

THE INVESTOR COMPENSATION COMPANY LIMITED

Annual Report Year Ended 31 July 2013



Mission Statement

The Investor Compensation Company Limited 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.
- Operate a cost effective method for the collection of levies which is fair to all investment firms.
- Maintain an open and positive relationship with the participant firms and claimants with whom we deal.

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

- We take seriously our responsibility to the Investor Compensation Scheme's claimants and participant firms.
- We work in a consultative and co-operative manner with our participant firms, with the Central Bank of Ireland 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 2013

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DIRECTORS AND OTHER INFORMATION

Directors	Jim Bardon Daniel Coveney Inge Clissmann Terry Hardiman Brian Healy Dermott Jewell Paul O'Donovan Frank O'Dwyer Eimer O'Rourke Ciaran Phelan Gina Quin Mark Redmond	(Chairperson) (Deputy Chairperson) (Senior Independent Director) (Retired on 11 th April 2013)
	Louise O'Mahony	(Appointed on 22 nd April 2013)
Secretary	George Treacy	(Re-appointed on 25 th February 2013)
Registered Office	Central Bank of Irelan PO Box 11517, Spencer Dock, North Wall Quay, Dublin 1.	ıd,
Auditors	KPMG, 1 Harbourmaster Plac IFSC, Dublin 1.	ce,
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. Secretary of the Council of the Financial Services Ombudsman and former Secretary of 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 Disciplinary Appeals Service Deputy Chairperson, Board. 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 and Staff Panel of Trinity College Dublin. Former Member, European Consumer Law Group, the Advertising Standards Authority and the Garda Complaints 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 Traded Markets, Development, Operations, Irish Stock Exchange. Chairman of the Euroclear Group plc cross-market Irish Market Advisory Committee dealing with development and harmonisation issues for equity and fixed income. Previously worked with Arthur Andersen. A fellow of the Institute of Chartered Accountants in Ireland and of the Chartered Institute of Securities and Investment. He is also an Accredited Mediator.



Dermott Jewell

Chief Executive of the Consumers' Association of Ireland. Current representations include Chairperson Financial Services Ombudsman Council, Chairperson European Consumer Centre, Chairperson Governing Board Irish Food Quality Certification, Member Consumer Advisory Group of the Central Bank of Ireland, Member Bórd Bia Quality Assurance Board and Irish Representative alternate of the European Consumer Consultative Group (ECCG) of DG Sanco.



Paul O'Donovan Independent consultant operating across all sectors of the Financial Services Industry working with regulatory bodies, representative bodies and service providers. Formerly a Senior Consultant with Accenture (Andersen Consulting, Arthur Andersen & Co.) and a founder Director of Prospectus Strategy Consultants. Established O'Donovan Associates in 1994.



Frank O'Dwyer Chief Executive of the Irish Association of Investment Managers whose members manage assets of over €200 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. A director of the Irish Takeover Panel.



Louise O'Mahony Senior Manager – Retail, Irish Banking Federation, the principal voice of the banking and financial services sector in Ireland, and Member of the Executive Committee of the European Mortgage Federation.



Ciaran Phelan

Ciaran is currently Chief Executive of the Irish Brokers Association. He has over 25 years experience in the Life Assurance Industry having worked in various senior management roles. He also spent a number of years in the telecommunications industry. He holds a BA in Management.



Gina Quin Chief Executive, Dublin Chamber of Commerce, representing businesses in the Greater Dublin Region. A Member of the Board of ESB Networks and a Chartered Director. Previously CEO of Gandon Enterprises, the commercial division of the Rehab Group.



Mark Redmond Former Director with PricewaterhouseCoopers, now Chief Executive of the Irish Taxation Institute. A fellow of the Irish Taxation Institute.

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** Dermott Jewell² Frank O'Dwyer Louise O'Mahony Ciaran Phelan

Audit Committee

Brian Healy (Committee chairperson) Mark Redmond Gina Quin¹ Frank O'Dwyer (Alternate member)

	Board	Funding Committee	Audit Committee
Number of meetings held	8	6	3
Jim Bardon	7	2 ³	N/a
Daniel Coveney	8	6	N/a
Inge Clissmann	6	N/a	N/a
Terry Hardiman	8	6	N/a
Brian Healy	8	5	3
Dermott Jewell	8	N/a	1
Paul O'Donovan	7	N/a	N/a
Frank O'Dwyer	7	6	2
Eimer O'Rourke ⁴	4	3	N/a
Ciaran Phelan	7	5	N/a
Gina Quin	8	N/a	N/a
Mark Redmond	6	N/a	2
Louise O'Mahony ⁵	3	0	N/a

Attendance at Board and Committee Meetings

 ¹ Appointed to the Audit Committee on 9th September 2013
² Resigned from the Audit Committee and appointed to the Funding Committee on 9th September 2013
³ Not required to attend Funding Committee meetings
⁴ Retired from the Board on 11th April 2013 (Eligible to attend 5 Board and 5 Funding Committee meetings)
⁵ Appointed to the Board on 22nd April 2013 (Eligible to attend 3 Board and 1 Funding Committee meetings)

CHAIRPERSON'S STATEMENT

Jim Bardon

I again have the pleasure of presenting the Annual Report of the Investor Compensation Company Limited ['ICCL' / 'the Company'] for its fifteenth year of operation.

Overview

The primary objectives of the Company are to pay, in a prompt manner, statutory levels of compensation to clients of failed investment firms and to operate a financially sound scheme. Our staff aim to deal in a courteous and helpful manner with all stakeholders, including claimants and participating investment firms, while ensuring that the Company meets its legal and operational objectives in the most efficient and cost effective manner.

The financial year ending 31st July 2013 was an extremely busy one for the ICCL and, in that context, the Board and I wish to express our appreciation for the ongoing commitment of our Chief Operations Officer, George Treacy, and the dedication and hard work of his team.

Compensation Cases: On 7th February 2013 the Minister for Finance placed the Irish Bank Resolution Corporation ['IBRC'] into 'Special Liquidation' and appointed Kieran Wallace and Eamonn Richardson of KPMG as Joint Special Liquidators under the relevant enabling legislation. On 17th May 2013 the Central Bank of Ireland ['Central Bank'] also issued a determination under Section 31(3) of the Investor Compensation Act, 1998 ['the Act'] that IBRC was unable to meet its obligations arising from claims by clients who conducted investment business with the firm. The Central Bank also appointed the Joint Special Liquidators as Joint Administrators for the purposes of the Act.

The role of the Administrator is to provide the ICCL with the relevant client list, verify the eligibility of each claim and certify to the ICCL the amount of any compensation to be paid to individual claimants. On receipt of the list from the Joint Administrators, the ICCL wrote, on the 22^{nd} July 2013, to known investment clients of IBRC enclosing a claim form and information on their entitlements under the Act. The ICCL also placed notices in the national press inviting former clients of IBRC to contact the ICCL and noting that completed claims should be submitted on or before Thursday 21^{st} November 2013. The Joint Administrators have estimated that the cost to the ICCL of the failure of IBRC is expected to fall within a range of €0 to €2.6 million. Accordingly, the ICCL has made a related provision of €2.6 million in its accounts for the year end 31^{st} July 2013.

The impact of the failure of, and appointment of Administrators under the Act to, two MiFID investment firms, Custom House Capital Limited ['CHC'] and Bloxham, in the year ended 31st July 2012 has impacted significantly on the work of the Company in the year under review. It is worth recalling that the appointment of the Administrator to CHC was the first such appointment since the failure of W&R Morrogh in June 2001 over 10 years previously.

Funding: Every three years the ICCL reviews its funding arrangements in detail and sets out its levy structure for the next three years. In view of the failures referred to above, it was opportune that this exercise was undertaken in the year under review. Following an extensive consultation exercise with its stakeholders, including the Central Bank, in May 2013 the ICCL published a response to the consultation exercise and its Funding Arrangements for the three years to 31st July 2016.

In relation to Fund B the Board of the ICCL took into account the absence of any significant claims, a need to continue to gradually build up reserves and a wish to rebalance levy bands. Consequently, the levies applicable to smaller firms were reduced by up to 20% while increases of 3% per annum on average were applied to larger firms.

In relation to Fund A firms the Board took account of the current difficult economic climate and struck a balance between the ability of firms to pay increased levies and the need to rebuild the fund's reserves following the recent failures. The Board concluded that it was necessary to increase levies by, on average, 15% per annum over the three year period.

The increase in fees would have been greater were it not for the strategy adopted by the Company to put in place contingency arrangements which provide a backstop in case the relevant fund's reserves prove insufficient. This includes a standby credit facility of \in 50 million and an insurance policy which provides cover of \in 50 million for Fund A and \in 10 million for Fund B subject to an annual excess of \in 15 million per Fund. The insurance policy is negotiated annually and the Company recently renewed the policy to cover the year to 30th September 2014.

Other Matters: In addition to claimants and participating firms, the Company consulted a range of other stakeholders over the year, in particular, the Department of Finance, the Central Bank and other investor compensation schemes. The Board noted that, given the extensive new EU initiatives related to banking supervision and resolution, there was no progress made in respect of the EU Commission's proposal to amend the Investor Compensation Directive. However, the Board, through the Executive, will continue to maintain a close watching brief on developments in this area as they will have the potential to impact substantially on the operations of the Company.

I welcome the insertion, by the recent Central Bank (Supervision and Enforcement) Act 2013, of a new section 33B into the Investor Compensation Act, 1998. This will allow the Minister for Finance to give effect to an outstanding recommendation of the Morrogh Working Group's Report, published in

November 2006, which identified the lack of clarity on predetermined client asset distribution rules as an impediment to the efficient and prompt return of assets to investors.

Compensation Claims

The Company's aim is to pay claims as speedily as possible. Once claims are made by investors, they are considered by the Administrator for eligibility initially, and where eligible, the amount of compensatable loss is calculated and certified by the Administrator for payment by the Company. This is a technical process which may take a significant time to complete. However, once claims are certified, most are paid within two weeks of certification, well within the statutory three month period.

The most significant case currently being dealt with is Custom House Capital Limited (in Liquidation). The total number of claims, including late claims, which the Company has received and forwarded to the Administrator, stood at 1,966 claims at the 31^{st} July 2013. A related provision of \in 19.7 million was made in the 2012 accounts which represented the Administrator's best estimate of the likely upper limit of CHC claims. This estimate has not changed in the year under review. As of end September 2013, a total of \in 5.9 million has been certified by the Administrator and paid by the ICCL. The Company remains committed to processing claim applications and paying compensation to clients of CHC, as quickly as possible, once validated and certified by the Administrator. However, the Administrator has indicated that the reconciliation process is protracted due to the poor quality, and concern over the accuracy, of records within CHC and that, given the circumstances of CHC's collapse, it is not possible to give an accurate estimate of when remaining individual claims will be resolved.

In the case of Bloxham, the Administrator, having reviewed all claims received, concluded that no compensation was due to claimants and on 22nd April 2013 the ICCL wrote to claimants informing them of those decisions.

All claims in respect of the failure of W&R Morrogh have now been certified and paid following the processing of the final two claims in January 2013. The total amount of compensation paid amounted to \in 7.8 million in respect of 2,634 claims received. It is hoped that the Receiver will shortly submit an application to the High Court to seek permission to distribute the final dividend from the receivership.

All MMI claims have been certified and the Company now awaits the outcome of its subrogated claim from the liquidation process.

Staffing and Operations

Our permanent team consists of seven people. The team is responsible for collecting over \in 5m annually in levies from investment firms, managing the cash reserves of the Company which currently stand at \in 44.5 million and dealing with the clients and administrators of failed investment firms.

The Board noted that, continuing a recent trend, the numbers of Fund A and Fund B participants has fallen over the past year. The numbers of authorised Fund A firms has fallen from 240 for the year ended 31st July 2010 to 194 as at 31st July 2013, representing an aggregate fall of 19%. The numbers of authorised Fund B firms has fallen over the same period from 5,728 to 4,081 representing an aggregate fall of 29%. A continuation of these trends will present a challenge to the future funding of the compensation schemes.

This year the Company has made a provision in respect of potential claims arising from the failure of IBRC, a Fund A firm, amounting to €2.6 million which is reflected in this year's accounts. The Board has noted that this will delay the rebuilding of the reserves of Fund A following the substantial provisions made in respect of CHC last year, and has concluded that, while it will continue to closely monitor the situation, the Company will not seek to implement a top-up arrangement at this time.

The result for the year shows a surplus on both Funds despite Fund A incurring the charge of €2.6 million in respect of IBRC mentioned above. Fund B operated in line with expectations and is, I believe, well placed to achieve the funding target set out in the Funding Arrangements document published in May 2013, subject to the assumptions therein holding firm.

The Board and I are very pleased with the operational support and assistance the Company receives from the Central Bank and its staff. The Company regularly provides the Central Bank with detailed reports on its collection and legal recovery processes and has co-operated closely with the staff of the Central Bank on a number of projects.

Financial Results Summary as at 31 July 2013

INCOME and EXPENDITURE SUMMARY	Fund A €	Fund B €	Total €
Income from annual levies	3,695,245	1,631,869	5,327,114
Interest Income	184,383	137,880	322,263
Subrogated Income	520,186	-	520,186
Compensation (costs/provisions) and write-backs	(2,661,349)	9,996	(2,651,353)
Administration expenses (including bad debts & provisions for bad debts)	(823,842)	(503,594)	(1,327,436)
Surplus for Year	914,623	1,276,151	2,190,774

BALANCE SHEET SUMMARY	Fund A €	Fund B €	Total €
Cash at bank	7,481,603	627,238	8,108,841
Short-term investments	16,705,120	19,659,889	36,365,009
Fixed assets	4,780	4,780	9,560
Debtors	5,334,801	87,944	5,422,745
Creditors	(767,320)	(52,308)	(819,628)
Provision for liabilities and charges	(17,449,158)	-	(17,449,158)
Share capital	(2)	(2)	(4)
Fund Reserves	11,309,824	20,327,541	31,637,365

Corporate Governance

The Board at all times seeks to operate to the highest standards of corporate governance. The Board has formed two standing Committees and implemented structures and procedures designed to deliver this objective.

In order to ensure that the Company adheres to these standards an annual review of compliance with relevant codes, in particular, the Financial Reporting Council's Corporate Governance Code, is undertaken and presented to the Board. The latest such review took place on 9th September 2013.

Board Retirements and Appointments

Eimer O'Rourke, who joined the Board in January 2007, retired on 11th April 2013. Eimer was an important member of our Board whose advice and experience I welcomed throughout her service to the ICCL. I welcome Louise O'Mahony who joined the Board on 22nd April 2013 and look forward to her contributions over the years to come.

Finally, I would like to thank all of 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.

21st October 2013

OPERATING REPORT



The Company'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 Company also strives to provide a value for money service to all its stakeholders.

George Treacy Chief Operations Officer

I present my second and the fifteenth Operating Report of the Investor Compensation Company Limited ['the Company/the ICCL'] for the year ended 31st July 2013.

Overview

The financial year ending 31st July 2013 was another active year by comparison with historical standards both in relation to new cases and in a detailed review of the Company's funding arrangements.

Claims: On 7th February 2013, the Minister for Finance, Mr Michael Noonan. T.D., placed Irish Bank Resolution Corporation ['IBRC'] into Special Liquidation under the powers granted to him by the IBRC Act, 2013 and he, simultaneously, appointed Mr. Kieran Wallace and Mr. Eamonn Richardson as Joint Special Liquidators. Shortly thereafter, on 17th May 2013, the Central Bank of Ireland ['Central Bank'] informed the Company that it had made a determination under section 31(3) of the Investor Compensation Act, 1998, as amended [the 'Act'] that IBRC was unable to meet its obligations arising from claims by clients who conducted investment business with the firm. The Central Bank also appointed the existing Joint Special Liquidators as Joint Administrators for the purposes of the Act.

On receipt of the relevant IBRC client list from the Joint Administrators, the ICCL wrote to those clients and published a notice in national newspapers, setting out the Central Bank's determination and inviting eligible clients who had not received letters from the ICCL to contact the Company.

The failure of IBRC added to ongoing work from the failure of Custom House Capital Limited ['CHC'] on 21st October 2011, the first such failure in over ten years, and the subsequent failure of Bloxham on 25th June 2012. IBRC, CHC and Bloxham were all participants in Fund A.

Funding: A major exercise was undertaken over the past year with a view to establishing the level of participant firm levies over the three years to 31st July 2016. This consisted of a detailed exercise in projecting the potential level of Fund A and B reserves under a range of scenarios, undertaking a consultation with participants and setting out the final funding arrangements. The Act requires that the Company maintains a sufficient balance in its funds to ensure that it is in a position to meet any reasonably foreseeable obligations.

The Company raised €3.70 million in levy income from Fund A firms and €1.63 million from Fund B firms over the year.

Insurance: The Board and Executive of the ICCL believe that the unique insurance policy, which it has negotiated through its insurance brokers, offers considerable benefits to fund participants and to claimants. It effectively means that, subject to the policy being in place, Fund A and B effectively have additional synthetic capital, subject to the relevant excess, of \in 50 million and \in 10 million respectively. This allows the ICCL to focus on rebuilding fund reserves over a number of years while ensuring that the Company is in a position to meet claims as they arise without immediately resorting to borrowing facilities. While the number of investment firm failures over the past 2 years was of concern to underwriters, I am happy to confirm that the insurance policy has been renewed for a further year to 30th September 2014.

Investment of reserves: The Company continued to invest the reserves of the Funds with a view to optimising return while maintaining a primary focus on the preservation of capital, minimising risk and maintaining an appropriate level of liquidity. However, low returns available in the money markets and the absence of counterparties with sufficiently high credit ratings has made the achievement of these goals difficult. Nonetheless, the overall return achieved on our investment activities for the year was 0.93% compared to an average 1-month EURBID rate of 0.03%.

Strategy: In April 2013 the Board undertook its annual review of the 5-year Strategic Plan for the Company which it originally adopted in June 2011. This strategy underlies the Company's annual work plan which sets out specific objectives to be achieved at both an organisational and individual staff level in relation to operational targets, projects and staff training and development. The Executive reports quarterly to the Board on progress towards the achievement of the annual work plan's targets and on the Company's broader strategic goals.

Funding of the Scheme

The Company is committed to undertaking a fundamental review of its funding arrangements on a three-year cycle. The previous funding arrangements expired on 31st July 2013. On 31st October 2012 the Company issued a detailed consultation document with the central objective of establishing the size of levies over the three years ending 31st July 2016.

Consultation: The consultation took place against a difficult background, in particular, the ongoing poor economic climate and two known failures (CHC and Bloxham). As the Company is fully funded from these levies, the falling numbers of investment firms is also a concern. The number of Fund A firms has fallen by 19% over the three years from 31st July 2010 while the equivalent fall in Fund B firms is 29% although the latter figure is significantly distorted by a sharp fall in the number of tied agents whose levies would normally be at the lowest level.

The Consultation closed on 7th December 2012 and a thorough review of the responses was undertaken. A consultation response document was issued in conjunction with the final funding arrangements document on 31st May 2013.

Funding Arrangements: In the case of **Fund A**, as stated by the Chairman, the Board took account of the current poor economic climate and falling participant numbers in order to strike a balance between the ability of firms to pay increased levies and the need to rebuild the Fund's reserves following the recent failures. The decision of the Board was to increase levies in all but the lowest category by 17% in 2013/14, 13.5% in 2014/15 and 10% in 2015/16 which represents an average increase of 15% per annum over the three year period. These increases would have been substantially higher were it not for the insurance policy and standby credit facility negotiated by the Company. It is important to note that, in the event of an unanticipated shock, such as another substantial failure, a change to compensation thresholds or a failure to renew the ICCL's insurance policy, the Company would be forced to reconsider these funding arrangements.

In the case of **Fund B**, the Board concluded that, in the absence of any recent failures, the opportunity should be taken to rebalance the burden on firms by increasing the number of levy categories. The levy on the lowest categories reduced for the year 2013/14 by on average 20% with no further increases over the following two years. The levy on other categories was increased by an average 3% per annum while a new top category, for firms with relevant income in excess of ≤ 25 million, was introduced with an initial levy rate for 2013/14 of $\leq 23,500$. The objective of the Company is to continue to slowly build up the reserves of Fund B until a target reserve level of ≤ 30 million is reached.

Collections: I am pleased to report that the Company achieved an historically high rate of collections in respect of Fund B firms with a collection rate of 97.5% compared with 96.1% in the year ended 31st July 2012. I would like to thank my staff who put significant effort into achieving this excellent result.

This was due to a continued focus on improving our collection processes, close co-operation with the Central Bank and a determined effort to pursue firms who did not pay their levy. In late 2012 the Company commenced taking Court proceedings against investment firms that failed to comply with their legal obligation to pay their levies. While regrettable, this was deemed necessary as a failure by one participant to meet its legal obligations impacts on the size of levies imposed on others and on the ability of the Company to build up reserves against failures. Over the year to 31st July 2013 the ICCL had issued proceedings against 30 firms. Of these, 9 accounts were still with the ICCL's solicitors, judgments were received and published against 4 firms, 3 firms had revoked, or are in the process of revoking their licence while 13 settled their outstanding levies in full, 1 firm was on a payment plan.

At 31st July 2013, the collection rate for Fund A firms was 99.7% (2012: 99.5%). The collection rate for Fund B firms was 97.5% (2012: 96.1%) as outlined above.



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

*€1.8 million release of W&R Morrogh Claims Compensation Provision



*€9,996 release of Andrew Casey Claims Compensation Provision

Investments

Background: The Company's investment policy remains highly risk averse with an emphasis on capital preservation and liquidity. The Company has, to date, restricted its investments to the placement of deposits with a maturity of 1-year or less with highly rated credit institutions authorised by the Central Bank, including branches of authorised credit institutions located in the State, and certain institutions carrying a specific sovereign guarantee.

Unfortunately, with the ongoing banking crisis in Europe, the number of credit institutions with high credit ratings remains low. This problem was compounded by the fact that a number of the higher rated credit institutions have not been accepting commercial deposits and by the withdrawal of the Eligible Liabilities Guarantee by the Irish Government at end-March 2013. A further difficulty arose from the very low levels of investment returns available in the money markets. Over the course of 2013, the average 1-month EURIBID rate was 0.03%.

In view of the difficulties outlined below, the Board, following the approval of the Central Bank, agreed to extend the scope of the Company's investment policy to include the purchase of Government bonds with maturities of three years or less and the investment in highly-rated money market UCITS funds. However, a decision was made not to invest in these products due to very low bond yields and additionally, in the case of money market funds, a reluctance of the relevant funds to take new subscriptions at this time.

Outturn: The monthly rate of return on investments fell throughout the period from an initial 1.31% in August 2012 to 0.64% in July 2013 and on average a return of 0.93% was made over the year as a whole. This reflected, to a significant degree, the fact that prior to the removal of the ELG, deposits continued to be placed with the Irish "covered institutions" each of which paid a higher rate of interest over the period than other acceptable counterparties. The following table compares the Company's investment return with the average 1-month Euribid rate over the equivalent time period.

YEAR	Actual Rate of Return	Average EURIBID 1-Month	Difference
2012/13	0.93%	0.03%	+0.90
2011/12	1.31%	0.94%	+ 0.37
2010/11	1.25%	1.00%	+ 0.25

The Company liaised closely with the Central Bank in relation to both its investment performance and, as referred to earlier, its investment policy.

Outstanding Cases of Compensation

Our website, www.investorcompensation.ie, is updated regularly with the latest news on all outstanding cases.

Custom House Capital Limited (in liquidation) ['CHC']: The date of the Court Ruling in respect of CHC was the 21st October 2011. As envisaged by Section 33A of the Act, the High Court appointed the Official Liquidator, Mr Kieran Wallace, as Administrator.

Since that time a total of 1,966 claims, including late claims approved by the Central Bank, have been received by the Company. These have, in turn, been submitted to the Administrator, Mr Wallace, for verification and, in due course, certification. As expected, the process of verifying and certifying claims has been relatively slow due to the difficulties arising from the nature of the failure, the poor and, sometimes questionable, documentation, the pooling of client monies and misappropriated funds and the nature and location of many of the investments.

The Company has continued to liaise with the representatives of Mr Wallace throughout the year and summary detail of certified claims paid to date is set out below. As of end September 2013, the Company had paid out €5,941,490 in compensation payments in relation to 405 claims.

	Date Certification received from Administrator	Number of Claims	Compensation Paid	Date Compensation Paid
Tranche 1	23 October 2012	26*	-	-
Tranche 2	3 December 2012	49	€1,000,000	5 December 2012
Tranche 3	12 April 2013	44	€880,000	22 April 2013
Tranche 4	18 April 2013	50	€1,000,000	22 April 2013
Tranche 5	1 May 2013	49	€980,000	3 May 2013
Tranche 6	27 May 2013	42	€860,000	29 May 2013
Tranche 7	30 July 2013	45	€642,760	1 August 2013
Tranche 8	13 September 2013	100	€578,730	18 September 2013

These clients were certified by the Administrator as 'excluded investors' for the purposes of the Act.

The CHC case is likely to be the most costly case for the Company to date. The Administrator's initial estimate of compensatable losses incurred by former clients of CHC ranged from \in 7.3 million to \in 19.7 million and this estimate remains unchanged. The Company has provided for potential compensation costs amounting to \in 19.7 million in its accounts and has informed its insurers of the Administrator's estimates. In the event that compensation payments made in respect of CHC exceed \in 15 million, the ICCL will reclaim those costs against its insurance policy.

Bloxham (in Liquidation) ['Bloxham']: The date of the Court Ruling in respect of Bloxham was 25th June 2012. The High Court appointed the Receiver, Mr Kieran Wallace, as Administrator under Section 33A of the Act.

As neither the Central Bank of Ireland nor the Receiver have identified circumstances which would lead them to conclude that the winding down of Bloxham would result in compensatable losses, no provisions were made against that possibility. In the event, a total of 27 claims were received. On 17th April 2013 Mr Wallace advised the Company that he was rejecting all claims. On 22nd April 2013 the Company communicated the Administrator's decision to the claimants.

Andrew Casey: The firm traded as Andrew Casey Life & Pensions and the date of the Central Bank's determination was 15^{th} October 1999. The Company liaised with the Administrator, Michael Fagan, and agreed that all matters had been resolved and that the case could now be closed. Total compensation payments in this case involved a relatively modest amount of money ($\leq 20,000$) which has been paid under the Scheme.

Money Markets International Stockbrokers Limited ['MMI']: The date of the Court Ruling was the 19th February 1999. On 18th February 2013 the matter of MMI was before the Examiner's Court at which time the Liquidator's Counsel advised that the liquidation could last for another two years. The Judge, barring any intervening applications, put the matter back for further consideration for one year until 17th February 2014.

However, all 313 claims received in respect of MMI have been dealt with and compensation payments amounting to €774,422 have been paid. The Company has submitted its subrogated claim to the Liquidator of MMI in respect of compensation paid to claimants and awaits the final outcome of the liquidation process.

W&R Morrogh Stockbrokers ['Morrogh']: The date of the Central Bank's determination was 18^{th} June 2001. On 8^{th} October 2012, the Administrator, Tom Grace, certified compensation of €217,825 in respect of 34 of the remaining 36 claims and the Company issued the compensation payments. On 7^{th} January 2013 the Administrator submitted a final certification of €20,230, in respect of the final two outstanding claims (including a joint claim), which the Company paid. On 6^{th} February 2013 the Administrator submitted a final now been certified in full. The total number of claims received in respect of Morrogh was 2,634 and the total amount of compensation paid to claimants was €7.758 million.

Under the Act, where the Company has paid compensation to a claimant, the Company becomes subrogated to the rights of that claimant, in the liquidation proceedings, for the amount of the compensation paid. This means that the Company steps into the shoes of the claimant in the receivership and, in such cases, is entitled to the payment of related distribution, if any, from the receivership. On foot of a first dividend of 30 cent in the euro, which the Receiver paid to admitted client creditors, the ICCL received an interim dividend payment of €1,518,514 on foot of its subrogated claim. The ICCL understands that the Receiver intends to make a final application to the High Court later in 2013 to seek permission to make a further and final dividend payment which is expected to be in the region of 10 cent in the euro which would equate to approximately €500,000 in respect of the ICCL's subrogated claim.

Administration Expenses

The Company continued to focus on the provision of value for money to its stakeholders, achieving efficiencies and containing costs. Overall operational costs for the year fell from \in 1.457 million in 2012 to \in 1.327 million this year. That this was achieved, notwithstanding an increase in the number of active cases and the additional workload involved in the completion of the 3-year funding arrangements exercise, reflects positively on the commitment and resolve of the staff over the year. The key cost areas are highlighted in the table below.

Bad Debts and Provisions: The level of bad debts written off this year was \in 42,983 while the existing provisions were decreased by \in 11,808. The level of write off was significantly lower than the 2012 write-off of \in 163,237. The increased focus on an efficient and effective collections process, as described previously, together with the legal recovery project contributed to this good performance. Other positive factors were a) the ongoing co-operation with the Central Bank in relation to the Register of authorised firms whereby inactive firms were encouraged to consider the appropriateness of retaining their authorisation and b) the absence of any Fund A write-offs. In 2012 it was necessary to write off the annual levy from CHC amounting to \in 36,240.

Other Administration Expenses: Other administration expenses decreased by \in 55,350 over the year to \in 1,296,261. One of the most significant factors underlying the fall was the release by the Company of an excess accrual of \in 83,989 following the successful completion of discussions on rental costs part of which related to the previous three years. Other factors underlying this fall include a reduction in salaries of \in 36,008, which partially reflects the implementation of cuts in public sector pay, and a reduction of \in 22,488 in depreciation costs, which reflects the fact that relevant items had been fully depreciated in the preceding year. The excess of loss insurance policy, which represents a significant cost to the Company, was renewed during the year following lengthy negotiations and discussions with our insurance brokers and the Lloyd's Underwriters. The renewal process encountered significant difficulties due to perceived increased underwriting risks arising from the failure of CHC in October 2011, the failure of Bloxham in June 2012 and a number of international failures, including MF Global.

	Year ended 31 July 2013 (€)			Year ended 31 July 2012 (€)		
Particulars	Fund A	Fund A Fund B Total		Fund A	Fund B	Total
Bad debts written-off	-	42,983	42,983	36,240	126,997	163,237
Increase/(decrease) in provision	(4,575)	(7,233)	(11,808)	1,555	(59,496)	(57,941)
Other administration expenses	828,417	467,844	1,296,261	872,822	478,789	1,351,611
	823,842	503,594	1,327,436	910,617	546,290	1,456,907

Administration costs / bad debts and provisions:

The time which each staff member spends on tasks associated with each of the Funds is tracked, on a weekly basis. The Audit Committee reviewed the bases used for the allocation of costs between the Funds and concluded that the bases⁶ used for cost allocation were rigorous and fair.

Strategic Plan

At its June 2011 meeting the Board adopted a revised Strategy for the Company to cover the period from 2011 to 2016. As the Chairman has pointed out in his Statement, the Board actively consider risks facing the Scheme as a standing item of each Board meeting and, as necessary, the Board updates the Strategy. Our strategy is developed to serve the purpose of operating a financially sound scheme so that the Company can pay compensation to clients of failed investment firms without delay.

To ensure realisation of our strategy, the Company identifies specific goals and sets them out in a programme of work which will be undertaken over the course of the year. Every quarter, the Board formally reviews progress towards meeting our strategic goals and the programme of work. The Board undertakes a formal review of our strategy plan annually to ensure that it continues to meet our purpose. The latest such review took place on 22nd April 2013.

Organisation

All of the executive staff are seconded from the Central Bank. Section 20 of the Act allows the Central Bank to provide administrative services to the Company. All expenses, including staff remuneration, is, however, paid from the resources of the Company. As at 31st of July 2013 the team consisted of 7 permanent executive staff. A significant programme of work was undertaken by the team during the year.

⁶ 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.

The main areas of work for the year to 31st July 2013 are summarised below:

- In the context of the Company's longer term strategic goals:
 - Ensure the claims handling process is effective and certified claims are paid promptly;
 - Maintain an efficient collections process;
 - Manage and invest fund reserves prudently;
 - Respond promptly and effectively to external developments;
 - Ensure that the Company adheres to high standards of corporate governance;
 - Communicate effectively with stakeholders.
- In the context of the Company's annual workplan:
 - Ensure the clients of recently failed firms (initially CHC and Bloxham, later IBRC) receive claim forms and relevant information;
 - Maintain close liaison with case Administrators;
 - Implement the Funding Arrangements effective 1st August 2012;
 - Undertake the detailed 3-year Funding Arrangements Consultation and Review;
 - Service meetings of the Board and its Committees;
 - Endeavour to close the Andrew Casey case and liaise with W&R Morrogh Receiver to finalise outstanding claims;
 - Review the Company's Investment Policy;
 - Assist the Department of Finance with any necessary legislative changes to the Act, including pre-determined client asset distribution rules;
 - Continue to monitor and upgrade Information Technology Systems and periodically test Business Recovery arrangements;
 - Progress negotiations on the renewal of the excess of loss Insurance Policy.

I consider that the Company's resources, systems and procedures have dealt effectively with issues as they have arisen. The team have adapted well to changing circumstances and have been proactive in identifying efficiencies and carrying through improvements to our systems and our work methods. I also believe the Company has dealt in a considerate and professional manner with claimants who may have suffered losses in the recent failures.

Finally, I once again wish to express my thanks to the Board of Directors for their guidance and support and also to the other members of the executive team for their professionalism, commitment and practical application to their jobs.

21st October 2013

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31st July 2013.

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 Act.
- The management of funds out of which payments or expenses are made in accordance with the Act.

Details of the operation of the Company and the likely future developments are contained within the Chairperson's Statement and the Operating Report on pages 11 to 27.

This year presented another challenge as the Company was notified of the failure of a third sizeable Fund A investment firm since October 2011.

On 7th February 2013, the Minister for Finance, Mr Michael Noonan. T.D., appointed Joint Special Liquidators to Irish Bank Resolution Corporation Limited ['IBRC']. On 17th May 2013, the Central Bank of Ireland ['Central Bank'] informed the Company that it had made a determination under section 31(3) of the Investor Compensation Act, 1998, as amended [the 'Act'] that IBRC was unable to meet its obligations arising to investment business clients of the firm. The Central Bank also appointed the existing Joint Special Liquidators, Mr. Kieran Wallace and Mr. Eamonn Richardson, as Joint Administrators for the purposes of the Act.

This failure, along with the Custom House Capital and Bloxham failures, occurred following a period of ten years free from failure. Throughout those ten years, the Company had consistently built reserves and put in place alternative funding arrangements to meet the liabilities that arise from the payment of compensation to eligible investors. As disclosed in Note 8 to the Financial Statements, the final cost of compensation claims for eligible investors of IBRC is not expected to exceed \in 2,602,500. The final cost of compensation claims for CHC is not expected to exceed \in 19,700,000 with a net claims compensation payable by the Company limited at \in 15,000,000 due to an Excess of Loss Insurance Policy put in place by the ICCL. During the year, the Company received and processed 7 tranches of claims certifications from the Administrator of CHC. In total, compensation of \in 5,362,760 was paid to 279 CHC claimants.

In the case of Bloxham (In Liquidation), all 27 claim applications received were rejected by the Administrator and no compensation was payable by the Company.

Fund A reserves now stand at \in 11,309,824. The growth in the Fund B reserve was in line with expectations and reserves now stand at \in 20,327,541.

Results

The Company recorded a surplus of €2,190,774 (2012: Deficit of €9,266,889). The main reason for the change year on year, as noted above, is the net cost of compensation claims for IBRC in 2013 at €2,602,500 as compared to CHC in 2012 at €15,000,000. Levy income remained relatively unchanged year on year while interest income decreased by €232,578. The Company recorded a second amount in respect of subrogated income from W&R Morrogh (In Liquidation) during the year of €520,186, which, on receipt, will bring the total recovery from W&R Morrogh to in excess of €2,000,000. The accounts also include a decrease of €11,808 in the provision for bad and doubtful debts, a decrease of €120,254 in bad debts, and a decrease in administration expenses of €55,350. This latter amount relates to a number of items, most notably; a reduction of €83,989 in rental costs arising from the successful completion of discussions on rental costs part of which related to the previous three years. A reduction in personnel costs of €36,008, which partially reflects the implementation of cuts in public sector pay.

In accordance with the Articles of Association, no dividend is payable by the Company.

Principal Risks and Uncertainties

The principal risk to which the Company 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 Company 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, interest rate, liquidity and currency risks 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 Company is exposed to credit risk is through institutional deposits.

On an ongoing basis, the Company manages this risk inter alia through its Investment Policy by restricting acceptable counterparties to those with adequate credit ratings and placing limits on its exposure to any single counterparty. Counterparties are selected based on a combination of their participation in State Guarantee Schemes and also their credit ratings which are continuously monitored.

This is an area of heightened risk for the Company given the on-going turbulence in global financial markets and the Board and Executive have taken a series of measures to mitigate this risk to the greatest extent possible.

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 Company is exposed to interest rate risk is through institutional deposits.

The Company manages this risk through its Investment Policy by firstly selecting the counterparties with a State Guarantee and/or appropriate credit rating criteria, and, thereafter, those institutions that 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. In the event of a failure, the Company is obliged to pay compensation within three months of the date of certification by the Administrator. For that reason, a significant proportion of funds are normally placed on deposit for periods not exceeding three months. In addition, a standby credit facility of \in 50m is in place. The Excess of Loss Insurance policy further mitigates this risk. Furthermore, the EU Directive, under which the 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, jeopardise 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. The review includes setting targets for reserve fund balances and seeking support for funding arrangements from all stakeholders, including investment firms, the Central Bank and the Department of Finance, to ensure that the Scheme can meet its future funding requirements. The Company monitors the achievement of these targets using various reporting procedures. The Company successfully concluded a Funding Consultation process in May 2013 that culminated in the Company issuing revised Funding Arrangements for the period 1st August 2013 to 31st July 2016.

Currency Risk

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

The Company has no exposure to currency risk in the technical sense 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 Company addresses this uncertainty through detailed review of calculations underlying estimates and through the receipt of regular updates from an 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 Financial Reporting Council 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 year. 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;
- 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 Irish statute comprising the Companies Acts, 1963 to 2012. 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 Act 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 40 to 55, 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 Spencer Dock, North Wall Quay, Dublin 1.

The Directors consider the report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Going Concern

The financial statements are prepared on the 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. The remaining ten Directors are also non-executive Board 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 financial services industry. The Board, having obtained the approval of the Governor of the Central Bank 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 Corporate Governance Code

The Board remains committed to maintaining the highest standards and supports the principles of corporate governance outlined in the Corporate Governance Code adopted by the Irish and London Stock Exchanges and effective for reporting years beginning on or after 1st October 2012. While the Company is not obliged to comply with the Corporate Governance 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 and acquisitions and disposals of assets. 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 in Note 1 to the Financial Statements. 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.

Under the Act:

- Director nominations to the Board of the Company are at the discretion of the Minister for Finance;
- The Governor of the Central Bank appoints the Chairperson and Deputy Chairperson;
- The Central Bank is the supervisory authority for the Company.

The Company Chairperson and Deputy Chairperson meet at least annually with the Governor of the Central Bank and a senior representative of the Financial Regulator at the Central Bank to review the operations of the Company and its progress. In addition, the Board undertakes an annual evaluation of its own performance, using the 'Performance Evaluation Guidance' set out in the *Guidance on Board Effectiveness* (March 2011) issued by the Financial Reporting Council, as a formal agenda item at a scheduled Board Meeting. Formal evaluation of the performance of individual Directors during the year is conducted jointly by the Chairperson and Deputy Chairperson. Evaluation of the performance of the Deputy Chairperson is conducted jointly by the Chairperson and the Senior Independent Director. Led by the Senior Independent Director, evaluation of the performance of the Chairperson is conducted by all Board Members without the Chairperson being present. The objective of these evaluations is to identify any scope for improvement and, in the case of individual evaluations, to determine whether each Director performance evaluation process is based on the principles outlined in the *Guidance on Board Effectiveness* (March 2011) 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;
- 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 guidance⁷. 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. During the year ended 31st July 2013, no such ad hoc committees were established.

Each of the permanent committees has terms of reference, which are subject to annual review, and, 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 met on three occasions during the year. 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,

⁷ Internal Control: Revised Guidance for Directors on the Combined Code, published in October 2005.

- Evaluating the performance of the external auditors including their independence, objectivity and effectiveness,
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services,
- 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.

KPMG ["firm"] were appointed as external auditors to the company in 2012 following a tender process and recommendation by the Committee to the Board. In recommending the firm as external auditors the Committee considered the nature and extent of services provided by the firm to the Company and the fees paid to the external auditors for audit and non-audit services. The Company has considered whether the independence of the external auditor is prejudiced by the appointment of Mr Kieran Wallace and Mr Eamonn Richardson of KPMG as Joint Administrators of IBRC and Mr Kieran Wallace as Administrator of CHC and Bloxham. The Company is satisified that the independence of the external auditor is not prejudiced as the Joint Administrators of IBRC were appointed by the Bank in accordance with section 33(1) of the Act, while the Administrator of CHC and Bloxham was appointed by the High Court in accordance with section 33A of the Act.

Funding Committee

The Funding Committee is required to meet a minimum of three times per year. During the year, the Committee met six 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 Act,
- Reviewing the collection of levies 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 31st July 2013.

Subsequent Events

There were no other material events since the year end.

Auditors

During the year, PricewaterhouseCoopers resigned as Auditors and KPMG were appointed in accordance with Section 160(2) of the Companies Act, 1963.

Signed on behalf of the Board:

J. Bardon 1 DIRECTORS B. Healy Brian Akaly) DIRECTORS

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

We have audited the financial statements ("financial statements") of Investor Compensation Company Limited for the year ended 31st July 2013 which comprise the income and expenditure account, balance sheet, cash flow and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 32, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 31st July 2013 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.

Matters on which we are required to report by the Companies Acts 1963 to 2012

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The financial statements are in agreement with the books of account and, in our opinion, proper books of account have been kept by the company.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet are more than half of the amount of its calledup share capital and, in our opinion, on that basis there did not exist at 31st July 2013 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2012 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Killian Croke for and on behalf of KPMG Chartered Accountants, Statutory Audit Firm 31 October 2013 1 Harbourmaster Place IFSC Dublin 1 Ireland inancial Statements

Income and expenditure account for the year ended 31 July 2013

			2013 €		2012 €
INCOME	Notes		C C		C.
Levy Income			5,327,114		5,202,808
Interest Income			322,263		554,841
Subrogated Income	5		520,186		1,504,500
			6,169,563		7,262,149
EXPENDITURE					
Compensation costs and provisions/release					
Claims provision Amounts recoverable under	8	(2,471,413)		(19,550,000)	
insurance contract	5	-		4,700,000	
3 rd party costs provision		(108,009)		(181,508)	
ICCL claims legal costs	-	(71,931)		(40,623)	
			(2,651,353)		(15,072,131)
Administration expenses	2		(1,327,436)		(1,456,907)
TOTAL EXPENDITURE			(3,978,789)		(16,529,038)
SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES	1		2,190,774		(9,266,889)
Surplus at 1 st August			29,446,591		38,713,480
Surplus at 31 st July			31,637,365		29,446,591
ALLOCATED BETWEEN FUNDS AS FOLLOWS:					
FUND A	3		11,309,824		10,395,201
FUND B	3		20,327,541		19,051,390
			31,637,365		29,446,591

The Company had no recognised gains and losses in the year to 31st July 2013 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 21st October 2013 and were signed on its behalf by:

J. Bardon 1 () B. Healy Brian Akaly)

DIRECTORS

Balance sheet as at 31 July 2013

	Notes	2013 €	2012 €
CURRENT ASSETS			
Trade and other receivables	4(a)	216,574	196,418
Other assets Cash at bank Short-term investments	5 14(ii) 14(ii)	5,206,171 8,108,841 <u>36,365,009</u> 49,896,595	6,204,500 2,851,344 40,959,469 50,211,731
NON-CURRENT ASSETS			
Equipment	6	9,560 9,560	<u>5,140</u> 5,140
TOTAL ASSETS		49,906,155	50,216,871
CURRENT LIABILITIES Trade and other payables	7	819,628	317,146
Provisions for Compensation Claims & Associated Costs	8	<u>17,449,158</u> 18,268,786	<u>20,453,130</u> 20,770,276
NON-CURRENT LIABILITIES Provisions for Compensation Claims & Associated Costs	8		
Fromsions for Compensation Claims & Associated Costs	0	-	-
TOTAL LIABILITIES		18,268,786	20,770,276
NET ASSETS		31,637,369	29,446,595
FINANCED BY:			
Called-up share capital Funds	10 3	4 31,637,365	4 29,446,591
	12	31,637,369	29,446,595

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

The financial statements were approved by the Board of Directors on 21st October 2013 and were signed on its behalf by:

J. Bardon 1 () B. Healy Brian Akaly)

DIRECTORS

Cash flow statement for the year ended 31 July 2013

NET CASH INFLOW FROM	Notes	2013 €	2012 €
OPERATING ACTIVITIES	14(i)	676,392	4,126,585
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	6	(13,355)	-
INCREASE IN CASH	14(iii)	663,037	4,126,585

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 2012 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 Financial Reporting Council.

Accounting Convention

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

Levy Income

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

Levies 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 yearend, 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.

The Company will normally become aware of a default on being informed by the Central Bank of Ireland (the Bank) that:

- a determination has been made by the Bank in accordance with section 31(3) of the Act, or,
- the High Court has made a ruling appointing a liquidator, receiver, the official assignee or a trustee in Bankruptcy in respect of an investment firm.

The Company is subrogated to the rights of each eligible investor in liquidation proceedings against the investment firm in respect of the amount the Company has paid to each eligible investor. This is in

accordance with section 35(5) of the Act. Recoveries from subrogation are recognised when receipt is virtually certain. Where recoveries from subrogation are probable but not virtually certain, the Company will not recognise the subrogated income but will make the necessary disclosures in the Contingent Assets note.

Administration Expenses

Administration expenses include all costs which are not compensation costs and include costs relating to the ongoing management of the Company, including movement in provision for bad or doubtful debts and bad debts written off in the period under review.

Equipment

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 : 33¹/₃ % straight line

Cash at bank

Cash at bank comprises bank current accounts.

Short term investments

Short term investments comprise Fixed Term deposits with a period to maturity of less than 12 months.

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Funds

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

Notes to the financial statements for the year ended 31 July 2013

1. SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES

The surplus/(deficit) on ordinary activities is stated after charging:

	2013 €	2012 €
Directors' fees	132,515	132,750
Depreciation	8,935	31,424
Auditors' remuneration (ex-VAT)	7,500	12,500

The Company's staff is sourced under a secondment arrangement with the Central Bank of Ireland which also provides other administrative services to the Company.

The Chairperson and Deputy Chairperson were remunerated €31,500 (2012: €31,500) and €15,750 (2012: €15,750) respectively on a pro-rata basis during the year. The other directors were remunerated at the rate of €8,550 per annum (2012: €8,550), also on a pro-rata basis.

2. ADMINISTRATION EXPENSES ANALYSIS

	2013 €	2012 €
Personnel costs*	540,466	576,474
Directors' fees & expenses	135,285	135,109
Other administration overheads	611,575	608,604
Bad debts written off	42,983	163,237
Decrease in provision for bad and doubtful debts	(11,808)	(57,941)
Depreciation	8,935	31,424
	1,327,436	1,456,907

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

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			2013			2012
	Fund A	Fund B	Total	Fund A	Fund B	Total
	£	ŧ	£	Ψ	£	ŧ
Levy income Interest income	3,695,245 184 383	1,631,869 137 880	5,327,114 322 263	3,536,337 309 553	1,666,471 245,288	5,202,808 554 841
Subrogated income Compensation (costs)/recoveries:	520,186		520,186	1,504,500) - 	1,504,500
Claims provision 3 rd party costs provision	(2,480,555) (108,863)	9,142 854	(2,471,413) (108,009)	(14,850,000) (181,508)	ı	(14,850,000)
ICCL legal costs	(71,931)	1	(71,931)	(40,623)	I	(40,623)
Administration expenses:						
Bad Debts (written off)	I	(42,983)	(42,983)	(36,240)	(126,997)	(163,237)
(Increase)/decrease in provision for						
bad and doubtful debts Other administration expenses	4,575 (828.417)	7,233 (467 844)	11,808 (1 296 261)	(1,555) (872 822)	59,496 (478 789)	57,941 (1 351 611)
Surplus/(Deficit) for the year	914,623	1,276,151	2,190,774	(10,632,358)	1,365,469	(9,266,889)
Surplus at 1 st August	10,395,201	19,051,390	29,446,591	21.027,559	17,685,921	38,713,480
Surplus at 31 st July	11,309,824	20,327,541	31,637,365	10,395,201	19,051,390	29,446,591
Represented by:						
Cash at bank	7,481,603	627,238	8,108,841	1,411,291	1,440,053	2,851,344
Short-term investments	16,705,120	19,659,889	36,365,009	23,271,835	17,687,634	40,959,469
Fixed assets	4,780 5 224 804	4,780	9,560 E 177 71E	2,570 6 270 267	2,570 77 661	5,140 6,400,048
Creditors	(767,320)	01,344 (52,308)	0,422,740 (819,628)	(175,616)	(141 530)	0,400,310
Provision for liabilities and charges	(17,449,158)	()));[]))	(17,449,158)	(20,443,134)	(9,996)	(20,453,130)
Share capital	(2)	(2)	(4)	(2)	(2)	(4)
Total	11,309,824	20,327,541	31,637,365	10,395,201	19,051,390	29,446,591

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 paying into 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. TRADE AND OTHER RECEIVABLES

	2013	2012
(a) Debtors and Accrued Income:	€	€
Debtors (after provision for bad and doubtful debts) Accrued income & prepayments Euroclear administration account	3,198 203,146 10,230	4,148 192,270 -
	216,574	196,418
	€	€
(b) Bad debts written-off during the year:	42,983	163,237
(c) Movement in respect of the provision for bad and doubtful debts:	€	€
Opening provision for bad & doubtful debts	96,405	154,346
Closing provision for bad & doubtful debts	84,597	96,405
Decrease in provision	(11,808)	(57,941)

5. OTHER ASSETS

	2013 €	2012 €
Subrogated Income – W&R Morrogh (in Liquidation) Claims compensation amounts recoverable under Excess of Loss	506,171	1,504,500
Insurance contract	4,700,000	4,700,000
	5,206,171	6,204,500

Subrogated Income

The Company is subrogated to the rights of each eligible investor in liquidation proceedings against the investment firm in respect of the amount the Company has paid to each eligible investor. This is in accordance with section 35(5) of the Act. Recoveries from subrogation are recognised when receipt is virtually certain.

The Receiver of W&R Morrogh (In Liquidation) notified the Company of his intention to pay a second and final dividend in late 2013 to claimants with an admissible claim against the client bank accounts of W&R Morrogh (In Liquidation). On the advice of the Receiver, the Company expect that the payment of the second and final dividend will lead to a subrogated income receipt of $\leq 506,171$ which is calculated based on a dividend rate of ≤ 0.10 . During the year under review, the Company received an interim dividend of $\leq 14,015$ in excess of the $\leq 1,504,500$ originally anticipated, resulting in a subrogated income for the year of $\leq 520,186$.

The Company is not aware of and has not received to date, subrogated income from any other case where it has paid claims compensation. The ICCL has exercised its subrogated claim in accordance with the requirements of the Act in respect of compensation paid to claimants of failed firms.

Excess of Loss Insurance Policy

The Company has a contract of insurance to provide cover where claims for compensation in a policy year exceed the policy excess of \leq 15 million. The policy provides cover for claims of up to \leq 50 million for Fund A and \leq 10 million for Fund B above the excess. As outlined in note 8, a provision of \leq 19.7 million was made for the claims compensation costs associated with the failure of Custom House Capital Limited (In Liquidation), a Fund A firm.

The Company is required by the Insurance Underwriters to settle each claim up to and in excess of \leq 15 million directly with the eligible investors. The Insurance Underwriters have confirmed to the Company that they will reimburse the Company for the amount of claims compensation paid to clients of Custom House Capital Limited (In Liquidation) ['CHC'] in excess of \leq 15 million subject to the policy limit of \leq 50 million. At the balance sheet date, the Company had paid \leq 5,362,760 in respect of claims compensation to clients of CHC.

6. EQUIPMENT

Computer Software and Equipment		
	2013 €	2012 €
Cost:		
At 1 August Additions Disposals	156,804 13,355 (2,256)	156,804 - -
At 31 July	167,903	156,804
Depreciation:		
At 1 August On Disposals Charge for year	151,664 (2,256) <u>8,935</u>	120,240 - 31,424
At 31 July	158,343	151,664
Net book value:		
At 31 July	9,560	5,140

7. TRADE AND OTHER PAYABLES

	2013 €	2012 €
Compensation costs Central Bank of Ireland Directors' fees and expenses Prepaid levies Other	663,704 45,192 11,862 1,289 97,581	14,593 227,089 11,862 7,194 56,408
	819,628	317,146

8. PROVISIONS FOR COMPENSATION CLAIMS & ASSOCIATED COSTS

	Fund A Claims	Fund B Claims	Total Claims	3 rd Party Costs (Funds A & B)	Total
	€	€	€	€	€
Opening provision at 1 st August 2011	500,000	9,142	509,142	383,730	892,872
(Decrease) / increase in provision	19,550,000	-	19,550,000	181,508	19,731,508
Payments during the year	-	-	-	(171,250)	(171,250)
Provision at 31 st July 2012 and at 1 st August 2012	20,050,000	9,142	20,059,142	393,988	20,453,130
(Decrease) / Increase in provision	2,480,555	(9,142)	2,471,413	108,009	2,579,422
Payments during the year	(5,580,815)	-	(5,580,815)	(2,579)	(5,583,394)
Closing Provision at 31 st July 2013	16,949,740	-	16,949,740	499,418	17,449,158

(a) Money Markets International Stockbrokers Limited (Fund A)

Claims for compensation have been made by clients of Money Markets International Stockbrokers Limited (MMI) and all submitted compensation claims were certified and paid by 31st July 2011. Provision has been made in respect of estimated third party costs, which represent the costs of the Administrator and directly

attributable legal costs of the Company and the Administrator based upon an estimate of these costs to the completion of the Administration process. At 31^{st} July 2013, the provision for claims compensation in respect of MMI is €NIL (2012: €NIL). At 31^{st} July 2013, the provision for costs in respect of MMI is €49,200 (2012: €48,400).

(b) Andrew Casey trading as Andrew Casey Life & Pensions (Fund B)

Claims for compensation have been made by clients of Andrew Casey trading as Andrew Casey Life & Pensions (Andrew Casey) and all compensation payments were certified and have been paid by 31^{st} July 2013. The Administrator confirmed to the Company during the year that all claims were certified and no further claims were expected. The remaining provisions of €9,996 were duly released during the year and the case is now considered closed. At 31^{st} July 2013, the provision for claims compensation in respect of Andrew Casey is €NIL (2012: €9,142). At 31^{st} July 2013, the provision for costs in respect of Andrew Casey is €NIL (2012: €9,142).

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

The total value of claims compensation paid to clients of W&R Morrogh Stockbrokers up to 31^{st} July 2013 is $\notin 7,758,007$ (2012: $\notin 7,539,952$). As at 31^{st} July 2012, the provision for claims compensation payments that had yet to be certified by the Administrator was $\notin 350,000$. During the year under review, all remaining claims were certified by the Administrator and paid by the Company. A provision of $\notin 10,000$ has been retained to settle any late claims that may arise in advance of the final dividend payment being made by the Administrator.

The Board had made a provision at 31^{st} July 2012 of \in 5,000 towards the costs of the Administrator and his legal advisors for the completion of the Administration process. During the year, a final payment of \notin 2,578 was made in respect of those costs. The remainder of the provision was released at 31^{st} July 2013.

(d) Custom House Capital Limited (Fund A)

In the financial year ended 31st July 2012, the Company made a provision of €19,700,000 in respect of compensation payable to eligible clients of Custom House Capital Limited. The provision was made on the basis of the range of estimates received from the Administrator. The provision is subject to a number of variables, including:

- the number of clients that meet the definition of an "eligible investor",
- the extent to which the losses suffered by "eligible investors" are deemed compensatable,
- the extent of losses suffered by "eligible investors" (which in many instances will depend on the performance of an underlying investment product),

- the nature, and extent of discretion, of the mandates which investors had given to CHC,
- whether the losses are derived from regulated or unregulated investment products,
- whether the liquidator has access to records enabling him to reconcile records and establish clients' positions,
- reliable information about the distribution of compensatable losses amongst eligible investors. (i.e. a small number of large losses may give rise to lower compensation than a large number of small losses), and
- the financial position of CHC itself.

During the year under review, the Administrator submitted seven interim certifications of compensatable losses arising from the reconciliation of client positions in respect of certain asset categories. However, significant reconciliation progress has not yet been achieved in more complex areas e.g. pooled client bank accounts and syndicated property funds.

At 31st July 2013, the Company had received, recorded and forwarded 1,966 claim application forms to the Administrator. In relation to the claim application forms submitted, the number of claimants who meet the definition of "eligible investor" remains to be quantified by the Administrator. On the basis of estimates received from the Administrator, the Company has reduced the provision for claims by an amount equal to the interim certifications received and paid at 31^{st} July 2013 of \in 5,362,760 (2012: NIL). The provision for claims at 31^{st} July 2013 is \notin 14,337,240.

The Company has an Excess of Loss Insurance policy to provide cover where claims for compensation in a policy year exceed the policy excess of $\leq 15,000,000$. As mentioned above, claims compensation of $\leq 5,362,760$ has been paid to 31^{st} July 2013 (2012: $\leq NIL$). The balance of the excess of the policy is $\leq 9,637,240$, beyond which the remainder of the claims compensation costs, currently estimated at $\leq 4,700,000$ will be recoverable. The Company has recognised a recoverable asset of $\leq 4,700,000$ (Note 5 contains more detail).

The Company had made a provision at 31^{st} July 2012 of €339,813 towards the costs of the Administrator and his legal advisors for the completion of the Administration process which are payable by the Company in accordance with the provisions of the Act. At 31^{st} July 2013, the Company increased this provision by €2,460 to €342,273 to reflect the receipt and forwarding of additional late claims during the year.

(e) Irish Bank Resolution Corporation Limited (Fund A)

Since the appointment of Mr Kieran Wallace and Mr Eamonn Richardson as Joint Special Liquidators and Joint Administrators for the purposes of the Act, good progress with the reconciliation of client positions has been made. In July 2013, the Company received an initial estimate of the potential range of compensation payable, in this case, from the Joint Administrators. The Company created a new provision at 31st July

2013 of €2,602,500 in respect of compensation payable to eligible clients of IBRC. The provision has been made on the basis of the range of estimates received from the Joint Administrators, bearing in mind that the variables identified below may be subject to regulatory and/or legal clarification. The provision is subject to a number of variables, including:

- the number of clients that meet the definition of an "eligible investor",
- the extent to which the losses suffered by "eligible investors" are deemed compensatable,
- the extent of losses suffered by "eligible investors" (which in many instances will depend on the performance of an underlying investment product),
- the ability of the Joint Special Liquidators to transfer to other custodians, or, to return assets directly to client.

The Company created a new provision at 31st July 2013 of €103,794 towards the costs of the Administrators and their legal advisors for the completion of the Administration process which are payable by the Company in accordance with the provisions of the Act.

9. CONTINGENT ASSETS AND LIABILITIES

Contingent Assets

There were no Contingent Assets at 31st July 2013.

Contingent Liabilities

Bloxham (In Liquidation)

The Central Bank of Ireland and the Liquidator of Bloxham, Mr Kieran Wallace of KPMG, have to date, not identified any case which would lead them to conclude that the winding down of Bloxham will result in compensatable losses for eligible clients of the firm. The Administrator rejected all known claims submitted during the year and the Board does not at this point believe that the failure of Bloxham (In Liquidation) will result in the payment of claims compensation. No provision has been made for claims or other costs associated with the failure of Bloxham in this respect.

Custom House Capital Limited (In Liquidation)

On the basis of advice received from the Administrator in September 2012, it is anticipated that a further \in 1,857,240 will be certified for payment by the Administrator in respect of approximately 270 claimants in 2013. The Company does not have a definitive timeline on when the remainder of claimants will have their claims certified for compensatable loss. The Company will continue to meet and work with the Administrator at regular intervals to facilitate as much progress as possible. The Administrator has estimated that the total compensation payable by the Company will not exceed \in 19,700,000, of which \in 4,700,000 is recoverable from Insurers under an Excess of Loss Insurance Contract. Notwithstanding the

€4,700,000 is recoverable from Insurers under an Excess of Loss Insurance Contract. Notwithstanding the significant progress to date, in estimating the total cost of claims, the final determination of costs is subject to significant uncertainty, as identified in note 8 above.

Irish Bank Resolution Corporation Limited (In Special Liquidation)

The Joint Administrators have estimated that the total compensation payable by the Company will not exceed €2,602,500. The Company have provided for this amount in the Claims Compensation provision as at 31st July 2013.

W&R Morrogh (In Receivership)

As at 31st July 2013, all known claims were certified by the Administrator and paid by the Company. On the advice of the Receiver, there remains a small number of clients of W&R Morrogh who have to date not submitted a claim for compensation but who may be eligible to do so. A provision of \in 10,000 has been retained to provide for claims compensation to these clients in the event that any of these potential claimants lodges a claim for compensation in advance of the Receivership process being completed.

10. SHARE CAPITAL

	2013 €	2012 €
Authorised:		
10 Ordinary shares of €1.25 each	13	13
Issued and fully paid:		
3 Ordinary shares of €1.25 each	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 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 $\in 6.00$.

On 2^{nd} December 2002, by a special resolution of the shareholders, the authorised share capital of the Company was changed to $\in 12.50$ and the ordinary shares were renominalised with a par value of $\in 1.25$ 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.

11. TAXATION

The Company is exempt from Corporation Tax in accordance with section 219B of the Taxes Consolidation Act, 1997 (as amended). The Company is also exempt from Deposit Interest Retention Tax in accordance with section 256 of the Taxes Consolidation Act, 1997 (as amended).

12. MOVEMENTS IN TOTAL FUNDS

	Share Capital attributable to Shareholders	Attributable to Funds	Total
	€	€	€
At 1 st August 2012	4	29,446,591	29,446,595
Surplus for the year	-	2,190,774	2,190,774
At 31 st July 2013	4	31,637,365	31,637,369

13. RELATED PARTIES

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

	2013 €	2012 €
Administration costs chargeable to the Company		
by the Central Bank of Ireland for services provided	719,075	616,358

Other than the payment of Directors' fees and expenses as disclosed in Note 2, there have been no transactions in the year to 31st July 2013 between the Company and its Directors.

14. CASH FLOW NOTES

	2013 €	2012 €
 (i) Reconciliation of surplus on ordinary activities to net cash inflow from operating activities 		
(Deficit)/Surplus on ordinary activities	2,190,774	(9,266,889)
Depreciation	8,935	31,424
Loss on disposal of fixed assets	-	-
(Increase)/Decrease in debtors	978,173	(6,202,710)
(Decrease)/Increase in creditors and provisions for liabilities and charges	(2,501,490)	19,564,760
	676,392	4,126,585
(ii) Analysis of net funds		
Cash at bank	8,108,841	2,851,344
Short-term investments	36,365,009	40,959,469
	44,473,850	43,810,813
(iii) Reconciliation of net cash flow to movement in net funds		
Net Funds at 1 st August	43,810,813	39,684,228
Increase in cash in the year	663,037	4,126,585
Net Funds at 31 st July	44,473,850	43,810,813

hat 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 (the Company).

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 investment firm to return investment an 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 Company was established as a company limited by guarantee and having a share capital.

A principal objective of the Company 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 Company's three shareholders are:

- the Central Bank 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 Company is prescribed by the Minister for Finance. The Chairperson and Deputy Chairperson of the Board are appointed by the Governor of the Central Bank 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 Act 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 Company 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) Regulations 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) Regulations 2007
- Credit Institutions authorised to provide investment business services
- 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
- UCITS management companies, authorised to undertake Individual Portfolio Management Services⁸

Fund B

- Authorised Advisors authorised under the Investment Intermediaries Act, 1995
- Multi Agency Intermediaries authorised under the Investment Intermediaries Act, 1995
- Insurance Intermediaries required to register with the Central Bank of Ireland under the European Communities (Insurance Mediation) Regulations 2005

⁸ 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.

 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

How is the Company

Funded?

The Scheme is funded by levies from firms authorised to conduct investment services and insurance mediation. The method for calculating the levies payable was decided following six extensive consultation processes with firms and industry representative groups (1999, 2001, 2004, 2007, 2010 and 2013).

Levy Rates

Current levy 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 Company can only begin the process of making compensation payments to eligible investors once it has been advised by the Central Bank of Ireland 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 Central Bank of Ireland that the firm is unable to meet its obligations arising from claims by clients.

Subsequently, the Company 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 Central Bank of Ireland with the agreement of the Company, or
- a person appointed by the Central Bank of Ireland with the agreement of the Company.

Investors will be given at least five months from the date of the court ruling or determination by the Central Bank of Ireland to make a claim. Once a claim has been certified by the Administrator, the Company 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 Company 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 Company. The level of these enquiries can be significant particularly at the time of a failure of a firm. The Company has published an information booklet which provides useful information to investors. This is available by accessing the publications section in the Company's website or by contacting the Company directly (contact details are available at the back of this publication).

Relationship with the Central Bank of Ireland

The Central Bank of Ireland is the supervisory authority for the purpose of the Act. Accordingly, certain actions undertaken by the Company can only be carried out with the approval of the Central Bank of Ireland.

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 Company and the Central Bank of Ireland.

The Investor Compensation Company Limited C/o Central Bank of Ireland P.O. Box 11517 Spencer Dock North Wall Quay Dublin 1

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