Financial Services Compensation Scheme
Annual Report and Accounts
2017/18

HC 1204i

Financial Services Compensation Scheme

Annual Report and Accounts

2017/18

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FSCS Contacts

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

General enquiries should be addressed to:
The Financial Services Compensation Scheme
10th Floor
Beaufort House
15 St Botolph Street
London
EC3A 7QU

Email: enquiries@fscs.org.uk

Financial Services Compensation Scheme Limited
Company number 3943048

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BUSINESS HIGHLIGHTS

The main highlights from 2017/18

Helped

Helped 69,980 customers to get back on track.

Levied

Funded by levies on 20,180 regulated financial services firms.

Recovered

Recovered £11bn from Bradford & Bingley and £168m from other failed estates.

Digitised

Expanded use of online service: 92% of claims submitted are online.

Prepared

Prepared for debt management business to be covered from 1 April 2018.

Paid

Paid £405m compensation to help customers get back on track.

Accelerated

Paid 98% of deposit claims within seven days and 96% of other claims within our service levels of three or six months (according to product).

Of those claims we can process, only 18 were overdue as at year end.

Satisfied

Customer satisfaction reached 79% average throughout the year.

Communicated

Awareness of FSCS or a protection scheme reached 81% .

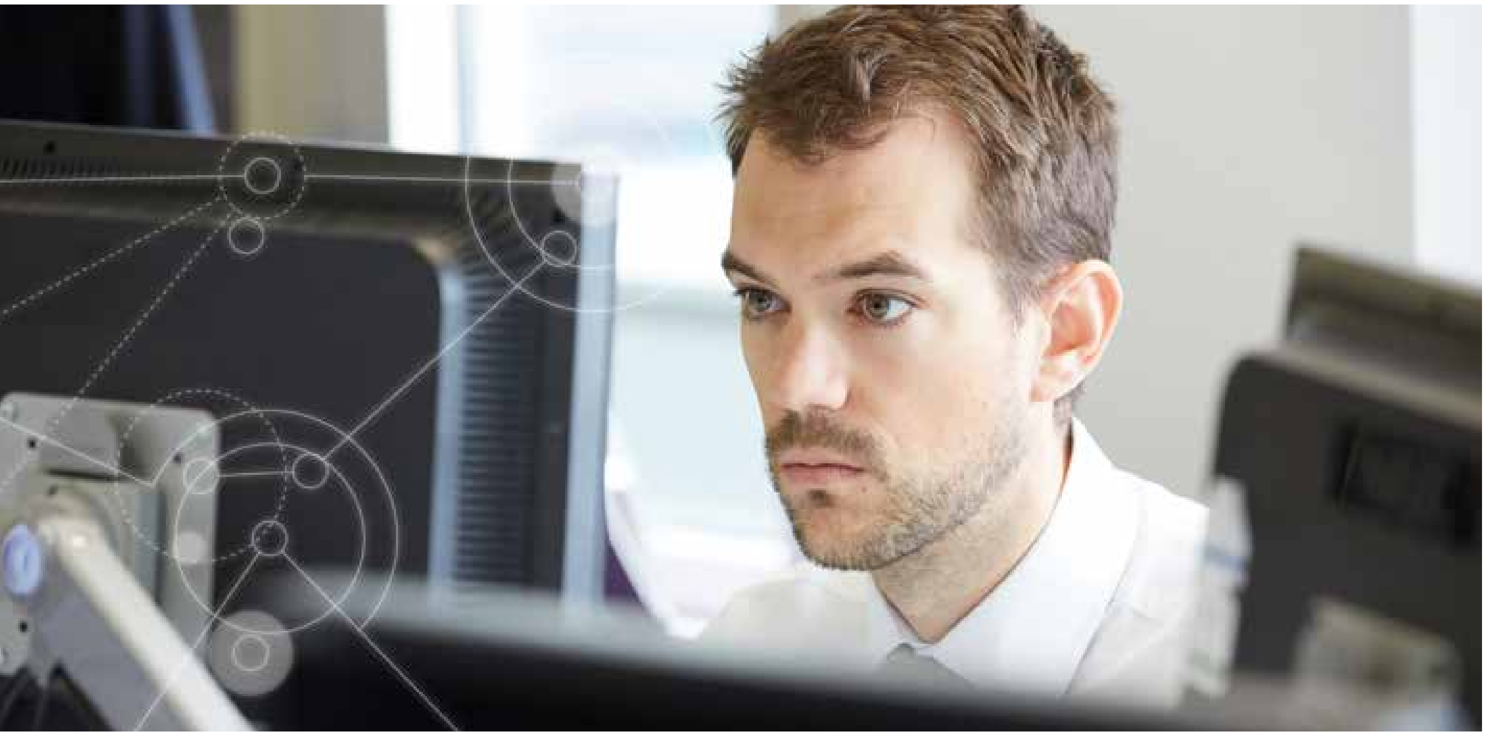
Responded

91% complaints responded to within 20 working days.

OUR MISSION AND ROLE

The mission of the Financial Services Compensation Scheme (FSCS) is to provide a trusted compensation service for customers, which raises public confidence in the financial services industry.

Our role
FSCS is the UK's statutory fund of last resort for customers of authorised financial services firms. We work to promote public confidence and provide consumer protection in UK financial services. This means that FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. This is referred to as failing or being in default. FSCS is a non-profit-making independent body, set up under the Financial Services and Markets Act 2000 (FSMA). It is funded by levies on authorised financial services firms. FSCS does not charge individual consumers nor does it charge customers who seek compensation from us.



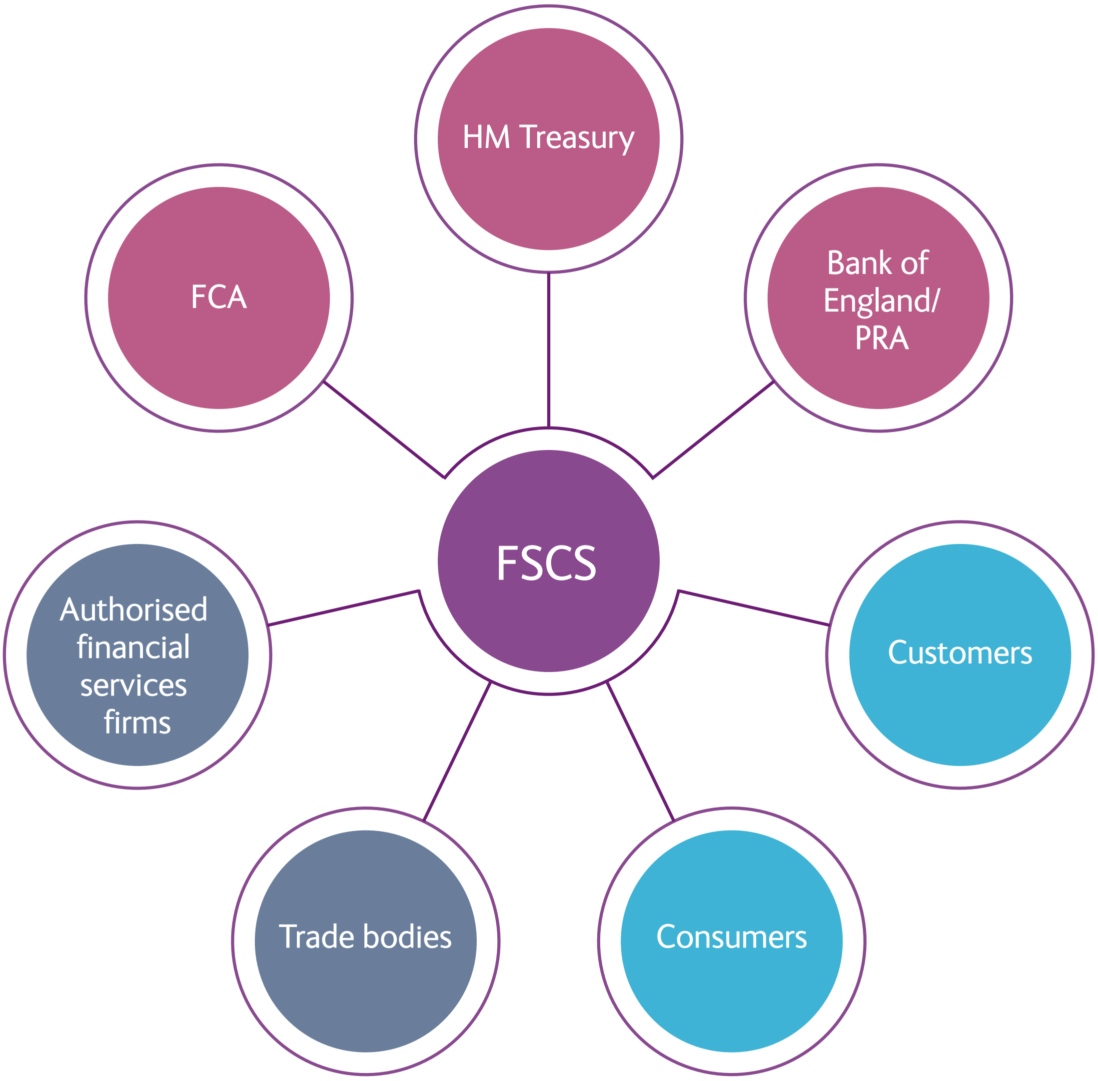
FSCS is the manager of a single compensation scheme under FSMA, and assesses and pays compensation to our customers in accordance with the Scheme rules. These rules are set by the Bank of England's Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). We protect deposits, insurance policies, investment business, insurance broking (for business on or after 14 January 2005), home finance advice/arranging (for business on or after 31 October 2004) and debt management (for business on or after 1 April 2018). The level of compensation we pay depends on the type of claim. FSCS only pays compensation for financial loss. Compensation limits are per person per firm, and per claim category. These limits can be found on our website at: https://www.fscs.org.uk/what-we-cover/compensation-limits/. The rules set out how FSCS raises funds to meet its costs, through levies raised on the industry. Where necessary, FSCS can also borrow funds commercially or from HM Treasury.

HM Treasury is responsible for the overall institutional structure of financial regulation and the legislation that governs it, including the negotiation and implementation of EU directives.

FSCS is operationally independent, but accountable to the FCA and the PRA, and to HM Treasury. We are a private company limited by guarantee, with a Board of Directors whose terms of appointment require them to operate independently of the FCA and the PRA. Further details of how we are governed are in the Corporate Governance Report on page 58. Under FSMA, the FCA and the PRA do what is necessary to ensure that at all times FSCS can exercise its required functions. FSCS works very closely with regulatory authorities to ensure we can respond effectively to any failures. We evaluate future risks and have developed detailed contingency plans to ensure we are prepared for a variety of events.

After payment of claims, FSCS must pursue recoveries that are "reasonably possible and cost-effective". We make recoveries from claims on the estates of failed firms as part of the insolvency process and from claims against professional indemnity insurers. We may also seek recoveries against other third parties where they contributed to customers' losses.

Relationship with our stakeholders



01 **CHAIRMAN’S STATEMENT**

I can report on great enthusiasm for the task ahead.

Introduction

As I write, I will have been Chairman at FSCS for less than three months. While speaking with the Executive Team and the members of the FSCS Board, I am listening to and learning from their experiences, and can report on their great enthusiasm for the tasks ahead. While this statement is a reflection on the past year’s successes and challenges, as the incoming Chairman I can confidently say that FSCS is in better shape than ever. The conclusion of certain historic events, and further guidance from the UK regulators has given us much to look forward to. We are all very grateful to Lawrence Churchill CBE, the outgoing Chairman, who has helped steer FSCS over the past six years. His dedication to our work and his eye for the big picture has been helpful indeed.

Stakeholders

The Board is very conscious of having three principal groups of stakeholders to whom we are ultimately accountable. Importantly, the rules we apply and the markets in which we all operate are governed by our partners at the

Bank of England and its Prudential Regulation Authority, the Financial Conduct Authority, and ultimately, HM Treasury, who collectively drive the implementation of work across the financial system in the UK. This first group is important as all of the decisions we take and the interactions with various constituents come from their balanced assessment of the issues. Over the years we have sought to maintain an ever closer engagement with them to share the trends we are seeing. We will continue to interact with and be guided by them, with the joint aim of improving the operation of financial services markets for all. They have welcomed our approach and have been excellent partners.

Another very important set of stakeholders are the levy payers. We shall increase our interaction with them over the coming years as we all have a mutual goal of reducing the levy that the system requires them to pay. While a 'zero balance' would be a noble goal if it reflected a system without insolvencies, mis-selling or other acts that have an impact on our society, throughout modern history there have always been moments when consumer protection in its various forms has been required, and our levy payers understand this. It can be a challenging environment. What pleases me at first blush is their desire to spend time and resources to correct weaknesses in the system, and to find the best way to balance the factors that help maintain financial stability. After all, it is the levy payers' money that gets disbursed when issues arise. We must seek to reflect fairness in our approach, as well as determination to work together, and with the regulators to root out wrongdoing. In the main, levy payers do their utmost to work for fair outcomes for clients, and their work is increasingly visible to the general public. Trust that the financial system is fair, and awareness of the risks involved in certain types of investments, is a two-way street that requires all participants to up their game.

Ultimately, our main aim is to protect consumers in the public, especially vulnerable ones. An array of problems can arise, and indeed do with alarming regularity. Bankruptcies and mis-selling of financial products is far too common still. The better educated the depositors and investors, including those who have been granted relatively new freedoms to select their pensions, the better the outcome. It has been our experience that consumers make better choices when they fully understand consequences, and the awareness of our protection is among those positive elements. We shall continue to work at this with the stakeholders mentioned above.

Staff and the Executive Team

Among the very impressive aspects of joining this group has been observing the dedication and intellect of the members of the FSCS team, including the competent and motivated executive leadership. Their work has enabled a lot of positive change, with much more planned for rollout in the coming quarters, not least of which is a user-friendly, digital service to enable more customers to come directly to FSCS and use our free protection service. Keeping a much higher percentage of their compensation in the customers' pockets would be helpful. The leaders of the various components of our business have demonstrated to the Board that they are working effectively to move us toward a clear vision for the 2020s. Our plans and budgets continue to reflect operational efficiency, while making sound judgements and providing timely support for those who need us most. Our people have a common cause and it is evident in everything they do. We will continue to work together to demonstrate this to the general public, making good use of digital technology, modern media and other sources.

We celebrate the diversity of views and skills in FSCS, and have inclusive policies to help hire and retain the best talent. Our people bring their enthusiasm to the table in a wide variety of ways, and the culture of challenge and improvement has brought tangible benefits to how we operate. Given that the volatility of our costs comes from external factors, we aim to keep the talented people we employ as busy as possible. We are excited by the new partnership with Capita, and as we reorganise our teams to work collaboratively with our new partners, we look forward to reporting on a number of factors that demonstrate our successes.

Conclusion

As we move forward as a group, engaged and committed to our partners and stakeholders, we remain prepared to listen and act upon the information we receive to help protect the general public. Please do what you can to help us on this mission. We shall be open to ideas that can enhance the stability and fairness of the financial system, for the benefit of all.

Marshall Bailey
Chairman, Financial Services Compensation Scheme

19 June 2018

02 **CHIEF EXECUTIVE'S REVIEW**

In 2017/18 many of our investments and initiatives have come to fruition.

Our mission

FSCS has a straightforward mission: to provide a trusted compensation service for customers, which raises public confidence in the financial services industry. This protects consumers who lose money when regulated financial services businesses fail.

This mission is endorsed by all FSCS's stakeholders. It contributes to consumer confidence in good times and underpins financial stability in bad.

Our stakeholders do, however, also have distinct interests.

Consumers naturally want FSCS to provide a fast, accurate and empathetic service.

Our levy payers want that service to be efficient as well as effective. They also want its costs to be offset as far as possible by the recoveries we make from the estates of failed businesses or culpable third parties.

The regulators and government want to be sure that FSCS is prepared to protect consumers just as efficiently and effectively in times of stress as in years, like 2017/18, when FSCS has made payments to almost 70,000 customers, but with no big new failures.

Our strategy

The interests of our stakeholders were fully reflected in the five year strategy we set in 2014 when we set out seven imperatives for the rest of the decade. We wanted to improve our service to customers and to find new ways of delivering that protection. We wanted to ensure that consumers more generally were aware of our protection for deposits to guard against unnecessary withdrawals of funds in any future bank or≈building society failure. We wanted to enhance our value for money, our preparedness and our professionalism as creditors. As a necessary condition for achieving all these things, we wanted to engage our own people more closely and to deepen their professionalism.

Four years on, we have largely delivered on these imperatives. 2017/18 has, in particular, been the year when many of the investments and initiatives we set in train in 2014 have come to fruition.

Our record of delivery

First and foremost, our investment in a new claims handling platform, shared with our partners, and in an online claims service, has improved our service to customers and has reduced its cost to levy payers.

Over 2017/18 customer satisfaction has averaged 79% – a rise of three percentage points on the previous year-end. Customers and their representatives submitted 92% of claims online by year end – well in excess and ahead of the 60% target we set for applications started by March 2019. We also trialled a well-received web chat service during the year, enabling visitors to our website to ask questions about the claims process and to seek information about the progress of their own claim. We are currently considering a full rollout of this service.

With claims arriving and assessed electronically, we have been able to cut processing times. Over the year, 96% of claims were decided within our service levels. 10,130 depositors in six failed credit unions were paid out in under seven days. We have also reduced our costs: like-for-like claims handling costs have fallen by £2.2m from the prior year.

Our changing workload

All this was achieved against a background in 2017/18 of a rise in both the volume and complexity of claims. Roughly 22% of the claims handled by FSCS in 2017/18 arose from pensions advice – most commonly to transfer retirement savings out of an occupational scheme into a Self-Invested Personal Pension (SIPP) with a view to making illiquid and risky investments. Over the year, we paid out £112m in compensation for bad advice of this kind.

FSCS also concluded in January that customers were likely to have eligible claims against three failed SIPP platform providers. We received our first claims arising from bad advice to release funds from defined benefit pension schemes.

This rising tide of pension-related claims underlines the risks that consumers face as they take advantage of the pension freedoms and, therefore, the importance of raising awareness of FSCS protection outside the field of deposits. There is a stark contrast between the high level of public knowledge of FSCS or a protection scheme – at 81% of adults – and the much lower levels of awareness of FSCS protection of some other products. We know, however, from important research published by FSCS in January 2018 that consumers' choices about investments for retirement are influenced if they know about FSCS protection. I expect this to be a major theme of FSCS' strategy for the 2020s.

Rising complexity also brings risks to the accuracy of our compensation service. Although our service is now generally better controlled as a result of the elimination of paper and material error rates across the year ran at only 0.64% of compensation value, I should acknowledge a significant error in handling Arch Cru claims which resulted in underpayments of £812k and overpayments of £732k. This first emerged in 2016/17 with some of the errors dating prior to that. There is more about this on page 84. In light of this, we have taken steps to enhance the claims-handling expertise within FSCS to supplement the checks already undertaken by our claims handling partners.

Our preparedness

Our investments and partnerships mean that FSCS is now better able to handle major failures or another financial crisis should it arise. FSCS's outsourced business model enables us to draw on the capability and expertise of partners better equipped to handle volume risks than FSCS. Our online claims service and claims handling platform enable us to transfer claims swiftly and securely. From summer 2018 we shall move to a single partnership, which will incentivise further investment in our process and a shared commitment to customer service. Following a robust procurement process we selected Capita to be that partner.

We also learn and innovate continually as a result of our experience of real failures and of exercises. So in 2017/18 we reviewed how FSCS had handled the challenges of two major insurance failures in 2016 – Enterprise and Gable. This has caused us both to revisit aspects of our own insurance process and to discuss with the regulators improvements in the quality of data held by insurers and insurance brokers.

We also simulated a bank failure in 2017 in order to review our financial and operational preparedness. That exercise provided assurance that we could meet our seven-day payout target at a scale much greater than the credit union failures we had dealt with during the year.

Our recoveries

Our commitment to future preparedness is matched by FSCS's continuing focus on maximising recoveries from past failures. These recoveries typically lag behind the compensation we pay by several years, but nevertheless materially offset the levies we impose on the industry to meet our costs.

This was well illustrated in 2017/18 by the £11bn we recovered as a result of the sale of a tranche of the Bradford & Bingley (B&B) asset book – a sale on which FSCS has co-operated closely with HM Treasury, UK Asset Resolution (UKAR) and a consortium of banks. We used this recovery to pay down a substantial proportion of the outstanding borrowing from HM Treasury which FSCS incurred in 2008 in protecting depositors in B&B during the financial crisis. As a result, FSCS's interest costs payable by deposit takers in 2018 dropped to £99m from £306m in 2017.

After the year end, on 26 April 2018, UKAR announced an agreement to sell B&B mortgage assets and repay the remaining £4.7bn owed to FSCS. We have used this to repay in full our debt to HM Treasury.

During the year, FSCS also recovered £6m from PPI lenders.

Our people

These achievements reflect, of course, great credit on FSCS's people. FSCS is not a large organisation, with around 200 people. But it is a very professional and committed organisation, strongly motivated by our mission of protecting consumers and activated by our values of accountability, challenge and collaboration.

I cannot end this introduction without paying a personal tribute to Lawrence Churchill who stepped down as Chairman in March and to three non-executive directors whose terms also ended last year: Liz Barclay, Jayne Nickalls and Paul Stockton. Lawrence has been an outstanding Chairman who has not only brought command of corporate governance, but has also pushed FSCS and its partners to clarify and simplify our protection for retirement savings and to improve our value for money. Liz, Jayne and Paul have readily placed their personal experience and expertise at our disposal, and have also challenged us hard to do better. We are hugely grateful to all four.

Mark Neale
Chief Executive, Financial Services Compensation Scheme

19 June 2018

03 STRATEGIC AND PERFORMANCE REPORT

The Strategic and Performance Report reviews the Scheme's role and strategy, together with our performance during 2017/18 and our future outlook.

OVERVIEW

Our role

FSCS exists to protect consumers when regulated financial services businesses fail. By doing so, the Scheme protects consumers against risks beyond their control and increases their personal resilience to financial shocks. This, in turn, raises public confidence in financial services and helps to contribute to financial stability.

The 2008 financial crisis highlighted the need to invest in our claims handling processes so that we can cope with rapid changes in the demands placed on us while at the same time improving customer service, control and value for money. The crisis also demonstrated the need for increased public awareness of our protection in order to reinforce confidence. Better processes have enabled us to build upon our professionalism in a variety of respects, not least our readiness and also to enhance our ability to act as a creditor of failed firms.

Claims handling model

For different types of financial services covered, our claims and assessment model is different. However, in all cases, making a claim for compensation to FSCS is a free service to the customer.

For certain financial products, we give customers return of their funds (up to our limits), without requiring an application form. These are:

- deposits with banks, building societies and credit unions, where FSCS aims to return the great majority of deposits in seven days;
- client money held with investment firms placed into Special Administration Regimes (SARs); and
- the return of unused portions of insurance premiums for insurance failures.

Such claims are generally facilitated by Insolvency Practitioners (IPs), who provide FSCS with details of customers and amounts owed: no claim is required from the customer directly to FSCS.

IPs, or their agents, will also provide compensation information to FSCS where a customer has made a claim under an insurance policy.

For other financial products, claims for compensation must be made to FSCS, such as:

- claims against insurance brokers;
- claims relating to life insurance, investments, and pensions business and advice;
- PPI;
- home finance advice; and
- for business on or after 1 April 2018, debt management.

Since the financial crisis we have outsourced the handling of the majority of these claims. This enables us to transfer the volume risk of a volatile and unpredictable workload to bigger organisations, who are better equipped to manage it efficiently. Much of our investment over the past four years has gone into establishing a common claims handling platform, which we shared with our outsource partners.

In this report, when we refer to compensation and number of customers, we are including all of the financial products we cover. When we refer to 'claims', for example how many are made online, we are only referring to those activities where the customer needs to make a claim to FSCS.

Moving to a single outsource partner

A key focus for FSCS in 2017/18 has been to rethink our outsourcing strategy and to move from several suppliers to a single partner. A large procurement exercise, completed in spring 2018, selected one supplier to provide most of our outsourcing requirements, including claims processing, customer contact and document management (print and scan). The service will go live from summer 2018, with Capita as our chosen partner.

Working with a single partner should improve customer experience and ensure value for money by drawing on our partner's capacity and know-how to transform our service. We expect to reap the following benefits over the next five years:

- Customer experience – all claims made to FSCS should follow the same journey, with all customers receiving the same experience and consistently high service delivery;
- Deepening contingency – we will be more ready and able to scale resource to manage volumes;
- Value for money – we will drive down cost per claim by introducing and investing in automation and further digitising the service, which is also a benefit for our customers who expect to be able to interact with us in this way. As a result of the move to a single partner we have a greater opportunity to streamline our processes to improve the efficiency and effectiveness of claims handling. We expect significant cost savings over the next five years.

Looking ahead

We have also begun work on our strategy for the 2020s and the challenges we foresee in the years ahead. We expect the environment in which we operate to be shaped by rising customer expectations of the speed and ease of the service we should deliver. We are also conscious that consumers will be making increasingly complex financial choices, particularly in light of pensions freedoms. We are already seeing a steady rise in complex claims in this area.

Against this background, we shall be shaping our strategy for the 2020s around three strategic aims:

- **FSCS protection must be known about and trusted much more widely than now.** Most adults know that their deposits in banks, building societies and credit unions are protected by FSCS. But far fewer know that FSCS protects other financial products and still fewer understand the scope of FSCS protection of insurance policies, investments, investment advice, home finance and debt management. This matters as consumers make increasingly complex choices about financial products. Risks arise equally if investors assume they're protected when they're not, or assume they're not protected when they are. The first leads to over-confidence and imprudent risk-taking; the second to the

Our imperatives

needless avoidance of products that may have a useful role to play in managing people's lives. Working with the industry, regulators and advisory services, we need, therefore, to raise awareness of FSCS protection in the 2020s, using a wide range of channels.

- **FSCS's service to its customers must meet their expectations.** Our protection will only be trusted if our customers are satisfied with the service they receive. That means that FSCS protection must be accessible, fast and easy to use. Customers must receive timely information, clear explanations and correct outcomes. An accurate, responsive service will give rise to fewer questions and complaints. We will need to harness digital technology to ensure that FSCS's service in the 2020s is faster, less effort for customers and compares well with other financial services businesses.
- **FSCS must win our customers' trust and enable them to move on with their lives.** A key part of delivering outstanding service is being empathetic to the situation of our customers, who are often in a stressed and vulnerable position, facing the loss of all or most of their life savings. FSCS must recognise this and ensure that, whether their claim is upheld or rejected, customers feel that they have been dealt with fairly, can get on with their lives and can have confidence in FSCS protection in the future. We need to put customer service at the heart of what we do and ensure that people with claims come directly to FSCS rather than engaging potentially costly representative firms.

We expect to publish the strategy in September 2018 following consultation with our stakeholders.

Imperatives

The strategic aims we adopted in 2014, for the five years to March 2019, contained seven key imperatives. In our *Plan and Budget: 2017/18* we made commitments against these imperatives. We report on pages 24 and 25 our delivery against these commitments and the imperatives in general.

Imperatives

The strategic aims we adopted in 2014, for the five years to March 2019, contained seven key imperatives. In our *Plan and Budget: 2017/18* we made commitments against these imperatives. We report below on our delivery against these commitments and the imperatives in general.

Serving our customers

- 92% of claims submitted online
- 96% of claims assessments completed within our published service levels
- 98% of deposit compensation paid out within seven days of failure
- Of those claims we can process, only 18 were overdue as at year end outside our service levels
- Increased customer satisfaction: average of 79% for the year, and customer trust at an average of 83%
- Undertook trials of a text messaging update service and a web chat service

Diversifying compensation routes

- Opened our online portal to representative firms as well as direct customers
- Paid compensation by a variety of methods: bank transfer (45%), cheque (44%) and cash over the counter (11%). Our portal encourages bank transfers as a more secure and faster payment method

Improving our value for money

- Selected Capita as our partner to work with for the next five years. The partnership will drive down the cost per claim through automation and further digitisation of our service
- Outsourced our customer contact service, reducing our fixed costs. Increased use of the online service has decreased the number of calls the contact centre is receiving from customers
- Reduced like-for-like claims costs by £2.2m from the prior year
- Reduced external contractors as we continue to upskill internally

Raising awareness

- Consumer awareness of FSCS and/or a protection scheme increased to 81% vs target of 70%
- Signed agreement with banks and building societies to feature the FSCS badge in their marketing, applications and online – 90% of deposit takers display FSCS information inside the branch and 91% outside
- Launched a pensions and insurance working group to promote greater awareness and understanding of FSCS protection for these areas
- Published research showing that providing information to people about FSCS impacts upon their pension choices

Contingency planning

- Conducted an exercise simulating a bank failure, and addressed emerging issues
- Tested our continuity plans in the event of a major IT failure across the end-to-end process, including our ability to restore service to our outsource partners
- Tested our Incident and Crisis Management response to major operational disruption through live events and scenario-based exercising
- Reviewed our Business Contingency Plan, making changes as necessary
- Renewed our Revolving Credit Facility with a syndicate of banks, providing fast access to £1.45bn of liquidity, if required
- Piloted a Single Customer View (SCV) file self-verification service

Achieving excellence

- Recovered £11bn from Bradford & Bingley and used proceeds to repay loans from HM Treasury. Recovery of the remaining £4.7bn was announced after year end and has been used to repay our remaining debt to HM Treasury
- Cash received from recoveries (including dividends) of £168m, including £86m from Independent Insurance, £12m from Kaupthing Singer & Friedlander and £6m from litigation settlements related to PPI mis-selling
- Final dividends from the estate of Alpari totalling £14m were received, concluding our involvement in this 2015 failure
- Started to receive dividends from ARM Securities, which are related to the failure of Catalyst Investment Group, with £15m received in the year

Engaging our people

- Achieved Investors In People's Silver accreditation
- Again recognised as 'One to Watch' by Best Companies Index
- Began rollout of a new approach to performance management: *Performance Achievement*, providing development plans for all employees
- Continued to invest in our employees' career development, with six moving role internally, 13 promoted and five staff internally seconded
- Relaunched our Family Leave Policy; increased access to a wider range of benefits; currently rolling out new flexible working arrangements
- Nominated for and won awards for the Scheme, team and individual performances (see page 44)

DELIVERING FOR OUR CUSTOMERS

We report on how we are delivering our top priority of modernising our service to customers in a changing claims environment

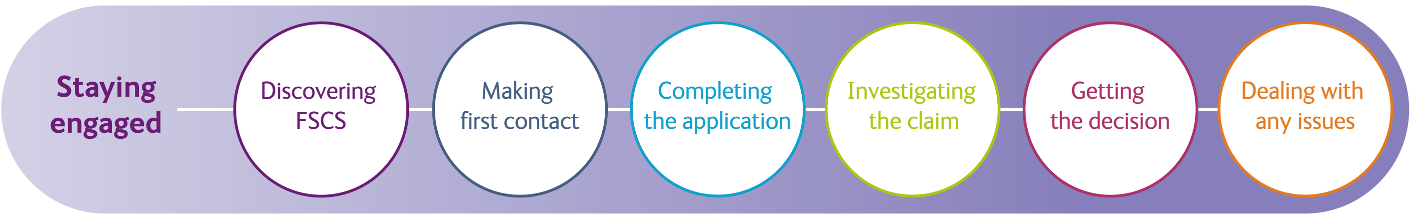
Serving our customers – the customer journey
The scope of financial services activities covered by FSCS makes us one of the broadest financial services compensation schemes in the world.

During the year we helped 69,980 customers to get back on track. The total number of people we have helped is much larger: some of these payments were to people with families and the compensation will have made a difference to their lives and in many cases enabled them to recover life savings. Some of the payments were to companies, where compensation will have helped them to continue operating, supporting their staff, suppliers and other stakeholders.

These payments were financed by levies collected from 20,180 regulated financial services firms.

We focus on the customer's experience throughout the entire claims journey, which is comprised of the following stages.

Our customer journey



Discovering FSCS

"I saw their logo on the bank windows and leaflets so I knew I was protected there"

"A friend who had the same bad investment advice, and had claimed, told me about them"

Making first contact

"My initial contact online was straightforward"

"I went on to the website and dived straight in to make a claim"

"They picked up the phone straightaway and were polite and helpful"

Completing the application

"It was easy to find the online claim form"

"The 'save' facility was great – I needed to go back to it while I was getting information"

"The tick list of what I needed to provide was helpful"

Investigating the claim

"The time frame they gave me seemed reasonable"

"I used the Live Chat – that's great as you can get an instant response to a question"

"I liked that you can track progress online"

Getting the decision

"I got a call, followed up by an email and then payment. All of this was in quick succession"

"I was really satisfied with how the decision was detailed and the breakdown of calculations"

Dealing with any issues

"Communication was very good"

"I am relieved they exist and provide hope"

Customer satisfaction

Staying engaged

Each stage of the journey is important to us. We work with an external research agency to ask customers a series of questions about how satisfied they are with us at each of three milestones in the claims process:

1. Following completion of their application

2. While we are investigating their claim

3. After they have received the decision on their claim

This gives insight into the experiences of online customers (the overwhelming majority) and, importantly, lets us know where we need to improve. For example, we improved our decision letters in response to customer feedback and we introduced better communication during the assessment process, after customers said they needed more frequent updates.

Over the course of the last year, customer satisfaction levels with claims we handle, based on the overall service we provide and how much our customers trust us to treat them fairly, has averaged over 79%, peaking at 82% in November. This is an increase from a maximum of 77% in 2016/17. We received fewer responses to our surveys towards the end of this year, which was accompanied by a drop in satisfaction. We believe this drop reflected a lower sample size rather than any underlying performance issue, and have seen satisfaction increase after the year end as sample sizes have risen.

Satisfaction is typically the highest in stage 1 when people make an application, and lower in stage 2 while the claim is processed. Many claims are complex and require documentation from a range of companies as well as the customer. This can be time consuming, and customers can become frustrated. We have seen an increase in satisfaction at this stage as we have focused on improving both the speed at which we process claims and proactively increasing our communication with customers during the process. In some cases, third parties have evidence our customers need to progress their claims, and we are doing what we can to help make getting that evidence simple and not create unnecessary delays.

Satisfaction at decision stage is, unsurprisingly, heavily influenced by whether the claim has been upheld.

We are starting to survey customers after they have had cause to challenge our decision or make a complaint, so we can ensure a true end-to-end process of measuring satisfaction and identifying areas where we can improve.

During 2017/18 we ran a series of customer focus groups covering a cross-section of customers. Overall these focus groups showed how much our customers' experience has improved since we last ran focus groups in December 2015. However, they also highlighted many areas where we can further enhance the service we provide. We have already introduced a number of improvements as a result of feedback from our customers. Information from surveys and customer focus groups is vital to help us continually improve the service we provide.

As well as quantitative survey data, we are inviting customers to 'help us be more helpful' by filming video diaries of their claim experience. We want to know about our customers' experience on their claim journey, how it makes them feel and what we can do better. We will use these diaries in 2018/19 for internal training and feedback, to further improve the customer experience.

Discovering FSCS – building consumer confidence and trust

Communicating the protection FSCS provides is critical to boosting consumer confidence and trust in financial services. Research shows the more people are aware of our protection, the more confident they are about buying financial products. In the case of deposits, the assurance of FSCS protection should also reduce the risk of a run on a bank or building society at a time of stress. This is why we continue to invest in building awareness of the compensation scheme, which stands at 81% among UK adults. Our communications reach people of all ages and social groups: they are spread evenly across society.

In 2017/18 we continued our advertising campaign, highlighting FSCS protection, targeted at those most in need of awareness, across the UK. All audiences show at, or over, 70% awareness; in some cases, particularly older and wealthier people, we have seen as high as 95% awareness of FSCS or a protection scheme.

We concluded an agreement with banks and building societies to include the FSCS badge in their communications, including their application forms and websites, as well as their advertising. We are grateful to UK Finance and The Building Societies Association for their support. We set up a working group with the pensions and insurance industries with the aim of reaching a similar agreement.

fscs

Protected

In addition, we ran a contact and briefing programme for MPs about FSCS, including meetings and production of a parliamentary bulletin, to inform and educate politicians about our work. 70% of MPs agree that FSCS is vital to ensuring public confidence in financial services firms.

We have a Consumer Awareness Advisory Panel of industry and consumer organisations, which includes representatives from UK Finance, The Building Societies Association, The British Insurance Brokers' Association, The Investment Association and Which?, to whom we present our communications and marketing activity and strategy and from whom we seek feedback.

In 2017/18 we carried out research into the impact that information about FSCS has on people's pension decisions.[1] The results include:

- those who are aware of FSCS or think FSCS is important are more likely to take advice and less likely to question the price of that advice;
- people think twice about their risk appetite profile when they know or hear about FSCS – those aware of FSCS are less inclined to buy riskier products and more inclined to opt for those the Scheme protects; and
- providing information about the Scheme to consumers builds trust in financial services firms.

82% of those who took pensions advice say they were aware of FSCS in advance. 84% of those aged 55 to 64 were aware.

Censuswide survey for FSCS, 2017

Those who are aware of FSCS or think that FSCS is important are more likely to take advice and more likely to choose FSCS-protected products.

Oxera, pensions research for FSCS, 2017

1 https://www.fscs.org.uk/globalassets/publications/fscs-pensions-white-paper-final.pdf

Of those who do not know if their retirement-specific products are protected by FSCS, 62% say that knowledge of FSCS would have influenced their decision.

Censuswide survey for FSCS, 2017

People think twice about the risks they are willing to take when they hear more about FSCS.

Oxera, pensions research for FSCS, 2017

70% of those who took pensions advice know whether their retirement-specific products are FSCS protected.

Censuswide survey for FSCS, 2017

90% of deposit-taking branches display our badge in branch and 91% outside.

Ipsos Mori, mystery shopping, 2017

Making first contact

Customers can contact us by telephone, email or letter, and during the year we conducted a three-month trial of web chat. This service received an average of almost 200 chats per week, many from customers asking how they can make a claim and for information on our protection limits. We are analysing the trial results. We also have an online claims service, where customers can quickly discover whether they potentially have a valid claim and can then submit applications for compensation. We conducted a text messaging trial on a sample of new claims, providing automated updates on these customers' claims. We are looking into whether customers find these useful and whether they would lead to a reduced likelihood of customers contacting FSCS for claim updates.

Completing the application

In December 2016 we launched an online service, allowing customers to submit compensation claims and to track the progress of their claim. This covers mortgage advice, mortgage endowments, pensions, PPI, life insurance and investments.

As a significant number of claims come to FSCS through representative firms, we launched an online claims service specifically for representatives in June 2017, with input from firms working across the claims management industry. This allows firms to manage claims from their own dashboards.

Since the launch, we have seen a rapid increase in the adoption of our online claims service, and by March 2018 92% of claims made to us were being submitted online. This represents a more efficient process and is more user-friendly for our customers, for example by automatically skipping questions which are not relevant to their specific circumstances. It is also a more efficient process for our claims assessors, and better value for money for our levy payers.

Over the past year we have enhanced the information available to our customers, including increasing account visibility by allowing customers to see all claim related correspondence on their account, and sending customers automated email updates outlining the progress of their claim. The online service allows customers to easily check their eligibility at the start of their journey, so they do not need to spend time filling in a full application if they are ineligible.

Investigating the claim

FSCS pays compensation to customers when the firm against whom they have a claim is unable, or likely to be unable, to meet this obligation. Consequently, for compensation to be paid the firm on which it is claimed needs to have been declared in default. During the year, we created a 'centre of excellence', drawing together into one team expertise in assessing firms' capacity to meet claims. This made the process more efficient and reduced the time it takes FSCS to establish whether a firm can or cannot pay compensation. This means we can start helping customers get back on track sooner.

In 2017/18 we declared 134 firms to be in default, across all classes of activity (2016/17: 162).

When dealing with claims, we identify any potentially vulnerable customers, such as credit union members receiving welfare benefits, for whom we may make special arrangements to maintain their access to money.

Getting the decision

We are seeing the benefit of the investments we have made in prior years to our systems and process. Each month since May 2017, we have beaten our target of 90% of claims to be completed within our service level of six months (three months for PPI and General Insurance payments). This averaged 96% across the year and ended the year at 99%.

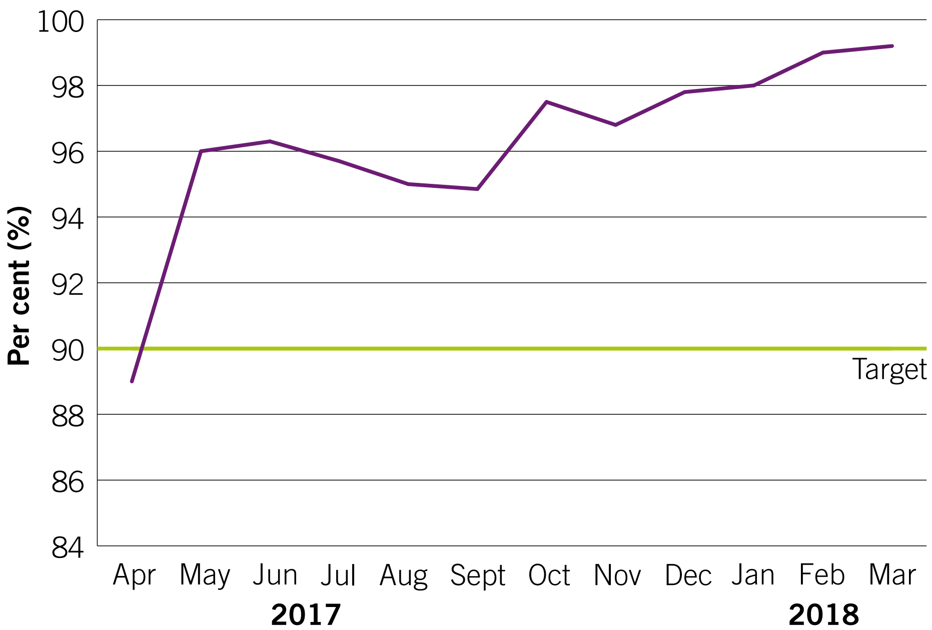
Additionally, despite a similar number of claims received in the year, of those claims we are able to process we have been able to reduce the number of overdue claims (outside their service level) from 135 at the end of 2016/17 to 18 at the end of 2017/18, well under the target set of 300. This improvement was driven by a focus on starting to process claims within five days of receipt.

Because of issues largely outside our control, such as new types of claims, issues with data availability from failed estates or where we might need to liaise with the regulator or law enforcement, some claims are unable to be assessed within our targeted timelines. Where this is the case, these claims have been excluded from the above measures. There are currently 314 such claims.

Dealing with any issues

Customers who are dissatisfied can make a complaint to FSCS, which will be acknowledged within two working days, with the aim of providing a considered response within 20 working days. Complaints are typically recorded as either about the decision we have made, including the amount of compensation paid, if any, or about the handling of the claim.

Claims completed within service level



For complaints over a decision made, a complaints handler will review the original decision, along with any additional evidence. The outcome of the review is final and further consideration is only possible if new material is provided by the customer. In some circumstances, customers who remain unhappy with the outcome of a claim may seek a judicial review, although very few actually do so.

For complaints relating to the handling of the claim, including the service we have provided, a complaints handler will investigate the issue and attempt to resolve it. If the customer is still unhappy, they may ask for their complaint to be referred to the Independent Investigator, who will carry out a review and write a report that is considered by our Board of Directors. This year, six complaints have been referred to the Independent Investigator, which represents a quarter of 1% of the overall number of complaints we have received. The Independent Investigator does not consider complaints about the decision to uphold or reject a claim for compensation, or about the amount of compensation paid.

The annual report of the Independent Investigator can be found on page 55.

Up to June 2017, complaints records were compiled manually by complaints handlers. From June 2017 a technology improvement enabled us to record complaints directly in our claims handling system, including the reasons for the complaint. This has given us greater visibility over where our performance needs to improve and tracks the improvements over time to measure their impact. The data collected is also helping us understand the root causes of complaints and where our focus should be in order to reduce these in the future.

The table on page 35 shows the reasons for complaints that have been raised this year.

In some cases, a customer will follow up a complaint with further questions, requests or general feedback. We are currently analysing these to better understand their reasons. We direct these to the relevant area for response.

Complaints

Reasons for complaints	April/May 2017	June 2017 – March 2018	Total
Total number of complaints	337	1,777	2,114
Complaints as a proportion of decisions	N/A	N/A	8.1%
Complaints over claims decisions (total)	268	1,235	1,503
Decision dispute	N/A	810	N/A
Calculation dispute	N/A	245	N/A
Other decision dispute	N/A	180	N/A
Complaints over claims handling (total)	69	527	596
Poor communication	N/A	244	N/A
Delay	N/A	123	N/A
Other handling complaints	N/A	160	N/A
Other complaints	0	15	15
Percentage resolved within turnaround (target 90%)	85%	92%	91%

N/A = Not available

CLAIMS MIXTURE

Deposits (SA01)

New claims

Payments made

Average paid

FSCS compensates customers when a bank, building society or credit union becomes insolvent. During the year we dealt with six credit union failures and compensated 10,130 customers at a total cost of £6.2m. We compensated 98% of customers within seven days, most of whom we sent payments to within three days of failure. As always, we continue to work very closely with the IP to ensure vulnerable customers are supported. This was demonstrated, for example, in the failure of the West Wales Credit Union, where we worked with the IP to design a bespoke payout mechanism for a group of vulnerable customers, to ensure they had access to funds with minimum disruption.

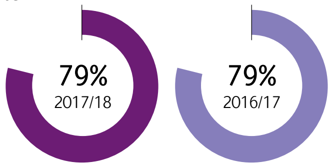
The difference between new claims and payments made relates to customers who failed to keep updated details with their credit union: we could not contact them. This highlights the importance of keeping details updated with financial providers.

General Insurance Intermediation (SB02)

New claims

Decisions upheld

Uphold rate

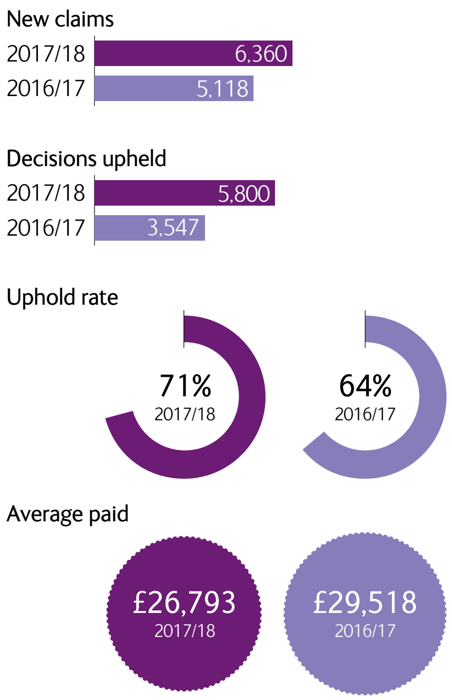


Average paid

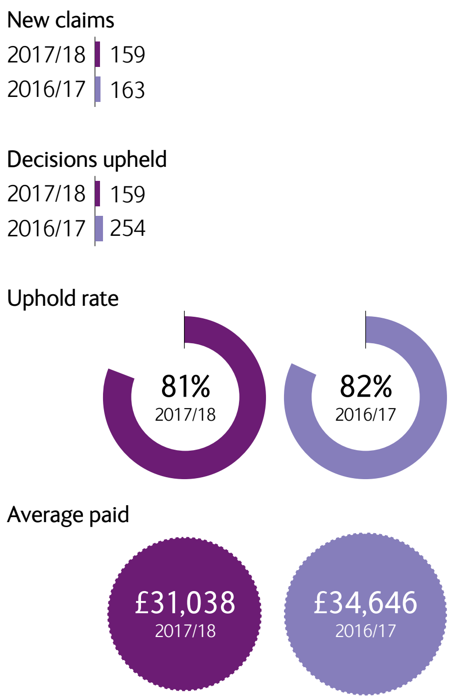
Most of the claims we received continued to be for PPI mis-selling, at 7,224 claims, down from 7,624 in 2016/17. The PPI claims we are now processing are becoming more complex in nature: the additional requirements of claims from customers under Individual Voluntary Arrangement or bankruptcy have lengthened some processing times. Following clarification that 'Plevin'[2] based claims fall within the scope of our protection, we expect a substantial number of claims in 2018/19.

2 Plevin: Following the court case of *Plevin v Paragon Personal Finance ('Plevin')* the Supreme Court said that, in some circumstances, an undisclosed commission on PPI could result in an unfair relationship between the lender and consumer under the Consumer Credit Act 1974.

Life and Pensions Intermediation (SC02)



Investment Provision (SD01)

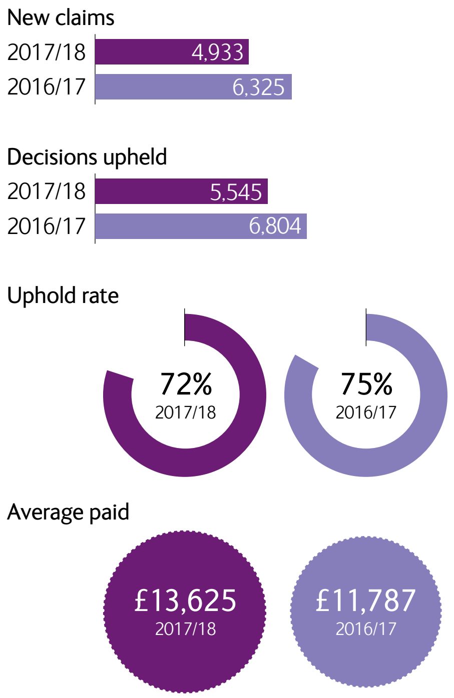


We continued to receive claims in relation to advice given by Independent Financial Advisers to customers to transfer existing pension arrangements into Self-Invested Personal Pensions (SIPPs). In the vast majority of these claims the customers invested in high-risk, non-standard asset classes within SIPPs, many of which become illiquid and potentially insolvent. Over the past year, FSCS has paid compensation of £112m for SIPP-related claims compared with £105m in the previous year – an increase of 7%.

For those customers with claims relating to defined benefit pension schemes, we have been paying interim compensation pending an FCA consultation. Now that this has been completed, we will begin paying full and final settlements.

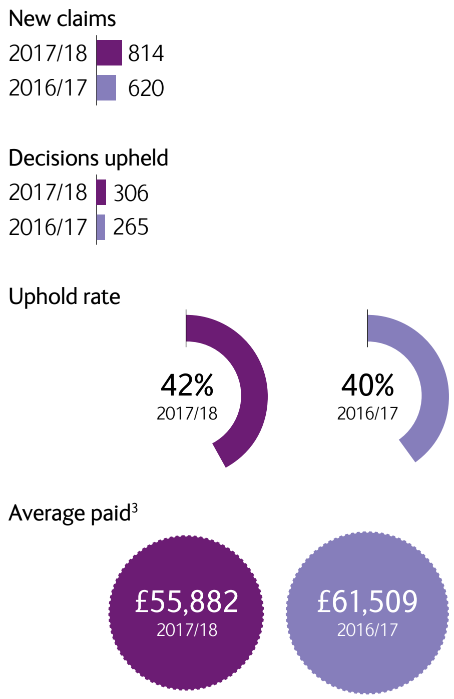
In January 2018, three SIPP operators were declared in default. Customers claimed compensation because of the operators' due diligence failings. We expect that there will be a notable increase in claim volumes in the coming year.

Investment Intermediation (SD02)



Overall Investment Intermediation claims continue to reduce, from 6,325 in 2016/17 to 4,933 in 2017/18. These were mostly made up of claims against Independent Financial Advisers for negligent advice to invest in unsuitable funds and other types of investment. During the year, Strand Capital Limited and Beaufort Securities Limited were placed into the SAR, which is an insolvency regime for investment firms facilitating client assets to be returned. At 31 March, we had not yet paid any compensation relating to these defaults.

Home Finance Intermediation (SE02)



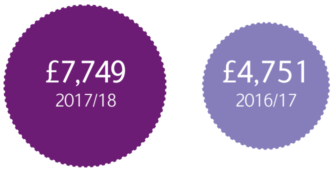
One firm, Fuel Investments Limited, has accounted for an overwhelming proportion of our compensation costs. Claims against Fuel Investments have typically related to advice given to re-mortgage residential properties in order to raise funds to invest in high-risk property schemes. Compensation has been paid to customers for losses directly caused by the regulated mortgage advice arising from the property investment.

3 The average paid per claim for Home Finance Intermediation is greater than the £50,000 compensation limit for this activity. This is because the limit is applied to each customer who claims, and many Home Finance claims have more than one customer for each claim.

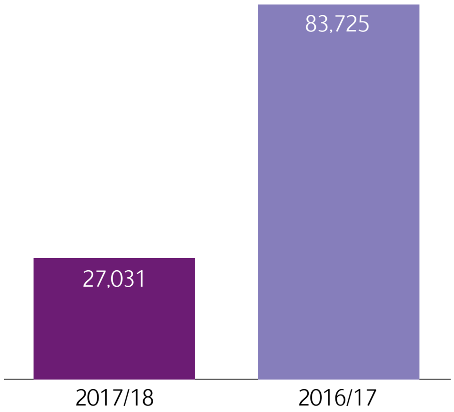
General Insurance Provision

Claims paid

Average paid



Premiums returned



Average returned

Compensation relating to the 2016/17 failures of Enterprise and Gable continued to be paid this year: £38.6m for Enterprise and £16.7m for Gable. We continue to settle compensation claims on insurance policies relating to historical insurance company failures, though these are decreasing. Chester Street represented the largest source of our insurance compensation: £44.3m, of which the majority is compensation for mesothelioma claims.

As well as paying insurance claims, we also return to customers unexpired portions of insurance premiums when insurance companies default. We are now showing these in separate tables, rather than combined as in previous years.

The default of Enterprise and Gable in 2016 brought our protection to 731,541 of their customers. The numbers above include only those who received payments from FSCS in 2016/17 or 2017/18.

Debt Management – new funding class

As of 1 April 2018 the scope of FSCS coverage includes debt management, covering claims for client money lost when a protected debt management firm fails. This levy will be paid by consumer credit lenders and debt management firms.

PREPAREDNESS AND RESILIENCE

We report on the importance of customer data and relationships with third parties in preparation for failures

Business resilience and continuity planning

Alongside its day-to-day service, FSCS needs to be able to gear up rapidly to deal with major failures if a crisis happens. This is when our ability to protect consumers and support financial stability is most needed.

To be prepared, we maintain a core capability to run a claims-handling system and have in place up-to-date and well-practised continuity and contingency plans. We also ensure that FSCS contributes constructively to the development of policy where our expertise in protecting consumers is relevant.

We continue to invest in and test our Incident and Crisis Management response, to ensure that we are able to respond in a timely and effective manner to operational disruption. This includes, for example, our ability to recover from a major IT failure at our primary data centre, and to restore service to our outsource partners.

We are in the process of reviewing our Resilience programme against the requirements of the International Standard for Business Continuity (ISO 22301) as an appropriate benchmark.

FSCS has documented and agreed contingency plans, protocols and working arrangements with the UK Authorities. We continue to seek opportunities to further develop our resolution planning options, to ensure the most appropriate outcomes for customers, with minimum disruption to their ability to access money.

Single Customer View (SCV) review

Deposit-taking institutions are required to maintain SCV files that record customer details and their deposit balances. This enables FSCS to make speedy compensation payments, should a default occur. We review a sample of these files throughout the year, to give the Bank of England's Prudential Regulation Authority (PRA) a view of deposit-takers' compliance. We piloted an SCV file self-verification service during the year, to enable deposit-takers to test the quality of their SCV files. Following feedback, we aim for this to be fully operational in 2018/19.

Stress testing

During the year we conducted an exercise to simulate our response to the hypothetical failure of a bank, to give reassurance that we could undertake timely compensation payments were a significant failure to occur. Such stress tests are a requirement of the EU's Deposit Guarantee Schemes Directive. The exercise included the following elements:

- **Resolution notification**: The notification from the Resolution Directorate of the Bank of England of a deposit taker entering into resolution, which activates our response;
- **SCV analysis**: The request, receipt and analysis of the institution's SCV file, containing anonymised records of all the institution's customers and their account balances;
- **Decision making**: Internal decision making associated with a payout based on the results from the SCV analysis;
- **Communications**: A communications strategy to support the payout process, including for those depositors who may not receive full payment within seven days, for example claims for temporary high balances (THBs);
- **Funding**: Drawdown on our credit facility quickly to secure funding sufficient to meet the hypothetical payout requirement; and
- **Partners**: Activation of our compensation payment providers.

The exercise highlighted opportunities for improvement, including to our technology.

Insurance failures

FSCS has continued to review its preparedness to respond to failures in the general insurance arena, with a particular focus on cross-border firms, for example where an insurer based outside the UK is selling policies to UK-based customers. In cases of insurance failures, details of customers entitled to compensation are held by the insurer or broker and then the IP, and we are working with the regulators to improve the data that can be provided to FSCS.

System and security enhancements

In addition to the enhancements we have made to our digital service, we have upgraded and improved the security and efficiency of our internal systems, including those relating to claims processing, databases and operating systems. Significant progress has been made on our Information Security Management System (ISMS), assisting our ISO 27001 accreditation and compliance with the European Union's General Data Protection Regulation (GDPR) programmes.

LOOKING FORWARD

We report on work we are doing relating to the future of the industry and environment

FSCS funding review

During the year, the FCA published a consultation paper[4] on the rules relating to FSCS's funding and our compensation coverage. Proposals for change included looking at the role of levy payers' Professional Indemnity Insurance (PII) and the possibility that providers of financial products could contribute towards the costs of their associated intermediation class. The paper also proposed raising the compensation limits from £50,000 to £85,000 for Investment Provision and Intermediation, Home Finance Intermediation and for Debt Management claims. It was proposed that intermediation of long term care insurance have no limit on the claim amount.

On 1 May 2018, the FCA published a further paper, putting these rules into effect from 1 April 2019, and continuing to explore the possibility of risk-based levies, and improved PII.[5]

Horizon scanning

We actively conduct horizon scanning to analyse the changes we, and the financial services industry, may face going forward, which will contribute to our strategic plans for the 2020's. This includes working closely with our colleagues within the UK regulatory structure.

International work

Internationally, we work closely with our counterparts and are actively involved in bodies such as the European Forum of Deposit Insurers (EFDI), the International Association of Deposit Insurers (IADI) and the International Forum of Insurance Guarantee Schemes (IFIGS). This helps us to fulfil our cross-border obligations. The exchange of experience and lessons learned helps FSCS to develop.

We have also hosted a number of international guests including, at the request of the World Bank, a delegation from the Central Bank of Uganda, as well as visitors from Australia, Kosovo and Ghana.

UK withdrawal from the European Union

While the UK is a member of the EU or for as long as the UK continues to be bound by EU obligations during an implementation period, the UK financial system will continue to be regulated in accordance with its existing obligations as an EU Member State. FSCS will continue to protect depositors, policyholders, investors and others.

FSCS will continue to work closely with HM Treasury, the Bank of England and the FCA on the implications of EU withdrawal for FSCS and consumers. The impact of EU withdrawal on the framework for financial regulation in the UK, and FSCS protection, will depend, in part, on the relationship that the UK agrees with the EU in the future. Any changes affecting FSCS will be communicated to all stakeholders and we will work with the UK Authorities to ensure clear and consistent messages.

4 *CP17/36: Reviewing the funding of the Financial Services Compensation Scheme (FSCS): feedback from CP16/42, final rules, and new proposals for consultation.*

5 *CP18/11: Reviewing the funding of the Financial Services Compensation Scheme (FSCS): feedback from CP17/36, final rules and new proposals for consultation.*

ENGAGING OUR PEOPLE

How investment in skills and teamwork helps us deliver a service of which our staff feel proud

Awards/nominations

☆ **Short-listed**
Business in the Community Responsible Business Awards, 2017

☆ **Runners up**
Aviva Award for Championing an Ageing Workforce, 2017

☆ **Winners**
Best Employee Value Proposition in the Employee Benefits Awards, 2017

☆ **Short-listed**
Reward and Employee Benefits Association Wellbeing Awards, 2017

☆ **Finalist**
BCS and Computing UK IT Industry Awards Project of the Year, 2017

☆ **Winners**
Professional Planning Forum Awards, Innovation Award for Achieving Customer Excellence, 2018

☆ **Winners**
BCS and Computing UK IT Industry Business Analyst of the Year, 2017

☆ **Short-listed**
ICSA: The Governance Institute's Governance Professional of the Year, 2017

☆ **Short-listed**
Regulatory Team of the Year at the European Counsel Awards, 2018

☆ **Short-listed**
Best Collaboration Initiative at The Lawyer Awards, 2018

☆ **Short-listed**
CFO of the Year in the Women in Finance Awards, 2018

Our People Strategy

We are committed to the development and well-being of our people. We believe that FSCS makes a difference and that everyone within it can make a difference too.

Overview

Our five-year vision, which was launched in 2014, recognised that to be fit for the future, FSCS needed to respond to rising customer expectations, develop new ways of working and develop our people's skills and knowledge.

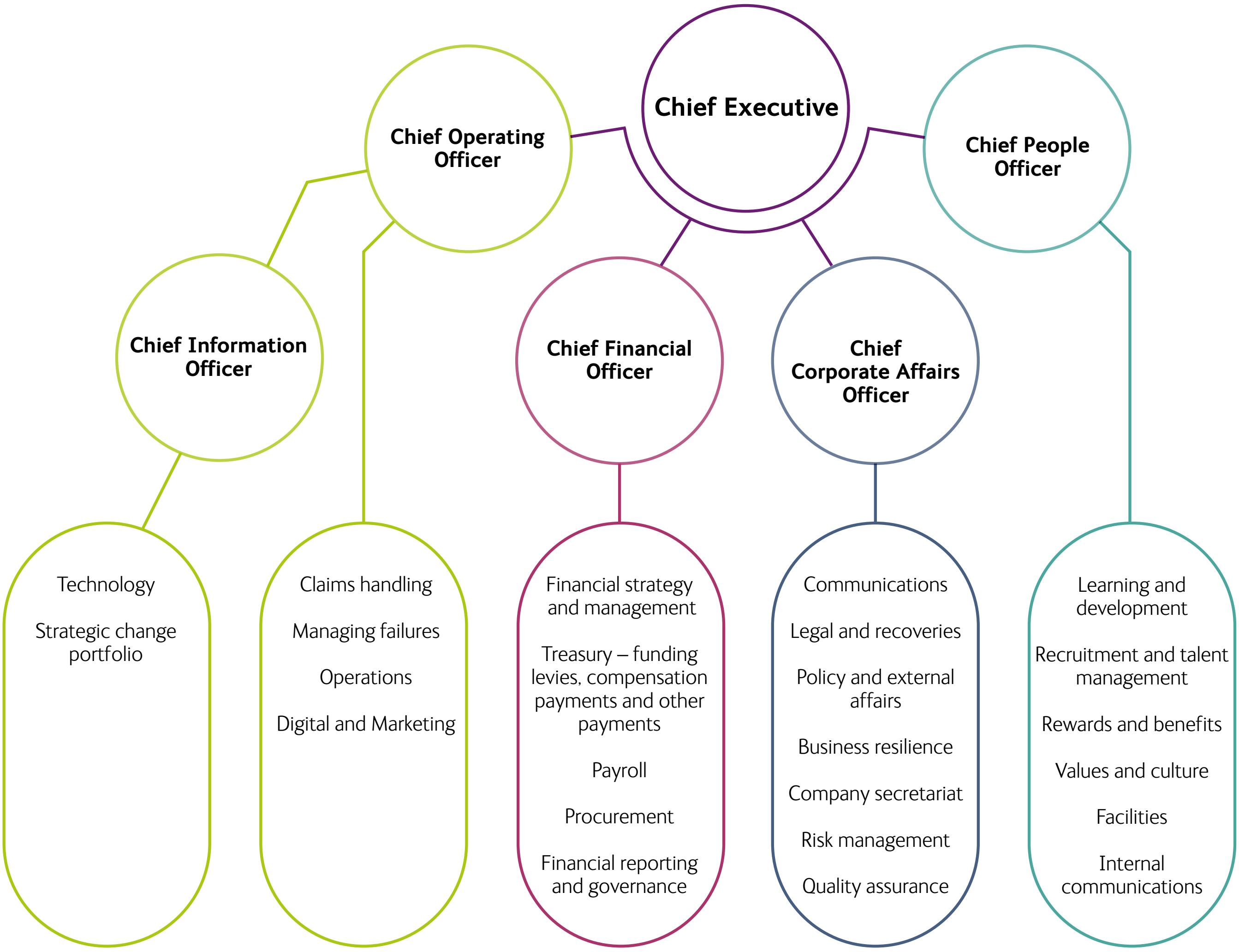
During 2017/18 we focused on how the culture of FSCS sets us up for success now and in the future. Culture encompasses everything at FSCS – the service that we provide to our customers; the behaviours and outcomes that we recognise and reward; and, most importantly, how we live and embed our values of *accountability, collaboration and challenge*.

The commitment of our people to excellent service is central to the results we achieve. We know from our annual People Survey that our employees believe in what we do and the positive impact it has on our customers' lives: 92% of colleagues believe that FSCS makes a positive difference to the world we live in.

Our structure

The Board delegates day-to-day management of FSCS to the Chief Executive. The Chief Executive may also delegate authority for aspects of FSCS's day-to-day running to other officers or employees of FSCS. In the first instance, delegation is usually to members of the Executive Team.

Overview of the current organisation structure and functions



In addition to the Chief Executive, the Executive Team consists of the Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Chief Corporate Affairs Officer and Chief People Officer. The Executive Team meets most weeks and the Chief Risk Officer attends by invitation.

Learning, development and engagement

We have continued to invest in learning and development and have extended Fuse, our e-learning environment, to our outsource partners across the UK to give them the same learning opportunities available to our internal staff.

Learning and continuous improvement are at the core of our strategy. We have redesigned and relaunched our approach to performance management: *Performance Achievement*; and to talent management: *Unlocking Your Potential*. We have replaced annual cascaded objectives with iterative, regularly updated personal and team priorities and made performance conversations, coaching and giving feedback the centre of our modular development programme for all managers: *Leadership Excellence*. These changes have supported the delivery of service improvements.

We also formally launched our Engagement Leads Network, a diverse network of colleagues from across the Scheme. The network is individually and collectively accountable for creating, driving and embedding ideas for improved ways of working across FSCS.

In March 2018 we were assessed by Investors in People (IIP), a highly respected standard for people management, and achieved Silver IIP accreditation for the first time, in recognition of the best practice that exists within the Scheme and our exceptional commitment to professional development.

Rewards and recognition

As we go into the final year of our current five-year strategy we are also looking afresh at our employee rewards, to ensure that we continue to provide a competitive, but not market-leading, total remuneration package in support of our unique position and employee value proposition.

We run a monthly Staff Thanks And Recognition Scheme (STARS), to recognise the ideas, innovation and difference individuals contribute to the Scheme's success. In addition, our annual People and Long Service awards recognise both the contribution of our colleagues during the previous year and the dedicated commitment of those who have worked for the Scheme for more than five years – our longest-serving employees have been with FSCS for more than 20 years.

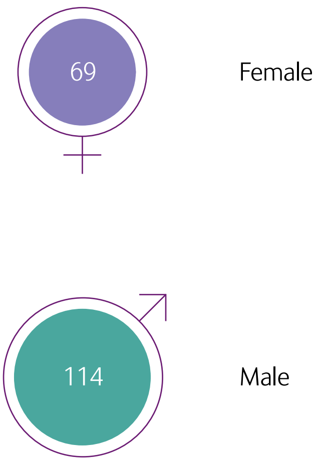
Diversity and inclusion

FSCS celebrates diversity and inclusion and promotes a culture where differences between people are respected and valued. We deal with people as individuals, while recognising that many people share common experiences based on their background.

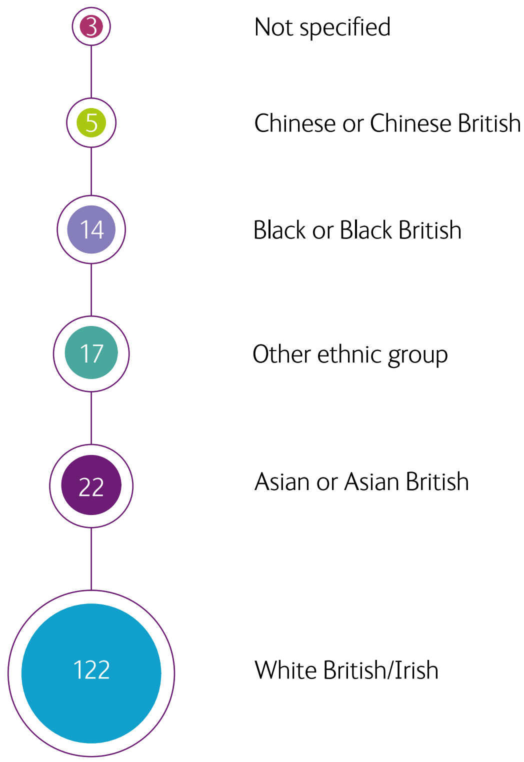
FSCS is committed to the principles of equality of opportunity in employment and believes that staff should receive equal pay for the same or broadly similar work, for work rated as equivalent and for work of equal value, regardless of their age, disability, ethnicity or race, gender reassignment, marriage or civil partnership status, pregnancy and maternity, religion or belief, sex or sexual orientation, in accordance with the provisions of the Equality Act 2010.

Diversity and inclusion

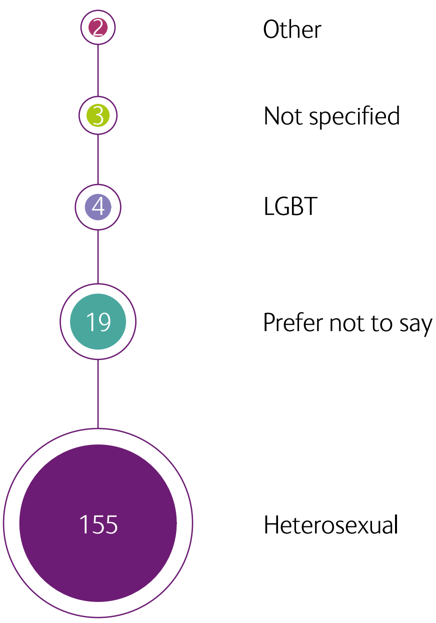
FSCS employee numbers by gender determination



FSCS employee numbers by ethnic identity



FSCS employee numbers by sexual identity



FSCS employee numbers by individuals with disabilities

Equal pay audit and Gender pay gap

Our values send a positive message on diversity and inclusion to managers, employees, potential employees, partners and customers. Legislation requires all companies with over 250 employees to measure and report gender pay gap information on an annual basis. The gender pay gap describes the difference between the average pay for men and women.

While not subject to the legislation, we already review our pay system on a regular basis to identify where bias may occur and agree and apply solutions to remedy any problems. Our most recent equal pay audit, conducted in March 2018, concluded that across the organisation as a whole, FSCS has narrowed its equal pay gap since the previous audit in 2014.

The headline gender pay gap (between the basic pay of all women in the organisation against the basic pay of all men) as at March 2018 is 16.3% in favour of males using mean pay as the basis for comparison, or 15.6% in favour of males using median pay. This compares with a 18.0% headline gender pay gap in 2014, based on mean pay. These figures need to be set into the context of the wider economy, where the gap between the median pay of men and women is currently 18.4%.

Giving something back

FSCS carries out a 'giving something back' programme, (GSB; previously known as the corporate social responsibility programme), which encourages all permanent or fixed-term contract staff to support volunteering within the wider, local community. Staff are allowed two days per year. During the year, approximately half of our staff attended at least one GSB event. Our staff assisted more than a dozen charities, including Spitalfields City Farm (www.spitalfieldscityfarm.org) and the Friends of Tower Hamlets Cemetery Park (www.fothcp.org), as well as the East London Pensioners Group. We visited local schools in East London and invited students into our offices. Some colleagues support pupils at St Paul's Primary School in Whitechapel through a regular reading group.

FINANCIAL REVIEW

A summary of FSCS's financial strategy, position and outlook

FSCS's financial strategy supports our delivery of an efficient and effective compensation scheme, that builds consumer confidence and contributes to the UK's financial stability. We raise sufficient levies to make compensation payments to customers when due and make recoveries from failed estates. Our focus is to demonstrate value for money through effective cost control.

Summary of financial performance

2017/18 has been a challenging year as we have sought to mitigate rising claims volumes to operate within our management expenses budget without recourse to the unlevied reserve. This unlevied reserve is in place for us to deal with an unexpected increase in the number of claims received and despite significant pressures we have managed to cover our costs without utilising it this year.

Cost pressures arose as we saw an increased proportion of complex claims, but we reduced our claims handling costs by £2.2m since the prior year on a like-for-like basis. We undertook a series of targeted reviews around our claims process as well as a re-assessment of our approach to promoting consumer awareness of our protection.

Looking forward, our strategy to move to a single outsource partner, Capita, will provide greater opportunity to streamline our processes and reduce cost.

Levy income

Levy income	Year ended 31 March 2018 (£'000)	Year ended 31 March 2017 (£'000)
Compensation costs	444,965	375,262
Recoveries income	(30,140)	(130,362)
Levy income for compensation costs	**414,825**	**244,900**

Levies for compensation costs have increased by £170m, mainly because recoveries income has decreased by £100m. The movements in compensation costs are shown below.

Other levy income for:	Year ended 31 March 2018 (£'000)	Year ended 31 March 2017 (£'000)
Base costs	24,492	21,450
Specific costs	45,194	48,363
Loan interest	99,009	306,246
Pension obligations	(5,177)	(1,668)
Total management expenses	163,518	374,391
Total levy income	**578,343**	**619,291**

Management expenses have decreased by £211m, driven by interest payable to HM Treasury relating to the loan for the 2008 resolution of Bradford & Bingley reducing from £306m to £99m, following the recovery and subsequent repayment to HM Treasury of £11bn in April 2017.

Compensation costs

Funding class	Year ended 31 March 2018 (£'000)	Year ended 31 March 2017 (£'000)
2008/09 banking failures	0	5
Deposits (excluding 2008/09 banking failures)	(14,165)	(3,323)
General Insurance Provision	136,324	154,032
General Insurance Intermediation	15,666	12,399
Life and Pensions Intermediation	155,528	104,773
Investment Provision	4,902	8,779
Investment Intermediation	129,454	82,327
Home Finance Intermediation	17,256	16,270
Total compensation cost	**444,965**	**375,262**

Compensation costs
The rise in compensation costs largely reflects an increase in payments for SIPPs and pension transfers in the Life and Pensions Intermediation class, and the provision made to compensate customers of Beaufort Asset Clearing Services Limited, in the Investment Intermediation class. These were part offset by a reduction of claims against the General Insurance class, principally due to the failures of Enterprise and Gable in 2016. We also accelerated our decision making on claims, increasing the proportion paid in 2017/18 and reducing overdue claims.

Recoveries
Recoveries income in the year was £30m, down from £130m in 2016/17. This comprises cash receipts and changes in assumptions about future recoveries. Excluding £4.7bn due from Bradford & Bingley (B&B), we have a recoveries receivable balance of £51m.

We are pursuing a number of different recoveries avenues, including:

- Continuing to pursue action against the remaining defendant to PPI litigation;
- Increasing our focus on pursuing cross-jurisdictional recoveries where the underlying investment has failed (in SIPP mis-selling and other similar cases); and
- Working more closely with other UK agencies, such as the FCA and the Serious Fraud Office, to maximise recoveries.

Administrative expenses
Administrative expenses remained flat at £68m, with an increase in claims volume for SIPPs and other pension related products offset by other savings. Additionally, increased legal and professional fees were incurred for specific recoveries actions. We also paid higher bank charges associated with the Revolving Credit Facility, for which the borrowing limit increased from £1.1bn in 2016/17 to £1.3bn, and which now stands at £1.45bn at the year-end.

Interest payable
The loan from HM Treasury to fund the resolution of B&B in 2008 continues to accrue interest with £99m (£306m in 2016/17) charged during the year. The relevant amount will be levied to firms in the Deposits class before 1 September 2018.

Pension costs and defined benefit pension scheme
FSCS administers a money purchase scheme in which all employees are eligible to participate and receive an employer contribution of at least 6%.

Our defined benefit pension scheme has been closed to new members and future accrual since 30 June 2011. A contribution of £1.9m (£1.9m in 2016/17) was made during the year to honour our commitment to eliminate the pension scheme deficit by 2022.

Actuaries for FSCS have calculated that as at 31 March 2018, the defined benefit pension scheme had a surplus of £2.5m (March 2017: deficit of £2.7m). This is calculated under IAS 19, for the purpose of the statutory financial statements. Actuaries to the defined benefit pension scheme will produce a triennial valuation of the pension scheme's funding position as of 1 April 2018, but The Pensions Regulator requires this to be prepared on a prudent basis. Consequently, the surplus/deficit calculated for the pension scheme itself could be different to the valuation produced for FSCS (as scheme sponsor), disclosed in these financial statements. Should the valuation prepared for the pension scheme show a continued deficit, FSCS would continue to make annual contributions into the pension scheme to eliminate this deficit.

Balance sheet

The largest component of our balance sheet is £4.7bn recoverable from B&B, for which we have an associated liability of £4.7bn due to HM Treasury. On 26 April 2018, UK Asset Resolution announced a sale of B&B mortgage assets. Financial completion took place on 23 May 2018, involving loan repayments of £4.7bn to HM Treasury for the remaining FSCS loan.

During the year we settled our liability of £21m (31 March 2017: £41m) to HM Treasury relating to the resolution of Dunfermline Building Society.

Our other assets are principally cash, and recoveries receivable, which we recognise in line with our accounting policy for recoveries.

Losses

In line with HM Treasury's *Managing Public Money* publication, we report on total losses made for the year. This can be found in Note 21 of the financial statements. Total losses during the year amounted to £401,588. Of this compensation overpayments amounted to £334,985 and realised foreign exchange losses amounted to £40,330.

Overpayments to investors in the Arch Cru funds were reported as losses in 2016/17 at which point cumulative overpayments were estimated at £335k. On calculation, cumulative losses to 31 March 2017 were £294k, with a further £438k of overpayments in 2017/18. More detail can be found on page 84 within the Risk Management Report.

FSCS seeks to recover all overpayments where it is reasonably possible to do so.

Critical accounting judgements and key estimation uncertainties

The key areas of uncertainty and judgement in the financial statements are as follows.

Compensation costs

Compensation costs consist of compensation payments made during the year and a provision for future compensation not paid. The provision is the best estimate of compensation that has been offered but not paid at the Balance Sheet date, plus our best estimate for future return of funds and return of premium payments for existing failures that have not yet been paid.

Levies and recoveries

We have made judgements about the timing and amount of claims arising in the year from which we set our levy. Levy income is recognised after taking into account costs associated with the compensation scheme. Any surplus or deficit in levy income is deferred as payable to or receivable from levy payers.

We estimate the timing and value of recoveries receivable based on information available to the directors at 31 March 2018, including IPs' statements of estimated outcomes, other reports published as part of the various insolvency processes, and legal advice on potential recoveries through litigation. Nevertheless, the timing and final outcome of recoveries are uncertain.

Outsourced claims-handling costs

Outsourced claims-handling costs consist of (a) invoices paid during the year and accruals for decisions made but not invoiced and (b) the cost of claims at various stages of the claims-handling process, which we call work in progress.

Compensation payments

The total value of compensation payments paid in the year was £405m. Compensation costs, as recognised in the Financial Statements and the Class Statements, total £445m, as they also include a net increase of £40m in the provision for future compensation payments and for the resolution of Dunfermline Building Society.

Legacy banking estates

We measure financial assets associated with the 2008/09 banking failures at their fair value. We have not subsequently measured them at amortised cost using the effective interest rate. This is because doing so would create a difference between the carrying value of the receivable and the associated liability to HM Treasury, which is not discounted, and so would not represent the economic reality.

Our Financial framework and governance

Financial framework

FSCS is funded by the financial services industry. Section 213 of the Financial Services and Markets Act 2000 (FSMA) gives FSCS the power to impose levies on authorised firms to meet its expenses, including the cost of compensation, borrowing and insurance of risks. The Bank of England's PRA and the FCA are responsible for the rules governing the Scheme's funding arrangements. Our financial framework is also governed by a Memorandum of Understanding with HM Treasury.

Our accounts are consolidated into HM Treasury Group annual resource accounts. Through interim and final accounts consolidation processes, we provide HM Treasury with appropriate reassurances on the operation of systems, controls and processes that underpin the production of our accounts within relevant levels of materiality, which represent a true and fair view.

Business planning and budgets

We have an annual business-planning cycle and prepare forecasts internally on a quarterly basis. This process supports the Scheme's overall three-year financial plan to achieve our imperatives and fulfil our strategic plan.

Our annual budget is approved by the PRA and FCA boards in December. Once agreed, we consult with the industry.

Our Plan and Budget are presented to stakeholders in the financial services industry as part of an annual stakeholder event in January.

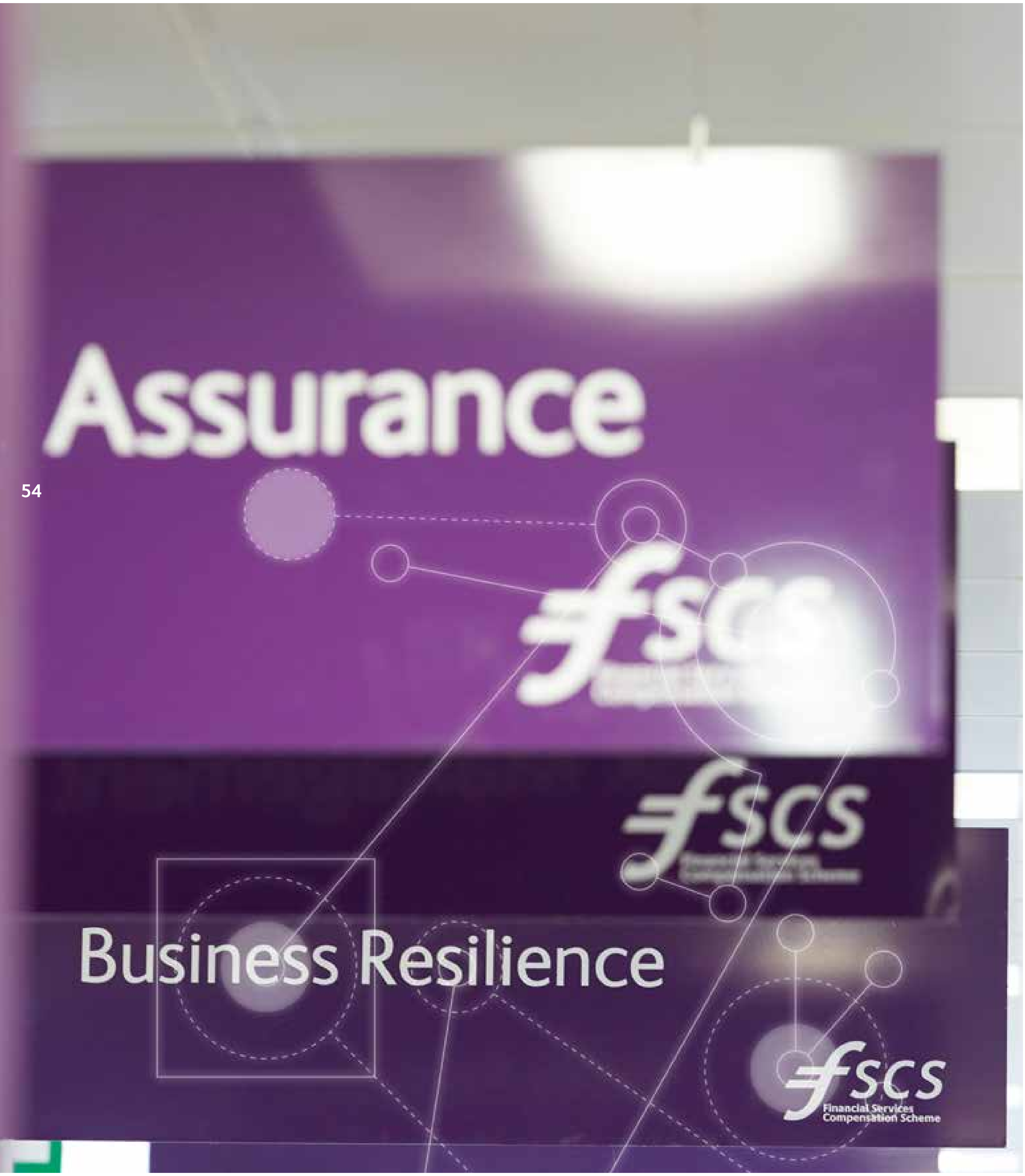
Treasury management

FSCS is a cash operation funded by industry levies. Levies are typically received in the second quarter of our financial year and any funds in excess of £20m are held at the Bank of England. Our liquidity is underpinned by an overdraft facility of £20m and a Revolving Credit Facility of £1.45bn underwritten by a syndicate of banks.

FSCS can also access funds from HM Treasury, if required, through the National Loans Fund or any other appropriate source.

Annual Report and Accounts

Our Annual Report and Accounts are prepared under the Companies Act 2006 and International Financial Reporting Standards as adopted by the EU (IFRS). In addition to the Annual Report and Accounts, we are publishing the Class Statements in a separate document, for our levy payers, trade bodies and financial services regulators. Class Statements summarise the source and application of funds from our levy payers by class so that levy payers can follow levies set at the beginning through to the end of the financial year. Our 2017/18 Class Statements may be found on our website at www.fscs.org.uk/industry/publications/.


Assurance
fscs
fscs
Business Resilience
fscs
Financial Services
Compensation Scheme

04 ANNUAL REPORT OF THE INDEPENDENT INVESTIGATOR

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My role is to serve as an independent ‘outsider’ and to examine the administration of the service provided by FSCS on a case by case basis.

I can only consider complaints about the way FSCS handled a particular matter and not the decisions made on a claim. A referral is made where a complaint has been made and the complaints process has been exhausted.

This happens in gratifyingly few cases, which indicates that most claimants are satisfied with how their claims are handled, even when their claims for compensation are rejected or the outcome of their claim is not what they expected.

My reports are sent to the FSCS Board for its consideration and a copy of the report is shared with the complainant.

Last year I received a total of six referrals for review. A thorough unbiased review was undertaken on each case and, of the six cases reviewed, I upheld one and rejected five. The complaints I reviewed were mainly to do with delays or the perceived injustices of the claims process. Often, the cases reflect people who feel that they have been cheated of their assets, and who will pursue any avenue to assert their feeling of distress. Some of the cases involve a huge amount of ‘paperwork’ (mostly done electronically, of course) and clearly reveal the amount of work that has to be done by the FSCS team.

Even in cases where I do not uphold a complaint, I will still make observations and recommendations to the FSCS Board. The processes used by FSCS seem to be fit for purpose, but I continue to highlight any areas where I believe improvement can be made or where FSCS appears not to have provided the level of service that customers deserve.

David E Bland OBE
PhD FCII FIRM CFCIPD
Independent Investigator

April 2018

05 ACCOUNTABILITY REPORT

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

HM Treasury has designated the Chief Executive as the Accounting Officer for FSCS. His responsibilities as Accounting Officer are set out in the FSCS and HM Treasury framework document. These responsibilities broadly include:

- Ensuring the regularity and propriety of public funds;
- Keeping proper records;
- Day-to-day operations and management of FSCS and performance reporting; and
- Ensuring appropriate standards of governance, decision-making and financial management are maintained.

CORPORATE GOVERNANCE REPORT

The FSCS Board is committed to high standards of corporate governance. As the Scheme is not a listed company, it need not comply with the UK Corporate Governance Code (the Code). However, to ensure best practice, the Board has chosen voluntarily to follow it.

This section explains how FSCS has applied the main principles of the Code and where it has departed from some of the Code's provisions. The Scheme complied throughout the year with the Code issued in April 2016, except for the provisions listed on page 72.

The Board

The FSCS Board currently consists of 11 directors, seven of whom are non-executive directors, including the Chairman. The biographies of the directors are set out on pages 68 to 71.

The appointment and removal of Board members is made by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). The appointment, reappointment and removal of both the Chairman and the Chief Executive are also approved by HM Treasury. All appointments and reappointments of directors are for periods of no more than three years. The appointment process is overseen by the Nomination and Governance Committee and is described on pages 64 to 65.

The Board considers all the non-executive directors to be independent, and all directors are also subject to a conflicts of interest policy to prevent any potential interference with the independence of their judgement on Board matters.

Board changes

Name	Position	Expiry of appointment	Date of appointment
Liz Barclay	Non-executive director	30 June 2017	
Jayne Nickalls	Non-executive director	30 June 2017	
Steven Cooper	Non-executive director		1 July 2017
Patrick Neville	Non-executive director		1 July 2017
Helen Parker	Non-executive director		1 July 2017
Paul Stockton	Non-executive director	30 November 2017	
Lawrence Churchill	Chairman (non-executive)	31 March 2018	
Marshall Bailey	Chairman (non-executive)		1 April 2018

Further details of terms of appointment are given on page 66.

Deputy Chairman and Senior Independent Director

Margaret (Liz) Barclay was FSCS's Deputy Chairman and Senior Independent Director (SID) up to 30 June 2017, the date she left the Board. The SID acts as a sounding board to the Chairman and is available to other directors when necessary should concerns arise. The Board appointed Charles McKenna, an existing non-executive director, to be the Deputy Chairman and SID with effect from 1 July 2017.

Board diversity

FSCS actively seeks diversity on the Board, and ensures that this is considered as part of the recruitment process. Board appointments continue to be based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board. Accordingly, FSCS has not set specific measurable objectives for how it applies its Board diversity approach.

Operation of the Board

The Board has a formal schedule of matters reserved for its decision, which includes:

- setting FSCS's strategy;
- setting policy;
- overseeing FSCS's operations and reviewing the Scheme's performance;
- approving the Plan and Budget;
- approving levies above specified limits; and
- responsibility for the risk management and internal control systems.

Certain matters are delegated to committees of the Board and these are described in each committee's Terms of Reference. The duties of the Audit Committee, Risk Committee, Remuneration and Human Resources Committee, Nomination and Governance Committee and Claims Decision Committee are summarised in this report.

The Board met 10 times during the year and held two strategy days, at which the strategic direction of FSCS was reviewed.

The Board believes that it receives and has access to, on a timely basis, the relevant information needed to make appropriate decisions. Directors review this on an ongoing basis to ensure that the Board continues to receive sufficient, accurate, timely and clear information.

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 help them carry out their duties.

Induction and training

New directors are involved in a comprehensive induction process designed to enable them to become familiar quickly with FSCS. Their induction includes meeting existing Board members and staff across several key business areas and visits to outsourced claims handlers.

Directors are also offered training as part of their continuing professional development. They take up opportunities to refresh their knowledge and skills so they can stay up to date on specific FSCS issues, on their duties as directors, and with industry and regulatory changes. External speakers are also invited to discuss relevant matters with the Board from time to time.

In January 2018, external facilitators provided two briefings to directors – one on Board duties, responsibilities and corporate governance developments, and the other on the role of the Audit Committee.

Director appraisal

The Chairman met each of the non-executive directors and the Chief Executive individually to carry out an annual performance review. This included feedback from other directors, offered as part of a structured annual review process using a simple questionnaire, and from the Chairman's regular discussions with directors outside of formal meetings. The Deputy Chairman carried out the Chairman's performance review on behalf of the Board, and the Chief Executive carried out the performance reviews of the other executive directors.

Board effectiveness review

The Board carries out a formal and rigorous evaluation of its own performance, and that of its committees, on an annual basis. These evaluations are externally facilitated every three years. As the last externally facilitated Board evaluation was carried out in 2014, the next external review was due in 2017. Therefore, following a selection exercise, BP&E Global Ltd was appointed to carry out the Board review. BP&E Global Ltd had no other connection with FSCS at the time of the appointment and throughout the review. The review was carried out between September and December 2017, and involved a combination of one-to-one interviews with directors, the Company Secretary and other senior staff, observation of a Board meeting and a committee meeting, and a review of documents. In addition, a Board evaluation questionnaire was completed by directors in order to provide additional input into the review process.

The Board evaluation exercise covered all areas of Board effectiveness, including how the Board works together as a unit and the balance of skills, experience, independence, knowledge of the company and Board diversity.

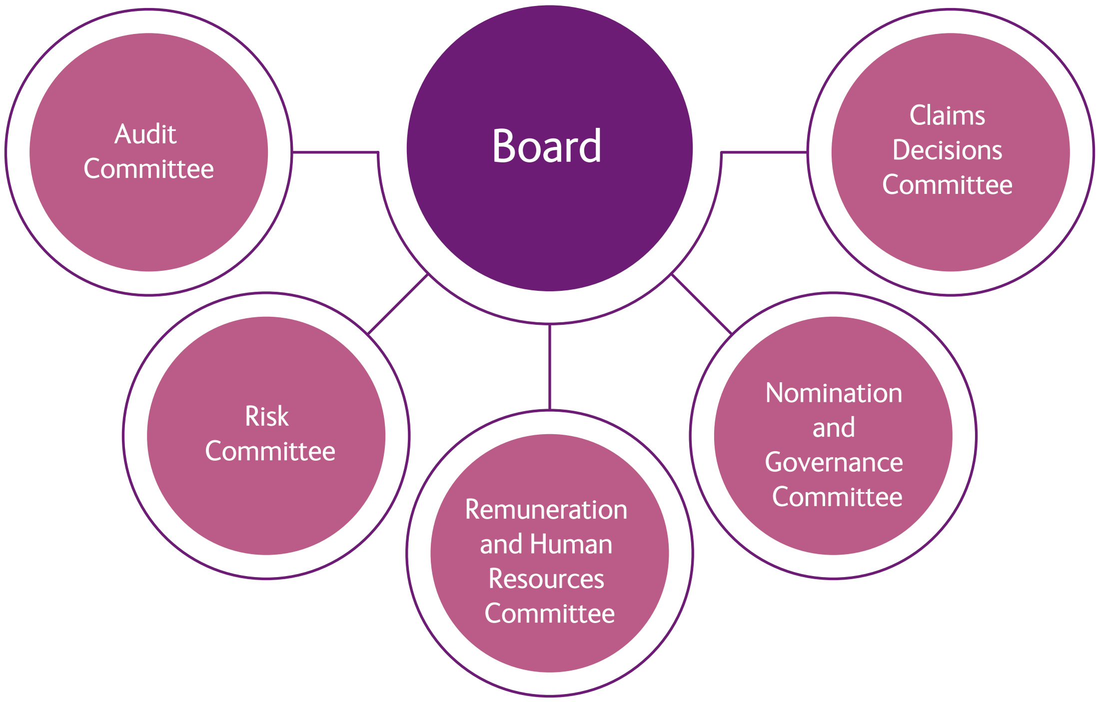
To supplement the annual review, the Chairman maintained regular contact with directors outside formal meetings to obtain views on Board performance and met the non-executive directors from time to time without the executive directors present.

The results of BP&E Global's final report were discussed by the Board with the external facilitator in December 2017, and a number of follow-up actions were agreed. In summary, the Board was commended for the work that had gone into developing the organisation to its current position, with a good governance framework, overall Board effectiveness and the development of a revised risk framework. The review also highlighted enhancements that could be made to make the Board even more effective. These included:

- reducing the number of Board meetings each year;
- reviewing the Terms of Reference for, and the framework of, Board and committees to establish where the delegation lines were and what constituted reassurance, including what was to be delegated to committees or management; and
- reporting by exception (good news and challenges) and providing shorter executive reports.

The Board has been making good progress towards addressing the report's key recommendations, and has also been following up a number of other recommendations made.

Committees of the Board



Audit Committee

Committee members as at 31 March 2018

- Mark Adams (Chairman)
- Steven Cooper
- Charles McKenna
- Patrick Neville

The Board is satisfied that at least one member has recent and relevant financial experience and that the Audit Committee as a whole has relevant competence to FSCS's role.

The Committee met four times during the year, and reported to the Board after each meeting.

The Chief Executive, Chief Corporate Affairs Officer, Chief Financial Officer, Head of Internal Audit and external auditors attended most meetings by invitation.

Roles and responsibilities

These are set out in the Terms of Reference for the Committee. Its key responsibilities are to review the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations.

What the Committee has done

Governance

During the year, the Committee:

- reviewed the internal control arrangements;
- held discussions with both internal and external audit without the Executive Team;
- reviewed its Terms of Reference;
- carried out a review of the effectiveness of the Committee;
- reviewed the Scheme's health and safety obligations;
- received reports on fraud and money laundering;
- reviewed the Whistleblowing Policy;
- received reports on internal policy governance;
- received reports on data protection, including the General Data Protection Regulation;
- considered reports on quality assurance reviews; and
- reviewed the FSCS insurance portfolio.

Financial reporting

The Committee:

- considered the significant accounting judgements and estimates made in connection with the financial statements together with the appropriateness of the accounting policies;
- considered the appropriateness of the going concern presumption;
- reviewed the Annual Report and Accounts and Class Statements prepared under Section 218 of the Financial Services and Markets Act 2000 (FSMA); and
- reviewed the statements in the Annual Report and Accounts and made recommendations to the Board, following which the Board concluded that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable, and provided sufficient information to enable the company's performance, business model and strategy to be assessed.

Internal audit

The Committee:

- set and reviewed the internal audit plan;
- considered the results of internal audit reports and the action plans to address audit recommendations;
- reviewed and approved the internal audit policy; and
- carried out its annual review of the Internal Audit function.

The Head of Internal Audit had separate discussions with the Chairman of the Audit Committee.

External audit

The Committee:

- reviewed the external audit function and process, including the performance of the external auditors, by gathering feedback from management and Committee members.

The external auditors performed no non-audit services during the year.

A report on the risk and control framework is given on pages 80 to 85.

Risk Committee

Committee members as at 31 March 2018

- Charles McKenna (Chairman)
- Mark Adams
- Patrick Neville
- Helen Parker

The Committee met five times during the year, and reported to the Board after each meeting.

The Chief Executive, Chief Corporate Affairs Officer, Chief Risk Officer and Head of Internal Audit attended most meetings by invitation.

Roles and responsibilities

These are set out in the Terms of Reference for the Committee. Its key responsibilities are to review FSCS's risk management approach, its approach to risk tolerance and its mitigation of those risks. It also reviews FSCS's contingency planning arrangements and disaster recovery plans.

What the Committee has done

During the year, the Committee:

- discussed the new risk management framework;
- reviewed the Scheme's Risk Profile at each meeting;
- conducted the annual review of the Risk Policy;
- reviewed the contingency planning arrangements for large business failures in the financial services industry;
- reviewed the Scheme's disaster-recovery arrangements;
- reviewed its Terms of Reference;
- carried out a review of the effectiveness of the Committee;
- reviewed risks relating to the Scheme's claims outsourcing strategy; and
- received a report on anti-fraud arrangements.

A report on the risk and control framework, including the Scheme's principal risks, is given on pages 80 to 85.

Remuneration and Human Resources Committee

Committee members as at 31 March 2018

- Marian Glen (Chairman)
- Lawrence Churchill *(to 31 March 2018) – replaced by Marshall Bailey with effect from 1 April 2018*
- Steven Cooper
- Helen Parker

The Committee met four times during the year, and reported to the Board after each meeting.

The Chief Executive and Chief People Officer attended most meetings by invitation.

Roles and responsibilities

These are set out in the Terms of Reference for the Committee. Its main responsibilities include executive director remuneration, FSCS's broader remuneration policy, employee benefit structures, the ongoing development and execution of the People Strategy, monitoring corporate responsibility and overseeing diversity and inclusion.

What the Committee has done

During the year, the Committee:

- made recommendations to the Board for the approval of the Chief Executive's remuneration package and determined the remuneration packages of the other executive directors, having taken into account comments from the Chief Executive – in the case of executive directors, performance and market data provided by external consultants are taken into account and remuneration incorporates a performance related element;
- made recommendations to the Board on the proposed salary budget in the light of market conditions in the UK economy;
- reviewed FSCS's performance as part of its determination of the size of the bonus pool;
- reviewed and revised the Scheme's Remuneration Policy;
- reviewed its Terms of Reference;
- carried out a review of the effectiveness of the Committee; and
- received reports on performance management, culture and exit interviews.

FSCS engaged Twenty Six Consulting as remuneration consultants. Twenty Six Consulting has no other connection with FSCS.

A fuller report on directors' remuneration is given in the Directors' Remuneration Report on pages 74 to 78.

Nomination and Governance Committee

Committee members as at 31 March 2018

- Lawrence Churchill (Chairman) *(to 31 March 2018) – replaced by Marshall Bailey with effect from 1 April 2018*
- Marian Glen
- Charles McKenna
- Mark Neale

The Committee met twice during the year, and reported to the Board after each meeting. Informal discussions regarding appointments and reappointments of directors together with the recruitment and selection of new non-executive directors were also held.

Roles and responsibilities

These are set out in the Terms of Reference for the Committee. Its main responsibilities include Board composition and succession planning, reviewing membership of the Board committees, liaising with the PRA and FCA on appointments/reappointments of Board members and overseeing the Board's governance arrangements and other corporate governance issues.

The process for appointing and reappointing directors involves:

- the Committee discussing Board composition (including mix of skills and experience, diversity and Board size);
- engaging with the FCA and PRA on the process;
- appointing an external search consultancy for new appointments; and
- using a selection panel of FCA, PRA and FSCS representatives to make proposals for FCA and PRA approval (and HM Treasury, in the case of the Chairman and Chief Executive).

What the Committee has done

The Committee:

- received updates on the recruitment of FSCS's new Chairman, who was appointed by the FCA and PRA, with approval from HM Treasury, with effect from 1 April 2018;
- reviewed the composition of the FSCS Board and terms of appointment in the light of the expiring appointments of three non-executive directors and three executive directors in 2018/19, with a view to making recommendations on new appointments or reappointments;
- reviewed its Terms of Reference;
- carried out a review of the effectiveness of the Committee;
- considered executive director succession planning; and
- discussed the proposed changes to the UK Corporate Governance Code.

Saxton Bampfylde was engaged as external search consultancy for the recruitment of three new non-executive directors appointed in 2017, and Moloney Search was engaged as external search consultancy for the recruitment of the new Chairman appointed in 2018. Neither Saxton Bampfylde nor Moloney Search have any other connection with FSCS.

Claims Decisions Committee

The Claims Decisions Committee meets on an ad hoc basis to consider marginal or unusual claims and difficult claims issues referred to it by the Executive Team. It consists of three directors: the Chief Executive (or another executive director) and any two non-executive directors. The non executive directors are selected at the time the Committee meeting is convened.

The Committee met once during the year.

Two particular claims were considered by the Committee. The Committee consisted of two non-executive directors – Marian Glen (Committee Chairman) and Helen Parker – together with Jimmy Barber (Chief Operating Officer) for one case and Alex Kuczynski (Chief Corporate Affairs Officer) for the other. In each case, the Committee assisted the Executive Team in reaching a decision on the specific issues presented.

Attendance at Board and committee meetings

	Board	Audit Committee*	Remuneration and Human Resources Committee*	Nomination and Governance Committee*	Risk Committee*	Claims Decisions Committee*	Appointment date	Expiry of term
No. of meetings held	**10**	**4**	**4**	**2**	**5**	**1**		
Non-executive directors:								
Mark Adams	10/10	4/4			4/5		1 Jun 2015	31 May 2021
Margaret (Liz) Barclay	2/2		1/1		2/2		1 Jul 2011	30 Jun 2017
Lawrence Churchill	9/10		3/4	2/2			1 Apr 2012	31 Mar 2018
Steven Cooper	7/8	2/2	3/3				1 Jul 2017	30 Jun 2020
Marian Glen	10/10	1/2	4/4	2/2		1/1	1 Feb 2013	31 Jan 2019
Charles McKenna	9/10	4/4		2/2	5/5		1 Feb 2013	31 Jan 2019
Patrick Neville	7/8	2/2			2/3		1 Jul 2017	30 Jun 2020
Caroline (Jayne) Nickalls	1/2		1/1		2/2		1 Jul 2011	30 Jun 2017
Helen Parker	8/8		3/3		2/2	1/1	1 Jul 2017	30 Jun 2020
Robert (Paul) Stockton	6/6	2/2			2/3		1 Dec 2011	30 Nov 2017
Executive directors:								
Jimmy Barber	10/10					1/1	4 Jan 2016	3 Jan 2019
Alex Kuczynski	10/10					1/1	1 Feb 2010	31 Jan 2019
Mark Neale	10/10			2/2			4 May 2010	3 May 2019
Kathryn Sherratt	10/10						15 Dec 2015	14 Dec 2018

*Attendance shown only for committee members.

THE BOARD OF DIRECTORS

Executive Directors

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

Alex Kuczynski
(Chief Corporate Affairs Officer)
Alex was previously General Counsel and, before that, Head of Legal at FSCS. His role as Chief Corporate Affairs Officer brings together our work in areas that include legal support and the recoveries function, company secretariat, risk, communications, and policy and external relations. Alex joined from the Investors Compensation Scheme, where he was Head of Legal, and acted as Interim Chief Executive from March to May 2010. He is active in a number of international associations, for example as Vice Chairperson of the European Forum of Deposit Insurers, a member of the Executive Council and Chairperson of the Technical Assistance Committee of the International Association of Deposit Insurers, and previously on the Executive Committee of the International Forum of Insurance Guarantee Schemes.

Kathryn Sherratt
(Chief Financial Officer)
Previously the Executive Financial Controller of the Retail Business of Barclays Bank, Kathryn joined FSCS in 2012 to lead the Finance department. Appointed to the Board in 2015, her responsibilities include commercial and financial strategies, value for money and resolution. Kathryn's career started with Deloitte across the UK and Australia before joining Barclays. At Barclays her responsibilities included off-shoring, acquisitions/integrations and reorganisations across a number of countries.

Jimmy Barber (Chief Operating Officer)

Jimmy joined FSCS in early January 2016 in a critical role bringing together the delivery of our service to consumers and the IT and data architecture which supports that service. He worked as the Operations Development Director and (before this) as the Commercial Operations Director at the RSA Insurance Group, where he had been since 2007. In these roles Jimmy was responsible for business transformation and improvement and for the delivery of shared services across the UK. Before the RSA, Jimmy held major operational roles at Capital One and at Ladbrokes.

Non-Executive Directors

Lawrence Churchill CBE (Chairman) – to 31 March 2018

Lawrence is currently the Senior Independent Director at Bupa, Chairman of the Independent Governance Committee at Prudential, Chairman of Applegate Marketplace, a Trustee of Age UK and the International Longevity Centre (UK), and Chairman of the Pensions Policy Institute. His executive career included being Chief Executive of UK, Irish and International Life at Zurich Financial, Executive Chairman of Unum and CEO of Natwest Life and Investments. Non-executive roles included Chairman of NEST Corporation, Chairman of the Pension Protection Fund, Member of the Actuarial Standards Board, and Director of the Financial Ombudsman Service and the Personal Investment Authority. Lawrence brought over 30 years of Board experience in insurance and investments, and a deep interest in governance and risk management, driven by a passion for ensuring the right outcomes for consumers.

Marshall Bailey OBE (Chairman) – from 1 April 2018

Marshall has substantial experience of leading complex international committees and boards. His background spans a range of sectors, including banking and capital markets, government regulation, and public policy and he has taken a particular interest in working with codes of conduct.

Marshall is the non-executive Chairman of CIBC World Markets in London, and a member of the Audit Committee for the London branch. Additionally, he is a non-executive director and Chair of the Risk Committee of Chubb European Group Insurance, and represents the Public Investment Fund in Saudi Arabia on the Board of the National Commercial Bank in Jeddah. He is an Independent Director on the Board of UK Financial Investments (UKFI) and he volunteers on the Board of the CFA Society of the UK, as well as the East End Community Foundation in Tower Hamlets.

Mark Adams
Mark is a Chartered Accountant and retired as a partner at Deloitte LLP and as an Insolvency Practitioner in 2013. For 25 years, he has been at the centre of resolving many of the major financial services sector failures, including insurance sector failures in the UK, Japan, Bermuda and the Channel Islands, and more recently the banking sector failures in Iceland. Mark also has extensive experience in resolution planning with the UK Authorities in the banking and building society sectors. In addition, he has expertise in advising bank and bondholder lenders to financial institutions experiencing stress or undergoing restructuring processes. Mark has been a provisional liquidator, scheme administrator or administrative receiver to various financial institutions.

Steven Cooper
Steven is the CEO of Barclaycard Business Solutions, managing the payments division for Barclaycard including Merchant Acquiring, Commercial Payments and Sales Finance. Within his 30 years in the banking industry, Steven was most recently CEO of Personal Banking at Barclays for both UK and Europe, where he gained a wealth of experience in the rapidly changing landscape of consumer banking with digital technology and data. He has also led UK Business Banking and businesses for Barclays in Africa, India and Offshore locations. Steven sits on a number of advisory boards, including Teach First and Business in the Community's Age at Work Campaign and is an alumnus of Harvard Business School.

Marian Glen
With over 25 years' experience of corporate finance, Marian was a solicitor at Linklaters in the City specialising in M&A, joint ventures and financial services before joining Shepherd and Wedderburn (S&W) where she was a corporate partner for many years. Latterly as Head of Financial Services at S&W she worked on a range of deals in the financial services sector before being appointed UK General Counsel at the global insurer Aegon, joining its UK Executive and Global Leadership teams. Marian now has a portfolio of non-executive roles. She is a non-executive director of Shires Income plc and Martin Currie Global Portfolio Trust plc where she also sits on their respective Audit Committees. In addition, Marian is an external member of the Audit and Risk Committee of the Water Industry Commission for Scotland, the economic regulator of the water industry in Scotland. She is a former non-executive director of Friends Life Group, the FTSE 100 insurance group.

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

Patrick Neville
Patrick is a Chartered Accountant and has had an extensive career in financial services, operating in leadership roles across banking, asset management and insurance. Formerly Chief Financial Officer at Aviva Investors, Patrick was also Finance Operations Director for Aviva's UK Life and General Insurance businesses and spent 16 years with Royal Bank of Scotland, latterly as Finance Director of the Cards and Direct Finance business. He brings to the Board a strong track record in the delivery of large-scale change and a deep understanding of the implementation and operation of risk and control frameworks in financial services. Patrick is also non-executive Chair of PATAC Ltd, an investment trust administration company, and a director of Decisioning Blueprints Ltd and Dontia Group Limited.

Helen Parker
Until 2017, Helen was Deputy Chief Executive of Which?, Europe's largest independent consumer organisation. She also held a number of other senior roles at Which? during her career there, including being its Director of Policy, Editorial Director, and Editor of Which?. Her current non-executive experience includes being a Committee member of Healthwatch England, the independent consumer champion for users of health and social care. She also has previous non-executive experience as a Director of the Fundraising Standards Board, then the regulator of UK charity fundraising, and as a Council member of Consumers International, the world federation of consumer rights groups with 200 member organisations in 100 countries.

Compliance with the UK Corporate Governance Code

FSCS has complied throughout the period covered by this report with the relevant provisions set out in the UK Corporate Governance Code (the Code) issued in April 2016, with the exception of the following:

Code provision:	FSCS position:
B.2.1 (making recommendations for Board appointments) – Nomination Committee should lead the process for Board appointments and make recommendations to the Board	• Joint FSCS/FCA/PRA process • Directors appointed by FCA and PRA (with HM Treasury approval also for Chairman and Chief Executive)
C.2.2 (viability statement) – Directors should explain how they have assessed the company's prospects, over what period and why they consider that period to be appropriate	• Audit Committee concluded, given the nature of FSCS and the way it is funded, it is not appropriate for FSCS to produce a viability statement under this Code provision
D.1.1 (certain provisions for executive directors' performance related remuneration) – Performance related remuneration schemes for executive directors should include provisions to enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so	• Remuneration and Human Resources Committee revised Remuneration Policy to include a bonus 'clawback' provision for executive directors, but not 'deferral'
D.2.2 (setting remuneration for the Chairman and Chief Executive) and **D.2.3 (remuneration for non-executive directors)** – Remuneration Committee should have delegated responsibility for setting executive directors' remuneration, and the Board or a committee should determine the remuneration of non-executive directors	• Remuneration and Human Resources Committee determines the remuneration of all executive directors except that of the Chief Executive, which is determined by the Board • FSCS cannot set remuneration for its Chairman and non-executive directors – this is done by the FCA and PRA, with appropriate input from FSCS
Section E (relations with shareholders) and other provisions relating to shareholders – Provisions relating to the maintenance of a dialogue with shareholders and investors	• FSCS does not have shareholders, but there is close and regular liaison with other key stakeholders, such as levy payers, trade bodies, HM Treasury, the FCA, and the PRA

DIRECTORS' REMUNERATION REPORT

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

Annual report on remuneration

Non-executive directors' fees are reviewed and set by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority. Prior to 1 April 2013, this was the responsibility of the Financial Services Authority. FSCS is responsible for setting the remuneration for executive directors. The Remuneration and Human Resources Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval. The Chief Executive is not present when this remuneration package is being considered. The remuneration packages of the other executive directors are determined by the Remuneration and Human Resources Committee. A fuller description of the work of the Remuneration and Human Resources Committee is given on pages 63 to 64.

Directors' remuneration table for 2017/18

Audited section	**2017/18**					
	Fees and salary[1] £'000	**Taxable benefits[2] £'000 (nearest £100)**	**Performance-related bonus[3] £'000**	**Pension[4] £'000 (nearest £1,000)**	**Total £'000**	Fees and salary[1] £'000
Non-executive						
Mark Adams	**25-30**	**2.8**	–	–	**25-30**	20-25
Margaret (Liz) Barclay	**5-10**	–	–	–	**5-10**	25-30
Lawrence Churchill	**75-80**	**11.4**	–	–	**85-90**	75-80
Steven Cooper	**15-20**	–			**15-20**	
Marian Glen	**25-30**	**7.8**	–	–	**35-40**	20-25
Charles McKenna	**25-30**	–	–	–	**25-30**	25-30
Patrick Neville	**15-20**	**4.8**			**20-25**	
Caroline (Jayne) Nickalls	**5-10**	**0.1**	–	–	**5-10**	20-25
Helen Parker	**15-20**	**0.3**			**15-20**	
Robert (Paul) Stockton[5]	**0[5]**	–	–	–	**0-5[5]**	0[5]
Executive						
Jimmy Barber	**230-235**	**2.0**	**40-45**	**26**	**300-305**	225-230
Alex Kuczynski	**220-225**	**2.0**	**20-25**	**20**	**265-270**	220-225
Mark Neale	**260-265**	–	**30-35**	**23**	**315-320**	255-260
Kathryn Sherratt	**165-170**	**0.8**	**20-25**	**16**	**205-210**	165-170
Highest paid director's total remuneration[6] (£'000)					**290-295**	
Median total remuneration for FSCS staff[6] (£)					**53,741**	
Remuneration ratio[6]					**5.5**	

2016/17			
Taxable benefits[2] £'000 (nearest £100)	Performance-related bonus[3] £'000	Pension[4] £'000 (nearest £1,000)	Total £'000
3.5	–	–	25-30
0.4	–	–	25-30
10.7	–	–	85-90
8.9	–	–	30-35
0.5	–	–	25-30
0.8	–	–	25-30
0[5]	–	–	0-5[5]
2.1	45-50	25	300-305
2.3	25-30	53	305-310
0.5	30-35	23	315-320
0.9	20-25	15	200-205
			290-295
			49,434
			5.9

Notes:

1 The Chairman and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any additional remuneration in respect of their roles as directors. Salaries and fees are stated for the financial year in respect of which they are earned and relate to each director's period of appointment. All directors were in their post for the 2017/18 year, with the exception of Liz Barclay and Jayne Nickalls, who retired from the Board on 30 June 2017, Paul Stockton, who retired from the Board on 30 November 2017, and Steven Cooper, Patrick Neville and Helen Parker, who joined the Board on 1 July 2017. For executive directors, the figures in the Fees and Salary column constitute basic salary, with adjustments for non-taxable benefits and for other benefits paid through PAYE. More details on directors' salaries and fees are given in the relevant section below.

2 'Taxable benefits' represent the gross value of benefits, whether cash or non-cash, that are chargeable to UK income tax. The figures in this column include any taxable expenses directly and properly incurred in the performance of FSCS duties. For the Board as a whole, these taxable expenses amounted to £27,100 in 2017/18 (2016/17: £26,800) (to the nearest £100). The majority of these additional taxable expenses relate to non-executive directors' travel to FSCS, and any associated subsistence, for attending Board and committee meetings, and include the associated income tax and National Insurance liability, which is met by FSCS as agreed with HM Revenue & Customs. For executive directors, the figures in this part of the table also include private medical cover and dental insurance.

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

4 'Pension' is shown as the amounts paid by the employer to defined contribution pension schemes, including any 'matching' contributions made by FSCS, and cash in lieu of pension. Other details are given below under 'Directors' pension entitlements'.

5 By arrangement and agreement with Paul Stockton's employing company, Mr Stockton did not receive a Board fee. Instead, the normal annual fee for non-executive directors of £24,500, together with the £5,000 per annum additional fee payable to the Chairman of the Audit Committee, is invoiced by, and paid to, his employing company. The invoiced amounts include VAT, so the annual amount payable in respect of Mr Stockton's non-executive directorship of FSCS for 2017/18, up to 30 November 2017 (the date he left the Board) was £22,437 (2016/17: £35,400). No part of this benefit passed to Mr Stockton.

6 This section of the table shows the relationship between the remuneration of the highest paid director and the median remuneration of the organisation's workforce. The banded remuneration of the highest paid director in 2017/18 was £290,000-£295,000 (2016/17: £290,000-£295,000). This was 5.5 times (2016/17: 5.9 times) the median remuneration of the workforce, which was £53,741 (2016/17: £49,434). For this purpose, total remuneration includes salary, bonus and taxable benefits. It does not include pension contributions or cash in lieu of pension. Full details of the remuneration of the highest paid director are given overleaf under 'Highest paid director' and in Note 10 to the financial statements.

Highest paid director

Audited with the notes to the financial statements

The highest paid director in 2017/18 and 2016/17 was the Chief Executive, who received aggregate remuneration of £294,782, comprising basic salary of £262,028, bonus of £32,754, and other emoluments of £0 (2017: £292,315, comprising basic salary of £259,433, bonus of £32,429 and other emoluments of £453). Payments of £23,025 have been made for cash in lieu of pension (2017: £22,786, constituting contributions to a money purchase arrangement under FSCS's pension scheme plus payments for cash in lieu of pension). The Chief Executive did not receive additional remuneration in respect of his role as director.

Directors' remuneration framework

Directors' fees and salaries

Non-executive directors

The current non-executive director fees, including those of the Chairman, were set in April 2011 and have not changed since.

The fees paid or payable to the Chairman in 2017/18 were set at £75,000 a year (2016/17: £75,000), and fees paid or payable to other independent non-executive directors or their employers were set at £24,500 a year (2016/17: £24,500). Additional fees paid or payable to the chairmen of the Audit Committee, Risk Committee and Remuneration and Human Resources Committee, or their employers, were set at £5,000 a year (2016/17: £5,000). The Chairman of the Board was also the Chairman of the Nomination and Governance Committee but does not receive an additional fee for this role. Similarly, an additional fee is not payable to the Deputy Chairman and Senior Independent Director for these roles.

Executive directors

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

First, the salaries of executive directors should be determined on the same basis as for other staff. This means that the pay of executive directors should, in aggregate, grow no faster than overall salary growth in the organisation. Pay growth for the coming year was taken as 1% for continuing roles, with some additional provision for recruiting and retaining people in certain shortage areas, although this did not preclude some differentiation in the salary increases awarded to executive directors subject to this overall constraint.

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

Salaries for executive directors were subject to a market pay review carried out by external consultants in 2017/18. This market review of salaries was carried out for all FSCS salaries, and involved collecting pay data with the aim of helping to set FSCS's own pay rates at the appropriate level in order to recruit and retain the staff it needs.

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

Performance related bonus

Audited section

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

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

Directors' pension entitlements

Audited section

During the year, one director (2016/17: one) had a prospective entitlement to a defined benefit pension as well as accruing retirement benefits under the money purchase pension scheme. Three additional directors (2016/17: three) also accrued retirement benefits during the year under the money purchase pension scheme only. The non-executive directors are not entitled to a pension funded by FSCS.

The executive directors in post during the year were members of the defined contribution (money purchase) pension scheme, on the same terms as for other employees. FSCS makes a contribution equal to 6% of basic salary, which increases to 8% after two years of service and 10% after five years of service. Employees may make a contribution to the plan, and FSCS will match this with an employer's contribution up to a maximum of an additional 5% of basic salary.

Alex Kuczynski					
Normal retirement date (age 60)	Accrued pension at 31 March 2018 £'000	Real increase in pension £'000	CETV at 31 March 2017 £'000	CETV at 31 March 2018 £'000	Real increase in CETV £'000
08/07/2025	33	0	1,195	1,189	(42)

The defined benefit (final salary) pension scheme closed to future accrual on 30 June 2011. Defined benefit pension entitlements accrued for Alex Kuczynski as a result of participation in the defined benefit pension scheme, from his date of joining the pension scheme on 20 April 1998 to the date of the pension scheme closing to future accrual on 30 June 2011. The accrued pension is the pension that the member is entitled to receive when he reaches pension age, albeit that this increases in line with the pension scheme's rules between 31 March 2018 and 8 July 2025 (his normal retirement date). Mr Kuczynski may elect to retire earlier than his normal retirement date but the pension will be subject to an actuarial reduction. Due to the nature of these defined benefit pension rights being different from retirement benefits accruing in a defined contribution scheme, further details are given in the table above.

Definitions

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

Other benefits

Executive directors are entitled to receive other benefits. Some of these, such as private medical cover and dental insurance, are detailed in the remuneration table above under 'Taxable benefits', and pension benefits are described in the section above. Other benefits available to executive directors, in common with other employees, include life assurance, critical illness cover, health screening, travel insurance, flexible working, flu vaccinations, gym discounts, childcare vouchers, annual professional subscriptions and access to the employee assistance programme helpline.

Remuneration for executive directors holding other non-executive positions

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

Risk management and internal controls

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Board is responsible for maintaining sound risk management and internal control systems.

Control environment

The control environment at FSCS is built into our management and governance structures.

Governance structure, accountabilities and delegations: A comprehensive Board and Executive governance structure is in place with clear accountabilities and delegations, as outlined on pages 58 to 65. The CEO and Executive Team (both collectively and individually) operate through documented delegations and role profiles.

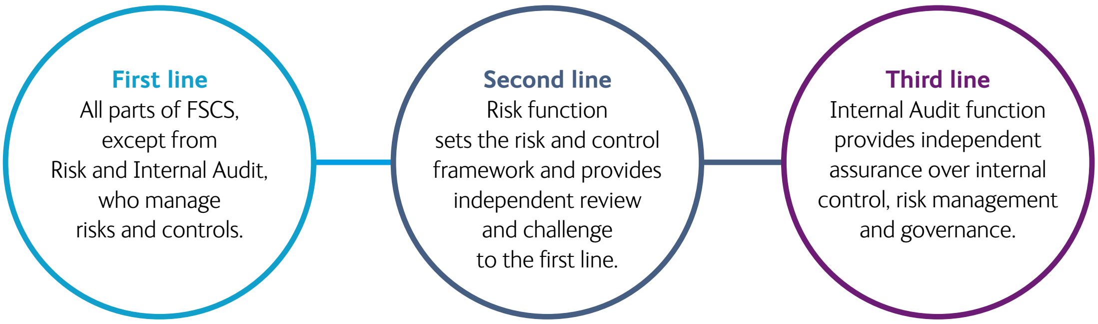
Policies: A set of overarching FSCS policies is in place and responsibility for approval of these policies rests with the CEO, the Board or the relevant Board Committee, as defined in each policy. Policy owners are responsible for the maintenance, communication, compliance monitoring (including logging of breaches or exceptions) and for assessing the impact of breaches on the control environment.

Key processes: FSCS has identified a number of key processes to discharge its statutory obligations. FSCS has a single claims processing platform for all claims (other than General Insurance claims), which is used by both FSCS and its outsource partners, thus reducing FSCS's exposure to fraud and error while protecting the security of our data and systems architecture.

In addition, to be able to pay compensation in the event of a deposit failure we rely on the Verification Services process. In this process, Single Customer View (SCV) files produced by deposit takers are reviewed on a regular basis to ensure the data is structured in the required format to be able to pay compensation to customers within the required time periods. This service is critical in ensuring that FSCS is able to meet its obligation in the event of the default of a deposit taker. This process is externally accredited to the information security management international standard ISO/IEC 27001:2013.

Control testing: Following the implementation of a revised Risk Management Framework in 2016/17, testing of core controls identified has been undertaken during 2017/18. The control testing enabled more detailed reporting of residual risks to take place and for improvement activities to be targeted for any ineffective controls. The Internal Audit function continued to deliver a risk-based audit plan to provide management and the Board with independent assurance over the effectiveness of the risk management and internal control systems.

Risk Management Framework



In addition to the above, FSCS sets and operates an incident management process to identify and remediate significant incidents. It also has defined continuity and resilience objectives and plans that are reviewed and exercised following a cyclical but risk-responsive plan.

Whistleblowing: Whistleblowing arrangements are in place to ensure concerns can be raised in confidence and investigated appropriately.

Risk management

Our approach to risk management

Risk management is a crucial enabler to deliver FSCS's strategy and achieve its goals. Our success as an organisation depends on our ability to identify and exploit opportunities as well as control the adverse impact of threats. To deliver our ambitions, risk assessment and treatment are central to the Executive Team agenda.

Our approach to risk management is designed to provide reasonable, but not absolute, assurance that the risks facing FSCS are being assessed and mitigated, and that all information that may need to be disclosed is reported to senior management and the Board.

The Risk Management Framework

The Risk Management Framework was revised and enhanced in 2016/17 to incorporate some emerging sound practices and this year it has been implemented.

FSCS operates a risk governance approach based on the 'three lines of defence' model. This governance model is illustrated above.

The Risk function maintains a level of independence from the first line, reporting both to a member of the Executive Team and to the Board's Risk Committee. The Risk function maintains a central Risk Register, which is derived from local registers maintained by the first line. It also provides a summary Risk Profile to the Executive Team and Risk Committee every quarter, highlighting key risks, incidents and performance against risk tolerance. The Risk Committee reports to the Board after each meeting.

During 2017/18 the process for first-line controls testing was enhanced and rolled out across FSCS, with additional, dedicated risk resources recruited into first-line teams and improvements made to the reporting of risk at both the Executive and Risk Committee levels.

FSCS recognises the importance of sound risk management practices and is planning a full post-implementation review of the effectiveness of the Risk Management Framework in 2018/19. This review will enable feedback and lessons learned to be captured and enhancements to be made to further improve and embed every element of the Framework.

Principal Risks and Risk Tolerance

FSCS's ability to fulfil our mission 'To provide a trusted compensation service for customers, which raises public confidence in the financial services industry' depends on our ability to deliver the following:

- Providing a well-understood service which delivers accurate compensation payments;
- Achieving a level of service that meets customers' reasonable expectations and our service standards;
- Maintaining the security of information;
- Ability to respond to major failures or crises; and
- Maintaining awareness among consumers.

Consequently, these are the principal risk areas underpinning FSCS's Risk Management Framework and surrounding which the Board has instituted risk tolerances. These identify the level at which FSCS can tolerate a risk materialising and guide First Line management in designing and implementing controls to keep FSCS within these tolerances. Any occurrences of risks outside agreed tolerance levels are reported to the Risk Committee and appropriate actions taken to remediate them.

Principal Risk	Mitigation
FSCS pays the wrong amounts or the wrong people	• All non-insurance compensation payments for claims are subject to a peer review either within the outsource partners or FSCS. All payments are approved at and made by FSCS. • General Insurance claims are typically assessed by the Insolvency Practitioner (IP) responsible for the failed insurance company. Deposit payments are verified using the data provided by the failed firm's IP. • The Quality Assurance (QA) function undertakes 'back-end' checks on a random sample of claims. Where incorrect payments or other errors are detected, QA follows up directly with the responsible outsource partner or internal colleagues. QA also works with the internal complaints team to identify any emerging issues and patterns.
FSCS provides a poor service which fails to meet service standards and which damages customer confidence and trust	• Customer satisfaction is measured and reported to the Board. At the end of 2017/18, satisfaction stood at 79% against a target for the year of 80%. • The time taken to turn around and decide claims is subject to service standards, and performance against those standards is reported to the Board. At the end of 2017/18, 96% of claims were decided within the service level against a target of 90%. • Complaints and telephone calls are monitored and issues arising from them are acted upon. The Board regularly reviews comments from complaints. • The Board sees reports from the Independent Investigator who looks into the handling of complaints that could not be resolved by FSCS's internal complaints process. The Independent Investigator's report can be found on page 55. The Independent Investigator considered six such complaints during the year.

Principal Risk	Mitigation
FSCS does not protect market sensitive or personal information	• FSCS has achieved and maintains an ISO 27001 accredited registration covering the protection of market sensitive information in the delivery of services by the Single Customer View (SCV) Assurance Team including New Authorisations, Material Change, PRA Requests, SCV BAU Assurance and Pre Default. This accredited registration has been independently reviewed in late March 2018 and FSCS has been recommended for re-certification as of April 2018.The Information Security Management System (ISMS) has been enhanced to provide a comprehensive set of policies, processes and systems to manage cyber and information security risk. • FSCS systems are regularly subject to penetration testing, including the online claims service. The onboarding of a new security partner will further enhance the programme of security testing in 2018/19. • FSCS maintains and monitors compliance with records management policy and procedures which also set standards for the retention of personal data. During the year FSCS completed a major exercise to apply the updated document retention policy. • FSCS is working on satisfying the requirements of General Data Protection Regulation (GDPR) by May 2018.
FSCS cannot respond effectively to a major failure or financial crisis	• FSCS's Risk Committee monitors both the likelihood of, and our own preparedness for, a wide range of failures of UK firms which would trigger FSCS protection. • Contingency plans are maintained and regularly updated for failures in all major financial sectors, including deposit, insurance and investment. During 2017/18 FSCS successfully completed a large scale simulation exercise, designed to demonstrate and test our response to a hypothetical bank failure. • FSCS undertakes regular exercises with its partners to test its preparedness to implement its contingency plans, and works with the Authorities on its testing and planning. • Samples of Single Customer View (SCV) files maintained by deposit takers to facilitate an FSCS pay-out are reviewed annually by FSCS and the results reported to the firms involved and to the regulator. • FSCS undertakes regular disaster-recovery exercises. • FSCS has a borrowing facility with a consortium of banks to ensure that it can meet the cash flow requirements of a seven-day payout in the event of the failure of a bank or building society. • FSCS has undertaken work to review the issues that it may be faced with in the event of the failure of a life insurer. This has been reviewed from time to time in the past, but FSCS has focused on this as a particular risk – on which work will continue into 2018/19. • The risks identified in responding effectively to major insurance failures following last year's failure of Enterprise Insurance Company PLC and Gable Insurance AG have been addressed by FSCS by reviewing and clarifying accountabilities and expectations internally and with the PRA, and developing better liaison with the PRA (with the establishment of a Coordination Committee for insurance firms/issues). Furthermore, we are planning to integrate the insurance payment system into the main claims management next year.
FSCS protection is unknown or not understood	• FSCS commissions market research quarterly into levels of awareness of FSCS and/or of our protection. The most recent research showed awareness at 81% of the adult population compared with a target of 70%.

Three issues were identified during 2017/18 that represented breaches of risk tolerances:

- **CF Arch Cru claims:** this was previously reported in the 2016/17 Annual Report. Arch Cru investors were discovered to have been paid incorrect compensation amounts resulting in both underpayments and overpayments. Following investigation, the error was found to have in part originated from a failure to update the static data input into the spreadsheet used to quantify compensation due to customers (calculators). This error resulted in both underpayments and overpayments of compensation. In order to reduce the risk of such errors in future, FSCS has strengthened its teams with specialist knowledge of each of the products we protect. These teams are alert to the risks associated with complex claims and maintain up-to-date guidance for claims handlers. Critical models (such as spreadsheets used for calculating compensation) are validated and tested at least annually and we now consider the robustness of data inputs, as well as the accuracy of the calculations themselves. All Arch Cru claims that had been calculated using the incorrect calculator have been re-validated. As a result, 1,074 customers were identified as being underpaid a total of £812k. These customers have now received additional compensation. 993 claims have been identified as being overpaid, with a total value of £732k. As of 1 May FSCS had recovered £188k, agreed repayment plans to recover £28k and has contacted customers who were overpaid a total of £163k to enable repayment. £353k has been written off due to the nominal value of the overpayment, customers deemed vulnerable or those experiencing hardship, and/or the time passed between original compensation paid and the re-validation exercise.
- **Response to an Investment default:** FSCS was unable to respond in a timely manner to the failure of the investment firm Strand Capital Limited in May 2017 due to lack of data from the firm's IPs which FSCS was dependent upon to process claims. This means that FSCS was unable to pay compensation due to customers within the intended timescale. FSCS has continued to work with the IPs and the FCA to address the delays and seek to provide at least partial compensation payments to eligible investors.
- **Inadvertent disclosure of personal information:** In a small number of cases, personal documents being returned to customers were mis-delivered. FSCS introduced additional controls and changed the supplier used to deliver correspondence to customers.

Risk Profile in 2017/18, including emerging risks

As of 31 March 2018, the Accountable Executives attested to the effectiveness of controls operated by their functions, issues identified during the year and implications for the organisation's control environment.

Our risk profile has not fundamentally changed during 2017/18, other than the following:

- The UK's announced exit from the EU continues to be an area of heightened uncertainty, and its impact and implications for FSCS are revised regularly as information comes to light. We have kept abreast of the potential impact of Brexit on FSCS operations and we are monitoring this issue with HM Treasury, the PRA and the FCA.
- Following a procurement exercise in 2017/18, FSCS will move in 2018/19 to Capita as our single outsource partner for the handling of claims and other related services. We expect this change to improve both the efficiency and effectiveness of claims handling, but have recorded new risks related to the transition. We shall continue to monitor these risks through to the final handover to the new partner and beyond. In 2018/19, work will continue to strengthen our approach to supplier risk management, given the market events over the year, alongside internal processes.

We also believe that there is another area which poses an increased level of risk for FSCS:

- Information Protection (including cyber): the digital landscape is changing at such a pace that risks around security of information, including the privacy of customer data and our vulnerability to cyber attacks, is increasing. We continue to invest in our internal capabilities to enhance our information security controls and exploit the digital advancements to help us to better manage this risk. In addition to the enhancements we have made to our digital service, we have upgraded and improved the security and efficiency of our internal systems, including those relating to claims processing, databases, networks and operating systems. Significant progress has been made on our Information Security Management System, assisting our ISO 27001 accreditation and the EU's GDPR programme.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

The directors of Financial Services Compensation Scheme Limited (FSCS) present their report, together with the audited financial statements of FSCS on pages 97 to 128 for the year ended 31 March 2018.

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

The directors

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

Mark Neale
Chief Executive and Executive Director

Aleksander (Alex) Kuczynski
Executive Director

Kathryn Sherratt
Executive Director

James (Jimmy) Barber
Executive Director

Marshall Bailey
Chairman (appointed 1 April 2018)

Mark Adams

Steven Cooper (appointed 1 July 2017)

Marian Glen

Charles McKenna

Patrick Neville (appointed 1 July 2017)

Helen Parker (appointed 1 July 2017)

Lawrence Churchill – Chairman
(term expired 31 March 2018)

Margaret (Liz) Barclay
(term expired 30 June 2017)

Caroline (Jayne) Nickalls
(term expired 30 June 2017)

Robert (Paul) Stockton
(term expired 30 November 2017)

Directors' remuneration

Details of directors' remuneration are shown in the Directors' Remuneration Report and in Note 10: Directors' remuneration.

Directors' indemnity and insurance

FSCS maintains insurance to indemnify itself, its directors and its officers against claims arising from its operations. The company has granted qualifying third party indemnities (as defined in the Companies Act 2006) to its directors in relation to acts or omissions arising in the ordinary course of their duties. These were in force at the date of the approval of this report.

Statement of disclosure of information to auditors

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

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

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

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

Corporate governance and financial risk management

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

Going concern

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

Independent auditor

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

Approval of Accountability Report

The Accountability Report comprises:

- Statement of Accounting Officer's Responsibilities
- Corporate Governance Report
- Directors' Remuneration Report
- Risk Management Report
- Directors' Report

This was approved by the Board on 22 May 2018 and signed on its behalf by:

Mark Neale
Chief Executive, Financial Services Compensation Scheme

19 June 2018

06 AUDITOR'S REPORT

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that, I have audited the financial statements of the Financial Services Compensation Scheme Limited (FSCS) for the year ended 31 March 2018 which comprise the Statements of Comprehensive Income, Financial Position, Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, and the International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of FSCS's affairs as at 31 March 2018 and of the result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the FSCS in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorising legislation	Financial Services and Markets Act (FSMA) 2000; Financial Services Act 2012; The Financial Services (Banking Reform) Act 2013
Parliamentary authorities	None
HM Treasury and related authorities	None

OVERVIEW OF MY AUDIT APPROACH

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around levy income, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on page 62.

There has been one change in this year's report to the risks identified in my prior year report:

The ISA 240 presumed risk of fraud in revenue recognition has been rebutted in this financial year. Since FSCS's income always matches its expenditure and it does not recognise any profit or loss, there is no scope or incentive for fraud through manipulation of income. We had previously identified a risk relating to whether the population of levy payers remained materially constant: if the population changes, FSCS might not be able to recover deficits or refund surpluses. Following further review of FSCS's framework we are satisfied this does not affect the approach to revenue recognition, as the framework permits FSCS to refund levies to former levy payers and raise levies from the entire class as required.

Key audit matter 1

Recoveries from Bradford and Bingley

FSCS is seeking to recover from the estate of Bradford and Bingley (B&B) the compensation it paid as a result of the bank's part-nationalisation in 2009.

I have identified the recoverability of the amount and the valuation of any receivable as a significant risk to the financial statements. UK Asset Resolution sold most of B&B's remaining assets in 2017. As a result FSCS recovered £11 billion in April 2017, all of which was immediately applied to repay part of its loan from HM Treasury.

FSCS received a further £4.7 billion and repaid the remainder of its loan to HM Treasury in May 2018, after the reporting period of these financial statements.

The transactions involved are very significant in terms of size and outside the normal course of business for FSCS and are therefore considered a significant risk for my audit.

How the scope of my audit responded to the risk

I confirmed that the £11 billion had been received in April 2017 and was presented appropriately in the 2016-17 accounts. I have now confirmed the transaction has been appropriately treated in the 2017-18 accounts.

I confirmed that the remaining £4.7 billion was received in May 2018. I confirmed the financial statements presented the amount as a Current Receivable as at 31 March 2018, and that appropriate disclosure was provided on the subsequent receipt.

Key observations

The testing was satisfactory. The sale has been completed and monies received for the remaining balance of £4.7 billion and the loan from HM Treasury cleared. The position at the reporting and signing dates have been appropriately presented in the accounts.

Key audit matter 2	
Completeness and valuation of recovery receivables FSCS recovers funds from the administrators of failed firms' estates to offset compensation that has been paid out to its customers. In line with accounting standards, an asset must be recognised when there is a realistic expectation that future economic benefits will be received. There is a significant degree of judgement and uncertainty in estimating the value of such expected recoveries.	
How the scope of my audit responded to the risk	I tested the controls that FSCS had in place to mitigate these risks. In doing so I applied professional scepticism in the assessment of the adequacy of management's review of their accounting estimates and assumptions used in calculating the recovery of receivables at the year-end. In addition: • I tested the completeness of other receivables through, for example, an assessment of the completeness of 2016-17 receivables to evaluate the effectiveness of this control last year. • I performed an assessment of the policies and processes behind receivables recognition. • I tested those receivables recorded at 31 March 2018 to supporting information. **Key observations** The results of my testing across these areas were satisfactory and I am comfortable that the recoveries are appropriately recorded in the financial statements.

Application of materiality

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

Based on my professional judgement, I determined overall materiality for the company's financial statements at £23.4 million which is approximately 0.5 per cent of total financial assets, a benchmark that I consider to be the principal consideration for users in assessing the financial performance of the entity. I have determined that for income and compensation costs, misstatements of a lesser amount than overall materiality could influence the decisions of users of these financial statements because of an increased sensitivity to misstatements in these areas. I have therefore determined that the level to be applied to these components is £6.1m which is one per cent of the income received by FSCS in the year.

There were significant revisions compared to prior period, when materiality was £82.5 million. At 31 March 2017 the financial statements still recognised a financial asset of £15.7 billion reflecting recoveries expected in relation to Bradford and Bingley. Of these, £11 billion were received in April 2017, leaving an asset of £4.7 billion at 31 March 2018. Our materiality is based on the value of assets and has therefore reduced proportionally.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in Directors' Remuneration. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

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

I have not reported any unadjusted audit differences to the Audit Committee.

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing FSCS's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000 and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FSCS's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on FSCS's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement. It was designed to address the key risks and took account of materiality as set out above. I audited all of FSCS's income from both levies and recoveries, with particular focus on the receivable portion of recoveries as discussed above. I also performed detailed testing giving assurance on 97% of expenditure and on 99.9% of assets, I considered FSCS's framework of authorities throughout my testing, and ensured controls reviewed and transactions tested were consistent with these. This work gave me the evidence I needed for my opinion on the financial statements as a whole.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

In this context, I also have nothing to report in regard to my responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit Committee reporting: the section describing the work of the Audit Committee does not appropriately address matters communicated by me to the Audit Committee.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT

Directors' remuneration

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the HM Treasury directions made under the Financial Services and Markets Act 2000;

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Performance Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic and Performance Report or the Directors' Report.

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit the information given in the corporate governance report, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

Based on my knowledge and understanding of FSCS and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

MATTERS ON WHICH I REPORT BY EXCEPTION

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

I have nothing to report arising from this duty.

Conclusions relating to principal risks, going concern and viability statement

Under International Standards on Auditing (UK), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the directors' disclosures in the annual report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters.

REPORT

I have no observations to make on these financial statements.

Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP

25 June 2018


fscs

07 FINANCIAL STATEMENTS AND NOTES

Statement of comprehensive income

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Income:			
Levy income in respect of compensation costs		414,825	244,900
Other levy income		163,518	374,391
Total levy income	*4*	578,343	619,291
Recoveries	*5*	30,140	130,362
Total income		608,483	749,653
Expenditure:			
Compensation costs	*6*	(444,965)	(375,262)
Administrative expenses	*8*	(67,973)	(67,909)
Interest payable	*14*	(99,009)	(306,246)
Net interest on the net defined benefit obligation	*20*	(49)	(113)
Total expenditure		(611,996)	(749,530)
(Deficit)/surplus before tax		**(3,513)**	**123**
(Deficit)/surplus after tax		**(3,513)**	**123**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	*20*	3,513	(123)
Total comprehensive result for the year		–	–

All of FSCS's operations are continuing.

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

The Notes on pages 100 to 128 form part of these financial statements.

Statement of financial position

	Note	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,007	876
Other non-current financial assets	*11*	40,094	4,756,971
Other non-current financial assets	*20*	2,495	–
		43,596	**4,757,847**
Current assets			
Trade and other receivables	*11*	4,817,636	11,432,155
Cash and cash equivalents	*12*	206,172	357,462
		5,023,808	**11,789,617**
Total assets		**5,067,404**	**16,547,464**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		–	–
Non-current liabilities			
Interest bearing loans and borrowings	*13, 14*	–	4,677,873
Other non-current financial liabilities	*13*	42,589	35,052
Provisions	*15*	318	257
Employee benefit liability	*20*	–	2,682
		42,907	**4,715,864**
Current liabilities			
Bank overdraft	*12*	14,313	8,888
Trade and other payables	*13*	144,795	475,042
Interest bearing loans and borrowings	*13, 14*	4,677,873	10,976,636
Loan interest payable	*14*	99,009	306,388
Provisions	*15*	88,507	64,646
		5,024,497	**11,831,600**
Total liabilities		**5,067,404**	**16,547,464**
Total equity and liabilities		**5,067,404**	**16,547,464**

The Notes on pages 100 to 128 form part of these financial statements. These financial statements are exempt from the requirements of Part 16 of the Companies Act 2006 by virtue of section 482 (non-profit-making companies subject to public sector audit) of that Act.

The financial statements on pages 97 to 128 were approved by the Board of Financial Services Compensation Scheme Limited (Registered Number 3943048) on 22 May 2018 and signed on its behalf on 19 June 2018 by:

Marshall Bailey
Chairman, Financial Services Compensation Scheme

Statement of cash flows

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Operating activities			
Net cash generated from operations	*17*	11,126,687	348,922
Net cash flows from operating activities		**11,126,687**	**348,922**
Investing activities			
Purchases of property, plant and equipment		(378)	(229)
Net cash flows used in investing activities		**(378)**	**(229)**
Financing activities			
Decrease in loans	*14*	(10,976,636)	–
Returns on investments and servicing of finance	*14*	(306,388)	(336,582)
Net cash flows used in financing activities		**(11,283,024)**	**(336,582)**
Net increase in cash and cash equivalents		(156,715)	12,111
Cash and cash equivalents at 1 April	*12*	348,574	336,463
Net cash and cash equivalents at 31 March	*12*	**191,859**	**348,574**

The Notes on pages 100 to 128 form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2018

1 Constitution

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

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). FSCS, as Scheme Manager, operates eight broad funding classes based on identifiable industry sectors – Deposits, Life and Pensions Provision, General Insurance Provision, General Insurance Intermediation, Life and Pensions Intermediation, Investment Provision, Investment Intermediation and Home Finance Intermediation.

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

2 Accounting policies

BASIS OF PREPARATION

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

Section 218 of FSMA requires us to prepare a statement of the value of each of the funds established by FSCS ('the Scheme Manager'). These statements, referred to as the Class Statements, are separate from the statutory financial statements of the Scheme Manager and have not been prepared under the basis of IFRS. The Class Statements are prepared by the Scheme Manager in accordance with the FCA Handbook and the PRA Rulebook. These statements can be found at www.fscs.org.uk.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

The principal accounting policies for the Scheme Manager are set out below.

a) Revenue recognition

Levies for compensation costs

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

Recoveries

Recoveries are recognised when received or, if earlier, on receipt of notification in respect of dividends from insolvency practitioners, or when notified and agreed in respect of other recoveries. Where no notification is received or agreed, recoveries are also recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). This differs from the treatment in the Class Statements, where recoveries are only recognised on receipt or notification.

Other operating income

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

Any deficit or surplus in the defined benefit pension scheme will eventually be funded through, or used to reduce, future levies on levy paying firms. Consequently, an asset and accrued levy income, or a liability and deferred levy income, is recognised in these financial statements.

b) Compensation costs

Compensation costs are only recognised when the eligibility and quantum of the claim is known, or for reinstatement cases when fully valued. In most cases, this is when the claim has been assessed and a decision has been made, as before that point the eligibility and quantum of the claim cannot be known.

In the case of deposit defaults, Special Administration Regime (SAR) defaults, and return of premium cases, these do not generally require an application form or decision to be made by FSCS; therefore, the expenditure is recognised when the firm is declared in default. In addition, compensation costs payable under various Orders (referred to as deemed compensation) are recognised when the firm is declared in default.

c) Financial instruments

Trade and other receivables

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

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

Trade and other payables

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

Cash and cash equivalents

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

Borrowings

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

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

d) Welcome Financial Services Limited

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

e) Provisions, legal challenges and costs

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

On occasion, legal proceedings are threatened or initiated against or by FSCS. A 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.

f) Interest payable

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

g) Interest receivable

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

h) Foreign currencies

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

i) Third party arrangements as agent

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

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

j) Taxation

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

k) Pension Scheme

FSCS operates both a defined benefit pension scheme (Pension Scheme) and a money purchase scheme.

The pension costs for the Pension Scheme are accounted for in accordance with IAS 19 'Employee Benefits'. The aggregate Pension Scheme asset/liability recognised in the statement of financial position is the excess or deficit of the present value of the Pension Scheme's assets over the value of the Pension Scheme's liabilities. Any deficit will be funded by future levies and any surplus used to reduce future levies. The deficit or surplus for funding purposes will be that calculated for the pension scheme, which is required by The Pensions Regulator to be prepared on a prudent basis. This may differ from the IAS 19 deficit or surplus shown in these financial statements.

The costs of the money purchase scheme are charged to the statement of comprehensive income as incurred.

Further details are contained in Note 20.

l) Changes in accounting policy

i. New and amended standards adopted by FSCS:

There were no IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations effective for the first time in the financial year beginning on or after 1 April 2017 that have a material impact on the company. This standard will be applicable to FSCS from 1 April 2018.

ii. New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2017 and not early adopted:

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. FSCS has undertaken an assessment of IFRS 9 and this standard is not expected to have a material impact on the company. This standard will be applicable to FSCS from 1 April 2018.

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. This standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. FSCS has undertaken an assessment of IFRS 15 and concluded that this standard is not applicable to levies or recoveries. IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' states that, in the absence of a standard or an interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. Management has chosen to continue to apply the existing accounting policies for levies and recoveries (Note 2(a)) as these policies have been developed by considering the fundamental principles in the International Accounting Standards Board (IASB) Conceptual Framework and meet the core principle of IFRS 15.

IFRS 16 'Leases' replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. Lessor accounting requirements remain aligned to the current approach under IAS 17. This change will mainly impact the properties that FSCS currently accounts for as operating leases. We expect these to be recognised in the statement of financial position as right of use assets and the future lease payments to be shown as liabilities from 1 April 2019. All other leases are of low value and will continue to be expensed as payments are made.

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

3 Accounting judgements and key estimation uncertainties

As identified in the Financial Review Critical accounting judgements and key estimation uncertainties, pages 52 to 53, there are a number of matters of estimation and uncertainty. In applying the accounting policies as set out in Note 2, those uncertainties could impact on the amounts recognised in the financial statements.

The key areas of judgement and uncertainties identified in the financial statements are:

- in preparing these financial statements, a fundamental judgement has been applied to revenue recognition in respect of levy income. Levy income represents fees to which FSCS deemed it was entitled during the financial year, after taking into account costs associated with running the compensation scheme, including compensation costs less recoveries and management expenses incurred. Any surplus or deficit against levy income in the year is therefore held payable or receivable on the statement of financial position as the intention is to return any surplus, by way of a refund or a reduction in next year's levy, or claim any deficit in the following year;
- the value and expected timing of recoveries through dividends from the estates of the 2008/09 banking failures, as explained in Note 11; and
- the current valuation of defined benefit pension scheme, as explained in Note 20.

4 Levy income

In FSCS's financial statements, levies are recognised on an accruals basis, taking into account the costs which have been incurred and any recoveries it has made. The table below shows the total of all constituent parts of levy income for the year reported in the statement of comprehensive income (SoCI):

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Levy income recognised in SoCI		
Levy income in respect of compensation costs	414,825	244,900
Other levy income:		
Levy income in respect of base costs	24,492	21,450
Levy income in respect of specific costs	45,194	48,363
Levy income in respect of loan interest	99,009	306,246
Levy income in respect of pension obligations	(5,177)	(1,668)
	163,518	**374,391**
Total levy income	**578,343**	**619,291**

5 Recoveries income

Recoveries income recognised in the statement of comprehensive income of FSCS is analysed as below:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Other defaults	23,225	92,180
2008/09 banking failures	6,915	38,182
	30,140	**130,362**

6 Compensation costs

The table below provides an analysis of the compensation costs by funding class.

Funding class	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
2008/09 banking failures	–	5
Deposits (excluding 2008/09 banking failures)	(14,165)	(3,323)
General Insurance Provision	136,324	154,032
General Insurance Intermediation	15,666	12,399
Life and Pensions Intermediation	155,528	104,773
Investment Provision	4,902	8,779
Investment Intermediation	129,454	82,327
Home Finance Intermediation	17,256	16,270
Total compensation cost	**444,965**	**375,262**

Deposits (excluding 2008/09 banking failures) includes a net credit of £20,173,000 in relation to a provision adjustment for Dunfermline Building Society as described in Note 15.

7 Administrative expenses and interest payable

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

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Deposits	11,386	10,798
General Insurance Provision	3,835	4,974
General Insurance Intermediation	7,762	9,247
Life and Pensions Provision	–	7
Life and Pensions Intermediation	12,561	9,410
Investment Provision	136	115
Investment Intermediation	8,688	12,786
Home Finance Intermediation	826	1,026
Base costs	24,492	21,450
IAS 19 Pension adjustments	(1,713)	(1,904)
Total administrative expenses	**67,973**	**67,909**
Deposits – interest payable	99,009	306,246
Total administrative expenses and interest payable	**166,982**	**374,155**

8 Administrative expenses

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Staff costs	*9*	14,657	14,086
Accommodation and office services		2,863	2,217
IT maintenance costs		3,742	4,011
Outsourced claims-handling costs		17,158	15,684
Consultancy		1,946	2,873
Welcome costs		452	412
Change including IT development costs		8,690	9,871
Depreciation – owned assets		248	282
Press and communications		3,285	3,948
Auditors' remuneration:			
Statutory audit of the financial statements		154	154
Other audit services		–	–
Legal and professional fees		5,732	5,437
Bank charges		5,882	5,161
Other		3,164	3,773
		67,973	**67,909**

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

9 Staff costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Wages and salaries, including the executive directors	11,998	11,503
Social security costs	1,530	1,417
Other pension costs	1,129	1,166
	14,657	**14,086**

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

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

	Year ended 31 March 2018	Year ended 31 March 2017
Average number of employees:		
Executive Committee and internal audit	7	7
Operations	103	102
Non-operations	81	88
	191	**197**

Non-operations include Corporate Affairs, Finance, the People Team and Facilities.

10 Directors' remuneration

As at 31 March 2018, there were seven independent non-executive directors (2017: seven) and four executive directors (2017: four). The directors of the company who were in office during the year can be found within the Directors' Report. Total remuneration paid to directors is as follows:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Aggregate remuneration	1,266	1,297
Pension contributions	85	116
	1,351	**1,413**

Retirement benefits during the year accrued to one director (2017: one) under FSCS's defined benefit scheme and four under the money purchase scheme (2017: four).

The highest paid director, the Chief Executive (2017: the Chief Executive), received aggregate remuneration of £294,782 (comprising basic salary of £262,028, bonus of £32,754 and other emoluments of £0) (2017: £292,315 (comprising basic salary of £259,433, bonus of £32,429 and other emoluments of £453)). Payments of £23,025 have been made for cash in lieu of pension (2017: £22,786, constituting contributions to a money purchase arrangement under FSCS's pension scheme plus payments for cash in lieu of pension). The Chief Executive did not receive additional remuneration in respect of his role as director.

The fees paid to the Chairman are set at £75,000 per annum (2017: £75,000) and the fees paid to the independent non-executive directors, or their employers, are set at £24,500 per annum (2017: £24,500). Additional fees paid to the chairmen of the Audit Committee, Remuneration and Human Resources Committee, and Risk Committee were set at £5,000 per annum (2017: £5,000). In addition, business related expenses totalling £27,127 (2017: £25,496) were reimbursed to the independent non-executive directors. The Chairman and the other independent non-executive directors are not entitled to a pension funded by FSCS.

11 Receivables

Trade and other receivables: amounts falling due within one year

	Note	31 March 2018 £'000	31 March 2017 £'000
Amounts due from the FCA	18	2,577	936
Levies receivable, net of provision:			
General Insurance Provision		(1,649)	252
General Insurance Intermediation		6,985	10
Life and Pensions Intermediation		69	530
Investment Provision		4,321	47
Investment Intermediation		2,127	600
Home Finance Intermediation		904	31
FCA retail pool		5,203	22
In respect of base costs		24	38
Net amounts due from levy payers in the following classes:			
Deposits		95,317	294,322
Life and Pensions Intermediation		1,818	–
Investment Intermediation		5,444	–
Recoveries receivable in respect of other defaults	13	4,608	125,826
Recoveries receivable in respect of the 2008/09 banking failures		4,684,338	11,004,340
Other receivables		518	409
Prepayments		5,032	4,792
		4,817,636	**11,432,155**

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

	Note	31 March 2018 £'000	31 March 2017 £'000
Amounts due from levy payers of the Deposits class in respect of Dunfermline Building Society	*15*	–	41,363
Amounts due from levy payers in respect of pension deficit		–	2,682
Recoveries receivable in respect of the 2008/09 banking failures		21,930	4,702,820
Recoveries receivable in respect of other defaults	*13*	18,164	10,106
		40,094	**4,756,971**

Total recoveries receivable in respect of other defaults of £22,772,000 (2017: £135,932,000) includes £2,706,000 (2017: £86,558,000) which FSCS expects to receive from firms declared in default in the General Insurance Provision class, £nil (2017: £5,935,000) from firms declared in default in the General Insurance Intermediation class, and £20,067,000 (2017: £43,439,000) from firms declared in default in the Investment Intermediation class. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable (see Note 13).

Total recoveries receivable of £4,706,268,000 (2017: £15,707,160,000) relate to the 2008/09 banking defaults, of which £4,684,338,000 (2017: £11,004,340,000) is shown within amounts falling due with one year and £21,930,000 (2017: £4,702,820,000) is shown within amounts falling due after more than one year.

The timing and value of recoveries receivable is estimated based on information available to the directors at 31 March 2018, including Insolvency Practitioners' statements of estimated outcome, other reports published as part of the various insolvency processes and legal advice on potential recoveries through litigation; however, the timing and final outcome are uncertain.

The movements in recoveries receivable in the statement of financial position is analysed below:

	Receivable at 31 March 2016 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2017 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2018 £'000
Current recoveries receivable:					
Other defaults	12,892	112,934	125,826	(121,218)	4,608
2008/09 banking failures	23,757	10,980,583	11,004,340	(6,320,002)	4,684,338
Non-current recoveries receivable:					
Other defaults	58,448	(48,342)	10,106	8,058	18,164
2008/09 banking failures	15,685,649	(10,982,829)	4,702,820	(4,680,890)	21,930
	15,780,746	**62,346**	**15,843,092**	**(11,114,051)**	**4,729,040**

On 25 April 2017, £10,976,636,000 of the loan owed to HM Treasury was redeemed using proceeds from the sale of two separate Bradford & Bingley (B&B) asset portfolios to Prudential and funds managed by Blackstone. In November 2017, UK Asset Resolution (UKAR) announced it had launched a further asset sale process, which, subject to market conditions and value for money, will enable the repayment of the remaining £4,677,873,000 of the FSCS loan and in turn HM Treasury.

As at 31 March 2018, B&B owed FSCS £4,677,873,000 (2017: £15,654,509,000) as a result of FSCS's contribution to the cost of resolution. As B&B did not enter into an insolvency process, there is no creditors' committee in which FSCS can participate.

On 26 April 2018, UKAR confirmed that following an open and competitive process it had agreed to sell two separate portfolios of buy to let and residential owner-occupied mortgages to an investor group led by Barclays Bank PLC for a total of £5.3bn. Financial completion took place on 23 May 2018, involving loan repayments of £4.7bn to HM Treasury for the remaining FSCS loan. This means that the £15.65bn of compensation FSCS paid when Bradford & Bingley was nationalised in 2008 has now been repaid in full.

Balances with other government bodies

Amounts falling due within one year	31 March 2018 £'000	31 March 2017 £'000
Balances with other central government bodies	4,677,873	10,976,636
Balances with public corporations	2,577	936
Total intra-government balances	**4,680,450**	**10,977,572**
Balances with bodies external to government	137,186	454,583
Total receivables	**4,817,636**	**11,432,155**

Amounts falling due after more than one year	31 March 2018 £'000	31 March 2017 £'000
Balances with other central government bodies	–	4,677,873
Total intra-government balances	–	**4,677,873**
Balances with bodies external to government	40,094	79,098
Total receivables	**40,094**	**4,756,971**

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

As at 31 March 2018, FSCS had bank facilities of £1,470m, comprising a 364-day sterling revolving credit facility of £1,450m expiring on 19 March 2019, and an overdraft facility of £20m. Any drawdown of the revolving credit facility is subject to Board approval.

	31 March 2018 £'000	31 March 2017 £'000
Cash at bank	206,172	357,462
	206,172	**357,462**
Bank overdraft	(14,313)	(8,888)
	191,859	**348,574**

Cash at bank includes £3,096,000 (2017: £6,105,000) received from Welcome Financial Services Limited, referred to in Note 2(d). This sum is ring-fenced and can only be used to pay costs relating to Welcome.

The recast Deposit Guarantee Schemes Directive requires FSCS to have ex-ante funding of 0.8% of the amount of covered deposits of its members (to be built up by 2024). The Government confirmed its intention to use the existing bank levy to meet this funding requirement. FSCS will access this fund from HM Treasury, through the National Loans Fund or any other appropriate source, for a term and at an interest rate to be agreed at the time. The amount of the borrowing facility available to FSCS is determined by HM Treasury. As at 31 March 2018, this facility was not utilised. Any amounts drawn from this facility will be replenished by means of FSCS levies on the Deposits class in subsequent years.

13 Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2018 £'000	31 March 2017 £'000 (Restated)
Compensation payable		996	592
Net amounts held on behalf of levy payers:			
General Insurance Provision		28,277	47,938
General Insurance Intermediation		14,956	5,001
Life and Pensions Provision		181	181
Life and Pensions Intermediation		–	54,561
Investment Provision		4,617	7,357
Investment Intermediation		–	20,522
Home Finance Intermediation		1,237	4,447
FCA retail pool		5,203	22
Social security and other taxes		442	409
Due to claimants and/or Welcome		3,096	6,105
Accruals		5,608	7,846
Deferred income in respect of base costs		3,702	3,179
Deferred income in respect of Independent Insurance		1,220	2,900
Amounts due to HM Treasury	*18*	–	1,104
Loans	*14*	4,677,873	10,976,636
Net amounts due to levy payers in respect of recoveries receivable	*11*	4,608	125,826
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures		69,188	184,782
Other payables		1,464	2,270
		4,822,668	**11,451,678**

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

	Note	31 March 2018 £'000	31 March 2017 £'000 (Restated)
Amounts due to HM Treasury:			
Loans	*14*	–	4,677,873
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures		21,930	24,946
Net amounts due to levy payers in respect of recoveries receivable	*11*	18,164	10,106
Amounts due to levy payers in respect of pension surplus		2,495	–
		42,589	**4,712,925**

The £3,096,000 (2017: £6,105,000) due to claimants and/or Welcome relates to payments received from Welcome. As explained in Note 2(d), payments from Welcome are only used to pay compensation and other costs relating to Welcome and any excess amount will ultimately be repaid to Welcome.

The £91,118,000 (comprising current amounts due of £69,188,000 and non-current amounts due of £21,930,000) (2017: £209,728,000 (comprising current amounts due of £184,782,000 and non-current amounts due of £24,946,000)) due to levy payers of the Deposits class in respect of the 2008/09 banking failures represents the current fund balance of that class after taking into account the future recoveries FSCS expects to receive from the estates of those firms declared in default (the timing and final outcome are uncertain). Once the final outcome is known and the recoveries have been received, any excess funds will be repayable to the levy payers, by way of a return or a reduction in future years' levy, in accordance with FSCS's funding rules. We have reclassified the comparative by splitting this between current and non-current to reflect the expected timing of recoveries receivable from the 2008/09 banking failures.

Balances with other government bodies

Amounts falling due within one year	31 March 2018 £'000	31 March 2017 £'000 (Restated)
Balances with other central government bodies	4,678,315	10,978,149
Total intra-government balances	**4,678,315**	**10,978,149**
Balances with bodies external to government	144,353	473,529
Total payables	**4,822,668**	**11,451,678**

Amounts falling due after more than one year	31 March 2018 £'000	31 March 2017 £'000 (Restated)
Balances with other central government bodies	–	4,677,873
Total intra-government balances	–	**4,677,873**
Balances with bodies external to government	42,589	35,052
Total payables	**42,589**	**4,712,925**

14 Loans

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

Loans

	Principal outstanding as at 31 March 2017 £'000	Drawdown from (and repayment to) HM Treasury £'000	Recoveries £'000	Compensation payments on behalf of HM Treasury £'000	Principal outstanding as at 31 March 2018 £'000
Loan in respect of:					
Bradford & Bingley plc	15,654,509	–	(10,976,636)	–	4,677,873
	15,654,509	–	**(10,976,636)**	–	**4,677,873**

Loan interest payable

	Principal outstanding as at 31 March 2018 £'000	Interest outstanding as at 31 March 2018 £'000	Interest outstanding as at 31 March 2017 £'000
Loan in respect of:			
Bradford & Bingley plc	4,677,873	99,009	306,388
	4,677,873	**99,009**	**306,388**

The loan interest of £99,009,000 is recoverable from levy payers in the Deposits class by way of a compensation costs levy, and is payable to HM Treasury on 1 October 2018. The loan interest relating to 2016/17 of £306,388,000 was paid to HM Treasury on 1 October 2017.

PRINCIPAL TERMS AND CONDITIONS

As at 31 March 2018, FSCS only had a loan facility agreed with HM Treasury for the Bradford & Bingley (B&B) default. The outstanding principal under this facility is repayable through recoveries from B&B. FSCS and HM Treasury had previously agreed that the period of the loan would reflect the expected timetable to realise assets from B&B.

On 25 April 2017, £10,976,636,000 of the loan owed to HM Treasury was redeemed using proceeds from the sale of two separate B&B asset portfolios to Prudential and funds managed by Blackstone. In November 2017, UK Asset Resolution (UKAR) announced it had launched a further asset sale process, which, subject to market conditions and value for money, will enable the repayment of the remaining £4,677,873,000 of the FSCS liability and in turn HM Treasury.

On 26 April 2018, UKAR confirmed that following an open and competitive process it had agreed to sell two separate portfolios of buy to let and residential owner-occupied mortgages to an investor group led by Barclays Bank PLC for a total of £5.3bn. Financial completion took place on 23 May 2018, involving loan repayments of £4.7bn to HM Treasury for the remaining FSCS loan. This means that the £15.65bn of compensation FSCS paid when Bradford & Bingley was nationalised in 2008 has now been repaid in full.

INTEREST

Under the original terms of the re-financed loans, interest accrued within a financial year (Interest Accrual Period) becomes due and payable six months after the last day of the Interest Accrual Period (being 1 October), and is calculated using 12-month LIBOR plus 100 basis points, adjusted monthly. Following a review of the terms and in light of market conditions, the margin on the rate of interest payable for loans outstanding was increased and is calculated at 12-month LIBOR plus 111 basis points, effective from 1 April 2015. This rate will be subject to a floor equal to HM Treasury's own cost of borrowing as represented by the rate published by the Debt Management Office for borrowing of an equivalent duration. There will be an annual cap on the amount of interest the industry will have to pay through FSCS levies. This cap will be set on the advice of the PRA and takes into account what the deposit-taking sector can afford having regard to other FSCS and regulatory commitments. Any interest charges exceeding the annual cap will be capitalised and repaid from levies on deposit takers.

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

15 Provisions

	As at 31 March 2017 £'000	Change in the year £'000	Utilised in the year £'000	Unwinding of discount £'000	As at 31 March 2018 £'000
Compensation cost	23,283	69,605	(10,301)	–	82,587
Dunfermline	41,363	(20,173)	(21,190)	–	–
Levy provision	–	5,920	–	–	5,920
Other	257	61	–	–	318
Total provisions	**64,903**	**55,413**	**(31,491)**	–	**88,825**
Current	64,646	55,352	(31,491)	–	88,507
Non-current	257	61	–	–	318
	64,903	**55,413**	**(31,491)**	–	**88,825**

COMPENSATION COST PROVISION

The provision for compensation costs of £82,587,000 includes estimates for return of funds, return of premiums and General Insurance claims. This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the amount of these claims, using the best information available to the directors at this time.

Compensation costs include £6,000,000 estimated for Strand Capital Limited and £50,000,000 estimated for Beaufort Asset Clearing Services Limited (BACSL). This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the value of these claims, using the best information available to the directors at this time. For BACSL, this is based on the estimate of the administrator as to how much FSCS may be liable to contribute to investors' losses. There are significant judgements which had to be made in arriving at this estimate and the final outcome could be significantly different.

A provision of £16,263,000 was made for the return of premiums on the failures of Enterprise Insurance Company PLC and Gable Insurance AG. This provision was arrived at using our best estimates from a variety of sources on the likely number of policies FSCS would be paying, multiplied by an average cost per policy based on historical trends. There are significant judgements which had to be made in arriving at this estimate and the final outcome could be significantly different.

Compensation costs include an amount of £10,200,000 for other general insurance claims. This is an estimate of unpaid compensation claims that were accepted on or before 31 March 2018. The provision has been derived by multiplying expected future payments by a percentage of claims we expect to relate to the current reporting period. This is based on our knowledge of the likely timing between when run-off agents receive acceptance of offers and when FSCS is notified. There are significant judgements which had to be made in arriving at this estimate because FSCS does not hold all the information pertaining to general insurance claims and the final outcome could be significantly different.

LEVY PROVISION

A number of firms applied for a reduction in the amount levied and requests for refunds were received from levy payers due to errors in the tariff data submitted by them to the FCA. Based on the best information available to the directors, a provision of £5,920,000 (2017: £nil) has been made in the accounts for credit notes to be raised.

DUNFERMLINE BUILDING SOCIETY

Following the failure of Dunfermline Building Society (DBS) in March 2009, FSCS had a liability to contribute to the net cost of resolution by making payment to HM Treasury. The amount due was calculated based on the actual outcome of the resolution and a notional outcome (based on a valuation of what may have happened had FSCS made payments directly to eligible claimants). In both cases, the amount due takes account of interest and is net of recoveries. FSCS has previously made payments on account to HM Treasury totalling £500,000,000, which are taken into account in determining the final amount due. On 26 March 2018, HM Treasury wrote to FSCS with a determination of the final balance due, being £21,190,000. FSCS paid this amount on 29 March 2018, thereby discharging in full its liabilities to HM Treasury for the DBS resolution. As at 31 March 2017, FSCS had made a provision of £41,363,000 for future amounts payable for the DBS resolution.

16 Financial risk management

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

LIQUIDITY RISK

Liquidity risk is the risk that FSCS is unable to meet its payment obligations associated with its financial liabilities as they fall due. FSCS manages its liquidity by carefully monitoring the projected income and expenditure related to its day-to-day business. Each month, FSCS identifies liquidity up to the point when it next expects to levy the majority of fees. FSCS also has available to it, for liquidity purposes, £1,470m of facilities, comprising a 364-day sterling revolving credit facility of £1,450m expiring on 19 March 2019 and an overdraft facility of £20m at a fixed margin above bank rate. Any usage of the revolving credit facility would be subject to Board approval.

In the event that FSCS is unable to raise sufficient levies and the facilities mentioned above do not provide adequate funds, FSCS would request a loan from HM Treasury.

INTEREST RATE RISK

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

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

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

As at 31 March 2018	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	4,677,873	–	–	–	4,677,873
Trade and other payables	–	7,513	137,281	18,164	–	162,958
Loan interest payable	–	–	99,009	16,471	–	115,480
	–	**4,685,386**	**236,291**	**34,635**	–	**4,956,312**

As at 31 March 2017	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	10,976,636	–	4,677,873	–	15,654,509
Trade and other payables	–	10,524	464,517	35,052	–	510,093
Loan interest payable	–	–	306,388	160,259	–	466,647
	–	**10,987,160**	**770,905**	**4,873,184**	–	**16,631,249**

CREDIT RISK

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with FSCS, resulting in a financial loss to FSCS. FSCS's principal financial assets are cash and cash equivalents, together with levies and recoveries receivables.

FSCS's credit risk falls into three main categories:

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

ii. the placement of those levies as deposits with various counterparties: FSCS only invests with those financial institutions that meet its minimum credit rating as assigned by credit rating agencies; and

iii. recoveries receivable from claims against institutions where FSCS has paid compensation (most often made through an insolvency process).

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

FSCS considers its most significant credit risk to be the exposure to B&B failing to meet its obligations. However, on 26 April 2018, UKAR confirmed that following an open and competitive process it had agreed to sell two separate portfolios of buy to let and residential owner-occupied mortgages to an investor group led by Barclays Bank PLC for a total of £5.3bn. Financial completion took place on 23 May 2018, involving loan repayments of £4.7bn to HM Treasury for the remaining FSCS loan. This means that the £15.65bn of compensation FSCS paid when Bradford & Bingley was nationalised in 2008 has now been repaid in full.

CURRENCY RISK

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

FAIR VALUES

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

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

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

	Carrying amount		Fair values	
	As at 31 March 2018 £'000	As at 31 March 2017 £'000	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Financial assets				
Recoveries receivable in respect of the 2008/09 banking failures	4,706,268	15,707,159	4,692,588	15,618,314
Financial liabilities				
Loans	4,677,873	15,654,510	4,688,408	15,663,856

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

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

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

	31 March 2018 £'000	31 March 2017 £'000
Surplus on ordinary activities before interest and tax	95,496	306,369
Depreciation	248	282
Loss on disposal	–	–
Decrease/(increase) in receivables	11,331,397	(11,477)
Increase/(decrease) in payables	(322,712)	38,933
Difference between pension charge and cash contributions	(1,664)	(1,791)
Increase/(decrease) in provisions for liabilities and charges	23,922	16,606
Net cash inflow from operating activities	**11,126,687**	**348,922**

18 Transactions with related parties

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

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £536,663,000 (2017: £730,165,000), including £202,002,000 raised as a levy for the interest on the loans relating to the 2008/09 banking failures, during July 2017, and £20,204,000 raised as a supplementary levy during February 2018. Collections of £520,208,000 (2017: £731,555,000) were received from levy payers. The fee for the agency service was £378,000 (2017: £402,000).

Overall, payments of £518,567,000 (2017: £731,783,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2018 of £2,577,000 (2017: £936,000).

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

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

All loan drawdowns, repayments and interest fees in the year as well as the balance owed at year-end are disclosed in Note 14.

At 31 March 2018, FSCS owed HM Treasury £nil (2017: £1,104,000) due to loans drawn down in advance of compensation payments of £nil (2017: £1,104,000) and £nil (2017: £nil) relating to the HM Treasury share of dividends declared or received from insolvent estates (see Note 13).

As at 31 March 2017, FSCS had made a provision of £41,363,000 for amounts owed to HM Treasury as a result of FSCS's obligation under the Special Resolution Regime to contribute to the net costs of resolution of Dunfermline Building Society (DBS). On 26 March 2018, HM Treasury wrote to FSCS with a determination of the final balance due, being £21,189,502. FSCS paid this amount on 29 March 2018, thereby discharging in full its liabilities to HM Treasury for the DBS resolution.

19 Contingent liabilities

COMPENSATION COST

As at 31 March 2018 and 31 March 2017, compensation payments may become due as a result of claims made to us by customers of authorised financial services firms which have failed. To qualify for compensation customers must be eligible under our rules. These rules are outlined in the FCA Handbook and in the PRA Rulebook on Depositor Protection and Policyholder Protection. FSCS can only pay compensation for financial loss and there are limits to the amounts of compensation FSCS pays. There is significant uncertainty around the number of claims we will receive from customers, the likelihood of eligible claims, the type or product of those claims, the amount of compensation we will pay, and the timing of those payments. Therefore, it is not practicable to provide an estimate of the costs of potential claims we may receive or claims we have received but not yet decided.

FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost effective to pursue which will offset some of the compensation it will pay out.

There are no other material contingent liabilities identified at the reporting date.

20 Retirement benefits

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

MONEY PURCHASE SCHEME

The non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001. FSCS makes contributions of 6%, with incremental increases of 2% after two years' service, and a further 2% after five years. Employees may make voluntary contributions, to which up to a further 5% will be matched by FSCS.

Amounts paid by FSCS into the money purchase scheme amounted to £1,375,000, and £110,000 was outstanding to be paid at 31 March 2018 (2017: £1,396,000 and £110,000 respectively).

DEFINED BENEFIT PENSION SCHEME WITH MONEY PURCHASE UNDERPIN (HYBRID PENSION SCHEME)

FSCS operates a funded scheme with defined benefits payable that are underpinned by the value of notional money purchase units allocated to members in respect of service prior to 1 April 2002. Assets are held in separate Trustee-administered funds. An actuarial valuation of the Pension Scheme was carried out as at 1 April 2015. The valuation used the projected unit method and was carried out by Conduent HR Services (the trading name in the UK for Buck Consultants Limited), professionally qualified actuaries.

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

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

	31 March 2018 % (p.a.)	31 March 2017 % (p.a.)
Discount rate	2.60	2.70
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.00	3.20
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	1.95	2.10
RPI inflation assumption	3.10	3.35
CPI inflation assumption	2.10	2.35

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: 105% S2PMA light for males and 78% S2PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2017, with a 1.50% per annum long-term trend rate for males and 1.25% per annum long-term trend rate for females from 2008 onwards, allowing for individual members' year of birth.

For the 31 March 2018 disclosures, 75% of members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum using the cash commutation factors in place as at 31 March 2018. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2018 disclosures, 80% of male and 75% of female members are assumed to have eligible adult dependents of the opposite sex, with males assumed to be three years older than females.

The assumptions were chosen by FSCS, with professional advice.

At 31 March 2018, the Pension Scheme's assets were invested in a diversified portfolio that consisted primarily of equities.

The fair value of the Pension Scheme's assets are set out below:

As at 31 March 2018	Quoted £'000	Unquoted £'000	Total £'000
Global equities	18,914	–	18,914
Property	–	2,151	2,151
Indexed-linked gilts	4,519	–	4,519
UK corporate bonds	2,601	–	2,601
Hedge funds	–	–	–
Diversified growth funds	–	3,383	3,383
Cash and net current assets	973	-	973
Total assets	**27,007**	**5,534**	**32,541**

As at 31 March 2017	Quoted £'000	Unquoted £'000	Total £'000
Global equities	17,398	–	17,398
Property	–	1,953	1,953
Indexed-linked gilts	4,503	–	4,503
UK corporate bonds	2,582	–	2,582
Hedge funds	–	21	21
Diversified growth funds	–	3,229	3,229
Cash and net current assets	619	–	619
Total assets	**25,102**	**5,203**	**30,305**

The assets as at 31 March 2018 are consistent with the Pension Scheme's investment strategy as set by the Trustees. As the Pension Scheme matures, it is intended to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. This involves an asset liability management framework that has been developed to achieve long-term investments that are in line with the obligations under the Pension Scheme. Within this framework, the objective is to match assets to the pension obligations by investing in long-term fixed interest and index-linked securities with maturities that match the benefit payments as they fall due and in the appropriate currency. FSCS actively monitors the duration and the expected yield of the investments that are matching the expected cash flows arising from the pension obligations.

The Pension Scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor.

The amounts recognised in the statement of financial position are as follows:

	31 March 2018 £'000	31 March 2017 £'000
Fair value of assets	32,541	30,305
Present value of obligations	(30,046)	(32,987)
Funded status	**2,495**	**(2,682)**
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling')	–	–
Net defined benefit asset/(obligation)	**2,495**	**(2,682)**

Movement in net defined benefit asset/(obligation) over the year	31 March 2018 £'000	31 March 2017 £'000
Net defined benefit asset/(obligation) at beginning of the year	(2,682)	(4,350)
Employer contributions	1,920	2,229
Expense recognised in income statement	(256)	(438)
Remeasurement gain/(loss) recognised in other comprehensive income	3,513	(123)
Net defined benefit asset/(obligation) at end of the year	2,495	(2,682)

Changes in present value of the defined benefit obligation	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Opening defined benefit obligation	32,987	27,679
Interest cost	871	895
Distributions	(1,469)	(1,139)
Experience (gains)/losses	–	–
Losses (gains) on curtailments	–	–
Actuarial (gains)/losses	(2,343)	5,552
Closing defined benefit obligation	**30,046**	**32,987**

SENSITIVITY ANALYSIS OF THE PENSION SCHEME LIABILITIES

The sensitivity of the principal assumptions used to measure the Pension Scheme liabilities is set out below:

	Change in assumption	Impact on Scheme liabilities £'000
No change to the assumptions		30,046
Discount rate reduced by	0.25%	32,216
Discount rate increased by	0.25%	28,049
Inflation and associated pension increases increased by	0.25%	32,008
Inflation and associated pension increases reduced by	0.25%	28,201
Life expectancy increased by	1 year	31,158

DESCRIPTION OF RISKS TO WHICH THE PENSION SCHEME EXPOSES FSCS

If the Pension Scheme assets do not move in line with Pension Scheme liabilities, then a deficit may arise. As the Pension Scheme matures, FSCS intends to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). Increases in life expectancy will increase pension scheme liabilities. The inflation-linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

Changes in fair value of the Pension Scheme assets	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Opening fair value of assets	30,305	23,329
Contributions paid by employer	1,920	2,229
Interest income	822	782
Return on Scheme assets excluding interest income	1,170	5,429
Distributions	(1,469)	(1,139)
Administration expenses	(207)	(325)
Closing fair value of assets	**32,541**	**30,305**

Expenses recognised in the income statement	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Administration expenses	207	325
Net interest on the net defined benefit obligation/(asset)	49	113
Total expense/(income)	**256**	**438**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Return on Pension Scheme assets excluding interest income	1,170	5,429
Experience (losses) arising on the Pension Scheme liabilities	–	–
Changes in financial assumptions underlying the present value of the Pension Scheme liabilities	1,175	(5,863)
Changes in demographic assumptions underlying the present value of the Pension Scheme liabilities	1,168	311
Adjustment in accordance with paragraph 64 of IAS 19 (the 'asset ceiling') in excess of interest	–	–
Net actuarial losses recognised in the period	**3,513**	**(123)**

	£'000
Best estimate of employer contributions to be paid over following year	1,920

Expected future benefit payments

Year ending 31 March 2019	239
Year ending 31 March 2020	242
Year ending 31 March 2021	295
Year ending 31 March 2022	535
Year ending 31 March 2023	393
Five years ending 31 March 2028	3,613

As required by IAS 19, the projected unit method has been used to determine the liabilities.

FSCS has agreed with the Trustees that the funding objective is to aim to ensure the Pension Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the Scheme Specific Funding regulations (the pension scheme operates under the Pensions Act 2004 regulatory framework).

The valuation of the Pension Scheme's liabilities for accounting purposes has been carried out at a different date from when the Pension Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions. Therefore, the figures quoted in this note are different from those disclosed in the last actuarial valuation report as would usually be expected. The figures set out in this note are calculated according to the requirements of IAS 19. Separate calculations will be carried out for the Trustees and possibly the sponsor, to monitor and control the funding of the Pension Scheme using assumptions selected by the Trustees.

FSCS estimates the duration of the Pension Scheme liabilities on average to fall due around 25 years.

21 Other disclosures

HM Treasury has issued an Accounts Direction requiring FSCS to disclose the following information:

SICKNESS ABSENCE

FSCS actively promotes the health, safety and well-being of its staff, aware this helps to boost morale, staff engagement and, in turn, excellent performance. The average number of working days lost to sickness absence during the year to 31 March 2018 was 4.9 days per person (2017: 4.0 days per person).

EXIT PACKAGES

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

Exit package cost band	Number of compulsory redundancies Year ended 31 March 2018	Number of other departures agreed Year ended 31 March 2018	Total number of exit packages by cost band Year ended 31 March 2018	Number of compulsory redundancies Year ended 31 March 2017	Number of other departures agreed Year ended 31 March 2017	Total number of exit packages by cost band Year ended 31 March 2017
<= £10,000	5	–	5	–	–	–
£10,001–£25,000	5	3	8	2	1	3
£25,001–£50,000	8	–	8	3	1	4
£50,001–£100,000	4	1	5	1	2	3
£100,001–£150,000	–	–	–	–	–	–
£150,001–£200,000	–	–	–	–	1	1
Over £200,001	–	–	–	–	–	–
Total number of exit packages by type	**22**	**4**	**26**	**6**	**5**	**11**
Total resource cost (£'000)	**662**	**111**	**773**	**266**	**336**	**602**

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

SPECIAL SEVERANCE PAYMENTS

There was one special severance payment paid out during the year to 31 March 2018 totalling, £52,500 (2017: no special severance payments paid).

LOSSES AND SPECIAL PAYMENTS

Total losses and special payments were £401,588 during the year to 31 March 2018. There were no individual losses or special payments exceeding £300,000.

By phone on:

0800 678 1100 or

020 7741 4100

Lines are open from
8.30am to 5.30pm
(Monday to Friday
excluding public holidays)

By post to:

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

Online enquiry form

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