



THE INVESTOR COMPENSATION COMPANY LIMITED

Annual Report Year Ended 31 July 2007



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Mission Statement

The Investor Compensation Company Limited (ICCL) aims to operate a financially sound scheme so that it is in a position to pay, in a prompt manner, statutory levels of compensation to eligible clients of failed investment firms.

In doing this, we will:

- Ensure that claims for compensation are dealt with promptly and in a manner which is sympathetic to the claimant's situation.
- Operate a cost effective method for the collection of contributions which is fair to all investment firms.
- Maintain an open and positive relationship with the contributors and claimants with whom we deal.

In fulfilling our mission we are guided by the following values:

- We take seriously our collective responsibility to fairly represent the interests of the Scheme's claimants and contributors.
- We work in a consultative and co-operative manner with our contributors, with the Irish Financial Services Regulatory Authority (Financial Regulator) and with the Department of Finance.
- We operate with integrity and transparency.
- We work efficiently and effectively.

Details on the Investor Compensation Scheme are contained in Appendix 1.



**The
Investor
Compensation
Company
Limited**



**Annual Report
Year Ended
31 July 2007**

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DIRECTORS AND OTHER INFORMATION

| | |
|--------------------------|---|
| Directors | Jim Bardon (Chairperson) Daniel Coveney (Deputy Chairperson - Reappointed 5 September 2006) Inge Clissmann Terry Hardiman Brian Healy Dermott Jewell Paul Lynch Paul O'Donovan Frank O'Dwyer Eimer O'Rourke (Appointed 15 January 2007) Gina Quin Mark Redmond Enda Twomey (Resigned 15 January 2007) |
| Secretary | Patricia Fitzgerald |
| Registered Office | The Central Bank and Financial Services Authority of Ireland, 42-45 Dame Street, Dublin 2. |
| Auditors | PricewaterhouseCoopers, Chartered Accountants, One Spencer Dock, North Wall Quay, Dublin 1. |
| Bankers | Bank of Ireland, 2 College Green, Dublin 2. |
| Solicitors | William Fry Solicitors, Fitzwilton House, Wilton Place, Dublin 2. |

Registered No 293240

The Board of Directors

All members serve as non-executive directors



Jim Bardon

(Chairperson)

Director General of the Irish Bankers' Federation from 1988 to 2004. Former Chairman of the Executive Committee of the European Banking Federation, and the Consumer Affairs Committee of the European Banking Federation. Former Secretary of the Council of the Financial Services Ombudsman and the Credit Institutions Ombudsman of Ireland Limited. Former member of the Member Services Committee of the IDA, Company Law Review Group, Small Business and Services Forum, Consultative Industry Panel of the Financial Regulator and Executive Committee of the European Banking Federation.



Daniel Coveney

(Deputy Chairperson)

Former Company Secretary of AIB Capital Markets plc and AIB Finance Ltd. A fellow of the Institute of Chartered Accountants in Ireland and a fellow of the Institute of Bankers. Holder of a BA in Economics.



Inge Clissmann

Senior Counsel in private practice at the Irish Bar. Chairperson, Civil Service Disciplinary Appeals Board. Chairperson, Staff Panel of Trinity College Dublin. Deputy Chairperson, Irish Financial Services Appeals Tribunal. Former Chairperson of the Family Lawyers' Association and of the Consumer Association of Ireland. Former Director, Free Legal Advice Centre. Former Member, European Consumer Law Group, the Advertising Standards Authority and the Garda Complaints Appeals Board.



Terry Hardiman

A fellow of the Life Insurance Association and a member of the Million Dollar Round Table, an Association of Financial Professionals. A practicing Insurance Broker and a past Chairman of the Professional Insurance Brokers Association (PIBA).



Brian Healy

Director of Trading, Irish Stock Exchange. Chairman of Euroclear Irish Market Advisory Committee dealing with the harmonisation issues for the Irish, UK, French, Dutch and Belgian equity and fixed income markets. Chairman of Dematerialisation Implementation Group. A fellow of the Institute of Chartered Accountants in Ireland. Former senior manager with Arthur Andersen. Member of the Securities and Investment Institute.



Dermott Jewell

Chief Executive of the Consumers' Association of Ireland. Other current representations include Chairman European Consumer Centre, Chairman Irish Food Quality Association, Member Consultative Council of the FSAI, Member Bórd Bia Quality Assurance Board, Member Financial Services Ombudsman Council and Irish Representative European Consumer Consultative Group of DG Sanco. Formerly with FBD Insurance, GEC Distributors (Irl) and the Rohan Group.



Paul Lynch

Former Chief Executive of the Irish Brokers Association. A member of the Financial Services Ombudsman Council. He holds a Masters Degree in Business Studies from University College Dublin and is a fellow of the Chartered Institute of Personnel and Development. Formerly Secretary General of the Irish Red Cross.



Paul O'Donovan

Independent consultant operating across all sectors of the Financial Services Industry and an adviser to financial regulators. Former Senior Consultant with Accenture (Andersen Consulting, Arthur Andersen & Co.) and a founder Director of Prospectus Strategy Consultants. Established O'Donovan Associates in 1994. Member of the Institute of Business Analysts & Consultants and a former Council Member of the Irish Computer Society.



Frank O'Dwyer

Chief Executive of the Irish Association of Investment Managers whose members manage assets of over €275 billion on behalf of Irish and international clients. A fellow of the Institute of Chartered Accountants in Ireland, he has been Finance Director of a number of companies and was an adviser at the Department of Finance.



Eimer O'Rourke

Head of Retail Banking, Irish Banking Federation. A member of the Industry Consultative Panel to the Financial Regulator, the Department of Finance's Money Laundering Steering Committee, the Executive Committee of the European Mortgage Federation, the Financial Regulator's MiFID Industry Forum and the National Payments Implementation Programme. Previously Secretary of the Irish Mortgage and Savings Association.



Gina Quin

Chief Executive, Dublin Chamber of Commerce, the representative body of business in Dublin. A Member of Dublin City Development Board. Previously CEO of Gandon Enterprises, the commercial division of the Rehab Group. Executive with the Irish Trade Board and Lansdowne Market Research, an IMS group Company.



Mark Redmond

Former Director with PricewaterhouseCoopers, now Chief Executive of the Irish Taxation Institute. A fellow of the Irish Taxation Institute. A member of the Governing Authority and Finance Committee of University College Dublin

Board Committees

The Board has set up two standing committees, a Funding Committee and an Audit Committee. The current membership of these committees is as follows:

Funding Committee

Daniel Coveney (Committee Chairperson)
Terry Hardiman
Brian Healy
Paul Lynch
Frank O'Dwyer
Eimer O'Rourke *

Audit Committee

Brian Healy (Committee Chairperson)
Dermott Jewell
Paul Lynch
Frank O'Dwyer (Alternate Member)
Mark Redmond (Alternate Member)

Attendance at Board and Committee Meetings

| | Board | Funding Committee | Audit Committee |
|--------------------------------|-------|-------------------|-----------------|
| <i>Number of meetings held</i> | 8 | 8 | 6 |
| Jim Bardon | 8 | 7 | N/a |
| Daniel Coveney | 8 | 8 | N/a |
| Inge Clissmann | 6 | N/a | N/a |
| Terry Hardiman | 7 | 8 | N/a |
| Brian Healy | 7 | 6 | 6 |
| Dermott Jewell | 7 | N/a | 5 |
| Paul Lynch | 8 | 8 | 6 |
| Paul O'Donovan | 8 | N/a | N/a |
| Frank O'Dwyer | 6 | 6 | 0 |
| Eimer O'Rourke * | 4 | 2 | N/a |
| Gina Quin | 6 | N/a | N/a |
| Mark Redmond | 6 | N/a | 0 |
| Enda Twomey ** | 4 | 2 | N/a |

* Appointed 15 January 2007.

** Resigned 15 January 2007.

CHAIRPERSON'S STATEMENT

Jim Bardon

I am pleased to present the Annual Report for the ninth year of operations and my second Chairperson's report for the year ended 31 July 2007.

Overview

I welcome a sixth consecutive year in which there have been no new failures of investment firms giving rise to fresh claims for compensation from the Investor Compensation Scheme (Scheme). This further year, free from failures, provided much needed space to build up more adequate reserves against future risks of default.

As explained in further detail later in my report, certification of net losses in respect of some 176 claims were received by the ICCL from the W & R Morrogh Stockbrokers (Morrogh) Administrator and the ICCL issued compensation payments within two weeks of certification, which is well within the three months set out in legislation. At this stage, the Administrator has certified 97% of claims received by the ICCL and the Board welcomes this progress. Payment by the ICCL of statutory compensation in respect of all outstanding claims was fully provided for in prior year accounts on the basis of estimates provided to the ICCL by the Administrator. Given the significant progress with the claims certification and with the Receivership process, much of the uncertainty associated with the earlier provisions has now dissipated, and we are pleased to be in a position to reduce the provision, required for the claims yet to be certified, by some €1.8 million and to release this amount directly to Fund A reserves.

In 2006, the ICCL formally documented its strategic plan for the three years ending 31 December 2009. As previously noted, our strategy was developed having regard to our experience over the past eight years, the findings of our own and of other reviews of the experiences of the Irish scheme compared to that of other schemes in

the single EU market and elsewhere and our judgements about emerging developments in the regulation of the retail financial investment sector which could impact on our role or on the scope of the Scheme. Our plan set out the ICCL's objectives, specified the strategies and policies for achieving these objectives and outlined the programme of work which we will undertake. We closely monitor our progress and we have revisited and adjusted our strategy and plans, as necessary, to ensure that we are meeting our strategic goals.

I am pleased to report that, during the year, we successfully concluded a funding consultation process with our contributors and have published revised Funding Arrangements which are effective from 1 August 2007. The ICCL shares the concerns of respondents in relation to the open-ended liability of firms and is committed to finding workable solutions to issues relating to establishing borrowing facilities, which would allow the Scheme to manage the unlimited liability of the ICCL's contributors in extreme circumstances. In this context, the ICCL is in discussion with the Financial Regulator, the Central Bank and Financial Services Authority of Ireland (Central Bank) and the Department of Finance regarding satisfactory, last-resort funding arrangements and issues relating to borrowing from the Deposit Guarantee Scheme. The ICCL also met with EU Commission staff in order to progress the relevant issues. Furthermore, we successfully negotiated a €50 million standby credit facility which significantly enhances the Scheme's ability to manage the unlimited liability of our contributors. The ICCL is committed to the development of a robust funding forecasting model over the next three years which would inform the ICCL's funding decisions going forward. In this context, the ICCL appreciates the offer from the respondents to assist in this work and the ICCL will also consider the need for enlisting the expertise of external parties.

The ICCL will continue to focus on seeking practical and implementable changes, which are within our own control, to improve the effectiveness of the Scheme for both claimants and contributors alike. It will advise and seek to influence the wider body of stakeholders, including its regulators and legislators, through consultation and discussion about changes requiring legislative or other regulatory measures to improve the soundness of the funding base or the operation of the Scheme.

Reserves

The failures of the two stockbroking firms, Money Markets International Stockbrokers Limited (MMI) and Morrogh, in 1999 and 2001 respectively, placed considerable strain on the funding of the Scheme, particularly in its early years. I welcome the support of our contributors in working with the Scheme to ensure that it is adequately funded. Total Fund reserves at year end amounted to €19.4 million and are included in two funds, A and B. Fund A reserves were €8.3 million and Fund B reserves were €11.1 million. As mentioned above, we concluded our fourth consultation process to review our funding arrangements. Relative to many other EU states, the Irish investor compensation scheme has a broad coverage of firms and products. Prospective EU developments may result in a further widening of the range of products and services covered by EU investor compensation schemes. Against this background, the Board is firmly of the view that the current levels of reserves can only be regarded as minimal buffers to help smooth the impact on the industry of its liability to meet the costs of investor compensation in the event of firm failures.

Reviews of Compensation Schemes

During the year, there was some progress on the outcome of the national and EU reviews of investor compensation. The review conducted in the wake of the Morrogh failure, which commenced in 2004 and was chaired by the Department of Finance, in which ICCL and many other interested parties participated, published its report in November 2006. The report includes 20 recommendations in relation to legislative and regulatory issues and investor compensation funding issues (these recommendations are detailed in Appendix 2 of this document). Many of the issues raised in the report had already been considered and/or addressed as part of the ICCL's previous reviews and the recommendations broadly support the ICCL position on these matters. Some recommendations, however, fall short of what the ICCL had been seeking.

The review conducted by Oxera Consultants for the EU Commission was published towards the end of 2005 and the ICCL responded to the Commission's invitation for views from interested parties. The ICCL welcomed the comparative analysis, prepared by Oxera, of the incidence of failures experienced and of operational and other difficulties encountered in the implementation of the EU Directive by the Member States. Many of the conclusions in the Oxera report underpin the two key positions taken by the ICCL in the context of the national review:

- 1) that a means to facilitate an annual cap on members' contributions needs to be put in place to help manage the unlimited liability of members, and
- 2) that provision needs to be made for the more speedy winding up of failed investment firms.

Experience in the Morrogh case has shown that where recourse had to be made to the Courts for interpretation and clarification of contentious issues, long delays arose in the certification by the Administrator of certain client losses and the consequent payment by the ICCL of compensation.

These issues form a critical part of the ICCL's strategic programme of work, which I referred to earlier in my report, and the ICCL's commitment to finding workable solutions to issues which affect the scheme's ongoing sustainability, in conjunction with our stakeholders, remains our priority.

Compensation Claims

The ICCL has continued to pay claims as speedily as possible and well within the statutory three month period. In fact most claims are paid within a few weeks of certification. 97% of the Morrogh claims have now been certified and the ICCL is committed to continuing its efforts with the Administrator to have the remaining claims certified as quickly as possible.

Staffing and Operations

The Board and I recognise the excellent work of the Chief Operations Officer and her staff and appreciate their commitment and dedication. Contributors and claimants were dealt with in an efficient and sensitive manner by ICCL staff.

The working relationships with the Central Bank and with the Financial Regulator continue to operate in an effective and efficient manner. The Board greatly appreciates their support and co-operation and acknowledges their continuing commitment to providing ICCL with the services which are necessary for the efficient and smooth discharge of its functions.

Board Retirements and Appointments

The Board expresses its appreciation to Mr Enda Twomey who resigned during the year under review. I would like to welcome to the Board the new member who was appointed on 15 January 2007, Ms. Eimer O'Rourke, of the Irish Banking Federation.

Finally, may I thank all my fellow Board Directors for the time, expertise and commitment which they bring to the business of the Board and its Committees. Their support and guidance has been invaluable.

22 October 2007

OPERATING REPORT



Patricia Fitzgerald
Chief Operations Officer

The ICCL's primary role is to ensure that, in accordance with the Investor Compensation Act, 1998 (Act), investors have access to compensation in a timely fashion. The ICCL also strives to provide a value for money service to all its stakeholders.

Overview

The year ended 31 July 2007 was the ninth year of operations for the Scheme. Key Financial results are summarised in the following tables.

Financial Results Summary as at 31 July 2007

| INCOME and EXPENDITURE SUMMARY | Fund A € | Fund B € | Total € |
|--|--------------------|--------------------|-------------------|
| Income from annual contributions | 2,439,761 | 1,601,901 | 4,041,662 |
| Interest Income | 342,136 | 386,187 | 728,323 |
| Compensation costs and provisions | 1,855,888 | - | 1,855,888 |
| Administration expenses/bad debts/provisions for bad debts | (344,330) | (456,643) | (800,973) |
| Surplus for Year | 4,293,455 | 1,531,445 | 5,824,900 |

| BALANCE SHEET SUMMARY | Fund A € | Fund B € | Total € |
|---------------------------------------|--------------------|--------------------|-------------------|
| Cash at bank | 9,816,798 | 11,287,842 | 21,104,640 |
| Fixed assets | 3,425 | 3,425 | 6,850 |
| Debtors | 55,544 | 64,733 | 120,277 |
| Creditors | (113,483) | (209,291) | (322,774) |
| Provision for liabilities and charges | (1,488,495) | (9,996) | (1,498,491) |
| Share capital | (2) | (2) | (4) |
| Fund Reserves | 8,273,787 | 11,136,711 | 19,410,498 |

Funding of the Scheme

The ICCL relies entirely on contributions from authorised investment firms and insurance intermediaries in order to fund the Scheme. There were 236 Fund A contributors (2006: 230) and 3,222 Fund B contributors (2006: 3,099).

Annual contributions received were as follows:

| | Fund A € | Fund B € | Total € |
|-------------------------|--------------------|--------------------|-------------------|
| Year ended 31 July 2007 | 2,439,761 | 1,601,901 | 4,041,662 |
| Year ended 31 July 2006 | 2,219,097 | 1,630,506 | 3,849,603 |

The increase in Fund A contributions relates primarily to the 10% contribution rate increases each year which commenced with effect from 1 August 2004. The decrease in Fund B contributions primarily relates to a decrease in the number of firms contributing at higher rates.

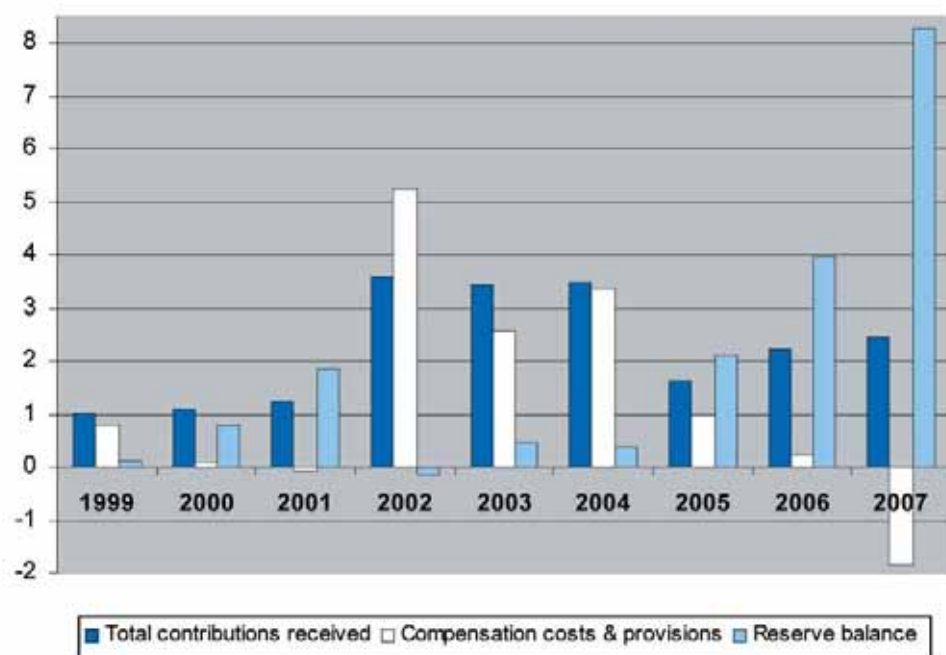
There was significant improvement in Fund A reserves this year, ahead of expectations, and these now stand at €8,273,787 (2006: €3,980,332). €1,859,721 of this increase relates to the reduction in the provision which was set aside in previous years to pay Morrogh claims. Given the significant progress with the Receivership process and the certification of 97% of claims, much of the considerable uncertainty associated with earlier estimates has now dissipated. Further detail on this adjustment is provided in Note 7 to the Financial Statements.

Fund B reserves stood at €11,136,711 at the year-end (2006: €9,605,266).

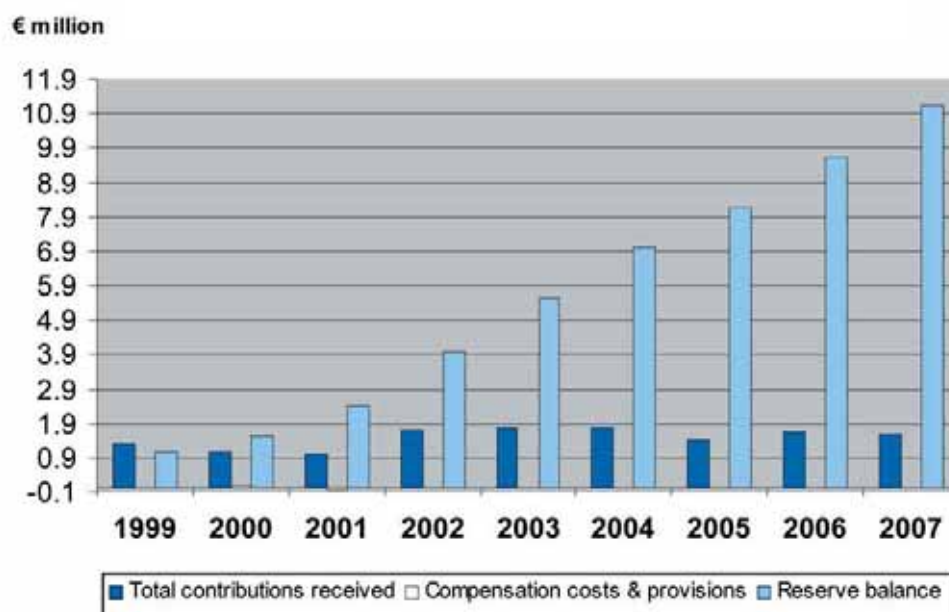
The following tables demonstrate, for each of the funds, the scale of contributions received over the past nine years and how much of these funds have either been absorbed by claims or accumulated in reserves.

€ million

Fund A



Fund B



Due to size constraints, Fund B compensation costs and provisions in 2000 and 2001 of €49,141 and (€20,000) respectively do not appear on this graph.

Contributions Outstanding

We are grateful to the vast majority of contributors who have co-operated with the ICCL in ensuring that contributions are paid in a timely manner. At 31 July 2007, contributions were outstanding from 2 Fund A contributors (2006: 1) and 92 Fund B contributors (2006: 82). The ICCL is dedicated to ensuring that all firms comply with their obligations. The ICCL applies interest to unpaid contributions. The ICCL also reports firms, whose contributions are outstanding, to the Financial Regulator for failing to comply with their obligations under the Act. The Financial Regulator has the power to require firms to suspend the carrying on of business in cases of non-compliance. In addition, the ICCL works closely with product producers and insurance companies to ensure full contribution compliance by all tied agents. Furthermore, the ICCL takes legal action to recover unpaid debts. Firms contributing to Fund B have the facility to pay contributions by direct debit and the numbers taking up this option continue to increase year on year. Details on debtors are set out in Note 5.

Payment of Compensation

Since the incorporation of the ICCL in 1998, three determinations have been made under the Act. These resulted in claims for compensation being made on the Scheme. One of these, relating to Andrew Casey trading as Andrew Casey Life & Pensions, an insurance intermediary covered by Fund B, was made in October 1999. The other two determinations relate to stockbrokers covered by Fund A, Money Markets International Stockbrokers Limited and W&R Morrogh Stockbrokers.

Under the Act, where the ICCL has paid compensation to a claimant, the ICCL becomes subrogated to the rights of that claimant in the liquidation proceedings for the amount of the compensation paid. This means that the ICCL steps into the shoes of the claimant in the liquidation proceedings and, after compensating the claimant, is entitled to the payment of a dividend, if any, from the liquidation. Any actionable claim by the ICCL arising from its subrogated position is the subject of careful review by the ICCL with a view to reimbursing the ICCL in respect of compensation paid.

Andrew Casey trading as Andrew Casey Life & Pensions

Total compensation payments in this case involved a relatively modest amount of money (€20,000) which has been paid under the Scheme.

Money Markets International Stockbrokers Limited (MMI)

Since 1999, 313 claims have been received as a result of the liquidation of MMI. To date, 310 claims have been dealt with and compensation payments amounting to €772,294 have been made. The outstanding claims, which are affected by a number of factors, continue to be progressed by the Administrator. Compensation costs have been provided for in prior year accounts.

W&R Morrogh Stockbrokers (Morrogh)

Claims

Some 2,627 claims for compensation were received by the ICCL following the failure of Morrogh. During the year the Administrator certified 176 claims. I wish to extend my gratitude to ICCL staff who worked to ensure that all related compensation was paid to claimants well within the three months allowed under the Act (average time taken was approximately two weeks). To date, 2,548 or 97% of claims (2006: 2,372 or 90%) have

been dealt with in part or in full and compensation payments amounting to €7.45 million have been made. The ICCL is working closely with the Administrator to progress certification of the remaining claims.

Compensation payable

As discussed earlier, given the dissipation of the uncertainty inherent in earlier estimates with the passage of time, the total estimate of compensation payable by the ICCL in this case has now been reduced from €10.3 million to €8.45 Million. This has been fully provided for in prior year accounts. All provisions are estimates which are prepared with assistance from the Administrator.

Administrator Costs

A provision of €720,000 was made in prior year accounts for the Administrator's costs arising from the Morrogh case. Approximately €270,400 of the Administrator's costs has already been paid.

The ICCL will continue to work closely with the Administrator to ensure that the remaining claims are certified and paid as soon as possible.

Administration Expenses

The ICCL is very mindful of its duty to provide value for money to its stakeholders and there is a high focus on costs containment. As shown in the summary table on page 16, the overall administration expenses / bad debts and provisions have increased from €746,274 in 2006 to €800,973 in 2007, i.e. an increase of €54,699 or 7%. Administration expenses alone in the year ended 31 July 2007 increased by 15% primarily due to an increase in rental and staff costs. More details are provided in Note 2. Bad debts written off in the year ended 31 July 2007 decreased by 76% due to successful collection efforts.

Apportionment of Administration costs / bad debts and provisions:

| Year ended 31 July 2007 | Fund A € | Fund B € | Total € |
|-----------------------------------|---------------------|---------------------|--------------------|
| Bad debts (recovered)/written-off | (8,000) | 29,845 | 21,845 |
| (Decrease)/Increase in provision | (3,644) | 3,637 | (7) |
| Administration expenses | 355,974 | 423,161 | 779,135 |
| | 344,330 | 456,643 | 800,973 |

Apportionment of Administration costs / bad debts and provisions:

| Year ended 31 July 2006 | Fund A € | Fund B € | Total € |
|----------------------------------|---------------------|---------------------|--------------------|
| Bad debts written-off | 60,348 | 30,988 | 91,336 |
| (Decrease)/Increase in provision | (50,404) | 25,750 | (24,654) |
| Administration expenses | 316,427 | 363,165 | 679,592 |
| | 326,371 | 419,903 | 746,274 |

Due to the much greater numbers of contributors in Fund B, a proportionately higher amount of administrative time relates to collecting contributions from Fund B member firms. Time absorbed in the ongoing management of the Morrogh issues was a cost to Fund A.

A system is used to track, on a weekly basis, the time which each staff member spends on tasks associated with each of the Funds. The Audit Committee reviewed the bases used for the allocation of costs between the Funds and concluded that the bases¹ used for cost allocation were rigorous and fair.

Strategic Plan

As outlined in the Chairperson's report, in 2006, the ICCL formally documented its strategic plan for the three years ending December 2009. This strategy was developed having regard to our experience, to the findings of our own and of other reviews of the experiences of investor compensation schemes, and to our judgements about emerging developments in the regulation of the retail financial investment sector which could impact on our role or on the scope of the Scheme.

Our plan, which we review annually, sets out the ICCL's objectives, specifies the strategies and policies for achieving these objectives and outlines the programme of work which we will undertake to ensure that we are meeting our strategic goals. Details of the progress we have made in achieving our goals are outlined in the Chairperson's Report.

¹ Costs, which are directly attributable to a particular Fund, are allocated to that Fund. Costs, which are directly related to the number of firms contributing to each Fund, are allocated on that basis. Commitment fees associated with commercial borrowing arrangements are allocated 2/3rds to Fund A and 1/3rd to Fund B. Other costs are allocated equally between the Funds.

Organisation

In accordance with Section 20 of the Act, staff from the Central Bank and Financial Services Authority of Ireland (Central Bank) perform the administrative functions of the ICCL. A significant programme of work was undertaken during the year.

The main areas of work were:

- progressing the ICCL's strategic goals, including:
 - carrying out an extensive review of our claims-handling processes and
 - establishing a €50 million standby credit facility,
- carrying out a funding consultation and publishing revised Funding Arrangements effective 1 August 2007,
- ongoing implementation of the 2004 Funding Arrangements,
- ongoing implementation of the ICCL's investment policy including an independent review of our performance,
- dealing with the Administrator in relation to compensation issues arising from the Morrogh failure,
- servicing of the Board and of Board Committee meetings,
- engaging with the Internal Audit Department during its review of the ICCL's operations,
- ongoing programme of work associated with the suite of policies and procedures developed by the ICCL to ensure compliance with legislation, and
- working with the Financial Regulator towards the co-ordination of the levy raising and collection procedures for the Financial Regulator and the ICCL.

I consider that our resources, systems and procedures deal effectively with the issues as they arise and I continue to monitor ways of improving the efficiency of the operations.

Finally, I wish to express my thanks to the Board of Directors for their guidance and support and also to the staff for their professionalism and for their continued hard work and co-operation in ensuring the smooth and efficient functioning of the Scheme's operations.

22 October 2007

DIRECTORS' REPORT

The Directors present their report and the ninth audited financial statements for the year ended 31 July 2007.

Principal Activity and Review of the Business

The principal activities are:

- ❑ The establishment and maintenance of arrangements for the payment of compensation to clients of investment firms in accordance with the Investor Compensation Act, 1998 (Act).
- ❑ The maintenance of funds out of which payments or expenses are made in accordance with the Act.

Details of the operation of the ICCL and the likely future developments are contained within the Chairperson's Statement and the Operating Report on pages 11 to 23.

This was the sixth consecutive year in which there have been no new failures of investment firms giving rise to fresh claims for compensation.

176 Morrogh claims for compensation were certified during the year and €368k was paid in respect of these claims.

Fund A reserve growth exceeded expectations due to the write-back of €1.8 million of the Morrogh provision, which is no longer required. Fund A reserves now stand at €8.3 million. The growth in the Fund B reserve was in line with expectations. Fund B reserves now stand at €11.1 million.

Results

The ICCL generated an operating surplus of €5,824,900 (2006: Surplus of €3,293,454). The main reason for the increase year on year is due to a €1.8 million reduction in the provision for claims in respect of Morrogh. In accordance with the Articles of Association, no dividend is payable by the ICCL.

Principal Risks and Uncertainties

The principal risk to which the ICCL is exposed is the risk that there would be insufficient funds available to the Scheme to pay compensation arising from future failure(s).

Financial Risk

The ICCL is exposed to financial risk and uncertainty through its financial assets and financial liabilities. The most important components of this risk and uncertainty are credit risk, interest rate risk, liquidity risk, currency risk and compensation uncertainty.

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due. The main area where the ICCL is exposed to credit risk is through institutional deposits.

The ICCL manages this risk through its Investment Policy by placing limits on its exposure to any single counterparty. Counterparties are selected based on their credit ratings.

Interest Rate Risk

Interest rate risk is the risk that the Company might not obtain the best available deposit interest rates. The main area where the ICCL is exposed to interest rate risk is through institutional deposits.

The ICCL manages this risk through its Investment Policy by selecting the counterparties who initially comply with the credit rating criteria, and, subsequently offer the highest interest rates.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The risk of cash not being available could arise due to unexpected levels of demand being placed on a particular fund at a given time. The EU Directive, under which the

investor compensation scheme is established, states that the cost of financing investor compensation must, in principle, be borne by investment firms. The Directive also states that the financing capacities of such schemes must be in proportion to their liabilities. This requirement must not, however, jeopardize the stability of the financial system of the Member State concerned.

The Board carries out regular reviews (at least every three years) of the arrangements which are in place to fund the Scheme. This review includes setting targets for reserve fund balances and seeking support for funding arrangements from all stakeholders, including investment firms, the Central Bank & Financial Services Authority of Ireland and the Department of Finance, to ensure that the Scheme can meet its future funding requirements. The ICCL monitors the achievement of these targets using various reporting procedures.

Currency Risk

Currency risk is the risk of incurring financial losses due to adverse movements in foreign exchange rates.

The ICCL has no exposure to currency risk as all financial transactions are denominated in Euro.

Compensation Uncertainty

Compensation uncertainty is the uncertainty associated with estimating the final value of compensation payable in advance of the Administrator certifying all outstanding claims.

The ICCL addresses this uncertainty through detailed review of calculations underlying estimates and through regular updates from the Administrator regarding progress on the certification of claims and any issues affecting the certification of outstanding claims.

Statement of Directors' Responsibilities

Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and published by The Institute of Chartered Accountants in Ireland.

Irish company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the surplus or deficit of the Company for the period. In preparing those financial statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and with the Irish statute comprising the Companies Acts, 1963 to 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 Investor Compensation Act, 1998 requires the Directors to keep all proper and usual accounts of all monies paid into the fund or funds maintained by the Company and all

disbursements from such fund or funds including an income and expenditure account and a balance sheet.

The Directors have appointed appropriate accounting personnel in order to ensure that those requirements are met. The Directors consider that, in preparing the financial statements on pages 36 to 48, appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made.

The Directors have ensured that proper accounting records are kept in accordance with Section 202 of the Companies Act, 1990, by employing appropriately qualified personnel and by maintaining appropriate computerised accounting systems. The books of account are located at the Company's registered office at 42-45 Dame Street, Dublin 2.

Going Concern

The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries, is satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

Corporate Governance

The Chairperson and Deputy Chairperson are appointed on a non-executive basis by the Governor of the Central Bank and Financial Services Authority of Ireland. The remaining ten Directors are also non-executive members. Five of these Directors are prescribed by the Minister for Finance on the basis that they represent the interest of clients of investment firms while the remaining five Directors are nominated by bodies which are prescribed by the Minister for Finance on the basis that they represent the financial services industry. The Board, having obtained the approval of the Governor of the Central Bank and Financial Services Authority of Ireland and the Minister for Finance, has introduced a standard three year term of appointment for Directors (with a system of rotation) with Directors being eligible for re-appointment at the end of each term.

Compliance with the Combined Code

The Board remains committed to maintaining the highest standards and supports the principles of corporate governance outlined in the Combined Code on Corporate Governance² adopted by the Irish and London Stock Exchanges and effective for reporting years beginning on or after 1 November 2006. While the Company is not obliged to comply with the Combined Code, it has reviewed the principles and provisions of that Code and the Directors confirm that the Company has complied throughout the accounting period with the main aspects that are appropriate to the Company.

The Board is responsible for the leadership and control of the Company. There is a formal schedule of matters specifically reserved to the Board for consideration and decision. This includes approval of strategic plans for the Company, matters relating to the maintenance of the Scheme's funds, approval of the financial statements, the annual budget, acquisitions and disposals. The roles of Chairperson and Chief Operations Officer are not combined. The Chief Operations Officer is accountable to the Board for all authority delegated to executive management.

The Board has also delegated some of its responsibilities to Committees of the Board. The Directors, in the furtherance of their duties, may seek independent professional advice as required, at the expense of the Company. New Directors are provided with extensive briefing materials on the Company and its operations and the Chairman and Chief Operations Officer are available to brief members as required. Details of remuneration paid to the Directors are set out on page 41. There were 8 full meetings of the Board during the year. Details of Directors' attendance at those meetings are set out in the table on page 10. The Chairperson sets the agenda for each meeting in consultation with the Chief Operations Officer. Copies of Board papers are circulated to Directors in advance of meetings.

² Higgs review of the role and effectiveness of non-executive directors and Smith review of audit committees

Under the Investor Compensation Act, 1998:

- Director nominations to the Board of the ICCL are at the discretion of the Minister for Finance;
- The Governor of the Central Bank & Financial Services Authority of Ireland (Central Bank) appoints the Chairperson and Deputy Chairperson, and,
- The Financial Regulator is the supervisory authority for the ICCL.

In addition to an annual review undertaken between the ICCL Chairperson, Deputy Chairperson, Governor of the Central Bank and Chief Executive of the Financial Regulator, the Board undertakes an annual evaluation of its own performance, using the 'Performance Evaluation Guidance' set out in the Higgs Report, as a formal agenda item at a scheduled Board Meeting. Formal evaluation of the performance of individual Directors is conducted during the year by the Chairperson and Deputy Chairperson. Evaluation of the performance of the Chairperson is conducted by the Deputy Chairperson and the Chairman of the Audit Committee. Evaluation of the performance of the Deputy Chairperson is conducted by the Chairperson and the Chairman of the Audit Committee. The objective of these evaluations is to identify any scope for improvement and, in the case of individual evaluations, to determine whether each director continues to contribute effectively and demonstrate commitment to the role. The individual Director performance evaluation process is based on the principles outlined in the Higgs Report and the findings are reported to the Board as part of the Board evaluation process for consideration and action as required.

Internal Control

The Board has overall responsibility for the Company's system of internal control and for monitoring its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

In order to discharge that responsibility in a manner which ensures compliance with laws and regulations, the Board has established an organisational structure with:

- Clearly documented operating and reporting procedures;
- Clear lines of responsibility, segregation of duties and delegated authority;
- Identification of risks in the risk register and ongoing assessment and monitoring of those risks and the arrangements for managing them;
- Clear authorisation limits, and,
- Regular monitoring of performance against plans and targets.

The Audit Committee regularly reviews the effectiveness of the system of internal control and confirms that necessary actions are taken to remedy any significant failings or weaknesses identified.

Compliance with the Turnbull Guidance

The Directors confirm that the Company's ongoing process for identifying, evaluating and managing its significant risks is in accordance with the Turnbull guidance (Internal Control: Revised Guidance for Directors on the Combined Code, published in October 2005). The process has been in place throughout the accounting period and up to the date of approval of the Annual Report and financial statements and is regularly reviewed by the Board.

Committees

The Board has established two permanent committees to assist in the execution of its responsibilities. These are the Funding Committee and the Audit Committee. Ad hoc committees are formed from time to time to deal with specific matters.

Each of the permanent committees has terms of reference under which authority is delegated to them by the Board. Minutes of all Committee meetings are circulated to Committee members and the Chairman of each Committee reports to the Board on all significant issues considered by the Committee. The current membership of each Committee is set out on page 10. Attendance at Committee meetings held during the year is set out in the table on page 10.

Audit Committee

The Audit Committee is required to meet a minimum of three times per year. During the year, the Committee met six times. The main role and responsibilities of the Audit Committee are set out in written terms of reference and include:

- Monitoring the integrity of the financial statements,
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditors including, agreeing remuneration and terms of engagement,
- Overseeing the Internal Audit process,
- Evaluating the performance of the external auditors including their independence, objectivity and effectiveness,
- Facilitating a process for "whistleblowing",
- Reviewing the Investment Policy and Procedures,
- Reviewing the effectiveness of the Company's internal financial control and risk management process and its process for monitoring compliance with laws and regulations affecting financial reporting.

Funding Committee

The Funding Committee is required to meet a minimum of three times per year. During the year, the Committee met eight times. The Committee's responsibilities include:

- Assisting the Board with establishing and maintaining a fund or funds out of which payments shall be made in accordance with the Investor Compensation Act, 1998,
- Reviewing the collection of contributions and proposed bad debt write-offs,
- Reviewing the estimates of compensation payable as provided by Administrators,
- Assisting the Board with formulation of policies which affect the funding and operations of the Company.

Company Secretary

The appointment and removal of the Company Secretary is a matter for the Board. All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are complied with.

Directors and Transactions Involving Directors

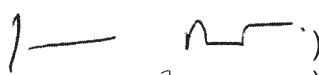

The Directors of the Company are listed on page 7. All Directors serve as non-executive Directors.

There were no contracts in relation to the business of the Company in which the Directors had any interest, as defined by the Companies Act, 1990, at any time during the year ended 31 July 2007.

Auditors

The auditors, PricewaterhouseCoopers, continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Signed on behalf of the Board: 22 October 2007

| | | | |
|-----------|---|---|-----------|
| J. Bardon |  |) | DIRECTORS |
| B. Healy |  |) | |

Independent Auditors' Report to the members of the Investor Compensation Company Limited

We have audited the financial statements on pages 36 to 48. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 39 and 40.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable Irish law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (generally accepted accounting practice in Ireland) are set out in the statement of directors' responsibilities on page 27.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with generally accepted accounting practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

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

Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with generally accepted accounting practice in Ireland, of the state of the company's affairs as at 31 July 2007 and of the surplus for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2006.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 24 to 33 is consistent with the financial statements.

The net assets of the company as stated in the balance sheet on page 37 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 July 2007 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors, Dublin
26 October 2007



F inancial Statements

Income and expenditure account for the year ended 31 July 2007

| | | 2007 € | 2006 € |
|--|--------------|--------------------------|--------------------------|
| INCOME | <i>Notes</i> | | |
| Contributions | | 4,041,662 | 3,849,603 |
| Interest Income | | <u>728,323</u> | <u>436,778</u> |
| | | 4,769,985 | 4,286,381 |
| EXPENDITURE | | | |
| Compensation costs and provisions/release | | | |
| Claims provision release | 7 | 1,859,721 | 3,970 |
| Claims – 3 rd party costs | 7 | <u>(3,833)</u> | <u>(250,623)</u> |
| | | 1,855,888 | (246,653) |
| Bad debts | | | |
| Written-off in year | 5(b) | (21,845) | (91,336) |
| Decrease in provision | 5(c) | <u>7</u> | <u>24,654</u> |
| | | (21,838) | (66,682) |
| Administration expenses | 2 | <u>(779,135)</u> | <u>(679,592)</u> |
| TOTAL EXPENDITURE | | 1,054,915 | (992,927) |
| SURPLUS ON ORDINARY ACTIVITIES | 1 | 5,824,900 | 3,293,454 |
| Opening Surplus | | <u>13,585,598</u> | <u>10,292,144</u> |
| Surplus at 31 July | | <u>19,410,498</u> | <u>13,585,598</u> |
| ALLOCATED BETWEEN FUNDS AS FOLLOWS: | | | |
| FUND A | 3 | 8,273,787 | 3,980,332 |
| FUND B | 3 | <u>11,136,711</u> | <u>9,605,266</u> |
| | | <u>19,410,498</u> | <u>13,585,598</u> |

The Company had no recognised gains and losses in the year to 31 July 2007 other than those dealt with in the income and expenditure account. There have been no movements in the reserves of the Company other than the surplus for the year. The accompanying notes form an integral part of the financial statements. All activities arise from continuing operations.

The financial statements were approved by the Board of Directors on 22 October 2007 and were signed on its behalf by:

J. Bardon 
B. Healy 



DIRECTORS

Balance sheet as at 31 July 2007

| | Notes | 2007 € | 2006 € |
|--|--------|-------------|-------------|
| NET ASSETS EMPLOYED: | | | |
| FIXED ASSETS | | | |
| Tangible assets | 4 | 6,850 | 18,991 |
| CURRENT ASSETS | | | |
| Debtors and accrued income | 5(a) | 120,277 | 77,661 |
| Cash at bank and on deposit | 13(ii) | 21,104,640 | 17,480,982 |
| | | 21,224,917 | 17,558,643 |
| CREDITORS: (Amounts falling due within one year) | 6 | (322,774) | (266,707) |
| NET CURRENT ASSETS | | 20,902,143 | 17,291,936 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 20,908,993 | 17,310,927 |
| PROVISION FOR LIABILITIES AND CHARGES | 7 | (1,498,491) | (3,725,325) |
| NET ASSETS | | 19,410,502 | 13,585,602 |
| FINANCED BY: | | | |
| Called-up share capital | 9 | 4 | 4 |
| Funds | 3 | 19,410,498 | 13,585,598 |
| | 11 | 19,410,502 | 13,585,602 |

The accompanying notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 22 October 2007 and were signed on its behalf by:

J. Bardon 
 B. Healy 

DIRECTORS

Cash flow statement for the year ended 31 July 2007

| | <i>Notes</i> | 2007 € | 2006 € |
|--|----------------|------------------|------------------|
| NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES | <i>13(i)</i> | 3,623,658 | (405,092) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Payments to acquire tangible fixed assets | <i>4</i> | - | (15,056) |
| INCREASE / (DECREASE) IN CASH | <i>13(iii)</i> | 3,623,658 | (420,148) |

STATEMENT OF ACCOUNTING POLICIES

The following accounting policies, together with applicable Accounting Standards in Ireland, have been applied in the preparation of the financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006 and in accordance with accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view which are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

Accounting Convention

The financial statements have been prepared in accordance with the historical cost convention.

Contributions

Contributions from authorised investment firms are recognised on an accruals basis as income in the period to which the amount levied relates.

Contributions outstanding at the Company's year-end are recognised as debtors and appropriate provision is made for bad and doubtful debts.

Compensation Costs

Compensation costs, including associated third party costs which have not already been invoiced at year-end, are recognised at the time that the Company becomes aware of an event having occurred which will give rise to a default and when a reliable estimate can be made of the amount of the compensation costs to be paid. A reliable estimation can normally be made only when the date for the receipt of applications for compensation has elapsed (which is not less than five months from the date of the determination).

The Company will normally become aware of a default on the presentation of a bankruptcy petition, the appointment of a liquidator or receiver or examiner, the convening of a meeting of creditors or a similar event. These events, inter alia, may lead to a determination by the Central Bank and Financial Services Authority of Ireland in accordance with the Investor Compensation Act, 1998.

Recoveries from subrogation are recognised when receipt is certain.

Administration Expenses

Administration expenses include all costs which are not compensation costs and include costs relating to the ongoing management of the Company.

Fixed Assets

The capitalised cost of fixed assets is their purchase cost together with any incidental expenses of acquisition.

Depreciation is provided on bases and rates which are estimated to reduce the assets to their realisable values by the end of their expected useful lives. The bases and rates are stated below:

| | |
|-----------------------------------|--|
| Computer software and equipment : | 33 ¹ / ₃ % straight line |
|-----------------------------------|--|

Funds

In accordance with the provisions of the Investor Compensation Act, 1998, the Company has established two separate Funds in respect of the various categories of investment firms.

N

otes to the financial statements for the year ended 31 July 2007

1. SURPLUS ON ORDINARY ACTIVITIES

The surplus on ordinary activities is stated after charging:

| | 2007 € | 2006 € |
|------------------------|-----------|-----------|
| Directors' fees | 130,000 | 129,462 |
| Depreciation | 12,141 | 12,981 |
| Auditors' remuneration | 13,000 | 12,124 |

The Company did not have any employees during the period. The administrative services are provided by the Central Bank and Financial Services Authority of Ireland.

The current Chairperson and Deputy Chairperson were remunerated €30,000 (2006: €30,000) and €15,000 (2006: €15,000) respectively on a pro-rata basis during the year. The other directors were remunerated at the rate of €8,500 per annum (2006: €8,500) on a pro-rata basis.

2. ADMINISTRATION EXPENSES ANALYSIS

| | 2007 € | 2006 € |
|----------------------------|----------------|----------------|
| Personnel costs* | 481,680 | 429,203 |
| Directors' fees & expenses | 135,451 | 137,250 |
| Administration overheads | 149,863 | 100,158 |
| Depreciation | 12,141 | 12,981 |
| | 779,135 | 679,592 |

*Personnel costs are included in the charge for administrative services by the Central Bank and Financial Services Authority of Ireland.

3. FUNDS

| | Fund "A" | Fund "B" | 2007 Total | Fund "A" | Fund "B" | 2006 Total |
|---|------------------|-------------------|-------------------|------------------|------------------|-------------------|
| | € | € | € | € | € | € |
| Contributions | 2,439,761 | 1,601,901 | 4,041,662 | 2,219,097 | 1,630,506 | 3,849,603 |
| Interest income | 342,136 | 386,187 | 728,323 | 215,690 | 221,088 | 436,778 |
| Compensation (costs)/recoveries: | | | | | | |
| Claims provision release | 1,859,721 | - | 1,859,721 | 3,970 | - | 3,970 |
| Claims – 3 rd party costs | (3,833) | - | (3,833) | (250,623) | - | (250,623) |
| Bad Debts recovered/(written off) | 8,000 | (29,845) | (21,845) | (60,348) | (30,988) | (91,336) |
| Decrease / (increase) in provision for bad and doubtful debts | 3,644 | (3,637) | 7 | 50,404 | (25,750) | 24,654 |
| Administration expenses | (355,974) | (423,161) | (779,135) | (316,427) | (363,165) | (679,592) |
| Surplus for year | 4,293,455 | 1,531,445 | 5,824,900 | 1,861,763 | 1,431,691 | 3,293,454 |
| Surplus at 1 August | 3,980,332 | 9,605,266 | 13,585,598 | 2,118,569 | 8,173,575 | 10,292,144 |
| Surplus at 31 July | 8,273,787 | 11,136,711 | 19,410,498 | 3,980,332 | 9,605,266 | 13,585,598 |
| Represented by: | | | | | | |
| Cash at bank | 9,816,798 | 11,287,842 | 21,104,640 | 7,748,547 | 9,732,435 | 17,480,982 |
| Fixed assets | 3,425 | 3,425 | 6,850 | 9,495 | 9,496 | 18,991 |
| Debtors | 55,544 | 64,733 | 120,277 | 11,190 | 66,471 | 77,661 |
| Creditors | (113,483) | (209,291) | (322,774) | (73,569) | (193,138) | (266,707) |
| Provision for liabilities and charges | (1,488,495) | (9,996) | (1,498,491) | (3,715,329) | (9,996) | (3,725,325) |
| Share capital | (2) | (2) | (4) | (2) | (2) | (4) |
| Total | 8,273,787 | 11,136,711 | 19,410,498 | 3,980,332 | 9,605,266 | 13,585,598 |

The income and expenditure is allocated between Funds as follows:

Costs, which are directly attributable to a particular Fund, are allocated to that Fund. Costs, which are directly related to the number of firms contributing to each Fund, are allocated on that basis. Commitment fees associated with commercial borrowing arrangements are allocated 2/3rds to Fund A and 1/3rd to Fund B. Other costs are allocated equally between the Funds.

4. TANGIBLE ASSETS

Computer Software and Equipment

| | 2007 € | 2006 € |
|-----------------|-----------|-----------|
| Cost: | | |
| At 1 August | 57,526 | 42,470 |
| Disposals | - | - |
| Additions | - | 15,056 |
| At 31 July | 57,526 | 57,526 |
| Depreciation: | | |
| At 1 August | 38,535 | 25,554 |
| On Disposals | - | - |
| Charge for year | 12,141 | 12,981 |
| At 31 July | 50,676 | 38,535 |
| Net book value: | | |
| At 31 July | 6,850 | 18,991 |

5. DEBTORS AND ACCRUED INCOME

| | 2007 € | 2006 € |
|---|-----------|-----------|
| (a) <i>Debtors and Accrued Income:</i> | | |
| Debtors (after a provision for bad and doubtful debts) | 13,590 | 1,176 |
| Accrued income & Prepayments | 106,687 | 76,485 |
| | 120,277 | 77,661 |
| (b) <i>Bad debts written-off during the year:</i> | 21,845 | 91,336 |
| (c) <i>Movement in respect of the provision and write-off for bad and doubtful debts:</i> | | |
| Opening provision for bad & doubtful debts | 66,445 | 91,099 |
| Closing provision for bad & doubtful debts | 66,438 | 66,445 |
| Decrease in provision | 7 | 24,654 |

6. CREDITORS

| | 2007 € | 2006 € |
|--|----------------|----------------|
| Compensation costs | 39,918 | 25,706 |
| Central Bank and Financial Services Authority of Ireland | 42,288 | 41,754 |
| Directors' fees | 10,833 | 10,833 |
| Prepaid contributions | 128,202 | 139,000 |
| Other | 101,533 | 49,414 |
| | <u>322,774</u> | <u>266,707</u> |

7. PROVISION FOR LIABILITIES AND CHARGES

(a) Money Markets International Stockbrokers Limited (Fund A) & Andrew Casey trading as Andrew Casey Life & Pensions (Fund B)

Claims for compensation have been made by clients of Money Markets International Stockbrokers Limited (Fund A) and Andrew Casey trading as Andrew Casey Life & Pensions (Fund B) and certain compensation payments have been made. Provision has been made in respect of estimated compensation where the claims have been received by the respective Administrators but have yet to be certified. Provision has also been made in respect of third party costs, which represent the costs of the Administrator, and, also directly attributable legal costs of the Administrator based upon an estimate of these costs to the completion of the Administration process.

(b) W&R Morrogh Stockbrokers (Fund A)

Claims for compensation have been made by clients of W&R Morrogh Stockbrokers. Provision has been made in respect of compensation claims which have yet to be certified by the Administrator.

In this case, a provision for compensation payments totalling €10.3 million was made to 31 July 2006. However, given the passage of time and the progress achieved in the Receivership process and in the certification of claims³, much of the uncertainty which was inherent in the original estimates has now dissipated. On the basis of revised estimates received from the Administrator, the Board have reduced the provision for claims by €1.85 million to €8.45 million, of which €7.45 million has already been paid out to 31 July 2007.

³ 97% of claims were certified as at 31 July 2007.

Provision of €720,000 has also been made in respect of the costs of the Administrator for completion of the Administration process, of which €270,400 has already been paid.

| | Fund A Claims | Fund B Claims | Total Claims | 3rd Party Costs (Funds A & B) | Total |
|--|--------------------------|--------------------------|-------------------------|---|--------------|
| | € | € | € | € | € |
| Opening provision at 1 August 2005 | 7,066,876 | 9,142 | 7,076,018 | 298,085 | 7,374,103 |
| (Decrease) / increase in provision | (3,970) | - | (3,970) | 250,623 | 246,653 |
| Payments during the year | (3,846,160) | - | (3,846,160) | (49,271) | (3,895,431) |
| Provision at 31 July 2006 and at 1 August 2006 | 3,216,746 | 9,142 | 3,225,888 | 499,437 | 3,725,325 |
| (Decrease) / increase in provision | (1,859,721) | - | (1,859,721) | 3,833 | (1,855,888) |
| Adjustments to Certified claims | 13,290 | - | 13,290 | - | 13,290 |
| Payments during the year | (368,377) | - | (368,377) | (15,859) | (384,236) |
| Closing Provision at 31 July 2007 | 1,001,938 | 9,142 | 1,011,080 | 487,411 | 1,498,491 |

8. CONTINGENT LIABILITY

Certification and payment of compensatable losses to many of the remaining claimants is anticipated in the coming year.

Total compensation payable by the ICCL is now estimated at €8.45 million, of which €7.45 million has already been certified and paid. The balance has been provided for in the ICCL's Financial Statements to 31 July 2007.

9. SHARE CAPITAL

Authorised:

10 Ordinary shares of €1.25 each

Issued and fully paid:

3 Ordinary shares of €1.25 each

| | 2007 € | 2006 € |
|--|-----------|-----------|
| | 13 | 13 |
| | 4 | 4 |

The Investor Compensation Company Limited is a company limited by guarantee and having a share capital. There are three shareholders, the Central Bank and Financial Services Authority of Ireland, the Irish Stock Exchange and the Irish Association of Investment Managers. The limit of guarantee to be paid by each shareholder in the event of the Company being wound up is €6.00.

On 2 December 2002, by a special resolution of the shareholders, the authorised share capital of the Company was changed to €12.50 and the ordinary shares were renominalised with a par value of €1.25 each. The amount equal to the reduction in nominal value of the allotted share capital was transferred to a capital conversion redemption fund. The capital conversion redemption fund has not been disclosed on the face of the balance sheet or in the notes to the financial statements as it is not deemed material.

10. TAXATION

The Company is exempt from Corporation Tax and Deposit Interest Retention Tax.

11. MOVEMENTS IN TOTAL FUNDS

| | Share Capital attributable to Shareholders € | Attributable to Funds € | Total € |
|----------------------|---|-------------------------------|------------|
| At 1 August 2006 | 4 | 13,585,598 | 13,585,602 |
| Surplus for the year | - | 5,824,900 | 5,824,900 |
| At 31 July 2007 | 4 | 19,410,498 | 19,410,502 |

12. RELATED PARTIES

The following transactions took place between the Company and its related party, the Central Bank and Financial Services Authority of Ireland:

| | 2007 € | 2006 € |
|--|-----------|-----------|
| Administration costs chargeable to the Company by the Central Bank and Financial Services Authority of Ireland for services provided | 531,796 | 463,538 |

Other than the payment of directors' fees and expenses as disclosed in Note 2, there have been no transactions in the year to 31 July 2007 between the Company and its directors.

13. CASH FLOW NOTES

| | 2007 € | 2006 € |
|--|-------------|-------------|
| (i) Reconciliation of surplus on ordinary activities to net cash inflow from operating activities | | |
| Surplus on ordinary activities | 5,824,900 | 3,293,454 |
| Depreciation | 12,141 | 12,981 |
| (Increase)/Decrease in debtors | (42,616) | (2,814) |
| (Decrease)/Increase in creditors and provisions for liabilities and charges | (2,170,767) | (3,708,713) |
| | 3,623,658 | (405,092) |
| (ii) Analysis of net funds | | |
| Cash at bank | 21,104,640 | 17,480,982 |
| (iii) Reconciliation of net cash flow to movement in net funds | | |
| Net Funds at 1 August | 17,480,982 | 17,901,130 |
| Increase/(decrease) in cash in the period | 3,623,658 | (420,148) |
| Net Funds at 31 July | 21,104,640 | 17,480,982 |

What is the Investor Compensation Scheme ?

Introduction

Instances may arise in the financial services industry where a firm is unable, due to its financial circumstances, to return to investors their investment instruments and/or their money. In the past, investors could do very little to recover their assets and people have suffered losses.

The establishment of an investor compensation scheme in 1998 provides a mechanism whereby private investors may be entitled to compensation from the Investor Compensation Company Limited (ICCL).

Background

In March 1997, the European Council adopted a Directive in relation to the establishment of investor compensation schemes in Member States. The purpose of the Investor Compensation Directive is to provide a minimum level of protection for investors in circumstances where fraud or insolvency results in the inability of an investment firm to return investment instruments or money to investors.

The Investor Compensation Directive lays down certain basic requirements for investor compensation schemes in order to provide a harmonised minimum level of investor protection across the Community. It is left to each individual Member State to implement an appropriate scheme and to determine the most appropriate way of organising and financing such schemes.

In Ireland, the Directive was transposed into Irish law on 1 August 1998 through the introduction of the Investor Compensation Act, 1998.

The Investor Compensation Act, 1998 (the Act)

Under the Act, the ICCL was established as a company limited by guarantee and having a share capital.

A principal objective of the ICCL is the putting in place of arrangements (e.g. funding and payment procedures) to ensure that eligible clients of a failed firm receive compensation, within the parameters set down in the Act, as quickly as possible.

Shareholders

The ICCL's three shareholders are:

- the Central Bank & Financial Services Authority of Ireland,
- the Irish Stock Exchange, and
- the Irish Association of Investment Managers.

The structure adopted in Ireland (i.e. the establishment of a specialist company to put compensation arrangements in place) is one which has also been used in some other Member States of the European Union.

The Board of Directors

The number of directors of the ICCL is prescribed by the Minister for Finance. The Chairperson and Deputy Chairperson of the Board are appointed by the Governor of the Central Bank & Financial Services Authority of Ireland. The ten other directors represent either the interests of consumers (5) or the interests of the financial services industry (5) and are prescribed by the Minister for Finance.

Scope of the Scheme

The Investor Compensation Directive applies to all authorised investment firms (including Credit Institutions authorised to provide investment services). In addition to

transposing the Directive into Irish Law, the Investor Compensation Act, 1998 also provides for compensation arrangements to apply to a large number of authorised investment firms which were not covered by the Directive. This reflected the Government's view that eligible investors who dealt with investment firms should be entitled to some degree of financial compensation if an authorised firm failed and investors lost assets.

Following a consultation process in early 1999 with relevant bodies in the financial sector and various investment firms, the ICCL decided on the establishment of two Funds for the following categories of membership:

Fund A

- | |
|---|
| • Investment Firms authorised under the European Communities (Markets in Financial Instruments) Regulation 2007 |
| • Investment Firms authorised under Section 10 of the Investment Intermediaries Act, 1995 that are not exempt under Section 2(5) of the Investor Compensation Act, 1998 |
| • Stockbrokers authorised under the European Communities (Markets in Financial Instruments) Regulation 2007 |
| • Credit Institutions authorised to provide investment business services |

- | |
|---|
| <ul style="list-style-type: none">• Certain certified persons who provide investment business services, which are similar to services provided by Fund A firms, in a manner which is incidental to their main professional activities |
| <ul style="list-style-type: none">• UCITS management companies, authorised to undertake Individual Portfolio Management Services⁴ |

Fund B

- | |
|---|
| <ul style="list-style-type: none">• Authorised Advisors authorised under the Investment Intermediaries Act, 1995 |
| <ul style="list-style-type: none">• Multi Agency Intermediaries authorised under the Investment Intermediaries Act, 1995 |
| <ul style="list-style-type: none">• Insurance Intermediaries required to register with the Financial Regulator under the European Communities (Insurance Mediation) Regulations 2005 |
| <ul style="list-style-type: none">• Certain certified persons who provide investment business services, which are similar to services provided by Fund B firms, in a manner which is incidental to their main professional activities |

⁴ Individual Portfolio Management Services refers to the management of portfolios of investments and discretionary portfolio management services as well as non-core services such as investment advice, safekeeping and administration services.

How is the ICCL Funded?

The Scheme is funded by contributions from firms authorised to conduct investment services and insurance mediation (firm/firms). The method for calculating the contributions payable was decided following four extensive consultation processes with firms and industry representative groups (1999, 2001, 2004 and 2007).

Contribution Rates

Current contribution rates vary depending on the membership category and are based either on the number of eligible clients of the firm or on the firm's income from investment and insurance business.

When is Compensation Payable?

The Scheme will pay compensation where an authorised firm is unable, due to its financial circumstances, to return money or investment instruments owed to a client. Investors will be compensated if they are eligible investors and have dealt with a firm that has been authorised to conduct business. The Scheme will not pay compensation where a loss arises as a result of poor advice or where the value of a client's investment declines because of market or other economic forces.

Process for Paying

Compensation

The ICCL can only begin the process of making compensation payments to eligible investors once it has been advised by the Financial Regulator that an authorised firm has either:

- a) been the subject of a court ruling which prevents the firm returning money or investment instruments to clients, or
- b) been the subject of a determination by the Financial Regulator that the firm is unable to meet its obligations arising from claims by clients.

Subsequently, the ICCL will write to all known eligible clients of the failed firm advising them of their right to make a claim for compensation. It will also place notices in the national newspapers and/or in Iris Oifigiúil seeking claims from investors.

Validation of claims and certification of the amount of compensation payable to claimants is carried out by an 'Administrator'. An Administrator will be either:

- the Court-appointed liquidator to the firm as a result of a proposal made by the Financial Regulator with the agreement of the ICCL, or
- a person appointed by the Financial Regulator with the agreement of the ICCL.

Investors will be given at least five months from the date of the court ruling or determination by the Financial Regulator to make a claim. Once a claim has been certified by the Administrator, the ICCL will make payments as quickly as possible and is obliged to do so within three months of the date of certification.

Compensation Limits

The amount of compensation payable to each eligible investor is limited to 90 per cent of the amount lost subject to a maximum payout of €20,000. This amount reflects the obligations imposed under the Investor Compensation Directive and is generally consistent with the levels of payment available in most other Member States of the European Union.

Relationship with Claimants

The ICCL aims to actively assist eligible investors and particularly those affected by the failure of a firm. It aims to deal in a co-operative and sensitive way with investors and to provide assistance to all those who contact the ICCL. The level of these enquiries can be significant particularly at the time of a failure of a firm. The ICCL has published an information booklet which provides useful information to investors. This is available by clicking on the publications

section in the ICCL's website or by contacting the ICCL directly (contact details are available at the back of this publication).

Relationship with the Central Bank and Financial Services Authority of Ireland

The Financial Regulator is the supervisory authority for the purpose of the Act. The Financial Regulator is a constituent part of the Central Bank and Financial Services Authority of Ireland which was established following the enactment of the Central Bank and Financial Services of Ireland Act, 2003 on 1 May 2003. Accordingly, certain actions undertaken by the ICCL can only be carried out with the approval of the Financial Regulator.

These include:

- the establishment of any fund
- the raising of finance, or borrowing of any money
- amending the Memorandum and Articles of Association

Certain other matters, pertinent to the operation of the compensation scheme, require a process of consultation between the ICCL and the Financial Regulator.

R Recommendations of the Morrogh Working Group

Legislative and Regulatory issues

1. Pre-determined rules should be developed for the distribution of client assets in circumstances where a shortfall in client assets arises following the failure of an investment firm.
2. The proposed pre-determined rules should have a statutory basis and take account of case law and international developments.
3. The word “controlled” should be removed from section 52(5) of the Stock Exchange Act, 1995 and section 52(7) of the Investment Intermediaries Act, 1995.
4. The approach to funding receiver/liquidator costs in section 52(5) of the Stock Exchange Act, 1995 should remain unchanged.
5. A set of principles should be prepared by the Financial Regulator and the ICCL to guide and inform the certification of claims by the Administrator. The principles should be supported by regulatory and legislative changes as necessary.
6. Following the certification of the majority of the Morrogh claims, ICCL should carry out an analysis of the claims with the objective of:
 - identifying any efficiencies that could be introduced into the certification process;
 - assessing the reliability of the information contained in the claim forms; and
 - informing the preparation of practical guidelines to support certification of compensation claims on a speedier basis.
7. Details of the claims and their reconciliation with client records should be made available by the Morrogh Administrator to ICCL to facilitate their analysis of claims.

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8. The Group noted the range of other measures being taken to protect investors and, in particular, welcomed the proposals in relation to dematerialisation which will strengthen investor protection. The Group recommended that work on the dematerialisation of shares be progressed with a view to implementation at the earliest possible date.

Investor Compensation Funding

9. The current requirement, whereby industry meets the cost of investor compensation following the failure of a firm should continue. The Group supports ICCL's 'cascade model' as the structured funding framework for investor compensation.
10. The ICCL should continue to review its target levels of reserves for each compensation fund to ensure that reserves in each fund are adequate to meet what might be regarded as reasonably foreseeable funding requirements for investor compensation.
11. A cap should be placed on calls which may be made on industry for additional top-up funding in any one year. The Group considers that the cap recommended by the ICCL at twice the annual firm contribution is appropriate. The imposition of a cap cannot be considered in isolation from the issue of borrowing, or the level of annual contribution and the appropriate target level of reserves to underpin the sustainability of the funding structure.
12. The existing policy of ICCL in relation to inter-fund borrowing should be continued.
13. The difficulty in providing repayment assurances to secure commercial borrowing facilities is recognised. It is recommended that the ICCL and the Department of Finance further examine the international experience on the provision of the repayment assurances sought by commercial lenders.
14. The difficulties faced by ICCL in accessing commercial borrowing, including the requirement to clarify the legal position regarding State support for investor compensation, should be brought to the attention of the EU Commission in the context of its work on investor compensation schemes.
15. A range of legislative, risk management and operational difficulties would need to be considered further before borrowing from the Deposit Guarantee Scheme or the Central Bank. In view of these difficulties this option is not favoured at this stage. Recognising that some

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jurisdictions have such borrowing arrangements in place, the Group agreed that this matter be brought to the attention of the EU Commissioner in the context of its work on deposit guarantee schemes, in conjunction with those issues referred to in recommendation 14.

16. The amalgamation of the investor compensation scheme and the Deposit Guarantee Scheme is not recommended.
17. While the matter should be kept under review by the ICCL in consultation with the fund contributors, the amalgamation of the two funds maintained by ICCL is not recommended at this time.
18. As no conclusion could be reached, the introduction of a product levy on relevant transactions and alternative sources of funding are not recommended.
19. ICCL should continue to carry out assessments of the potential investor compensation funding needs. While it is difficult and complex to estimate the risk of firm failures, there is scope for undertaking further modelling and scenario analysis. Simple stress testing could produce useful results.
20. The purchase of insurance to cover compensation events is not considered to be economically viable and it is not recommended on that basis.

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