

PRESS RELEASE

Investor Compensation Company Limited Publishes 2014 Annual Report

Introduction

The principal objective of the Investor Compensation Company Limited ["ICCL"] is to pay compensation to eligible investors when an investment firm fails and is unable to return client money and/or investment instruments. To support that objective, the ICCL collects annual levies from investment firms and retail intermediaries in order to build the reserves from which compensation can be paid. The ICCL is not funded by the State.

Significant Events

Custom House Capital Limited (in Liquidation) ["CHC"]

This is the largest case that the ICCL has dealt with since its inception.

On 21st October 2011, the High Court placed CHC into liquidation and the Court appointed Mr Kieran Wallace of KPMG as Liquidator and Administrator to the firm, in accordance with section 33A of the Investor Compensation Act, 1998 (the Act). As previously reported, Mr Wallace, in his capacity as Administrator, has estimated that the ICCL may be required to pay compensation, on foot of claims from eligible investors of CHC, of up to €19.7 million. The impact that this would have on the ICCL's reserves has been fully recognised in prior year financial accounts.

The role of Mr Wallace, as the Court appointed Administrator to CHC, is to determine the extent to which clients of the firm had suffered losses. Mr Wallace achieves this by leveraging on his work as Court-appointed Liquidator whereby he reconciles the position of each client of the firm, through an examination of the books and records of the firm,. He is then required to certify the individual losses of eligible investors to the ICCL. Once an investor's claim has been certified by Mr Wallace, the ICCL will make a compensation payment to that investor in accordance with the Act.

In the financial year ending 31 July 2014, almost €1.5 million was paid to claimants of CHC, bringing the total paid to date to €6.8 million. However, there are still a large number of outstanding claims currently being assessed by the Administrator. A combination of incomplete records, fraud and the complexity of underlying financial transactions has contributed to delays in the completion of necessary account reconciliation work being undertaken by the Administrator. At this juncture, it is unfortunately not possible to provide a reliable timeframe for the resolution of outstanding claims but this process is likely to extend over a number of years.

In the interim, the ICCL will liaise closely with the Administrator and his staff and will continue to pay compensation within two weeks of receipt of the necessary certification from Mr Wallace.

Irish Bank Resolution Corporation Limited (in Special Liquidation) [“IBRC”]

Following the appointment of Mr Kieran Wallace and Mr Eamonn Richardson of KPMG as joint Administrators to IBRC under section 33(1) of the Act in May 2013, a number of claims for compensation were made to the ICCL. Initially, the company had provided for a significant level of compensation (€2.6 million) in its accounts based on estimates received from the joint Administrators. In the event, most claims received were deemed ineligible. During the period under review, a total of €12,000 was paid to claimants. Furthermore, a substantial part (€2.5 million) of the provision that had been created for potential compensation payments was released.

There are a small number of outstanding claims remaining to be certified but it is likely that the aggregate compensation payable will not exceed €50,000.

Berehaven Credit Union Limited (In Liquidation)

In July 2014, the High Court appointed joint official liquidators to Berehaven Credit Union Limited. The ICCL notified members of the Credit Union of their potential entitlements. However, as members savings are covered by the Deposit Guarantee Scheme operated by the Central Bank, it is unlikely that any compensatable claims will arise in respect of the ICCL.

W&R Morrogh Stockbrokers (in Receivership) [“Morrogh”]

Previously, the ICCL had paid compensation amounting to €7.8 million to clients of this firm with all claims received having been paid. During the year, the company received an amount of over €171,000 in respect of its subrogated claim arising from the final dividend paid by the Receiver, Mr Tom Grace. This brought the total subrogated income received to more than €2 million. The Morrogh Receivership was dissolved in October 2014.

Money Markets International Limited (in Liquidation) [“MMI”]

The liquidation of MMI continued during the year. The ICCL has paid out more than €775,000 in compensation to clients of this firm with the final claims involved having been processed some years ago. The ICCL's subrogated claim has been lodged with the Liquidator, Mr Tom Kavanagh, and the conclusion of the Liquidation is awaited.

Results for the year

The ICCL has recorded a surplus for the year of €7.1 million, which represents an increase of €5 million on the previous year. This outcome is primarily attributable to a reduction in provisions for compensation costs and associated charges. This reflects the release of €2.5 million from the IBRC-related provision established in the preceding year as well as aggregate compensation payments of €1.5 million made to clients of CHC. The ICCL also recorded net inflows (annual levies plus income less expenses) of €3.3 million into Fund A (investment firms) and €1.1 million into Fund B (retail intermediary firms).

As at 31st July 2014 the reserves of the ICCL stood at €38.7 million. This comprised of Fund A reserves of €17.4 million and Fund B reserves of €21.3 million. The reserves in Fund A are net of the potential cost of claims arising from the failure of CHC, which is estimated at aggregate €19.7 million and which has been fully provided for in the accounts of the Company.

In addition to its cash and investment reserves, the ICCL has an insurance policy which, subject to an initial excess of €15 million per fund, provides cover for compensation claims in any one year of up to additional €50 million on Fund A and €10 million on Fund B. Furthermore, the ICCL has a number of alternative sources of funds, including the drawdown of a standby credit facility from a commercial source along with the option to collect extra levies from participant firms if deemed necessary.

The ICCL's Strategic Plan 2011 to 2016

Progress on the achievement of the ICCL's strategic goals is constantly monitored by the Board and the plan was formally reviewed during the year. The main goals of the ICCL are:

- To promptly pay certified compensation to eligible investors;
- To ensure that the company is adequately funded and properly governed; and
- To operate the company efficiently and effectively.

Chairperson's comments

Speaking on the publication of the Annual Report, the Chairperson of the ICCL, Mr Jim Bardon, said:

"In the year under review, the ICCL paid out a further €1.5 million to clients of Custom House Capital, bringing the aggregate amount paid to date to €6.8 million. In all cases, payment was made promptly following the certification of claims by the Administrator. However, I am disappointed that a significant number of claims have yet to be certified due to protracted nature of the liquidation of that firm. This is largely attributable to the incomplete and fraudulent records in the firm and the complexity of the underlying transactions involved. The ICCL is working to expedite matters within its remit.

I am pleased that during what was a busy year for the ICCL, considerable progress has been achieved in rebuilding our reserves following a number of periods in which significant amounts were paid to clients of failed investment firms resulting in the reduction in the level of our Compensation Funds. The ICCL's reserves now stand at almost €39 million, an increase of €7 million on the previous year.

Given the recent claims history, it is important for the ICCL to maintain adequate reserves as well as having in place additional resources. The availability of insurance cover - which in the case of CHC will refund to the ICCL any compensation payments made in excess of €15 million, provides a valuable supplementary source of finance that can be utilised to meet claims obligations before the necessity to have recourse to a stand-by credit facility upon which the Company may draw if the need arises. The ICCL also has the ability to make an additional call for levies from investment and/or intermediary firms. These options should serve to provide comfort that the ICCL will be in a position to meet its obligations in the event that a failure similar to that of CHC should occur again.

The ICCL Annual Report for 2014 is now available online at www.investorcompensation.ie

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