Financial Services Compensation Scheme
Annual Report and Class Statements
2016/17

Financial Services Compensation Scheme

Annual Report and Class Statements

2016/17

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HC 218-ii part ii of ii

The Financial Services Compensation Scheme Annual Report and Accounts (part i) provides details on overall performance and much more. It was also presented to the House of Commons on 12 July 2017

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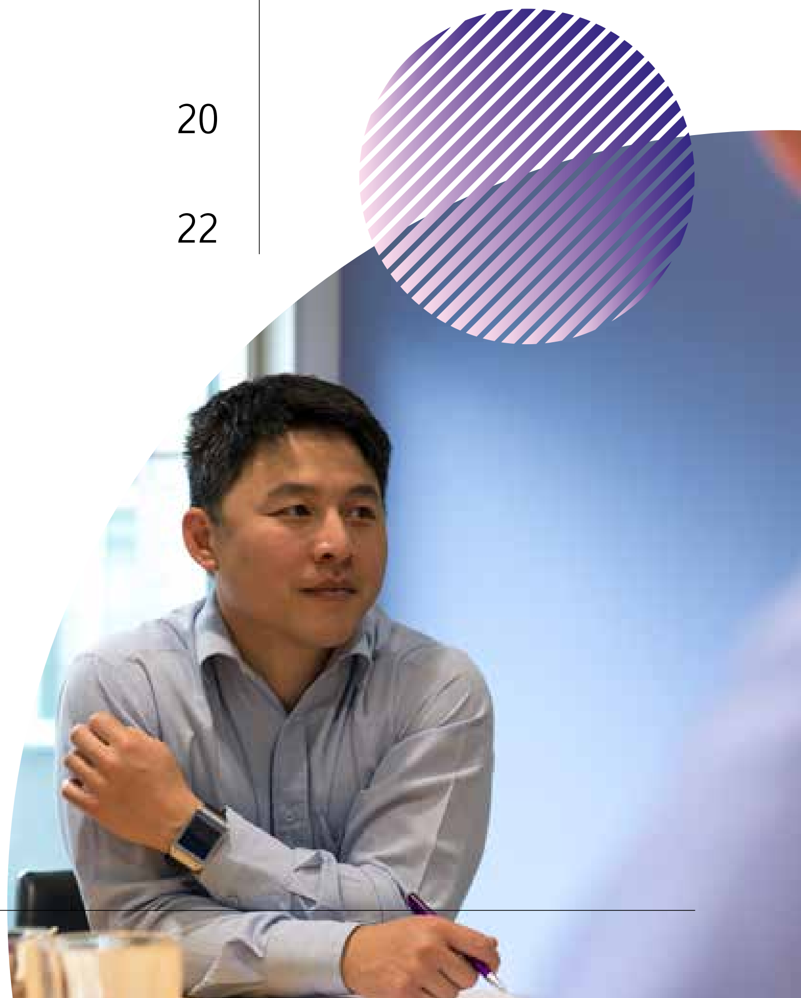


Section 01

CHAIRMAN'S STATEMENT

How the Financial Services Compensation Scheme (FSCS) has risen to challenges and met unexpected costs in the year

This year, for the first time, FSCS as Scheme Manager is publishing the Class Statements setting out our compensation costs, recoveries and levies – separately from our Annual Report and Accounts. I hope that our levy payers will regard this as a useful addition to the transparency we aim for.

In essence, these Class Statements capture FSCS's cash flows across the year. Because we are funded on a pay-as-you-go basis, and meet compensation costs as they arise, it is these cash flows which matter to our levy payers and determine our levies.

So here you will find, in one place, a comprehensive overview of what compensation costs FSCS expected to meet in 2016/17, the recoveries we forecast to achieve, and the levies we raised, together with a clear statement of how things turned out in practice across the year. This is in contrast to the statutory financial statements published in the Annual Report and Accounts and prepared under International Financial Reporting Standards as adopted by the European Union.

As Mark Neale explains in his introduction, 2016/17 – perhaps more than any other year since the financial crisis – threw up unexpected challenges and opportunities. We had to raise supplementary levies on three classes, and the first levy on the retail pool, to meet higher than expected compensation costs, but we were also able to make a substantial return of funds to investment advisers.

We recognise that the volatility of our levies is difficult for firms to manage. It is one of the issues under consideration as part of the Financial Conduct Authority's wider review of FSCS's funding. These statements will, I hope, give an insight into how and why this volatility can arise, as well as setting out the year's cash flows in one place.

Lawrence Churchill
Chairman, Financial Services Compensation Scheme

4 July 2017

Section 02

CHIEF EXECUTIVE'S STATEMENT

Welcome to the first Annual Report of the Class Statements

Introduction

The Class Statements in this document set out for 2016/17 the source and application of levies and recoveries received by class so that levy payers can trace claims, recoveries and levies from the beginning of the financial year in April 2016 to the year-end position at 31 March 2017. This is in line with our statutory duty to publish an Annual Report and Class Statements for levy payers. Previously, we have included the Class Statements in the Annual Report and Accounts but we recognised that this can make it hard for levy payers to track the Scheme's cash balances across levy classes. We hope this assists stakeholders in understanding the impact on levies for 2016/17.

Overview of the year

FSCS's responsibility to protect consumers and to support financial stability depends on our ability to respond to financial firms' failures whenever they occur.

2016/17 illustrated once again the volatility of our classes and the variety and unpredictability of our workload.

In January, for the first time, we raised a levy on the retail pool (to fund Self-Invested Personal Pension [SIPP] related claims) as well as supplementary levies on General Insurers, Life and Pensions Intermediaries and Home Finance Intermediaries, and a refund to the Investment Intermediation class. Although levies in 2016/17 were not impacted, we funded successful recovery actions against Payment Protection Insurance lenders and the year concluded with the announcement of the sale of the Bradford & Bingley mortgage assets which has repaid £11bn of the £15.65bn debt to FSCS.

Compensation costs

A total compensation cost of £375m was in line with prior years. Notably, it included costs of £52m relating to protection of UK policyholders of two overseas insurance companies, Enterprise Insurance Company PLC and Gable Insurance AG, which were unforeseen at the beginning of the year.

In total, we paid 42,983 claims (including deposits) to our customers. We compensated 3,200 customers who had been wrongly advised to move their retirement savings out of occupational pension schemes and into risky assets held within SIPPs. The cost of these SIPP-related claims in 2016/17 was £105m, £10m higher than expected – which required a supplementary levy on both the class and the retail pool. We resolved three credit union failures in this way in 2016/17, paying the claims of 8,647 depositors.

Levies

The total levy raised during the year was £738m compared with £1,088m in 2015/16.

The increases in SIPP-related and Home Finance Intermediation claims and the unexpected General Insurance failures gave rise to three supplementary levies being raised in January, totalling £114m, including the levy on the retail pool. But the levy on deposit takers to meet the costs from the legacy failures of 2008/09 fell from £750m to £337m and we made a refund of £50m to the Investment Intermediaries class.

As always, we welcome feedback from our levy payers – so please let us have any views on these Class Statements and how we can improve transparency further in future.

Mark Neale
Chief Executive, Financial Services Compensation Scheme

4 July 2017

£375m

A total compensation cost of £375m was in line with prior years

£738m

The total levy raised during the year was £738m

£52m

Compensation costs of £52m for the protection of UK policyholders

£105m

The cost of SIPP-related claims in 2016/17 was £105m

Section 03

ANNUAL LEVY – 2016/17 IN SUMMARY

Movements in levies across all classes of activity

In April 2016, we announced a levy of £337m for 2016/17, £26m less than forecast in our 2016/17 Plan and Budget, published in January 2016, which did not allow for any unforeseen and sizeable failures. The levy for 2015/16 was £319m.

In addition, we raised a levy on the banks, building societies and credit unions to recover the interest costs of £337m on our HM Treasury loan for the Bradford & Bingley resolution.

The levies reflected the compensation costs we expected to incur in 2016/17 (and associated management expenses) offset by forecast recoveries and any surplus balances remaining at the end of 2015/16. The levies were raised in the summer of 2016 for the following 12 months (as the levy year is from 1 July to 30 June).

Our levies in the recent past have been uncertain and this year was more volatile than usual. In January 2017, we raised three supplementary levies on life and pension advisers, general insurers and mortgage advisers to meet unforeseen compensation costs.

The supplementary levies on General Insurance provision raised £63m to compensate policyholders of Enterprise Insurance Company PLC and Gable Insurance AG. The additional levy of £36m on Life and Pensions Intermediation class (which triggered the retail pool) funded compensation for the high numbers of SIPP-related claims associated with advice to switch pension funds into high-risk investments. The third supplementary levy of £15m is to fund an expected deficit in Home Finance Intermediation largely due to the failure of one particular firm that gave bad advice to engage in risky property investments, alongside mortgage advice.

At the same time as we raised supplementary levies, we refunded £50m to Investment Intermediaries as claim volumes were lower than forecast.

Section 4 contains more information on compensation costs in 2016/17.

The levy for management expenses in 2016/17 totalled £67.4m. Section 7 explains how the management expenses budget for the year was deployed.

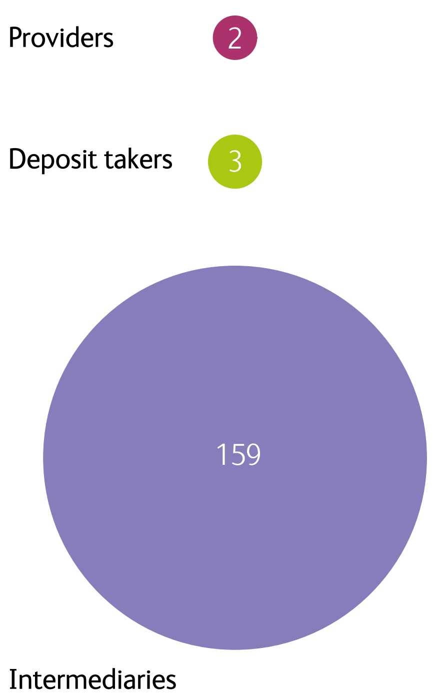
Funding classes	2016/17 Annual levy	2016/17 Major banking failure levy	2016/17 Supplementary levy	Total
	£m	£m	£m	£m
Deposits (SA01)	24	337		361
General Insurance Provision (SB01)	91		63	154
General Insurance Intermediation (SB02)	8			8
Life and Pensions Provision (SC01)	–			–
Life and Pensions Intermediation (SC02)	90		36[1]	126
Investment Provision (SD01)	2			2
Investment Intermediation (SD02)	94		(50)	44
Home Finance Intermediation (SE02)	6		15	21
Base costs	22			22
	337	**337**	**64**	**738**

1. £26m of the supplementary levy for this class was funded by the retail pool.

Section 04

COMPENSATION COSTS

Failures in the year



Compensation costs rose as a result of more firm failures, particularly in General Insurance, Life and Pensions and Home Finance Intermediation

Failures in the year

During the year, there was an increase in the number of failed firms, leading to higher numbers of claims handled and more compensation being paid to eligible customers than in 2015/16.

There were a number of high profile failures during the year. Enterprise Insurance Company PLC, domiciled in Gibraltar, failed on 28 July 2016; within a few months, Gable Insurance AG, an insurer based in Liechtenstein, failed on 17 November 2016, each testing our capacity to handle unexpected and material failures and a wide range of general insurance compensation claims.

Enterprise was the largest failure in the year and at the time of failure had in excess of one million UK customers.

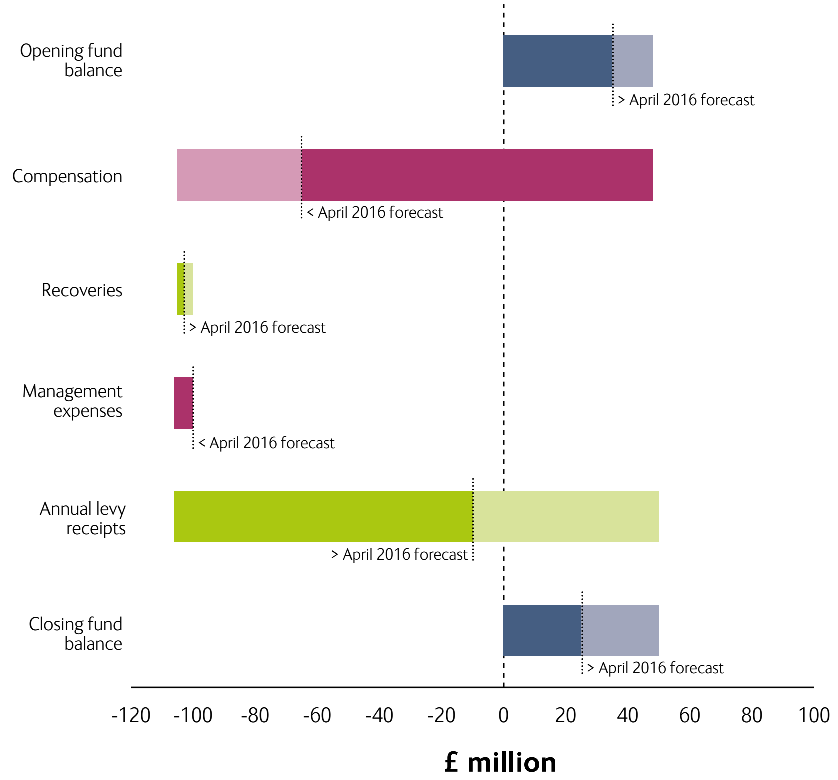
Compensation payments

Overview

During the year, total compensation costs were £375m (2015/16: £271m).

This rise in compensation payments largely reflected a big increase in general insurance claims following the failures of Enterprise and Gable. These claims, including entitlement to return of premium, leapt to nearly 740,000 (just under 14,000 in 2015/16). FSCS paid compensation in relation to nearly 160,000 insurance claims in 2016/17.

2016/17 Levy – General Insurance Provision (SB01)



General insurance apart, FSCS received almost 29,000 claims in 2016/17 (just under 33,000 in 2015/16). We received 16,801 claims directly from customers and 11,940 claims from representatives.

We accelerated our decision making on claims. This reduced overdue claims and, by the end of the year, 96 per cent of all claims had been determined within our target. We were able to achieve this by working with our outsource partners to realise the benefits of our shared claims platform introduced last year.

General Insurance Provision

The cash flows in the General Insurance Provision class are illustrated above. Compensation costs for the year increased by £53m against the levy announced in April 2016. This was attributable to the failures of Enterprise and Gable. The unforeseen compensation costs meant that a supplementary levy of £63m was raised in January 2017. The balance of £48m at 31 March 2017 will be used to fund the compensation costs for the remainder of the levy year to 30 June 2017.

Enterprise Insurance Company

Enterprise was permitted to write all types of general insurance in the UK but had mainly issued motor, extended-warranty insurance and certain niche policies. At the point of insolvency, 12,500 claims on motor insurance policies were outstanding.

To date, FSCS has paid over £41m in compensation to Enterprise policyholders, with £21m paid on motor claims for own damage and third party loss. For return of premium, we have paid 66,561 claims at a cost of £13m – an average of £195 per claim – working directly with more than 20 insurance brokers.

FSCS will continue paying indemnity claims over the next 18 months to three years. A few very high-value claims will still be live beyond 2020. We estimate that the indemnity claims will cost around £70m once the run-off of claims concludes.

We expect to conclude payments for return of premium claims over the coming months. These may reach more than 500,000 claims at a probable cost of £35m – an average of £70 per claim.

In total, compensation costs for Enterprise could amount to £105m.

Gable Insurance

Gable was permitted to write certain types of general insurance in the UK such as motor, property and a broad range of commercial insurance policies. It had about 50,000 UK policyholders.

As of 31 March, we have protected 21,415 policyholders by returning their premiums at a cost of £6.5m – an average of £304 per claim. We have also paid out £2.3m on 370 indemnity claims.

We expect the run-off of indemnity claims for Gable to take longer than Enterprise, as many employers' liability claims are outstanding. We expect most of these to be settled this year, but there will still be claims to manage beyond 2020.

In total, compensation costs for Gable may be around £70m.

Investment Provision

The compensation costs for the year were £7m greater than expected, due to the costs of two Self-Invested Personal Pension (SIPP) provider failures being in excess of forecast. A supplementary levy was not required as unforeseen costs were met from the fund balance of £14m at the beginning of the year.

Intermediation classes

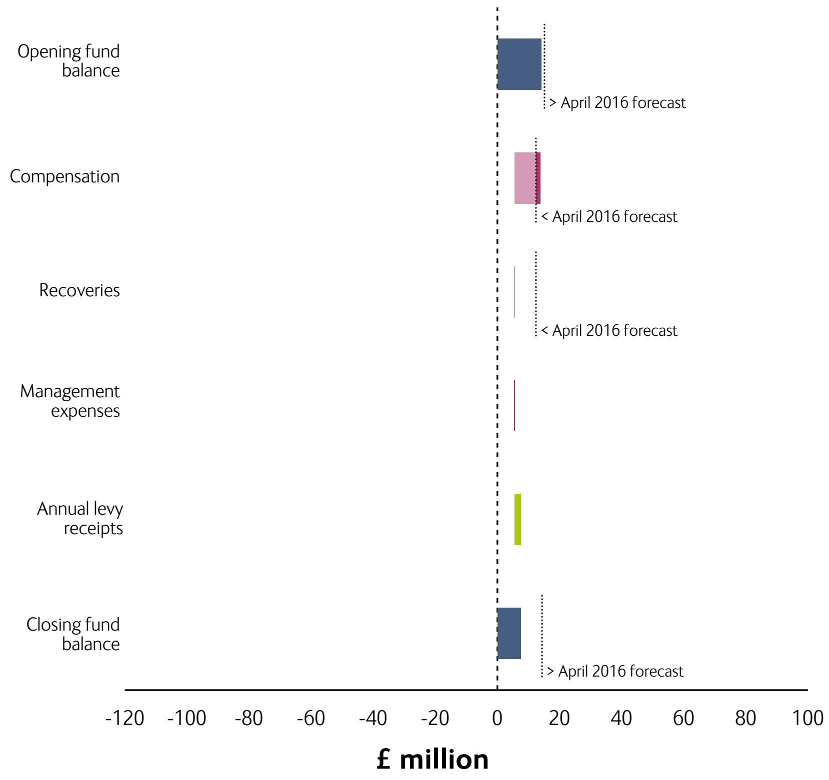
Over the past year, we continued to receive a high number of both SIPP-related and Payment Protection Insurance (PPI) compensation claims. We also had an increase in Home Finance Intermediation claims.

General Insurance – PPI claims

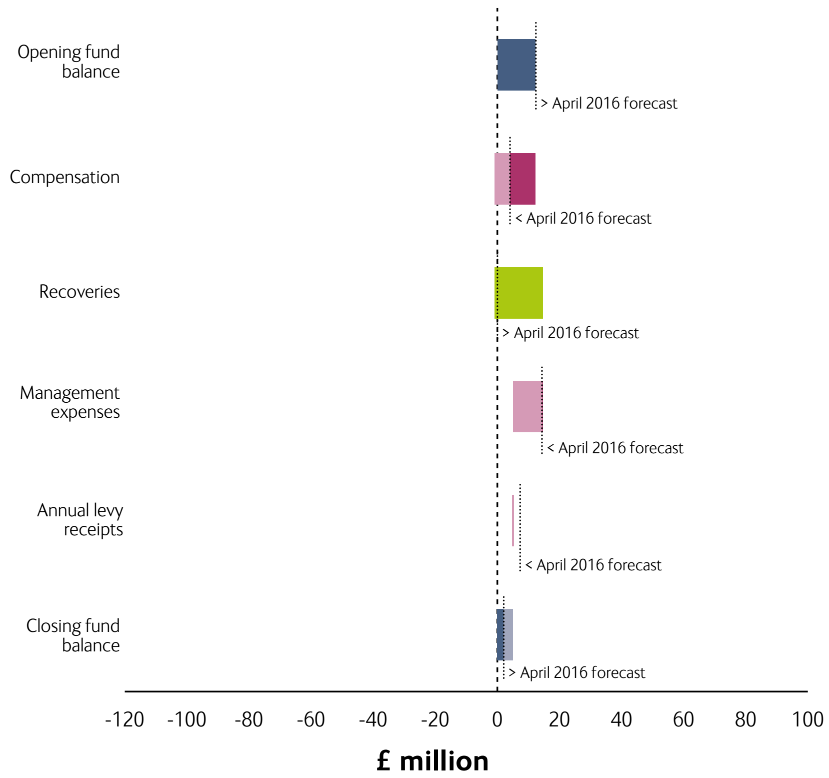
We received 7,624 PPI claims during the year, a decrease of 1 per cent on 2015/16; 73 per cent of our PPI claims came from claims management companies (CMCs). The fund movements in the General Insurance Intermediation class are illustrated right.

This illustration includes fund movements relating to the Welcome Financial Services (Welcome) failure

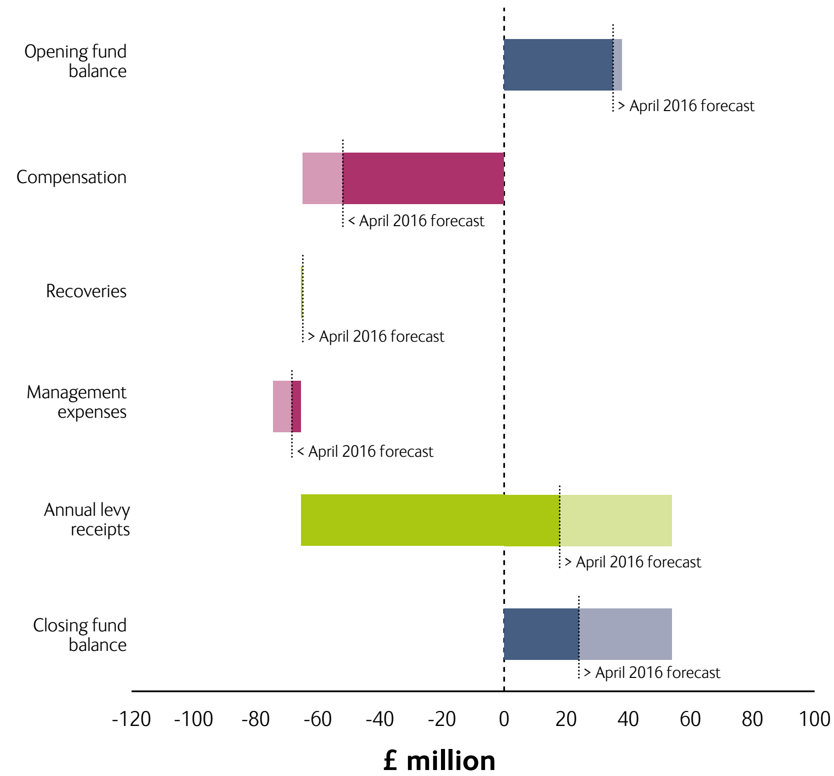
2016/17 Levy – Investment Provision (SD01)



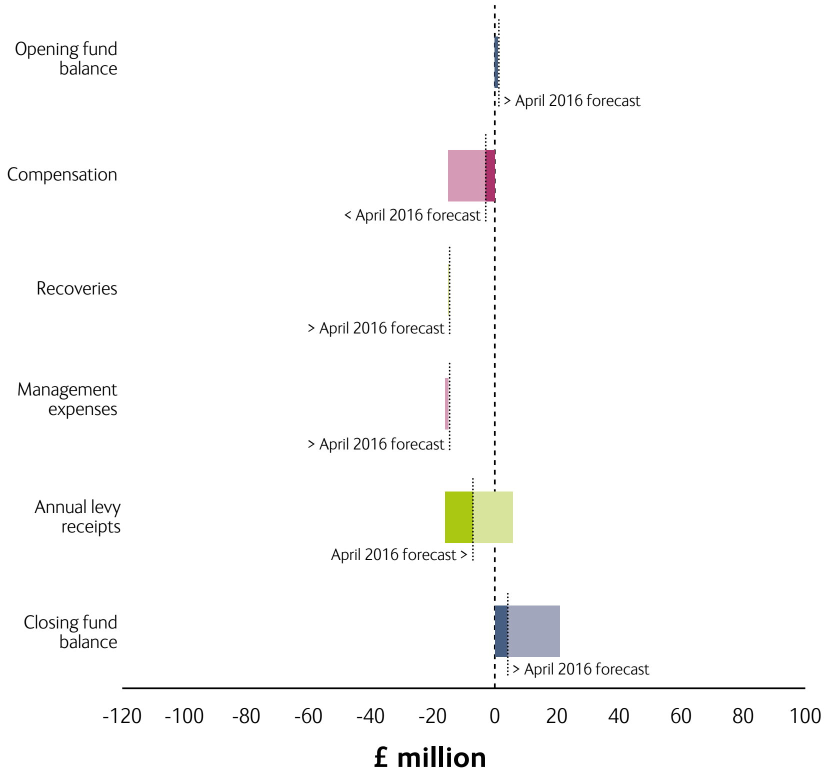
2016/17 Levy – General Insurance Intermediation (SB02)



2016/17 Levy – Life & Pensions Intermediation (SC02)



2016/17 Levy – Home Finance Intermediation (SE02)



in 2011. Cash flows associated with Welcome are compensation costs of £2m and management expenses of £0.4m, offset in full by recoveries. These movements were not met by levy payers and so are excluded from levy figures. Aside from Welcome, compensation costs were £2.5m higher than originally forecast. However, these unforeseen costs were funded by the surplus of £12m at the beginning of the year. Levy receipts are less than forecast, due to £8.2m being transferred from the class to the Life and Pensions class to fund the contribution towards the retail pool.

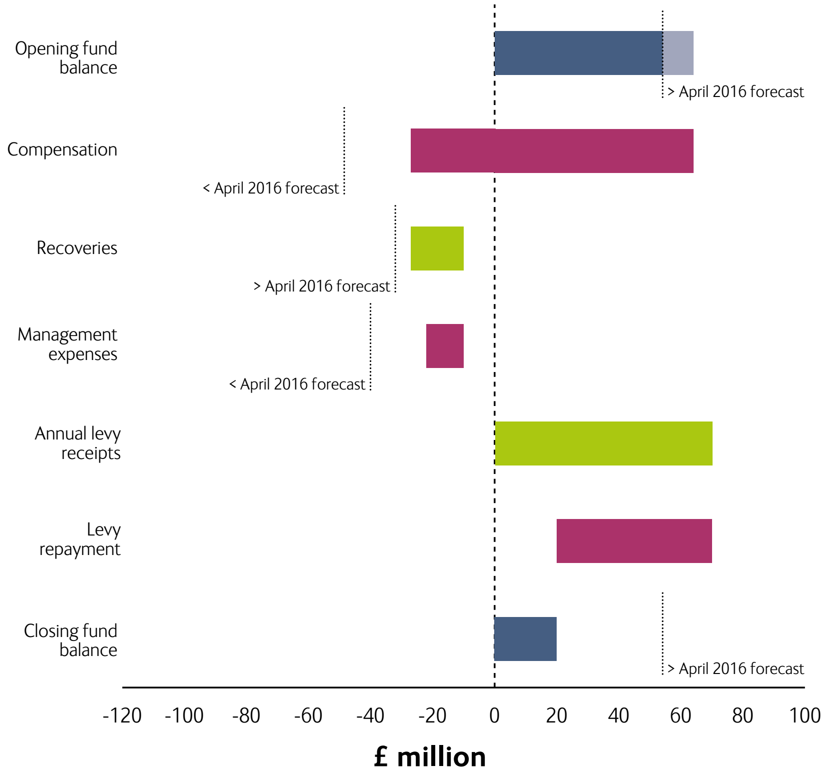
Life and Pensions – SIPP-related claims

We continued to receive a high number of SIPP-related claims.

SIPP-related claims typically involve advice given by financial advisers to move pension savings out of existing occupational pension arrangements and invest in other investments within SIPP wrappers. These investments are often high risk and unsuitable for most investors. Their riskiness means some investments inevitably fail and become illiquid. This trend began two years ago and has continued this year, with claims against an increasing number of failed life and pensions advisers. Over the past year, FSCS has paid compensation of £105m for SIPP-related claims, as compared with £78m in the previous year – an increase of 35 per cent.

The fund movements in the Life and Pensions Intermediation class are illustrated above left. The increase in volume of SIPP-related claims resulted in increased compensation costs and a supplementary levy to the class annual limit of £100m, and a retail pool contribution of £26m.

2016/17 Levy – Investment Intermediation (SD02)



> Overall, the cost of claims was less than forecast and allowed a repayment of £50m to levy payers.

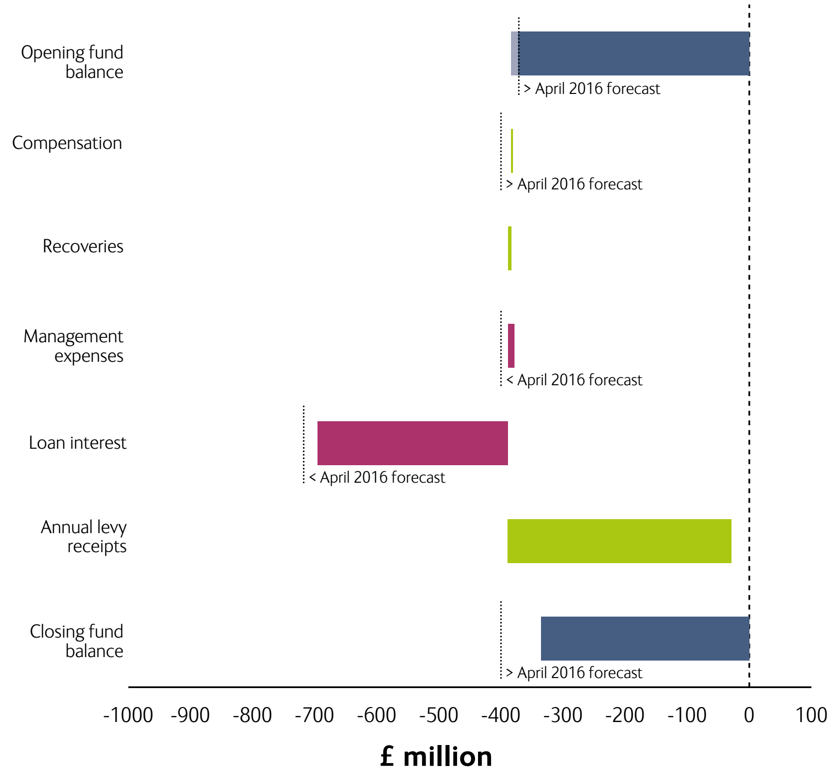
Home Finance – mortgage advice
Over the past year, we have seen a notable increase in compensation claims against mortgage brokers following the Emptage case. Ms Emptage was advised to borrow money secured against her residential property in order to purchase an 'off plan' property in Spain. A Court of Appeal ruling concluded that redress payable for losses caused by the regulated mortgage advice included losses arising from (unregulated) property investment.

The vast majority of claims in this category relate to a specific firm, Fuel Investments Limited, which had around 750 customers. FSCS began to receive claims against this company in early 2015 and declared the firm in default in October 2015. To date, the majority of these claims have been eligible.

The failure of Fuel Investments led to the compensation costs in this class being £11m greater than the levy forecast. Consequently, a supplementary levy of £15m was raised in January to fund the unforeseen compensation costs for the remainder of the levy year to 30 June 2017. These movements are illustrated on page 13.

Investments
As in previous years, FSCS continued to see a large number of Investment Intermediation claims against independent financial advisers in relation to negligent advice to invest in unsuitable pooled investments. However, this year we have not seen any firms placed into the Special Administration Regime, which has triggered large numbers of claims in

2016/17 Levy – Deposits (SA01)



previous years. Overall, the cost of claims was less than forecast and allowed a repayment of £50m to levy payers in January. The fund balance of £20m at the end of the financial year will be used to meet compensation costs in the remainder of the levy year to 30 June 2017.

Deposits

FSCS compensates depositors when a bank, building society or credit union is insolvent. During the year, we dealt with three credit union failures and compensated more than 8,647 customers at a total cost of £2m. The average time from placing a credit union into default to compensating customers was two days – comfortably within our seven day timeframe. In the case of the South Coast Credit Union, where members received income or benefits into accounts with the credit union, we worked closely with the insolvency practitioner to minimise the disruption to members by facilitating access to funds in their locality.

The illustration above shows fund movements in the Deposits class compared with the forecast in April 2016. The fund deficit of £384m at the beginning of the year is attributable to loan interest costs of £337m in the 2015/16 financial year payable to HM Treasury, and a provision for costs of the Dunfermline Building Society failure. Interest in 2016/17 amounted to £306m, due to a fall in LIBOR. Levy receipts of £360m in 2016/17 were used to fund loan interest costs of £337m incurred in 2015/16.

> During the year, we dealt with three credit union failures and compensated more than 8,647 customers at a cost of £2m.

Section 05

RECOVERIES

FSCS has a duty to pursue recoveries where 'reasonably possible and cost effective'

> Amounts recovered in the year from the 2008/09 legacy failures were £40m.

Many recoveries are made through dividends after filing a claim in the insolvency processes of failed firms. We also look to recover funds from claims against professional indemnity insurers. Recoveries may also be sought against other relevant third parties, depending on the particular circumstances that led to our paying compensation.

Amounts recovered in the year from the 2008/09 legacy failures were £40m. These funds will be used to offset levies payable on the loan from HM Treasury for the Bradford & Bingley resolution in 2008.

As set out in our 2016/17 Plan and Budget, we pursued recoveries against a number of lenders for the costs of Payment Protection Insurance mis-selling claims, following the Supreme Court decision in the Plevin case. We have successfully concluded a number of settlements for the benefit of levy payers (although individual settlements are confidential).

Section 06

2008/09 MAJOR BANK FAILURES AND LEGACY COSTS

Major recovery work on several large banking estates

Bradford & Bingley

On 31 March 2017, HM Treasury announced the sale of portfolios of mortgages for £11.8bn. On 25 April 2017, £11bn was applied in part repayment of FSCS's loan from HM Treasury. This reduced FSCS's borrowings from HM Treasury to £4.7bn. This will reduce the interest payable on the loan in 2017/18 that is levied on the Deposit class.

In line with HM Treasury's update at Spring Budget 2017 and the Office for Budget Responsibility's March forecast, we anticipate that sales of remaining mortgage assets will be initiated in 2017/18 and that the remaining loan will be paid in full.

Dunfermline/other legacy banking estates

We received a final dividend in the London Scottish Bank plc administration, bringing the total dividend to 63.4p in the £ (pound) thus concluding our involvement in this estate. We continue to receive dividends from the estates of Kaupthing Singer & Friedlander Limited and Heritable Bank plc to recover monies for levy payers, which we expect will continue for the foreseeable future. We also have a residual claim to resolve in the winding up of LBI (Icesave) although we have repaid in full the loans from HM Treasury for these failures.

We continue to work with the administrators of Dunfermline Building Society, and HM Treasury, to finalise FSCS's liability to contribute to the cost of its resolution in 2009. We have already made three interim payments totalling £500m. As a result of the recoveries to date from other estates, we do not expect to levy the industry any more to meet these outstanding costs.

Interest payable on HM Treasury loans

The loan from HM Treasury to FSCS to fund the resolution of Bradford & Bingley continues to accrue interest, with interest payable of £306m (2016: £337m) incurred during the year. This amount, less £104m from retained recoveries, will be levied on firms in the Deposit class before 1 September 2017.

Section 07

MANAGEMENT EXPENSES

Impact of higher default numbers on our management expenses

Management expenses increased by £3.4m on the previous year, as illustrated on the right.

The increase is largely attributable to other core costs such as legal and professional, bank charges and IT infrastructure. Legal costs were incurred in pursuit of Payment Protection Insurance and other recoveries. Bank charges are associated with the revolving credit facility, for which the borrowing limit increased from £750m to £1.1bn during 2016/17.

Unlevied reserve

Budgeted management expenses of £67.4m were levied in 2016/17. Although we spent £2m in excess of budget, it was within the Management Expenses Levy Limit (MELL) of £72.7m.

During the year, we experienced unforeseen claims from the Enterprise Insurance Company PLC and Gable Insurance AG failures and for SIPP-related claims, pushing our claims-handling costs £4.1m over budget. By savings and efficiencies, we absorbed £2.1m of these additional costs within our budget and used £2m of the unlevied reserve (in the MELL) to cover the rest of our cost increase. The unlevied reserve is in place to deal with unexpected claims. We notified the Prudential Regulation Authority and Financial Conduct Authority in advance of our intention to access the unlevied reserve and also notified levy payers and trade bodies.

	Year ended 31 March 2017 (£m)	Year ended 31 March 2016 (£m)
Outsourcing costs	14.8	14.3
Employment costs	17.6	16.2
Other staff costs	2.9	4.2
Total employment costs	20.5	20.4
Strategic change portfolio	9.9	11.1
Communications	4.0	4.1
Other core costs	18.0	13.1
Major banking failures	0.2	1.8
Total management expenses (excluding pension deficit funding)	**67.4**	**64.8**
Pension deficit funding	2.0	1.2
Total management expenses	**69.4**	**66.0**

Section 08

LOOKING FORWARD

Anticipating our activities in 2017/18

Funding, awareness, policy and stakeholder engagement

The Financial Conduct Authority (FCA) consultation paper CP16/42, *Reviewing the funding of the Financial Services Compensation Scheme*, was published on 14 December 2016. As well as launching the formal debate on the future of the FSCS funding model, it proposed to expand FSCS coverage for some aspects of fund management and introduce protection for debt-management and structured-deposit intermediation. The paper also sought views on possible changes to compensation limits in light of pension freedoms. The financial regulation landscape continues to change as new products are developed and regulated. With the growth in new products, such as crowdfunding and the extension of regulation to consumer credit, the scope of our protection is under review. We are working with the FCA to review the responses to the consultation.

With the support of the industry, we continue to raise awareness of protection in the deposit taking sector in particular. Awareness of protection is at 78 per cent, surpassing our target of 70 per cent. We are now working with banks, building societies and credit unions to raise and entrench awareness further; for example, by displaying the FSCS protected badge prominently across new channels. We are also working with insurers to ensure policyholders are aware of the unlimited protection provided by FSCS.

We work closely with our colleagues at the FCA, Prudential Regulation Authority and HM Treasury to monitor developments. FSCS provides analysis of claims data and lessons learned from specific firm failures to assist the authorities. We are also pleased to work with industry and consumer bodies such as the statutory panels and trade associations.

FSCS continues to engage with international protection schemes through membership of the International Association of Deposit Insurers, the European Forum of Deposit Insurers (EFDI) and the International Forum of Insurance Guarantee Schemes. As a member of the EFDI, FSCS has been working with our European Economic Area counterparts on the arrangements for cross-border depositor pay-outs, as required by the Deposit Guarantee Scheme Directive (DGSD). To support this work, FSCS is a signatory to the EFDI Deposit Guarantee Scheme Cooperation Agreement, which is supported by the European Banking Authority. The DGSD also laid down requirements for stress testing and peer reviews and FSCS is taking forward this work alongside European and UK authorities and counterparts.

This work continues following the referendum to leave the European Union and the triggering of Article 50.

> “The financial regulation landscape continues to change as new products are developed and regulated.

Section 09

AUDITORS' REPORT

Report of the Independent Auditors of the Class Statements to the directors of Financial Services Compensation Scheme

I have audited the Class Statements for the year ended 31 March 2017 which comprise the Statements of Fund Movements; Assets and Liabilities; Base Costs and Related Levies; and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, set out on page 28, the directors of FSCS are responsible for the preparation of the financial statements and for being satisfied that they have been properly prepared. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practice Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the directors of FSCS, in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28); and
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35).

I report to you my opinion as to whether the financial statements are properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35); and
- the accounting policies set out on pages 28 to 30.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the classes' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.
In addition, I read all the financial

and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion, the financial statements for the year ended 31 March 2017 have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35); and
- the accounting policies set out on pages 28 to 30.

Opinion on regularity

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

Matters on which I report by exception

I have nothing to report in respect of the following matters where I have agreed under the terms of our engagement to report to you if, in my opinion:

- adequate accounting records have not been kept for the classes, and proper returns adequate for the audit have not been received from any third parties; or
- I have not received all of the information and explanations I required for my audit.

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

7 July 2017

Section 10

STATEMENT OF FUND MOVEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Funding sub-class code	Total		Compensation costs net of recoveries relating to the 2008/09 banking failures		Deposits SA01		General Insurance Provision SB01		General Insurance Intermediation SB02		Life and Pensions Provision SC01	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Compensation and interest	**(375,262)**	(270,868)	(5)	(16)	3,323	(8,632)	(154,032)	(87,586)	(12,399)	(8,991)	–	16
Exchange gain/(loss)	**195**	550	–	–	–	–	0	66	0	22	0	0
Other income	–	–	–	–	–	–	–	–	–	–	–	–
Recoveries received	**11,063,358**	331,158	11,035,770	293,990	2,463	83	4,029	4,126	14,619	2,978	–	–
	10,688,291	60,840	11,035,765	293,974	5,786	(8,549)	(150,003)	(83,394)	2,220	(5,991)	0	16
Attributable management costs:												
Specific costs	**(48,363)**	(48,561)	–	–	(10,798)	(16,303)	(4,974)	(3,851)	(9,247)	(9,112)	(7)	(101)
Specified deposit defaults interest	**(306,246)**	(336,724)	–	–	(306,246)	(336,724)	–	–	–	–	–	–
	(354,609)	(385,285)	–	–	(317,043)	(353,027)	(4,974)	(3,851)	(9,247)	(9,112)	(7)	(101)
Interest received:												
Gross before tax	**0**	123	–	–	–	122	0	1	–	–	–	–
Tax at 20%	**(0)**	(24)	–	–	–	(24)	(0)	(0)	–	–	–	–
	0	99	–	–	–	98	0	1	–	–	–	–
Levies received	**709,991**	1,065,202	–	(48,388)	359,733	811,384	154,013	61,975	7,969	(117)	–	–
Cross-subsidy transfer	–	–	–	–	–	–	–	–	(8,210)	–	–	–
Repayment of recoveries	–	–	–	–	–	–	–	–	–	–	–	–
Funds brought forward	(15,742,912)	(16,483,768)	(15,537,857)	(15,783,443)	(384,162)	(834,068)	48,651	73,920	12,259	27,479	188	273
Funds carried forward	**(4,699,239)**	**(15,742,912)**	**(4,502,091)**	**(15,537,857)**	**(335,686)**	**(384,162)**	**47,686**	**48,651**	**4,991**	**12,259**	**181**	**188**

Life and Pensions Intermediation SC02		Investment Provision SD01		Investment Intermediation SD02		Home Finance Intermediation SE02		Home Finance Providers-FCA retail pool SRI1		Insurers General-FCA retail pool SRH1		Insurers Life-FCA retail pool SRG1		Deposit Acceptors-FCA retail pool SRF1	
2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
(104,773)	(83,810)	(8,779)	(1,637)	(82,327)	(77,108)	(16,270)	(3,104)	–	–	–	–	–	–	–	–
0	26	0	37	194	399	0	0	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
372	133	(9)	232	6,114	29,616	–	–	–	–	–	–	–	–	–	–
(104,401)	(83,651)	(8,788)	(1,368)	(76,019)	(47,093)	(16,270)	(3,104)	–	–	–	–	–	–	–	–
(9,410)	(5,957)	(115)	(199)	(12,786)	(12,447)	(1,026)	(590)	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(9,410)	(5,957)	(115)	(199)	(12,786)	(12,447)	(1,026)	(590)	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
103,069	119,446	7,463	65	48,874	115,761	21,830	5,076	1,213	–	960	–	1,885	–	2,982	–
25,919	–	(5,470)	–	(4,110)	–	(1,090)	–	(1,213)	–	(960)	–	(1,885)	–	(2,982)	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
38,854	9,016	14,221	15,723	63,964	7,743	972	(410)	–	–	–	–	–	–	–	–
54,031	**38,854**	**7,311**	**14,221**	**19,922**	**63,964**	**4,416**	**972**	**0**	–	–	–	–	–	–	–

STATEMENT OF ASSETS AND LIABILITIES AT 31 MARCH 2017

Funding sub-class code	Total		Compensation costs net of recoveries relating to the 2008/09 banking failures		Deposits SA01		General Insurance Provision SB01		General Insurance Intermediation SB02		Life and Pensions Provision SC01	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Current assets:												
Net amounts due from FSCS	**146,576**	183,927	–	–	–	–	52,888	50,645	5,177	12,284	181	188
Taxation	–	–	–	–	–	–	–	–	–	–	–	–
Term deposits and cash at bank	**164,917**	134,033	–	–	164,917	133,960	–	74	–	–	–	–
	311,493	317,960	–	–	164,917	133,960	52,888	50,719	5,177	12,284	181	188
Current liabilities:												
Net amounts due to FSCS	**(459,092)**	(470,614)	–	–	(459,092)	(470,614)	–	–	–	–	–	–
Taxation	**(0)**	(24)	–	–	–	(24)	(0)	(0)	–	–	–	–
Bank overdrafts	**(8,186)**	(5,875)	–	–	(148)	(984)	(5,202)	(2,068)	(186)	(25)	–	(0)
	(467,278)	(476,512)	–	–	(459,240)	(471,622)	(5,202)	(2,068)	(186)	(25)	–	(0)
Long-term liabilities:												
Net amounts due to FSCS	**(4,543,454)**	(15,584,357)	(4,502,091)	(15,537,857)	(41,363)	(46,500)	–	–	–	–	–	–
Total net assets/ (liabilities)	**(4,699,239)**	**(15,742,912)**	**(4,502,091)**	**(15,537,857)**	**(335,686)**	**(384,162)**	**47,686**	**48,651**	**4,991**	**12,259**	**181**	**188**

Life and Pensions Intermediation SC02		Investment Provision SD01		Investment Intermediation SD02		Home Finance Intermediation SE02		Home Finance Providers-FCA retail pool SRI1		Insurers General-FCA retail pool SRH1		Insurers Life-FCA retail pool SRG1		Deposit Acceptors-FCA retail pool SRF1	
2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
55,507	39,780	7,440	14,375	20,917	65,626	4,466	1,029	–	–	–	–	–	–	–	–
		–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
55,507	39,780	7,440	14,375	20,917	65,626	4,466	1,029	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(1,475)	(926)	(129)	(154)	(995)	(1,662)	(50)	(57)	–	–	–	–	–	–	–	–
(1,475)	(926)	(129)	(154)	(995)	(1,662)	(50)	(57)	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
54,031	**38,854**	**7,311**	**14,221**	**19,922**	**63,964**	**4,416**	**972**	–	–	–	–	–	–	–	–

STATEMENT OF BASE COSTS AND RELATED LEVIES AT 31 MARCH 2017

Base cost fund account	FCA fee block													
	Total		Minimum fee A000		FCA prudential fee AP00		Deposit takers A001		Home Finance providers A002		General Insurance A003		Life Insurance A004	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Levies received	**11,089**	11,275	485	500	418	427	1,826	1,749	464	446	596	643	992	1,080
Base costs allocated	**(10,725)**	(9,320)	(463)	(399)	(403)	(357)	(1,776)	(1,418)	(449)	(363)	(586)	(519)	(987)	(874)
Balance at 1 April	**1,188**	(767)	66	(35)	47	(23)	182	(149)	50	(33)	71	(53)	117	(89)
Funds carried forward	**1,552**	**1,187**	**88**	**66**	**63**	**47**	**232**	**182**	**66**	**50**	**81**	**71**	**122**	**117**

Base cost fund account	PRA fee block									
	Total		Deposit takers PA01		General Insurance PA03		Life Insurance PA04		Society of Lloyd's PA06	
	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000	2016/17 £'000	2015/16 £'000
Levies received	**10,973**	11,607	7,696	7,975	1,322	1,587	1,878	1,950	78	94
Base costs allocated	**(10,725)**	(9,320)	(7,012)	(6,425)	(1,615)	(1,249)	(2,015)	(1,570)	(84)	(76)
Balance at 1 April	**1,341**	(943)	368	(1,182)	536	198	420	40	18	(0)
Funds carried forward	**1,589**	**1,343**	**1,051**	**368**	**243**	**536**	**283**	**420**	**13**	**18**

FCA fee block																	
Society of Lloyd's A006		Fund managers A007		Operators/ trustees collective investment schemes A009		Firms dealing as principal A010		Advising/ arranging (not holding client money) A013		Corporate Finance Advisers A014		Home Finance Mediation A018		General Insurance Mediation A019		Firms holding client money or assets, or both A021	
2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000	2016/ 17 £'000	2015/ 16 £'000
6	8	973	1,202	366	242	1,283	1,341	1,755	1,857	333	323	451	458	730	709	410	289
(7)	(6)	(1,028)	(943)	(285)	(273)	(1,189)	(1,052)	(1,778)	(1,573)	(326)	(288)	(439)	(357)	(666)	(590)	(345)	(307)
3	1	201	(58)	(34)	(3)	81	(208)	265	(19)	39	4	64	(37)	56	(63)	(19)	(1)
2	**3**	**147**	**201**	**48**	**(34)**	**175**	**81**	**241**	**265**	**47**	**39**	**76**	**64**	**120**	**56**	**46**	**(19)**

The Class Statements on pages 22 to 27 were approved by the Board of Financial Services Compensation Scheme Limited, as designated Scheme Manager of the Classes, on 16 May 2017 and signed on its behalf on 4 July 2017 by:

Lawrence Churchill
Chairman, Financial Services Compensation Scheme

4 July 2017

NOTES TO THE CLASS STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

The powers of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 (FSMA) became effective as at midnight on 30 November 2001.

Under the relevant rules set out in the FCA Handbook and PRA Rulebook, for funding purposes, and effective from 1 April 2013, FSCS is split into classes, comprising: Deposits (Class A); General Insurance Provision (Class B1); General Insurance Intermediation (Class B2); Life and Pensions Provision (Class C1); Life and Pensions Intermediation (Class C2); Investment Provision (Class D1); Investment Intermediation (Class D2); and Home Finance Intermediation (Class E2). The accounts must show:

(1) the funds held to the credit of each class; and

(2) the liabilities of that class.

Statement of the directors' responsibilities in respect of the Class Statements

The directors of the Financial Services Compensation Scheme Limited (FSCS) present their Annual Report and audited Class Statements for the year ended 31 March 2017, with comparatives, including the equivalent fund balances for the year ended 31 March 2016.

The directors of FSCS are responsible for keeping adequate accounting records that are sufficient to show and explain the class transactions and disclose with reasonable accuracy at any time the fund balances of the classes. The directors of FSCS are also responsible for the preparation of these financial statements and for being satisfied that they have been properly prepared and comply with the relevant requirements. They are also responsible for safeguarding the assets of the classes and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

1 Requirement to publish Class Statements

Section 218 of FSMA requires us to prepare a statement of the value of each of the funds established by the Financial Services Compensation Scheme Limited (the Scheme Manager). This statement, referred to as the Class Statements, is prepared by the Scheme Manager in accordance with the FCA Handbook and the PRA Rulebook.

Class Statements are not the statutory financial statements of the Scheme Manager and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union (IFRS). The statutory financial statements are subject to a separate audit engagement and opinion. Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Our 2016/17 Annual Report and Accounts are the company's statutory financial statements prepared under IFRS as adopted by the European Union and in accordance with the Companies Act 2006. This is a separate publication which can be found on our website at www.fscs.org.uk/industry/publications/annual-reports. The 2016/17 Annual Report and Accounts will be delivered to the Registrar of Companies within the statutory timeframe and the auditors' report thereon was unqualified.

The Class Statements exclude certain estimates and judgements and are aligned with the calculation of levies. The presentation of the Class Statements enables each class of levy payer to understand the financial position of their class at the end of the Scheme's financial year. The recognition criteria for levies and recoveries in the Class Statements are different to those in the Scheme Manager's statutory financial statements. The basis of recognition is described in Note 2 on the next page.

2 Accounting policies

The accounting policies adopted in preparing the Class Statements are consistent with those in the accounting policies adopted in the statutory financial statements except for Levies and Recoveries as described below.

Levies

The Scheme Manager raises levies on authorised financial services firms which are recognised in the Class Statements on receipt. Similarly, remission or rebates of levies are recognised in the Class Statements on payment.

Recoveries

Recoveries are only recognised in the Class Statements when dividends are notified by insolvency practitioners or agreed recoveries are notified by other third parties. In the absence of notification, recoveries are recognised on receipt.

Reconciliations between amounts in the statutory financial statements and the Class Statements for levies and recoveries can be found in the appendices.

a) Basis of accounting

The Class Statements have been prepared under the historical cost convention and on the basis that Financial Services Compensation Scheme Limited, as the designated Scheme Manager, will exercise its responsibilities under FSMA and the FCA and PRA rules to recover management expenses and compensation costs on behalf of the classes. The Class Statements have been prepared under:

- Section 218 of the Financial Services and Markets Act 2000;
- the FCA Handbook and PRA Rulebook;
- the FCA-FSCS Memorandum of Understanding (Section 27 to 28);
- the PRA-FSCS Memorandum of Understanding (Section 34 to 35); and
- the accounting policies set out here and overleaf.

The accounting policies have been selected by the designated Scheme Manager.

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 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) Recoveries

Recoveries are credited to funds when notification is received in respect of dividends from insolvency practitioners, or notified and agreed in respect of other recoveries. Where no notification is received, recoveries are credited on receipt. This differs from the accounting policy for recoveries adopted in the statutory financial statements where recoveries are also recognised if it is probable that future economic benefits from a recovery will flow to the Scheme Manager and the value can be measured reliably (based on the best information available to the directors).

d) Management expenses

Management expenses comprise base costs, being the management expenses not attributable to any particular class, and specific costs, which are the remaining costs which cover the handling, payment of compensation, and any other costs which can be directly attributable to a particular class. The specific costs are allocated by FSCS to each class and in accordance with the levy principles contained within the relevant rules of the FCA Handbook and PRA Rulebook. The base costs are not allocated to classes but are shown against the FCA and PRA fee blocks by which they are levied.

NOTES TO THE CLASS STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

e) Interest receivable

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

f) Levies

The classes are funded by levies on firms authorised by the FCA and/or the PRA. The FCA raises levy invoices on behalf of FSCS, which are credited to the classes on a receipts basis. Levies refunded are accounted for on payment. Where requests for the remission or rebate of a levy have been made, this is only recognised in the classes when payment is made. Under the funding arrangements which took effect on 1 April 2013, the amount that can be raised by levy in the year will vary, depending on the funding class. Only FCA classes will receive support from other classes, and so for PRA classes the amount that FSCS can levy in any year is the individual class limit. For FCA classes, it is the amount of the relevant FCA retail pool. Levies received during the year from a receiving FCA class are shown as levies received in the class accounts of the receiving FCA class, together with a corresponding transfer out to the relevant FCA class. Any provision or contingent liability recognised in FSCS for levy rebates is only recognised in the Class Statements when payment is made.

g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are revalued at the rate of exchange ruling at year end. All exchange gains and losses are taken to the statement of fund movements.

h) Cash flow

No statement of cash flow is prepared because, in the opinion of the directors, this would not provide any useful information in addition to that already provided in the statement of fund movements and statement of assets and liabilities.

i) Taxation

Interest income is recognised gross of tax. The related tax on interest income is charged to the statement of fund movements.

j) Welcome Financial Services Limited (Welcome)

FSCS declared Welcome in default on 2 March 2011. Welcome sold a substantial number of Payment Protection Insurance (PPI) and other insurance policies and its restructuring arrangements provided 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's statutory financial statements as an asset and in 'trade and other payables (current liabilities)' since any excess funds will be repaid to Welcome. These funds are released to the Insurance Intermediation class as recoveries to off-set any costs relating to Welcome.

k) Accounting judgements and key estimation uncertainties

As designated Scheme Manager, FSCS is required to prepare Class Statements. The Class Statements are drawn up in accordance with the accounting policies above. The key areas of judgement and uncertainty in the Class Statements are:

- outsourced claims-handling costs consist of invoices paid during the year and accruals for decisions made but not invoiced and the cost of handling claims at various stages of the claims-handling process, referred to as work in progress;

- compensation costs consist of compensation payments made during the year and accruals for compensation awards not paid; and

- the provision for net costs of the failure of Dunfermline Building Society (DBS), as explained in Note 4.

3 Management expenses

Management expenses charged by FSCS to the classes include payments made in the year for FSCS's defined benefit pension scheme. Administrative expenses of FSCS's statutory financial statements, however, reflect IAS 19 adjustments with a charge for the current service cost in the year. This treatment ensures current funding of payments as and when they are made.

As stated above in Note 2(d), management expenses are allocated to classes and FCA and PRA fee blocks under the FCA and PRA rules.

4 Special resolution regime – Dunfermline Building Society

On 30 March 2009, the Bank of England exercised 'stabilisation powers' under the Banking Act 2009 in respect of Dunfermline Building Society through the Dunfermline Building Society Property Transfer Instrument 2009, by which certain property, rights and liabilities of Dunfermline Building Society were transferred to the Nationwide Building Society. HM Treasury served notice on FSCS, revised during 2011/12, placing an obligation on FSCS to contribute to the costs of the resolution, and interest, net of recoveries, which will be funded by levies on the Deposits class.

Based on the best information available to the directors, the provision was reduced during the year by £5,137,000, and the reduced balance is recoverable from the Deposits class. In the Class Statements, the provision has been shown as a liability in the Deposits class, and charged to compensation costs in the same class.

However, the eventual outcome may be different and the final amounts, once agreed, may result in a further adjustment to the provision. When FSCS is notified by HM Treasury of the final agreed contribution required, the amount payable will be adjusted accordingly and the corresponding charge made to compensation costs.

5 Welcome Financial Services Limited (Welcome)

Compensation costs of £1,967,000 (2016: £2,358,000) and management expenses of £412,000 (2016: £452,000) relating to Welcome PPI payments were incurred in the year. In addition, compensation costs of £75,000 (2016: £19,000) and management expenses of £nil (2016: £113,000) relating to Welcome non-PPI payments were incurred in the year. This is shown under the Insurance Intermediation class in the statement of fund movements for the year ended 31 March 2017. These amounts have been previously collected from Welcome.

APPENDICES TO THE CLASS STATEMENTS

RECONCILIATION BETWEEN CLASS STATEMENTS AND THE STATUTORY FINANCIAL STATEMENTS

Appendix A: Reconciliation of levy income to the statutory financial statements

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

Funding class	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
2008/09 banking failures	–	(48,388)
Deposits (excluding 2008/09 banking failures)	359,733	811,384
General Insurance Provision	154,013	61,975
General Insurance Intermediation	7,969	(117)
Life and Pensions Provision	–	–
Life and Pensions Intermediation	103,069	119,446
Investment Provision	7,463	65
Investment Intermediation	48,874	115,761
Home Finance Intermediation	21,830	5,076
Home Finance Providers – FCA retail pool	1,213	–
Insurers General – FCA retail pool	960	–
Insurers Life – FCA retail pool	1,885	–
Deposit Acceptors – FCA retail pool	2,982	–
	709,991	**1,065,202**
FCA fee block	11,089	11,275
PRA fee block	10,973	11,608
Total levies received in the Class Statements	**732,053**	**1,088,085**
Less:		
Exchange (gains)/loss, interest received and tax	195	649
Movement in class funds during the year (see below)	(11,044,282)	(745,097)
Add:		
Movements in recoveries receivable	10,932,994	268,378
IAS19 net pension obligation	(1,668)	(3,325)
Total levy income recognised in statutory financial statements	**619,292**	**608,690**

Movement in class funds

The table below provides an analysis of the net change in funds associated with each funding class and fee blocks in the years ended 31 March 2016 and 31 March 2017:

Funding class	Fund balance as at 31 March 2015 £'000	Fund movements during the year £'000	Fund balance as at 31 March 2016 £'000	Fund movements during the year £'000	Fund balance as at 31 March 2017 £'000
2008/09 banking failures	(15,783,443)	245,586	(15,537,857)	11,035,765	(4,502,091)
Deposits (excluding 2008/09 banking failures)	(834,068)	449,906	(384,162)	48,476	(335,686)
General Insurance Provision	73,920	(25,270)	48,651	(965)	47,686
General Insurance Intermediation	27,479	(15,220)	12,259	(7,268)	4,991
Life and Pensions Provision	273	(84)	188	(8)	181
Life and Pensions Intermediation	9,016	29,839	38,854	15,176	54,031
Investment Provision	15,723	(1,502)	14,221	(6,911)	7,311
Investment Intermediation	7,743	56,221	63,964	(44,041)	19,922
Home Finance Intermediation	(410)	1,381	972	3,445	4,416
	(16,483,767)	**740,858**	**(15,742,910)**	**11,043,670**	**(4,699,239)**
Base costs – FCA fee block	(766)	1,954	1,187	365	1,552
Base costs – PRA fee block	(945)	2,287	1,342	247	1,589
	(16,485,478)	**745,100**	**(15,740,381)**	**11,044,282**	**(4,696,098)**

APPENDICES TO THE CLASS STATEMENTS

RECONCILIATION BETWEEN CLASS STATEMENTS AND THE STATUTORY FINANCIAL STATEMENTS

Appendix B: Reconciliation of recoveries income to the statutory financial statements

In FSCS's statutory financial statements, recognition of recoveries income includes recoveries where no notification is received or agreed, when it is probable that future economic benefits will flow to FSCS and their value can be measured reliably (based on the best information available to the directors). Recoveries in the Class Statements are recognised when cash or notification is received and agreed in respect of dividends from insolvency practitioners.

The table below reconciles the recoveries in the statement of comprehensive income in the statutory financial statements with recoveries income in the Class Statements:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Recoveries received recognised in the Class Statements	11,063,358	331,158
Movements in recoveries receivable	(10,932,994)	(268,378)
Recoveries income recognised in statutory financial statements	**130,362**	**62,780**

The movements in recoveries income receivable represents the movement in the estimated amount of recoveries income FSCS expects to receive in the future after taking into consideration the cash distributions received from the estates of firms declared in default and any other relevant information we receive from the administrators of those estates. A detailed breakdown of this can be found on page 35.

The timing and value of recoveries income receivable is estimated based on best information available to the directors at 31 March 2017, including insolvency practitioners' statements of estimated outcome, other reports published as part of insolvency processes and legal advice on potential recoveries through litigation; however, the timing and final outcome are uncertain.

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

	Receivable at 31 March 2015 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2016 £'000	Movements in recoveries receivable £'000	Receivable at 31 March 2017 £'000
Current recoveries receivable:					
Other defaults	20,048	(7,156)	12,892	112,934	125,826
2008/09 banking failures	181,629	(157,872)	23,757	10,980,583	11,004,340
Less: amounts held in Icelandic Escrow account	(35,901)	35,901	–	–	–
Non-current recoveries receivable:					
Other defaults	61,645	(3,197)	58,448	(48,342)	10,106
2008/09 banking failures	15,821,703	(136,054)	15,685,649	(10,982,829)	4,702,820
	16,049,124	**(268,378)**	**15,780,746**	**62,346**	**15,843,092**
Less: amounts recognised in the Class Statements but not received by the year end date:					
Bradford & Bingley	–	–	–	(10,976,636)	–
Kaupthing Singer & Friedlander Limited	–	–	–	(18,704)	–
	16,049,124	**(268,378)**	**15,780,746**	**(10,932,994)**	**15,843,092**

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