties

Management expenses and interest payable allocated, and recoverable from the Sub-classes and third parties were as follows:

	Note	31 March 2009 £'000	31 March 2008 £'000
Deposit		440,025	–
General Insurance Provision		1,576	–
General Insurance Intermediation		975	–
Life and Pensions Provision		771	–
Life and Pensions Intermediation		7,365	–
Investment Fund Management		2,884	–
Investment Intermediaries		4,045	–
Home Finance Intermediation		272	–
Accepting Deposits		–	2,236
Insurance Business		–	2,618
Designated Investment Business		–	20,082
Home Finance Advice & Arranging		–	182
General Insurance Mediation		–	738
Amount recoverable from Sub-classes		**457,913**	**25,856**
Amounts due from HM Treasury	17	22,268	–
Amount recoverable from third parties		**22,268**	**–**

The amounts recoverable from Sub-classes of £457,913,000 comprises management expenses of £31,465,000 and interest payable of £426,448,000 both recoverable from Sub-classes as shown in the Income and Expenditure Account.

As described in the Directors' Report under the review of activities (page 66), the FSCS is engaged on work on behalf of HM Treasury. Related costs which are to be recharged, will be credited on receipt.

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11 Compensation payments

During the year, the FSCS has made compensation payments on behalf of the Sub-classes, for HM Treasury's own account and to the account of HM Treasury for amounts otherwise payable by the Icelandic Depositors' and Investors' Guarantee Fund (DIGF)[1]. As at 31 March 2009, compensation payments in respect of the Specified Deposit Defaults (SDDs)[2] and their allocation for funding responsibility was:

	Total £'000	The FSCS £'000	HM Treasury £'000	HM Treasury, for DIGF £'000
Bradford and Bingley plc	15,750,315	15,750,315	–	–
Heritable Bank Plc	464,960	464,285	675	–
Kaupthing Singer and Friedlander Limited	2,399,546	2,274,256	125,290	–
Landsbanki Islands hf – Icesave	3,905,180	1,198,666	643,493	2,063,021
London Scottish Bank Plc	90,201	79,948	10,253	–
	22,610,202	19,767,470	779,711	2,063,021

Compensation payments include deemed compensation payments made as described in further detail in Note 3 to the Sub-class accounts on page 106, and other SDD compensation payments made to claimants. All amounts are paid by the FSCS. Amounts paid to eligible claimants are shown within the Sub-class accounts, with HM Treasury amounts included within 'Amounts due from HM Treasury, as described above in compliance with the accounting policies. The amounts for the account of HM Treasury are treated as amounts paid as agent and not passed through the Income and Expenditure Account.

The amounts paid on behalf of third parties (HM Treasury as in the table above) are funded by Top Up monies received, and amounts still due as follows:

	Note	Total £'000
Top Up monies received from HM Treasury:	17	800,000
Landsbanki Islands hf – Icesave		(643,493)
Monies received in advance	15	156,507

Heritable Bank Plc		675
Kaupthing Singer and Friedlander Limited		125,290
London Scottish Bank Plc		10,253
Landsbanki Islands hf – Icesave (HM Treasury for DIGF)		2,063,021
Amounts due from HM Treasury	13	2,199,239

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

12 Fixed assets

	Computers £'000	Furniture & equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
Opening balance	1,874	1,144	2,825	5,843
Additions in the year	177	191	31	399
At 31 March 2009	2,051	1,335	2,856	6,242
Accumulated depreciation				
Opening balance	(1,607)	(758)	(1,293)	(3,658)
Charge for the year	(157)	(139)	(334)	(630)
At 31 March 2009	(1,764)	(897)	(1,627)	(4,288)
Net book value at 31 March 2009	287	438	1,229	1,954
Net book value at 31 March 2008	267	386	1,532	2,185

The tangible fixed assets include an amount of £Nil (2008: £33,000) in respect of furniture and equipment held under finance leases, as follows:

Assets held under finance leases	Year ended 31 March 2009 £'000
Cost	
Opening balance	111
Transferred to ownership	(111)
At 31 March 2009	–
Accumulated depreciation	
Opening balance	(78)
Transferred to ownership	78
At 31 March 2009	–
Net book value at 31 March 2009	–
Net book value at 31 March 2008	33

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13 Debtors: amounts falling due within one year

	Note	31 March 2009 £'000	31 March 2008 £'000
Amount due from the FSA	24	97	63
Levies receivable, net of provision:			
General Insurance Provision		235	–
General Insurance Intermediation		4	–
Life and Pensions Intermediation		3,093	–
Investment Fund Management		75	–
Investment Intermediaries		38,235	–
Home Finance Intermediation		11	–
Designated Investment Business		–	226
Home Finance Advice & Arranging		–	1
General Insurance Mediation		–	7
Net amounts due from Sub-classes:			
Deposit		433,188	–
Investment Fund Management		1,530	–
Accepting Deposits		–	841
Designated Investment Business		–	2,665
Amounts due in respect of recoveries and compensation payments		–	511
Amounts due from HM Treasury	17	22,268	–
Other debtors		163	106
Prepayments		852	560
		499,751	4,980

Debtors: amounts falling due after more than one year

	Note	31 March 2009 £'000	31 March 2008 £'000
Amounts due from HM Treasury	11	2,199,239	–
Amounts due in respect of Specified Deposit Defaults		20,144,654	–
		22,343,893	–

The debtors relating to levies receivable, net of provision, do not appear in the Sub-class accounts as their accounting policy states that levies are recognised on a cash received basis (see Note 1(e) on page104).

Included within the Investment Intermediaries amount is the 2008/09 interim levy of £38,000,000, raised on 30 March 2009 to cover funding, particularly of Pacific Continental Securities (UK) Limited and Square Mile Securities Limited Investment default costs.

Of the amounts due from HM Treasury, £18,952,000 (Note 17) falling due within one year and, £2,063,021,000 (Note 11) falling due after more than one year relate to HM Treasury's responsibility on behalf of Iceland's Deposits' and Investors' Guarantee Fund (DIGF).

The amounts due in respect of Specified Deposit Defaults are due to be collected through recoveries from the default estates, with any remaining balance due from levy payers, as described more fully in Note 17.

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14 Cash at bank, overdraft, facilities and Sub-class borrowings

As at 31 March 2009, the FSCS 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 bank rate. Since the balance sheet date revised 364 day credit facility agreements have been reached for £75m, of which £25m expires on 4 May 2010 and £50m on 22 May 2010, both with further Term-Out Loan options of 3 months from the expiry dates.

	31 March 2009 £'000	31 March 2008 £'000
Cash at banks	651	950
Cash on short term deposits	43,710	4,678
	44,361	5,628
Overdraft	(2,036)	–
	42,325	5,628
Sub-class borrowings		
Amounts falling due within one year	–	(199)
Amounts falling due: between one and two years	–	–
	–	(199)
	42,325	5,429

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

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 the FSCS's bankers.

As permitted within the FSA's Handbook by the FEES manual 6.3.17R, 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-class borrowings of £1,885,000 from the General Insurance Provision Sub-class. The balance at 1 April 2008 of £199,000 was repaid in full during the year. Interest was payable at a rate equivalent to the Bank of England's bank rate.

15 Creditors and accruals

	Note	31 March 2009 £'000	31 March 2008 £'000
Compensation payable		12,693	1,469
Net amounts due to Sub-classes:			
General Insurance Provision		36,168	–
General Insurance Intermediation		940	–
Life and Pensions Provision		205	–
Life and Pensions Intermediation		13,122	–
Investment Intermediaries		34,918	–
Home Finance Intermediation		870	–
Insurance Business		–	5,778
Home Finance Advice & Arranging		–	161
General Insurance Mediation		–	214
Levy payable			
Insurance		–	18
Deposit		13	–
Levy accrued			
General Insurance Provision		309	–
General Insurance Intermediation		15	–
Life and Pensions Provision		7	–
Life and Pensions Intermediation		602	–
Investment Intermediaries		32	–
Home Finance Intermediation		1	–
Corporation taxation		–	15
Other taxation & social security costs		250	242
Accruals		5,553	2,113
Amounts due to HM Treasury		1,746,295	–
Advances from HM Treasury	17	156,507	–
Other creditors		1,123	2,379
Finance leases	18	–	20
		2,009,623	12,409

The amounts due to HM Treasury are the net estimated Balancing Payments arising from the Bradford & Bingley plc and Heritable Bank Plc deemed compensation payments made under the orders (see also Note 3 in the Sub-class accounts), plus time value for money interest adjustment.

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16 Provisions for liabilities and charges

Provision is made for dilapidations under the full repairing lease (see Note 18), as follows:

	31 March 2009 £'000	31 March 2008 £'000
Opening balance	185	154
Increase in the year – charged to Income and Expenditure Account	31	31
Amounts falling due after one year	216	185

17 Loans

As a result of the Specified Deposit Defaults, various arrangements were made during the year to obtain unsecured loans with HM Treasury and the Bank of England. The facilities with the Bank of England were subsequently refinanced to cover amounts of accumulated interest and principal of £17,246,840,000 at 29 December 2008, and a further £3,109,741,000 on 29 January 2009. As at 31 March 2009, details of loans are:

	Facility £'000	Principal outstanding as at 31 March 2009 £'000	Interest outstanding as at 31 March 2009 £'000
Loan in respect of:			
Bradford & Bingley plc	14,233,000	14,000,000	314,254
Heritable Bank Plc	521,671	512,500	10,587
Kaupthing Singer and Friedlander Limited	3,062,876	2,760,684	52,549
Landsbanki Islands hf – Icesave	4,109,741	3,092,348	34,724
London Scottish Bank Plc	250,000	100,000	438
	22,177,288	20,465,532	412,552

During the year, HM Treasury also advanced the FSCS a Top Up amount of £800,000,000 which was to be used for the specific purpose of funding compensation payments on behalf of HM Treasury for Landsbanki Islands hf – Icesave, as shown in Note 11. As at 31 March 2009, £156,507,000 had not been used and is included as 'Advances from HM Treasury' in creditors and accruals, Note 15.

Principal terms and conditions

Borrowings by the FSCS under these facilities are only repayable through recoveries or dividends from the estates of defaulted firms and levies on levy paying firms. Under the terms of the facilities, to the extent that advances are not repaid through recoveries by the target repayment date 31 March 2012, then an amortisation schedule will be agreed between HM Treasury and the FSCS based upon expected recovery and levy amounts having taken account of prevailing market conditions at that time. There is therefore no fixed repayment date within these facilities and there is no obligation for the FSCS to raise compensation cost levies in relation to the SDDs for a three year period ending 31 March 2012 (and the FSCS is not expecting to do so during this period).

Interest

Under the terms of the loans, interest accrued within a financial year (Interest Accrual Period) becomes due and payable six months after the last day of the Interest Accrual Period (being 1 October), and is calculated at 12 month LIBOR plus 30 basis points. Interest, and related management expenses levied by the FSCS in respect of any Interest Accrual Period in relation to the Specified Deposit Defaults is capped at £1bn per year for the first three years.

The interest figure as shown in the table on the previous page is the interest accrued on the principal. However, the interest accrued on the element of principal used to pay compensation as agent for HM Treasury, and HM Treasury on behalf of Iceland's Depositors' and Investors' Guarantee Fund (DIGF), being £22,268,000 (see Note 10) has been included in debtors due in less than one year, where amounts are recoverable from HM Treasury (see Note 13). The totals at the balance sheet date amounted to:

	HM Treasury £'000	HM Treasury, for DIGF £'000	Total £'000
Loan in respect of:			
Heritable Bank Plc	8	–	8
Kaupthing Singer and Friedlander Limited	494	–	494
Landsbanki Islands hf – Icesave	2,764	18,952	21,716
London Scottish Bank Plc	50	–	50
	3,316	18,952	22,268

The balance of loan interest of £390,284,000, (being the total of £412,552,000 less the interest relating to third parties of £22,268,000) is recoverable from the Deposit Sub-class by way of a specific cost management expenses levy, and is payable to HM Treasury on 1 October 2009.

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18 Payments under lease agreements

Future minimum payments

Finance leases	31 March 2009 £'000	31 March 2008 £'000
Amounts payable:		
Within one year	–	26
		26
Less: Finance charges allocated to future periods	–	(6)
		20
Shown as:		
Due within one year	–	20
	–	20

Operating leases	Leases expiring		
	Between one and five years	Over five years	Total
Amounts payable in year to 31 March 2009	£'000	£'000	£'000
Office rental	–	1,043	1,043
Equipment rental	36	–	36
Total	36	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 the FSCS has the right to break the lease on 24 June 2012. The lease for the premises at 5th Floor, 1 Portsoken Street, London, is from 1 February 2006 to 23 June 2018, but the FSCS has the right to break the lease on 30 June 2012.

19 Reserves

	31 March 2009 £'000	31 March 2008 £'000
Excess of income over expenditure on ordinary activities after tax	722	611
Amount recognised in STRGL	(1,666)	1,344
	(944)	1,955
Brought forward	578	(1,377)
Reserves carried forward	(366)	578

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

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

	£'000	Year ended 31 March 2009 £'000	£'000	Year ended 31 March 2008 £'000
Excess of income over expenditure on ordinary activities before interest and tax		449,446		517
Interest transfer from Sub-classes		8		13
Corporation tax charge		–		35
		449,454		565
Depreciation		630		657
Compensation paid	(22,610,202)		(84,178)	
Recoveries received	17,967		24,538	
Levies received	132,616		93,072	
Levies refunded	(105,677)		(39,995)	
Amounts received from HM Treasury	800,000		–	
Funds due from HM Treasury (net of advance)	2,065,000		–	
Funds from Sub-classes	19,700,296	–	6,563	–
(Increase)/decrease in debtors		(22,838,664)		9,683
Increase/(decrease) in creditors		1,960,351		(6,574)
Net cash (outflow)/ inflow from operating activities		(20,428,229)		4,331

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21 Returns on investments and servicing of finance

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Gross interest received	–	116
Net return on pension scheme assets less liabilities	–	92
	–	208
Interest payable (see Note 5)	(8)	(79)
	(8)	129

22 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
(Increase) in cash, short term deposits	(36,697)	(3,793)
Increase in loans	20,465,532	–
Cash used to repay Sub-class borrowings	(199)	(164)
Increase/(reduction) in net debt	20,428,636	(3,957)
Net funds at 31 March 2008	(5,429)	(1,472)
Net funds at 31 March 2009	20,423,207	(5,429)

23 Analysis of change in net funds

	Opening balance £'000	Cash inflows /(outflows) £'000	At 31 March 2009 £'000
Cash and short term deposits	5,628	38,733	44,361
Bank overdraft	–	(2,036)	(2,036)
	5,628	36,697	42,325

24 Transactions with related parties

During the year, the FSCS 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 the FSCS and it establishes the rules under which the FSCS became operative as from midnight on 30 November 2001. FSA is considered to be a related party but not a controlling party.

During the year, the FSA provided an agency service to the FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes were raised for £68,022,000, including £38,000,000 raised as a further interim levy on 30 March 2009 (2008: £93,648,000) and related collections were received of £26,598,000 (2008: £93,629,000). The charge for the service was £308,000 (2008: £246,000).

Overall, payments, less receipts of £26,564,000 (2008: £93,590,000) were made by the FSA to the FSCS, leaving amounts due from the FSA to the FSCS at 31 March 2009 of £97,000 (2008: £63,000).

During the year, the FSCS seconded staff to the FSA. The net charge invoiced to the FSA for these staff was £97,000 (2008: £33,000).

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

Directors' Report and Accounts
Notes to the Financial Statements for the year ended 31 March 2009

25 Capital commitments

Capital commitments authorised and contracted for but not provided in the financial statements: £Nil (2008: £Nil).

26 Contingencies

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

27 Going concern

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

28 Post balance sheet events

On 30 March 2009, the Bank of England exercised 'stabilisation powers' under the Banking Act 2009 in respect of Dunfermline Building Society through the Dunfermline Building Society Property Transfer Instrument 2009. Notification under the Instrument was made after the balance sheet date, advising that certain property, rights and liabilities of Dunfermline Building Society were transferred to the Nationwide Building Society. This placed an obligation on the FSCS post year end to contribute to the net costs of the failure which will be discharged through levies, and no amounts have therefore been booked within these accounts in connection with Dunfermline Building Society.

Further liabilities under the Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 were agreed in July 2009 with the FSCS, Abbey National plc and HM Treasury. The estimated FSCS share of this Balancing Payment is £354,201,000, excluding an element to reflect accrued interest, and is adjusted against the initial payment of deemed compensation under the order of £14,000,000,000 as an adjusting post balance sheet event within the FSCS financial statements and those of the Sub-classes.

Directors' Report and Accounts
Financial Services Compensation Scheme: Sub-classes: Financial Statements for the year ended 31 March 2009

As explained in Chapter 6 of the FEES manual of the FSA's Handbook, for funding purposes and effective 1 April 2008, the FSCS is split into broad classes, comprising: Deposit; General Insurance; Life and Pensions; Investment; and Home Finance (FEES 6.5.7R and FEES 6 Annex 3). Within each broad class there is one or more Sub-class. The FSCS must keep accounts which show: (1) the funds held to the credit of each Sub-class; and (2) the liabilities of that Sub-class.

The powers of the FSA under FSMA became effective as at midnight on 30 November 2001. The financial statements for the FSCS's Sub-classes for the year ended 31 March 2009, with comparatives, including the equivalent fund balances for the year ended 31 March 2008, 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; and
- 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 July 2009

Directors' Report and Accounts
Financial Services Compensation Scheme: Sub-classes: Financial Statements for the year ended 31 March 2009

The FSCS Sub-Classes
Fund Movements for the year ended 31 March 2009[1]

	Notes	Total	Specified Deposit Defaults[2]	Sub-Classes: Deposit	General Insurance Provision	General Insurance Intermediation	Life & Pensions Provision	Life & Pensions Intermediation	Investment Fund Management	Investment Intermediation	Home Finance Provision	Home Finance Intermediation
				SA01	SB01	SB02	SC01	SC02	SD01	SD02	SE01	SE02
		£'000	£000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Movements												
Compensation and interest paid	2	(92,737)	–	(538)	(50,791)	(134)	–	(17,621)	(5,922)	(17,436)	–	(295)
Exchange gain (loss)		36	–	36	–	–	–	–	–	–	–	–
Recoveries Received		17,967	–	258	10,781	1	–	700	77	6,150	–	–
		(74,734)	–	(244)	(40,010)	(133)	–	(16,921)	(5,845)	(11,286)	–	(295)
Attributable management costs:												
Base Costs	5	(4,560)	–	(933)	(277)	(523)	(736)	(873)	(580)	(479)	–	(159)
Specific Costs		(17,587)	–	(3,326)	(1,299)	(452)	(35)	(6,492)	(2,304)	(3,566)	–	(113)
Specifc costs relating to Specified Deposit Defaults	4	(9,318)	–	(9,318)	–	–	–	–	–	–	–	–
Time value for money interest relating to Specified Deposit Defaults		(36,164)	–	(36,164)	–	–	–	–	–	–	–	–
Loan interest accrued		(390,284)	–	(390,284)	–	–	–	–	–	–	–	–
		(457,913)	–	(440,025)	(1,576)	(975)	(771)	(7,365)	(2,884)	(4,045)	–	(272)
Interest Received												
Gross before tax	6	4,168	–	270	3,258	37	(7)	1,572	(881)	(53)	–	(28)
Tax at 28%		(1,158)	–	(75)	(906)	(10)	2	(437)	245	15	–	8
		3,010	–	195	2,352	27	(5)	1,135	(636)	(38)	–	(20)
Fund balance at 1 April 2008		1,828	–	1,828	–	–	–	–	–	–	–	–
Levies – received	7	132,616	–	5,058	73,686	2,014	981	32,576	7,760	9,098	–	1,443
		(395,193)	–	(433,188)	34,452	933	205	9,425	(1,605)	(6,271)	–	856
Specified Deposit Defaults compensation	2	(19,767,470)	(19,767,470)	–	–	–	–	–	–	–	–	–
Funds at 31 March 2009		(20,162,663)	(19,767,470)	(433,188)	34,452	933	205	9,425	(1,605)	(6,271)	–	856

The FSCS Sub-Classes
Statement of assets and liabilities at 31 March 2009[1]

	Notes	Total	Specified Deposit Defaults[2]	Sub-Classes: Deposit	General Insurance Provision	General Insurance Intermediation	Life & Pensions Provision	Life & Pensions Intermediation	Investment Fund Management	Investment Intermediation	Home Finance Provision	Home Finance Intermediation
				SA01	SB01	SB02	SC01	SC02	SD01	SD02	SE01	SE02
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current assets												
Net amounts due from the FSCS		47,962	–	–	35,933	936	205	10,029	–	–	–	859
Term deposits and cash at bank	10	435,208	434,955	2	251	–	–	–	–	–	–	–
		483,170	434,955	2	36,184	936	205	10,029	–	–	–	859
Current liabilities												
Taxation payable		(230)	–	(15)	(180)	(2)	–	(87)	49	3	–	2
Net amounts due to the FSCS		(438,097)	–	(433,175)	–	–	–	–	(1,605)	(3,317)	–	–
Bank overdrafts		(62,852)	(57,771)	–	(1,552)	(1)	–	(517)	(49)	(2,957)	–	(5)
		(501,179)	(57,771)	(433,190)	(1,732)	(3)	–	(604)	(1,605)	(6,271)	–	(3)
Long-term liabilities												
Net amounts due to the FSCS		(20,144,654)	(20,144,654)	–	–	–	–	–	–	–	–	–
Total net assets/(liabilities)		(20,162,663)	(19,767,470)	(433,188)	34,452	933	205	9,425	(1,605)	(6,271)	–	856

Approved for and on behalf of Financial Services Compensation Scheme Limited on 20 July 2009 David Hall, Chairman.

For fund balance comparisons, please see note 8.

1. Due to the Funding Review, effective 1 April 2008, 2007/08 comparatives are not available for all figures. However, fund balances as at 31 March 2008 are mapped to the equivalent class as shown in Note 8.

2. As explained in Notes 11 and 17 to the FSCS financial statements, the SDD compensation costs including net deemed compensation costs are funded through borrowings. The principal is repayable through recoveries with any remaining balance by levies. Until the amortisation schedule is agreed in 2012, it is not possible to say which Sub-class, if any, will bear that levy.

Directors' Report and Accounts
Financial Services Compensation Scheme: Sub-classes: Financial Statements to 31 March 2009

Notes to the Sub-class Financial Statements for the year to 31 March 2009

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 the Financial Services Compensation Scheme Limited, as Scheme Manager, will exercise its responsibilities under FSMA and the FEES manual to recover management expenses and compensation costs on behalf of the Broad Classes and Sub-classes, as defined for funding purposes in the FSA Handbook. The financial statements have been prepared on a going concern basis in accordance with Note 27 of the FSCS's financial statements on page 100.

b) Compensation costs

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

c) Recoveries

Recoveries are credited to funds when 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 FSCS to each Sub-class and contribution group in accordance with the levy principles contained within FEES manual 6.4.5, 6.4.6 and 6.4.7.

e) Levies

The FSCS raises levies which are credited on a cash received basis. 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 the FSCS. Provision is made for the estimated full cost in respect of any such proceedings where at the end of the year it is more likely than not that there is an obligation which will require 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 movements, and assets and liabilities.

Estimation uncertainties

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

2 Compensation costs

Payments to valid claimants are made in accordance with the FEES manual and are summarised within Sub-class records by type of claim and defaulting firm. Extracts from these summaries are shown within the FSCS's Annual Report and further details may be obtained from the FSCS's 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 the FSCS's Company Secretary.

A summary of compensation costs for the Specified Deposit Defaults is shown below:

	Deemed Compensation				
	Initial payment £000	Repayments £000	Latest estimated adjustment resulting from the validation process £000	The FSCS manual payments £000	Total FSCS compensation costs £000
Bradford & Bingley plc	14,000,000	–	1,750,315	–	15,750,315
Heritable Bank Plc	500,000	–	(43,000)	7,285	464,285
Kaupthing Singer and Friedlander Limited	2,500,000	(266,500)	–	40,756	2,274,256
Landsbanki Islands hf – Icesave	–	–	–	1,198,666	1,198,666
London Scottish Bank Plc	–	–	–	79,948	79,948
	17,000,000	(266,500)	1,707,315	1,326,655	19,767,470

Directors' Report and Accounts
Financial Services Compensation Scheme: Sub-classes: Financial Statements to 31 March 2009

3 Deemed compensation costs and post balance sheet events

Compensation costs include amounts paid under various orders during the year and referred to as deemed compensation, as follows:

- 29 September 2008 – Bradford & Bingley plc Transfer of Securities and Property etc Order 2008 (SI 2008/2546): £14,000,000,000 to Abbey National plc;
- 7 October 2008 – The Heritable Bank Plc Transfer of Certain Rights and Liabilities Order 2008 (SI 2008/2644): £500,000,000 to Deposits Management (Heritable) Limited, followed by The Transfer of Rights and Liabilities to ING Order 2008 (SI 2008/2666): £500,000,000 from Deposits Management (Heritable) Limited to ING Direct N.V. on the following day; and
- 8 October 2008 – Kaupthing Singer and Friedlander Limited Transfer of Certain Rights and Liabilities Order 2008 (SI 2008/2674): £2,500,000,000 to ING Direct N.V.

On 30 March 2009, the FSCS received a repayment as an adjustment to the deemed compensation on Kaupthing Singer and Friedlander Limited of £266,500,000.

These amounts are subject to validation as set out in the Orders, to assess the total amounts of compensation that would have been paid to qualifying claimants. Once the validation process is finalised, Balancing Payments will be made under the Orders. The above amounts of deemed compensation have been adjusted to reflect the latest position as adjusting post balance sheet events as follows:

- Bradford & Bingley plc – An overall increase of £1,750,315,000 to £15,750,315,000, to include the First Balancing Payment to Abbey National plc as detailed in Note 28 in the FSCS's financial statements on page 100;
- Heritable Bank Plc – Reduction of £43,000,000 to £457,000,000; and
- Kaupthing Singer and Friedlander Limited – No figures are yet available for the results of the validation process.

Any further adjustments which may arise from Balancing Payments are accounted for only after notification, in line with the accounting policies, set out on pages 104 and 105.

Recoveries are not accounted for within the Sub-class financial statements until received.

4 Management expenses

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

As stated above, (Note 1d), management expenses are allocated to Sub-classes under the rules within the FEES manual, chapter 6.

Specific costs relating to Specified Deposit Defaults totalling £45,482,000 include £36,164,000 interest as a time value for money adjustment on the Balancing Payment adjustments in Note 3.

As described in the Directors' Report under the review of activities (page 66), the FSCS is engaged in work on behalf of HM Treasury. Related costs which are to be recharged, will be credited on receipt.

5 Base cost allocation

Following the Funding Review, as referred to in the Directors' Report of the FSCS on page 66, the base cost element of management expenses continue to be applied to firms by reference to their invoiced FSA periodic fee.

For presentation purposes, these amounts are mapped to the relevant Sub-class as follows:

FSA Fee Blocks	Invoiced Base Costs £000	The FSCS Sub-classes	Allocated Base Costs £000
A1 – Deposit takers	933	Deposit	933
A3 – General insurance	277	General Insurance Provision	277
A4 – Life insurance	736	Life and Pensions Provision	736
A7 – Fund managers, not holding money	485	Investment Fund Management	485
A9 – Managers of an AUT, ACD	95	Investment Fund Management	95
A10 – Dealers	255	Investment Intermediaries	255
A12 – Brokers, holding client money*	324	Life and Pensions Intermediation	252
		Investment Intermediaries	72
A13 – Brokers, not holding client money*	666	Life and Pensions Intermediation	621
		Investment Intermediaries	45
A14 – Corporate finance	107	Investment Intermediaries	107
A18 – Mortgage brokers	159	Home Finance Intermediation	159
A19 – Insurance Intermediaries	523	General Insurance Intermediation	523
	4,560		4,560

* Base cost levies have been allocated according to the relevant Sub-class of the individual levy paying firm.

6 Interest receivable

Interest receivable comprises:

	Rates	Year ended 31 March 2009 £'000	Year ended 31 March 2008 £'000
Term-deposits	Available money-market rates	3,991	8,598
Other bank accounts	Available rates	169	350
Sub-class borrowings	Bank of England's bank rate	8	12
		4,168	8,960

Directors' Report and Accounts
Financial Services Compensation Scheme: Sub-classes: Financial Statements to 31 March 2009

7 Levy received

Levy invoice amounts and cash receipts arise mainly from the transactions carried out under agreement for the FSCS by the FSA. Further similar transactions are dealt with directly by the FSCS. As a part of the 'clean break' to the Funding Review, as described below, the value of credit/debit notes in settlement of the fund balances as at 31 March 2008 were repaid, which explains why the levy amounts in the Sub-class accounts summary on page 102 do not agree without reconciliation to the cash receipts in the FSCS accounts, Note 24 – Transactions with related parties.

8 Funds held at 31 March 2008

Following the implementation of the Funding Review on 1 April 2008, credit or debit notes were issued to all levy paying firms for their portion of their relevant fund balance at 31 March 2008 as part of the 'clean-break' exercise. To provide comparative fund balance figures for last year, the table below shows the mapping between the contribution groups from last year and the new Sub-classes.

The FSCS Contribution Groups	Fund Balance at 31 March 2008 £000	The FSCS Sub-classes	Allocated Fund Balance £000
A1 – Deposit takers	1,828	Deposit	1,828
A3 – General insurance	72,244	General Insurance Provision	72,244
A4 – Life insurance	169	Life and Pensions Provision	169
A7 – Fund managers, not holding money	(1,031)	Investment Fund Management	(1,031)
A9 – Mgrs of an AUT, ACD	(8,252)	Investment Fund Management	(8,252)
A10 – Dealers	54	Investment Intermediaries	54
A12 – Brokers, holding client money*	5,996	Life and Pensions Intermediation	4,662
		Investment Intermediaries	1,334
A13 – Brokers, not holding client money*	23,333	Life and Pensions Intermediation	21,767
		Investment Intermediaries	1,566
A14 – Corporate finance	49	Investment Intermediaries	49
A16 – IFA pensions review*	12,864	Life and Pensions Provision	186
		Life and Pensions Intermediation	12,678
A18 – Mortgage brokers	156	Home Finance Intermediation	156
A19 – Insurance Intermediaries	1,401	General Insurance Intermediation	1,401
	108,811		108,811

* Credit notes have been allocated according to the Sub-classes of the individual firms.

9 Loans receivable and Sub-class borrowings

Sub-class borrowings of £1,885,000 were made under FEES manual 6.3.18R from the Insurance Business Sub-class to the FSCS in March 2003. The balance at 1 April 2008 of £199,000 was repaid in full during the year (2008: balance of £363,000 and £164,000 repayment). Interest was receivable at a rate equivalent to the Bank of England's bank rate.

10 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-class, within strict limits and rules as laid down and reviewed regularly by the FSCS's Board.

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-class assets and liabilities. Cash balances are monitored daily, so, in effect no overdraft is actually shown in the books of the Sub-class bankers.

As at 31 March 2009, the FSCS is a party to various joint accounts with claims administration companies involved with the Insurance Business Sub-class to make payments to policyholders. The balances of these accounts at 31 March 2009 of £251,000 (2008: £296,000) are included within Term-deposits and cash at banks in the Insurance Business Sub-class Statement of Asset and Liabilities.

11 Contingencies

The 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 for the FSCS would normally be recoverable from the appropriate Sub-class.

Directors' Report and Accounts
Financial Services Compensation Scheme: Sub–classes: Financial Statements to 31 March 2009

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

We have audited the financial statements of the Financial Services Compensation Scheme for the year ended 31 March 2009 which comprise the Movement in the Sub–classes 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 FSCS 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 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); and
- The accounting policies set out on page 104

We also report to you if, in our opinion, the FSCS 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 2009 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); and
- The accounting policies set out on page 104.

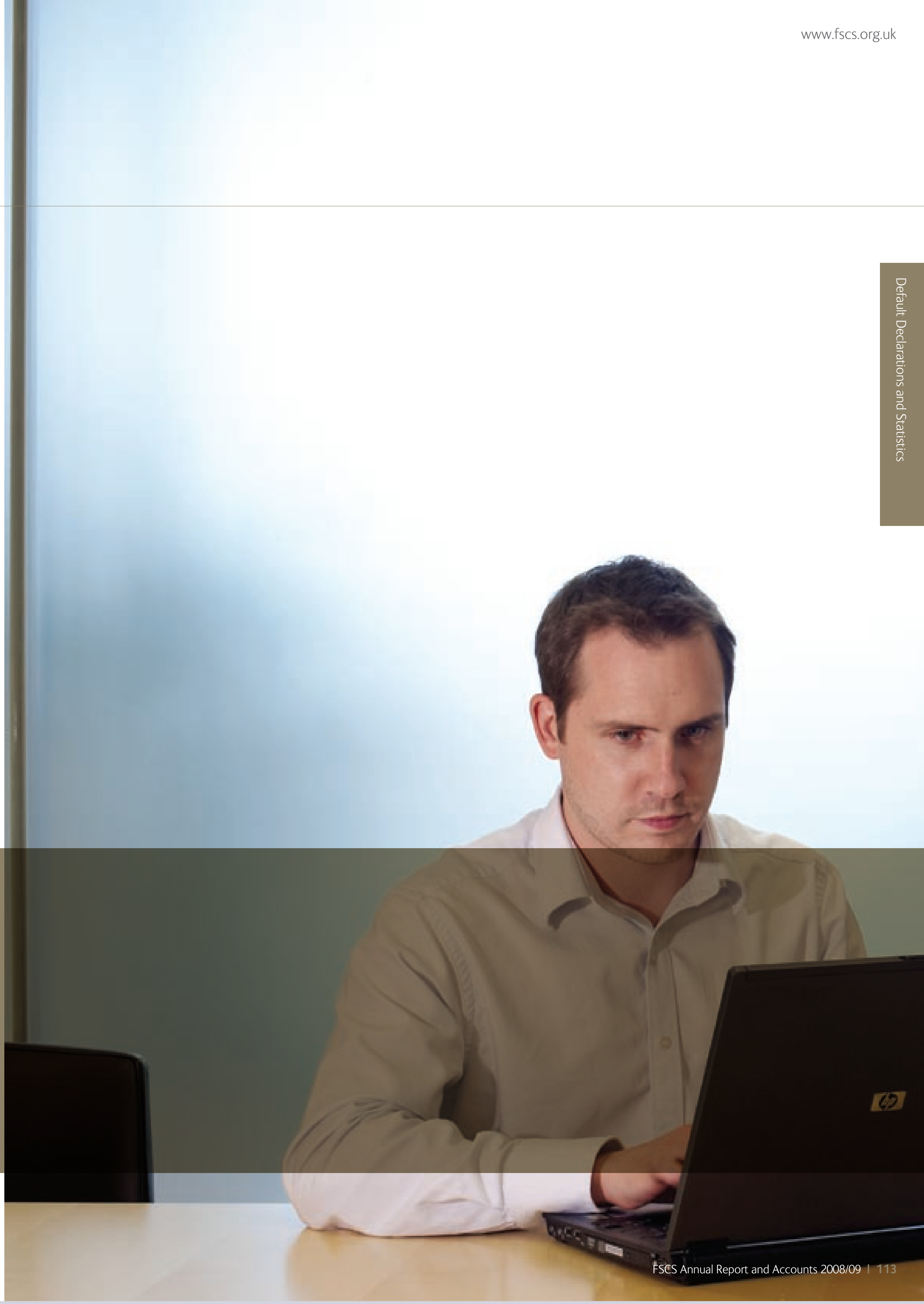
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

London
20 July 2009

Section 10:
Default Declarations and Statistics

Summary

- 119 firms were declared in default by the FSCS during 2008/09 compared with 269 in 2007/08. The majority of these were declared in default following receipt of at least one investment claim against these firms, although the FSCS also received claims against a small number of these firms relating to insurance advice and arranging, home finance advice and arranging and accounts held with credit unions.
- In addition, the FSCS has been instrumental in safeguarding depositors' money following the failures of five banks and one building society.
- As at 31 March 2009, the total number of firms declared in default by the FSCS since 1 December 2001 was 2,004.



Default Declarations and Statistics

In default, or not in default?

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

The majority of defaults declared by the FSCS relate to the investment sector. However, most of the claims received during 2008/09 related to the five banks that were in default during that period. A reduction in the number of default declarations made by the FSCS during 2008/09 reflects the lower volumes of mortgage endowment and pension review claims being dealt with.

Firms declared in default by the FSCS in 2008/09 are listed on pages 115 to 117.

Default declarations – Questions the FSCS seeks to answer

Who is legally liable for the claim?

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

What type of firm is it?

The 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, the FSCS will need to take a different approach to establishing its financial position. Many firms are no longer authorised (described as 'departed'). The 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?

The 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. The 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 the 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 at www.fscs.org.uk

Firms in default in 2008/09

A J Richardson Financial Services	14–Oct–08
Absolute Insurance Services Limited (formerly Filbuk 64 Limited)	09–Jun–08
Alan Upton (Insurance Brokers) Limited	08–Apr–08
Alan Wynne Financial Services	15–Jan–09
Alisdair Robertson t/a A Robertson Financial Services (formerly Strathclyde Insurance Brokers)	04–Jun–08
Alpine Financial Services Limited	01–Dec–08
Andover Insurance and Mortgage Advisory Service	12–Sep–08
Anthony Lucas (Insurance Brokers) Limited	20–Jun–08
Associated Services Limited	03–Oct–08
B Griston t/a G.L.R. Financial Consultants	06–Feb–09
Bailey Sloman (Insurance Brokers) Limited	07–Aug–08
Beaver Hill & Ellis Limited (formerly t/a Beaver Hill & Ellis (Hampshire) Limited)	23–May–08
Bennetts Independent Financial Advisers	05–Sep–08
Berkeley Applegate & Co (Torquay) Limited (formerly Berkeley Applegate & Co Insurance Brokers (Torquay) Limited)	29–Apr–08
Berry Birch and Noble Financial Planning Limited	05–Sep–08
Bradford & Bingley plc	27–Sep–08
Campbell–Brown Financial Services Limited	29–Apr–08
Capital Mortgage Connections Limited	14–Oct–08
Claymore Finance Limited	05–Sep–08
Cloughley Stoll Sumner Limited (formerly Cloughley & Partners Limited)	04–Sep–08
Contactrule Limited t/a Sturdy Perryman Associates	19–May–08
Cunningham Guild & Scott (Life & Pensions) Limited (formerly Cunningham Guild & Scott (Insurance Brokers) Limited)	05–Nov–08
D C & Co Insurance Consultants Limited	04–Dec–08
D Evans & J Parker t/a Canford Insurance Life & Pension Consultants (formerly Canford Insurance Services)	05–Sep–08
D Flowers, B Horner and R Child t/a The Investment Practice	10–Jun–08
D Glyn Davies & Company	03–Jul–08
D Taylor, J Kemp and I Jamieson formerly t/a Staffordshire Independent Financial Advisers	15–Jan–09
David Sheppeard (Life & Pensions) Limited	22–Jul–08
Derek Craig, Esq.	11–Mar–09
Derek Eastwood (Insurance Brokers) Limited	12–Dec–08
DFS (2006) Limited formerly Derbyshire Financial Services Limited	03–Mar–09
Doshi Financial Services Limited (formerly Merchants Financial Consultants Limited)	27–Jun–08
Dunfermline Building Society	30–Mar–09
E Warburton & D Kennedy t/a Allerton Mortgage & Insurance Consultants and Allerton Mortgage & Insurance Limited	16–Jun–08
F Harding (deceased) t/a Fred Harding (Insurances) and Company	30–Mar–09
Fernside Financial Services Limited	18–Nov–08
Forsyth Lang & Company Limited	27–Mar–09
Fylde Investment Life & Pensions Limited	17–Dec–08
Globalfx.com Limited	23–Feb–09
Godwin Higgins Insurance Brokers Limited	11–Mar–09
Goldcrest Capital Limited	02–Apr–08
Greenslade Hay & Company Limited	02–Apr–08

Default Declarations and Statistics

Firms in default in 2008/09

H G Harden Associates Limited	04–Sep–08
Healey Starr Financial Services	25–Feb–09
Heritable Bank Plc	07–Oct–08
Heritage Financial Management Limited	03–Feb–09
I.P.M. Financial Services	04–Sep–08
Ideal Insurance Services Limited	27–Jun–08
Ingled PM Limited formerly IPM Group Limited, Ingledon Park Management Limited and Poyners Limited	19–May–08
Inner Preston Credit Union Limited	16–May–08
J A Fairweather and J J Fairweather (limited partner) t/a JA Fairweather Associates	20–May–08
Jarvis Watson (Life & Pensions) Limited	04–Jun–08
John Calland Jnr t/a Calland Insurance & Mortgage Services	18–Feb–09
Jonathan Fell (Life & Pensions)	22–Jul–08
Kaupthing Singer & Friedlander Limited	08–Oct–08
Khalsa (Bradford) Credit Union Limited	03–Oct–08
Kilminster Financial Management Limited (formerly Kilminster Life Management Limited)	06–Jan–09
Kitchens 2 Go Limited	25–Feb–09
Lakeside Industries Limited (formerly Pentland Insurance Brokers Limited)	19–May–08
Landsbanki Islands hf	08–Oct–08
Liberty Financial Consultants Limited (formerly Liberty Compliance Network Limited)	15–Jan–09
Lifestyle Financial Management (formerly Paul Gunter Insurance and Investment Services)	05–Sep–08
Logan Grant IFA	16–Feb–09
London Scottish Bank Plc	30–Nov–08
LPS Financial Services	25–Feb–09
M Adams, K Rendle–Barnes and others, (formerly t/a Longden Cook Financial Services)	08–Aug–08
M Sims t/a Sims Insurance Services	29–Apr–08
M T M Insurance Brokers Limited (formerly Bornedene Limited)	29–Apr–08
M Young Legal Associates Limited	04–Dec–08
M.J. Whelan (Insurance Brokers) Limited	15–Apr–08
Manager Driven Investment Limited	05–Sep–08
Martyn Myatt & Associates (formerly Martyn Myatt & Associates Insurance & Financial Consultants)	29–Apr–08
Matrix Financial Planning Limited	11–Feb–09
Matthew Gerard & Company Limited	22–May–08
Melville J Burbage & Associates Limited	12–Sep–08
Morgan Money Management Limited	03–Feb–09
N I S Life Limited	01–Dec–08
Nicholas Dean Mortgage Financial Consultants	05–Sep–08
Northridge Financial Services Limited	04–Sep–08
OK Finance Limited	11–Mar–09
Orion Direct Limited	03–Oct–08
P Buckle t/a PLB Management	29–Apr–08
P Harding t/a Medical Assurance Bureau	07–Aug–08
P Over t/a Premier Financial Services	05–Sep–08

Firms in default in 2008/09

P S Financial Services Limited (formerly Perkins Slade Financial Services Limited)	10–Nov–08
P Sheridan & P Keys t/a Phillips Mackie Financial	19–Sep–08
P V Newton & Company	05–Sep–08
Pacific Continental Securities (UK) Limited	19–Jan–09
Pacific Continental Securities Corporation	19–Jan–09
Paradigm Wealth Management Limited (formerly Paradigm Financial Development UK Limited)	11–Mar–09
Paul Davies and Associates Limited	05–Sep–08
Peter Frederick Associates	04–Jul–08
PIB Limited	21–Aug–08
Policy Enquiries Limited (formerly West of Scotland Insurance & Mortgage Brokers Limited)	02–Apr–08
Polmaise Community Credit Union Limited	24–Nov–08
Professional Independent Financial Solutions Limited	01–Dec–08
R A Peck Insurance Services	06–Jan–09
R Kalisiak and C Wells t/a Goldsmith Insurance	14–Oct–08
R P K Goldsmith Insurance Consultants	20–Jun–08
RBR (Financial Services) Limited formerly Ramsbottom & Co Limited	19–Sep–08
Richards IFA Limited	22–Jul–08
Risca Insurance Consultants Limited (formerly t/a Brian R Frost)	05–Sep–08
Riverside (Independent Financial Advisers) Limited	25–Jul–08
Rod Serrell	12–Sep–08
Rose & Partners	15–Jan–09
S Johal & C Burrows t/a PTL Associates (UK)	20–Nov–08
Sheffield Mortgage Company Ltd	15–Jan–09
SK Insurance and Investment Services Limited	03–Oct–08
Sky Capital UK Limited (formerly Everett Financial Limited)	01–Oct–08
Specialists Asset Management (formerly Ex–Patz, formerly Schemez)	11–Jul–08
Square Mile Securities Limited (formerly Halewood International Futures Limited)	19–Feb–09
Supreme Insurance Services	27–Jun–08
T Dyer t/a Dyer & Collier	01–Dec–08
Tax & Financial Planning (Scotland) Limited	23–May–08
The Black & White Group Limited	14–Oct–08
The Debt Advisor Group plc (formerly t/a Compass Finance Group plc)	06–Jan–09
Thomas & Co Financial Services Limited	06–Jan–09
Tower Assurance Advisory Services Limited	14–Oct–08
Turbin Financial Management Limited	04–Jun–08
Unit Insurance Brokers Limited	01–Dec–08
Universities Assurance Services Limited	04–Jun–08
W Cartwright (Financial Services) Limited (formerly W. Cartwright Limited, formerly W. Cartwright & Company Limited)	20–Jun–08
W Gaddes t/a Gaddes & Son	23–May–08
W.J. Emson & Co (Life & Pension Consultants) Limited	20–Jan–09
Wivenhoe Financial & Insurance Services (formerly t/a The Wivenhoe (Military) Insurance Brokers)	15–Apr–08

Section 11:
Understanding Our Work

The FSCS is the UK's statutory fund of last resort for customers of financial services firms. It is ultimately a non–profit making independent body, created under the Financial Services and Markets Act 2000 (FSMA). It is ultimately funded by levies on authorised financial services firms.

The 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 FSCS does not charge individual consumers for using its service.

The FSCS provides protection for customers of authorised firms.

Understanding Our Work

The FSCS's primary role is to protect consumers against incurring financial losses when firms regulated by 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, e.g. 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 the FSCS can pay, and it pays compensation only for financial loss. The rules ("COMP, and in respect of funding, "FEES, 6") governing the operation of the FSCS are made by the FSA. The rules are contained within the FSA's Handbook of rules and guidance, under "Redress, Compensation".

The FSCS protects the following:

Deposit Compensation limit: £50,000*

(100% of the first £50,000), per person, for the total of their deposits (less borrowings) with that firm. Deposits in all currencies are covered.

The 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, the FSCS will be triggered. This may happen, for example, if a firm is subject to an insolvency action, such as liquidation or administration. The 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 114).

*With effect from 7 October 2008, the FSA increased the deposit compensation limit to 100% of the first £50,000. For claims against deposit taking firms declared in default between 1 October 2007 and 6 October 2008, the deposit compensation limit is 100% of the first £35,000. For claims against deposit taking firms 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 is covered in full.

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 Compensation limit:

100% of the first £2,000 plus 90% of the remainder of the claim or return of premiums. Compulsory insurance is covered in full.

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.

The 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, the 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.

The 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

The 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:

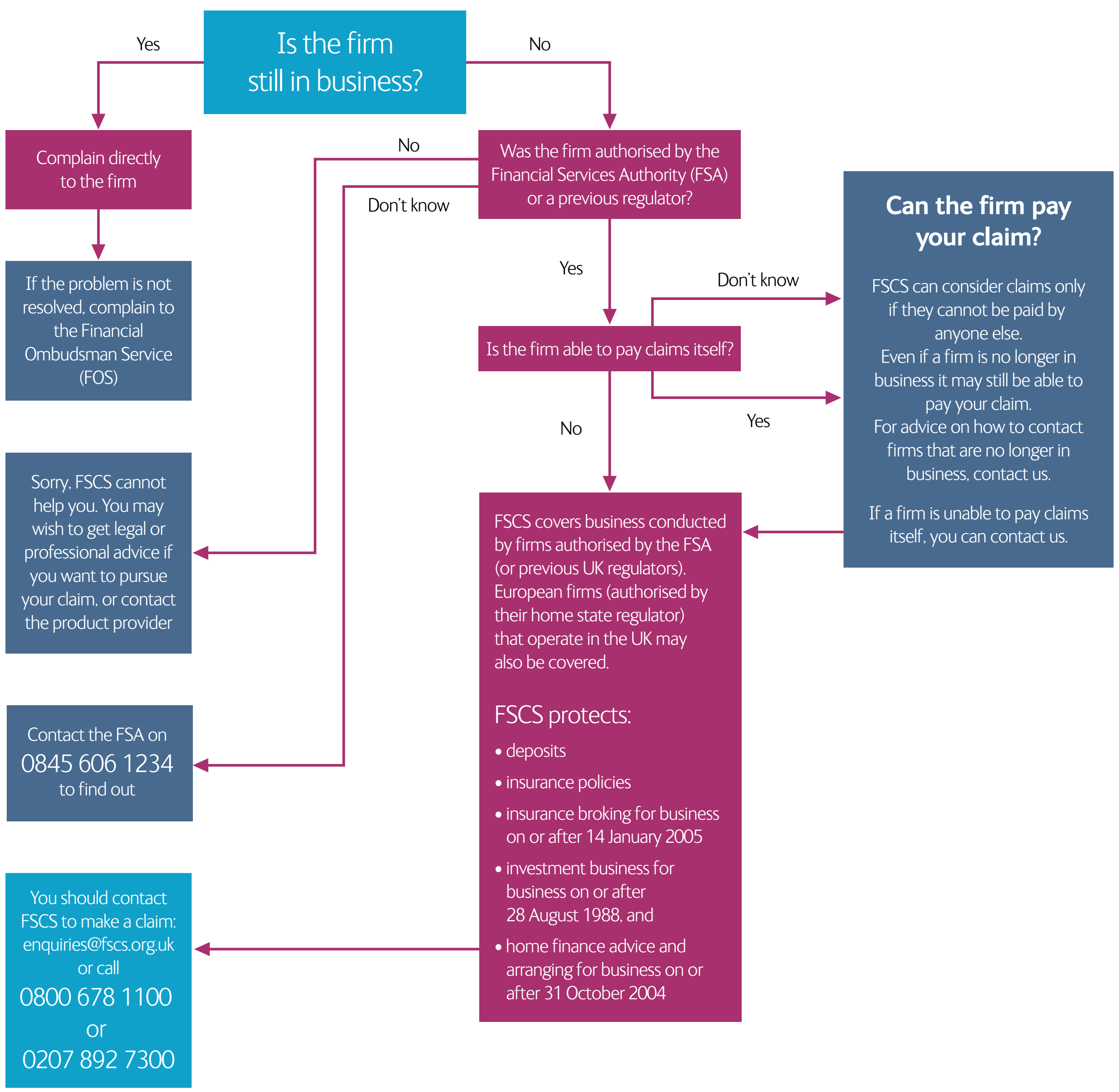
- Where a consumer has not been advised about the different types of mortgage available, which resulted in them choosing a mortgage that was not suitable for them at the time.
- If specific details of the mortgage chosen are incorrect, e.g. a longer term has been selected than the consumer had intended 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.

With effect 1 January 2010, the FSA will implement changes to the FSCS's compensation limits. The limits for investments and home finance advice and arranging will be the same as the limit for deposits at £50,000, and all claims for non-compulsory insurance will be paid at 90%, with no upper limit. There will be no change to compulsory insurance (e.g. motor third party and employers' liability insurance) which will remain at 100% protection with no upper limit.

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 the FSCS may be able to help you with your claim.



Claims eligibility

The 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 the 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, the 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, the 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.

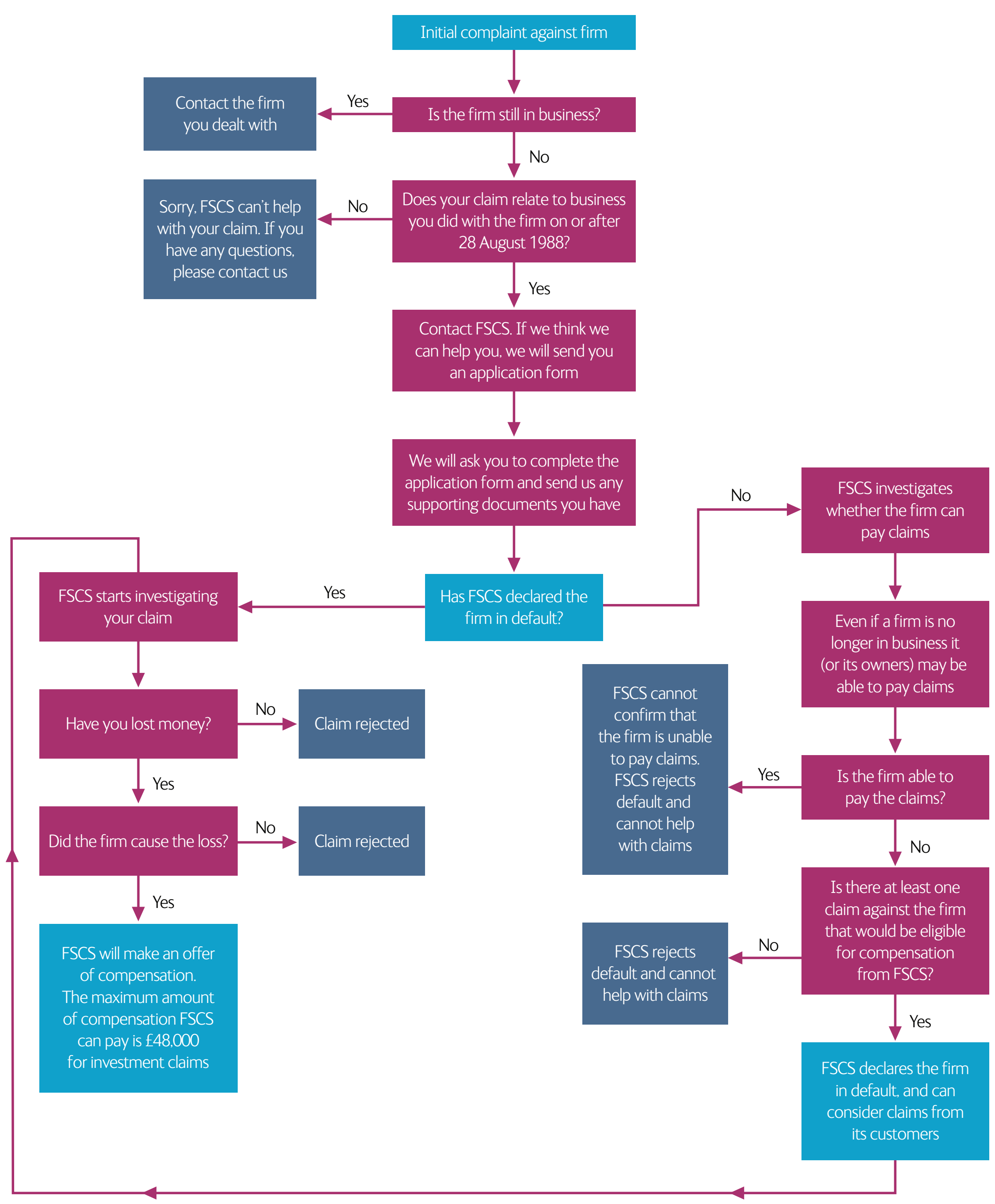
For endowment claims, for example, this generally means we compare the position of an investor's endowment mortgage with the position an investor would have been in had they taken a repayment mortgage (the risk–free alternative) as at the date we consider the claim. We also generally take into account 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.

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.

Understanding Our Work

Investment claims flowchart

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



How the FSCS is funded

The FSCS is funded ultimately by levies on authorised firms, but also receives recoveries and has access to borrowing facilities. The FSCS's costs are made up of management expenses and compensation payments.

Management expenses

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

- 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. The management expenses levy limit for 2009/10 has been set at £1bn.

Classes and Sub-classes

The FSCS funding model which became effective on 1 April 2008 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 class which has reached its overall threshold, up to the overall limit. This is represented diagrammatically on page 126.

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 the 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.

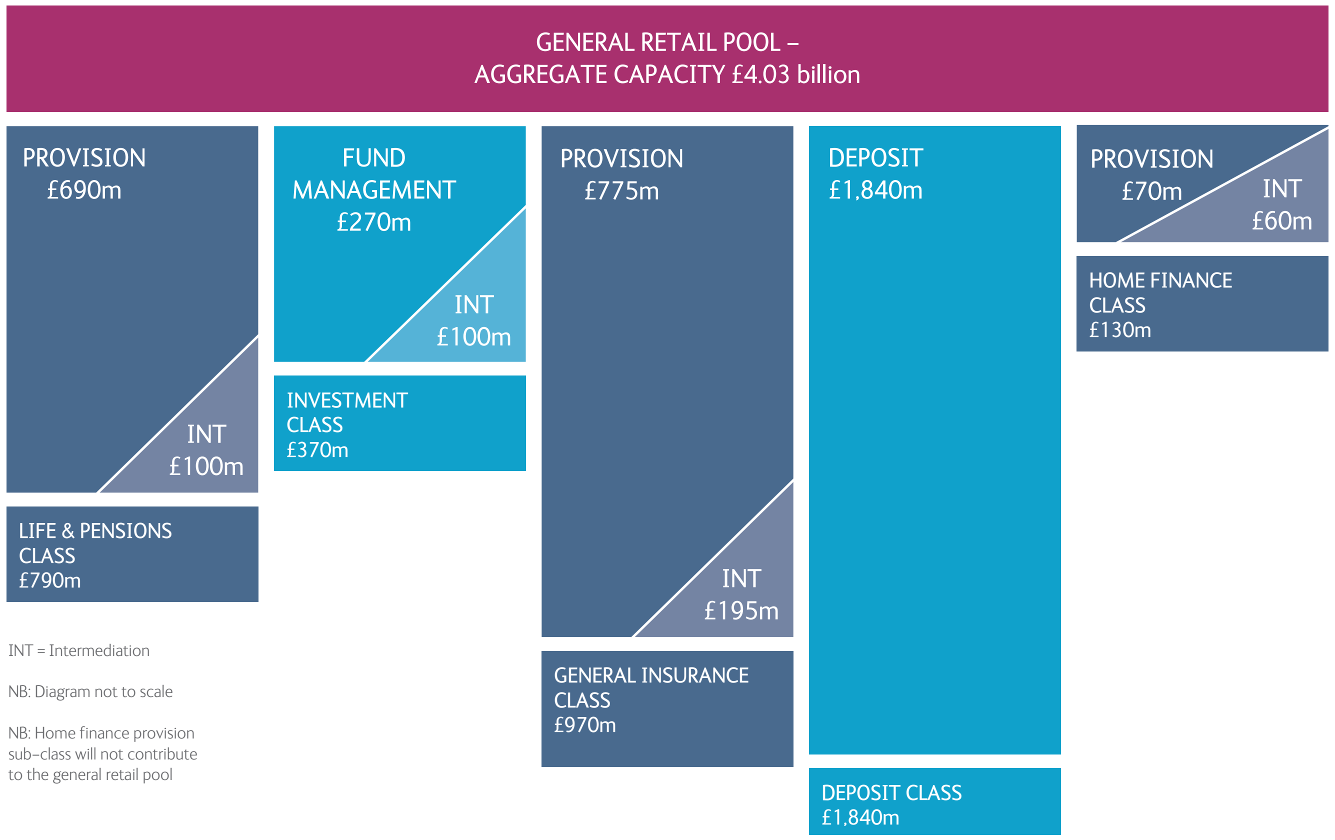
Levy limits

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

- Deposit: £1,840m;
- Life and pensions: £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.

Understanding Our Work



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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