



# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

**ANNUAL REPORT  
OF THE SCHEME MANAGER  
FOR THE YEAR ENDED  
31 MARCH 2011**

# Depositors' Compensation Scheme

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# Depositors' Compensation Scheme

## SCHEME MANAGER

In accordance with Section 5 (1) of the Compensation of Depositors Regulations 2008, made under Section 25 of the Financial Services Act 2008, the Financial Supervision Commission ("the Scheme Manager") is charged with the administration of the Depositors' Compensation Scheme.

The Financial Services Act 2008, Schedule 1 states "*the Commission shall consist of not less than seven qualified persons appointed by the Treasury, subject to the approval of Tynwald*".

Tynwald has approved the following persons to be members of the Commission:

	<b><i>Date first elected</i></b>
Mrs R V Penn (Chairman)	March 1993
Mr J R Aspden	July 1998
Mr J Cashen *	January 2002
Mr T Cullen	June 2001
Mr B Stott	June 2001
Mr G Karran	July 2007
Mr A Smith	July 2007

\* Mr Cashen does not sit as a member of the Scheme Manager in relation to any matters relating to the affairs of Kaupthing Singer & Friedlander (Isle of Man) Limited ("KSF") – in liquidation.

# Depositors' Compensation Scheme

## **OFFICERS & PROFESSIONAL ADVISERS**

### ***SECRETARY***

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Financial Supervision Commission  
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IM99 1HN

### ***PRINCIPAL BANKERS***

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IM99 1AN

### ***AUDITOR***

Deloitte LLP  
The Old Court House  
Athol Street  
Douglas  
Isle of Man  
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# Depositors' Compensation Scheme

## REPORT OF THE SCHEME MANAGER

### **INTRODUCTION**

This is the third Annual Report by the Financial Supervision Commission in its role as Scheme Manager of the Compensation of Depositors Regulations 2008, known as the Depositors' Compensation Scheme ("the Scheme" or "the DCS").

### **LEGISLATION**

On 9 October 2008, the Treasury Department, Isle of Man Government ("Treasury"), in exercise of the powers conferred on it by Section 25 of the Financial Services Act 2008, made the Compensation of Depositors Regulations 2008 ("the Regulations") (SD 826/08). The Regulations were approved by Tynwald on 9 October 2008 and came into operation on the same date.

The Regulations provided for the establishment of a fund out of which compensation was to be paid on eligible protected deposits if a Scheme participant licensed under the Financial Services Act 2008 was deemed to have defaulted. The Regulations further provided for the levying of contributions on other Scheme participants (subject to an overall aggregate limit of £200m throughout the currency of the Scheme in respect of all defaults occurring on or after 23 October 2008 and before 23 October 2010) and funding from Treasury in respect of all defaults occurring before 23 October 2010 not exceeding £150m, in order to provide monies for the establishment of the fund, upon a default by a Scheme participant.

On 23 October 2010 the 2008 Regulations were revoked and replaced by the Depositors' Compensation Scheme Regulations 2010 ("2010 Regulations") except that they shall continue to apply for the purposes of the fund established following the default of Kaupthing Singer & Friedlander (Isle of Man) Limited ("KSF") in respect of which the Scheme Manager made a determination on 27 May 2009.

### **ACTIVATION OF THE SCHEME**

On 27 May 2009, the Financial Supervision Commission, as Scheme Manager, determined that KSF was in default in terms of Regulation 3 of the Regulations. This followed the making of a winding-up order by the High Court in the Isle of Man in respect of the affairs of KSF in the Island. The Scheme was activated on the same day.

### **DEFAULT BY KAUPTHING SINGER & FRIEDLANDER (ISLE OF MAN) LIMITED**

The statutory cut-off date for the submission of claims passed on 27 November 2010.

# Depositors' Compensation Scheme

## REPORT OF THE SCHEME MANAGER (CONTINUED)

### **LEVIES**

During the year ended 31 March 2011, levies were made against participating banks in accordance with the Regulations totalling £9,164,055 (2010 : £9,164,055).

### **DIVIDEND DISTRIBUTION**

In the year ended 31 March 2011, the Joint Liquidators of KSF declared two dividends totalling 21.1p in the £ (2010 : 40p). A total of £88,725,195 (2010 : £117,132,358) has been received into the Scheme. This represents a recovery of part of the compensation payments made of which £88,212,433 (2010 : £116,031,559) has been recognised as income (see Note 5) and £512,762 (2010 : £1,100,799) relates to assigned accounts where claims have not yet been agreed by the Scheme Manager as explained in notes 2(f) and 6 to the financial statements.

### **EXCESS RECOVERIES**

The Scheme was assigned all the rights associated with the Eligible Protected Deposits for which KSF depositors made a claim under the Scheme. These rights include the right to receive dividends paid by the liquidator in respect of the assigned balances. As a result the DCS will be in receipt of dividends in excess of the compensation paid in a number of cases. Dividends in excess of DCS compensation totalling £36,624,406 (2010 : £17,101,136) were paid to claimants during the year.

### **RETIREMENT / APPOINTMENT OF COMMISSIONERS**

There have been no changes during the year and to the date of signing the report and financial statements for the year ended 31 March 2011.

The Scheme Manager adopts a strict policy in determining and managing the conflicts of interest which may arise between members of the Commission and Scheme participants. Information regarding Commission members' conflicts of interest is available from the Commission's website [www.fsc.gov.im](http://www.fsc.gov.im).

### **RETIREMENT / APPOINTMENT OF SECRETARY**

There have been no changes during the year and to the date of signing the report and financial statements for the year ended 31 March 2011.

# Depositors' Compensation Scheme

## **REPORT OF THE SCHEME MANAGER (CONTINUED)**

### ***PAYMENT OF COMPENSATION***

During the year, the Scheme Manager made compensation payments totalling £10,660,834 (2010 : £195,313,972) including payments made to claimants under the Early Payments Scheme.

### ***PARTICIPATING DEPOSIT TAKERS***

Appendix A to this report lists all participants in the Depositors' Compensation Scheme, in relation to the default of Kaupthing Singer & Friedlander (Isle of Man) Limited under the 2008 Regulations in respect of the year ended 31 March 2011.

### ***FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011***

The audited financial statements for the year ended 31 March 2011 are set out as part of this annual report.

### ***GOING CONCERN***

As described more fully in Note 2(h), although the Scheme is in a net deficit position, Treasury has advanced funds to the Scheme to enable it to pay full compensation earlier than it would otherwise have done and also to enable the Scheme Manager to meet its other liabilities as they fall due.

The Treasury has confirmed that it will not seek to demand repayment of any funds which would render the Scheme unable to meet its obligations to its creditors before 31 December 2012. On this basis the Scheme Manager has a reasonable expectation that the Scheme has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Scheme Manager continues to adopt the going concern basis in preparing the annual report and financial statements.

Ultimately, the Scheme will not be in a net deficit position because all net compensation payments and associated costs after recoveries from the liquidation will be paid in accordance with Sections 12 and 12a of the 2008 Regulations as detailed in note 3.

### ***AUDITOR***

Following the transfer of their business to Deloitte LLP from Deloitte & Touche with effect from 1 October 2010, the Scheme Manager appointed Deloitte LLP as auditor of the Scheme at a meeting held on 31 March 2011.

Depositors' Compensation Scheme

**REPORT OF THE SCHEME MANAGER (CONTINUED)**

***DEPOSITORS' COMPENSATION SCHEME IN RELATION TO THE  
BANKING BUSINESS (COMPENSATION OF DEPOSITORS)  
REGULATIONS 1991***

A separate annual report is prepared covering the above, including the financial statements in relation to the fund that was created following the default by Bank of Credit and Commerce International S.A.

***APPROVED BY THE FINANCIAL SUPERVISION COMMISSION AS  
SCHEME MANAGER OF THE DEPOSITORS' COMPENSATION SCHEME  
ON 29 JUNE 2011 AND SIGNED ON ITS BEHALF BY:***

Mr T Cullen

Mr J R Aspden

.....

.....

COMMISSIONER

COMMISSIONER

# Depositors' Compensation Scheme

## Financial Statements

For the year ended 31 March 2011

## Depositors' Compensation Scheme

### **Statement of Scheme Manager's responsibilities**

The Scheme Manager is responsible for preparing the Scheme Manager's Report and the financial statements in accordance with applicable law and regulations.

The Scheme Manager is responsible for preparing financial statements for each financial year in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, both made under the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008. Under the Audit Act 2006 the Scheme Manager must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the Scheme and of the net compensation cost or recovery of the Scheme for that period. In preparing these financial statements, the Scheme Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Scheme Manager is responsible for keeping adequate accounting records that are sufficient to show and explain the Scheme's transactions and disclose with reasonable accuracy at any time the financial position of the Scheme and enable them to ensure that the financial statements comply with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, both made under the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008. The Scheme Manager is also responsible for the system of internal control, for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Scheme Manager is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**By order of the Scheme Manager  
29 June 2011**

Mr A J Kermodé  
**Secretary**

# Depositors' Compensation Scheme

## **Independent Auditor's report to the Scheme Manager**

We have audited the financial statements of the Isle of Man Depositors' Compensation Scheme ("the Scheme") for the year ended 31 March 2011 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Scheme Manager in accordance with the Audit Act 2006. Our audit work has been undertaken so that we might state to the Scheme Manager 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 Scheme Manager for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Scheme Manager and auditor**

As explained more fully in the Statement of Scheme Manager's Responsibilities, the Scheme Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **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 Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Scheme Manager; 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.

## Depositors' Compensation Scheme

### **Independent Auditor's report to the Scheme Manager (continued)**

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the Scheme's financial affairs for the year ended 31 March 2011 and of its net compensation recovery for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, both made under the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Audit Act 2006 requires us to report to you if, in our opinion:

- the application by or on account of the Scheme of money provided by Tynwald, the payment or application of money or other property held or received by or on account of the Scheme, or a transaction effected by or on account of the Scheme is or will be contrary to law;
- the internal organisation of the Scheme, and the internal controls maintained by it, are such as to secure the proper management of the finances of the body and the economy and efficiency in the use of its resources.

**Deloitte LLP**  
Chartered Accountants  
Douglas  
Isle of Man

29 June 2011

## Depositors' Compensation Scheme

### Income and expenditure account for the year ended 31 March 2011

	<i>Note</i>	<b>2011</b> £	2010 £
<b>Income</b>			
Bank levies received		<b>9,164,055</b>	9,164,055
Dividends received from Liquidator	<i>5</i>	<b>88,212,433</b>	116,031,559
Bank interest receivable	<i>2b</i>	<b>9,150</b>	17,641
		<hr/>	<hr/>
		<b>97,385,638</b>	125,213,255
		<hr/>	<hr/>
<b>Expenditure</b>			
Compensation paid (including payments 1 and 2 under the Early Payments Schemes)	<i>9</i>	<b>10,660,834</b>	195,313,972
Excess recoveries paid to claimants	<i>5</i>	<b>36,624,406</b>	17,101,136
Legal and professional fees	<i>2b</i>	<b>29,637</b>	80,718
Scheme Agent's costs	<i>2b</i>	<b>598,673</b>	1,578,739
Scheme Manager's costs	<i>2b</i>	<b>12,486</b>	29,714
Printing, postage and sundries	<i>2b</i>	<b>4,596</b>	18,077
Audit fee	<i>2b</i>	<b>35,000</b>	35,000
Bank charges	<i>2b</i>	<b>20,042</b>	8,788
		<hr/>	<hr/>
		<b>47,985,674</b>	214,166,144
		<hr/>	<hr/>
<b>Net compensation recovery/(cost) for the year</b>		<b>49,399,964</b>	(88,952,889)
Compensation fund brought forward		<b>(88,952,889)</b>	-
		<hr/>	<hr/>
<b>Deficit on compensation fund carried forward</b>		<b>(39,552,925)</b>	(88,952,889)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 16 to 25 form part of these financial statements. There are no gains and losses for the year other than those presented above therefore a statement of total recognised gains and losses has not been presented. All operations are continuing.

## Depositors' Compensation Scheme

Balance sheet  
as at 31 March 2011

	Note	2011 £	2010 £
<b>Current assets</b>			
Cash at bank		5,292,909	9,573,658
Sundry debtors	7	15,093	714,292
		<hr/>	<hr/>
		5,308,002	10,287,950
		<hr/>	<hr/>
<b>Current liabilities</b>			
Other creditors	6	916,706	1,286,618
Treasury funding	8	43,944,221	97,954,221
		<hr/>	<hr/>
		(44,860,927)	(99,240,839)
		<hr/>	<hr/>
<b>Net current liabilities</b>		<b>(39,552,925)</b>	<b>(88,952,889)</b>
		<hr/>	<hr/>
<b>Represented by</b>			
Compensation fund deficit		<b>(39,552,925)</b>	<b>(88,952,889)</b>
		<hr/>	<hr/>

These financial statements were approved by the Scheme Manager on 29 June 2011 and signed on its behalf by:

Mr T Cullen  
*Commissioner*

Mr J R Aspden  
*Commissioner*

The notes on pages 16 to 25 form part of the financial statements.

## Depositors' Compensation Scheme

### Cash flow statement

for the year ended 31 March 2011

	<i>Note</i>	<b>2011</b> £	2010 £
<b>Net cash inflow/(out flow) from operating activities</b>	10	<b>49,720,101</b>	(22,394,045)
<b>Returns on investment and servicing of finance</b>			
Interest received		<b>9,150</b>	17,641
<b>Financing</b>			
Treasury funding		-	129,955,022
Repayment of Treasury funding		<b>(54,010,000)</b>	(98,004,960)
<b>(Decrease)/increase in cash in the year</b>		<b>(4,280,749)</b>	9,573,658

The notes on pages 16 to 25 form part of the financial statements.

# Depositors' Compensation Scheme

## Notes to the financial statements

*(forming part of the financial statements for the year ended 31 March 2011)*

### 1 **Constitution**

The Depositors' Compensation Scheme ("the Scheme" or "DCS") was constituted under the Financial Services Act 2008 on 17 June 2008 and is governed by the Compensation of Depositors Regulations 2008 ("the 2008 Regulations"). The Scheme was activated by declaration of an act of default by Kaupthing Singer & Friedlander (Isle of Man) Limited- in liquidation ("KSF") on 27 May 2009.

On 23 October 2010 the 2008 Regulations were revoked and replaced by the Depositors' Compensation Scheme Regulations 2010 ("2010 Regulations") except that they shall continue to apply for the purposes of the fund established following the default of Kaupthing Singer & Friedlander (Isle of Man) Limited ("KSF") in respect of which the Scheme Manger made a determination on 27 May 2009.

### 2 **Accounting policies**

#### a *Basis of preparation*

These financial statements have been prepared under the historic cost convention, and in accordance with applicable United Kingdom accounting standards, the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, both made under the Audit Act 2006 and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008. The Scheme has not applied FRS 23, 25, 26 or 29, except for the mandatory presentational requirements of FRS 25.

#### b *Interest receivable and expenditure incurred*

Interest receivable and expenditure incurred have been accounted for on an accruals basis. No interest is payable on levies, Treasury funding or excess recoveries payable to claimants. No interest is receivable on compensation payments.

#### c *Levies receivable*

Levies receivable from Scheme Participants are credited to the income and expenditure account in the period in which they are levied.

# Depositors' Compensation Scheme

Notes to the financial statements (continued)  
(forming part of the financial statements for the year ended 31 March 2011)

## 2 Accounting policies (continued)

### d *Compensation payments to eligible protected depositors*

Compensation payments made to depositors are charged to the Income and Expenditure Account when agreed by the Scheme Manager. Compensation on claims agreed but not paid is charged to the Income and Expenditure Account in the period when the agreement is made. Compensation on claims made but not yet agreed by the Scheme Manager is not charged to the Income and Expenditure Account until such time as the claim is agreed. Interest is not accrued on compensation claims.

### e *Excess recoveries payable to claimants*

Surplus dividends received by the Scheme in excess of the DCS compensation entitlement are paid to claimants in the year in which they are received.

### f *Dividends received from Liquidator*

Dividends received from the Liquidator comprise distributions related to those KSF accounts that have been assigned directly to the Scheme and those KSF accounts that have been assigned to the Scheme as a result of claims under the Early Payment Schemes 1 and 2 ("EPS"). They are accounted for on an accruals basis for dividends declared by the Liquidator as at the balance sheet date. However, dividends on assigned accounts are only recognised as income where claims have been agreed by the Scheme Manager.

### g *Translation of foreign currency*

Foreign currency transactions during the year are translated into sterling at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at the balance sheet date.

### h *Going concern*

The Scheme has statutory powers under the 2008 Regulations to raise funds through annual levies (see note 3) and through Treasury funding to enable it to pay compensation. By resolution of Tynwald, Treasury has advanced funds (see note 8) to the Scheme to enable it to pay full compensation earlier than it otherwise would have done.

# Depositors' Compensation Scheme

## Notes to the financial statements (continued)

*(forming part of the financial statements for the year ended 31 March 2011)*

### 2 Accounting policies (continued)

#### h *Going concern (continued)*

The support given by Tynwald was not subject to any terms and conditions regarding its ultimate repayment. Accordingly, the net amount due to Treasury has been disclosed as a current liability on the basis that in the absence of stated terms and conditions, demand for repayment could be made at any time.

On the basis that the Scheme is in a net deficit position and that the Treasury funding is repayable on demand, the Scheme Manager has obtained a letter of support from Treasury confirming that it will not demand repayment of the financing that has been made available to the Scheme on terms which would render the Scheme unable to meet its obligations to creditors before 31 December 2012.

Ultimately, the Scheme will not be in a net deficit position because all net compensation payments and associated costs after recoveries from the liquidation will be paid in accordance with Sections 12 and 12a of the 2008 Regulations as detailed in note 3 below.

The financial statements have therefore been prepared on a going concern basis.

### 3 Levies

The Scheme Manager is permitted under section 6(3)(a) of the 2008 Regulations governing the Scheme to make successive annual levies on each Scheme participant that was a participant at the date of default of another participant, to meet the compensation costs of the Scheme as defined under paragraph 4 of the 2008 Regulations, which includes all associated operating costs, except for the total amount by which the compensation payable in respect of each claimant exceeds £20,000 which shall be paid by Treasury as laid out in section 12A of the 2008 Regulations.

The annual levy, as defined in section 12 of the 2008 Regulations is equivalent to 0.125% of a Scheme participant's deposit liabilities at a date or dates specified by the Scheme Manager, subject to a maximum levy of £350,000 per annum.

The aggregate of all the amounts which may be levied on participants by the Scheme Manager throughout the currency of the Scheme in respect of all defaults occurring on or after 23 October 2008 and before 23 October 2010 shall not exceed £200,000,000.

## Depositors' Compensation Scheme

Notes to the financial statements (continued)  
(forming part of the financial statements for the year ended 31 March 2011)

### 4 Taxation

The Scheme is not subject to Income Tax and no relief is available for any expenditure.

### 5 Dividends received from Liquidator

The Liquidator has declared total dividends in the year of 21.1p in the £. These funds have been received in several tranches over the course of the year.

The dividends received during the year have been applied as follows:-

	<b>2011</b>	2010
	<b>£</b>	£
Repayment of compensation under the 2008 Regulations	<b>51,588,027</b>	98,930,423
Excess recoveries paid to claimants	<b>36,624,406</b>	17,101,136
	<hr/> <b>88,212,433</b> <hr/>	<hr/> 116,031,559 <hr/>

The Scheme was assigned all the rights associated with the eligible protected deposits for which KSF depositors made a claim under the Scheme.

The rights assigned to Treasury arising from the payments made by the Isle of Man Government under Early Payments Schemes 1 and 2 have also been assigned to the Scheme (see note 8).

These rights include the right to receive dividends paid by the liquidator in respect of the assigned balances. As a result the DCS will be in receipt of dividends in excess of the compensation paid in a number of cases. Such excess recoveries are paid to claimants.

## Depositors' Compensation Scheme

Notes to the financial statements (continued)  
(forming part of the financial statements for the year ended 31 March 2011)

### 6 Other creditors

	2011 £	2010 £
Compensation agreed but not paid	187,699	36,893
Excess recoveries agreed but not paid	122,505	14,572
Dividends received from liquidator on assigned accounts where claims have not been agreed by the Scheme Manager	512,762	1,100,799
Other creditors	93,740	134,354
	<hr/>	<hr/>
	<b>916,706</b>	<b>1,286,618</b>
	<hr/>	<hr/>

### 7 Sundry debtors

	2011 £	2010 £
Recoverable VAT	15,093	247,680
Dividends declared by the liquidator not yet received by the DCS	-	466,612
	<hr/>	<hr/>
	<b>15,093</b>	<b>714,292</b>
	<hr/>	<hr/>

### 8 Treasury funding

Treasury funding comprises of the following:

	2011 £	Restated(*) 2010 £
EPS payments made in advance of the Scheme activation	65,959,181	65,959,181
Cash advance	130,000,000	130,000,000
	<hr/>	<hr/>
Total funding	<b>195,959,181</b>	<b>195,959,181</b>
Cash repayments	<b>(152,014,960)</b>	<b>(98,004,960)</b>
	<hr/>	<hr/>
Net funding	<b>43,944,221</b>	<b>97,954,221</b>
	<hr/>	<hr/>

## Depositors' Compensation Scheme

Notes to the financial statements (continued)  
(forming part of the financial statements for the year ended 31 March 2011)

### 8 Treasury funding (continued)

The net funding represents:

	2011 £m	Restated(*) 2010 £m
Net contribution to compensation claims in excess of £20,000	17.2	32.1
Advance of participants' future levies	22.3	56.9
Working capital retained by DCS	4.4	9.0
	<hr/> <b>43.9</b> <hr/>	<hr/> <b>98.0</b> <hr/>

(\*) In the current year, the Scheme Manager has made a decision to provide a more detailed analysis of Treasury funding. The comparative figures have been restated accordingly.

Under the terms of the 2008 Regulations, the funding for compensation payments to individuals of more than £20,000 but under £50,000 is provided by Treasury. By resolution of Tynwald, funding that otherwise would have been provided by levies on Scheme participants over a period of years, was provided by Treasury in advance.

Payments made by the Isle of Man Government under Early Payments Schemes 1 and 2 have been assigned to the Scheme and have been treated as if the funding had been provided by way of loan from Treasury to the Scheme and the compensation payments made by the Scheme.

The funding given by Tynwald was not subject to any terms and conditions regarding its ultimate repayment. Accordingly, the net amount due to the Treasury has been disclosed as a current liability on the basis that in the absence of stated terms and conditions, demand for repayment could be made at any time (see note 2(h)).

Dividends received from the liquidator of KSF will be retained by the Scheme to the extent necessary to meet its obligations and operating expenses.

## Depositors' Compensation Scheme

Notes to the financial statements (continued)  
*(forming part of the financial statements for the year ended 31 March 2011)*

### 8 Treasury funding (continued)

Although the Treasury funding is not subject to any terms and conditions there is an expectation that amounts will be repaid as follows:

- Further dividends received after all other obligations of the Scheme have been met will be applied to repay the Treasury funding until such time as the advances made in respect of the Scheme participants' levies have been repaid. Thereafter such recoveries will be shared between the Scheme participants and Treasury.
- If the Scheme Manager recovers sums from the liquidator of KSF in respect of compensation payments, it is under an obligation to distribute such sums between Scheme participants and the Treasury on such basis as appears to the Scheme Manager to be appropriate having regard to the sources of funding from which the compensation payments were made.

In the likely event that the liquidator is unable to distribute 100p in the £ a residual part of the funding will not be repaid and will represent the net cost of the Scheme to the Treasury and to the Scheme participants. At this stage no formal estimate of the net cost has been made by the Scheme Manager.

## Depositors' Compensation Scheme

Notes to the financial statements (continued)  
(forming part of the financial statements for the year ended 31 March 2011)

### 9 Compensation payments

The amount of compensation payable under the Scheme in respect of an eligible protected deposit, as laid out in section 11 of the 2008 Regulations, is 100% of the eligible protected deposit, subject to the following limits:

- a. where the depositor is an individual beneficially entitled to the deposit, £50,000;
- b. in any other case, £20,000.

	2011 £	2010 £
Total compensation paid under the DCS and EPS	<b>10,660,834</b>	195,313,972
Included in the total compensation paid are the following EPS payments:		
Paid by Treasury under EPS for which no DCS claim has been made	<b>(4,880,215)</b>	19,753,759
Paid by Treasury under EPS where DCS claims have been made and agreed by the Scheme Manager	<b>4,880,215</b>	46,205,422
Total EPS paid	-	65,959,181

The re-allocation of EPS payments results from the completion of additional compensation claims during the year ended 31 March 2011 where such claims had previously not been adjudicated or where compensation claims had not yet been made.

## Depositors' Compensation Scheme

Notes to the financial statements (continued)  
 (forming part of the financial statements for the year ended 31 March 2011)

### 9 Compensation payments (continued)

Certain conditions exist where joint accounts have been assigned to the Scheme Manager in full, and where the joint holders have not claimed for compensation. In a number of cases, the account holders will have been in receipt of EPS payments. Where the Scheme Manager has received dividends from the liquidator in respect of those accounts where claims have not been made, provision for paying the balance of receipts above the amount of EPS paid (and which is properly recoverable by the Scheme Manager) has been made (see note 6).

### 10 Notes to the cash flow statement

#### Reconciliation of net compensation cost over income operating cash flows

	2011 £	2010 £
Net compensation recovery/(cost) for the year	49,399,964	(88,952,889)
EPS payments paid directly by Treasury	-	66,004,159
(Decrease)/increase in creditors	(369,912)	1,286,618
Decrease/(increase) in debtors	699,199	(714,292)
Interest received	(9,150)	(17,641)
	<hr/>	<hr/>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>49,720,101</b>	<b>(22,394,045)</b>
	<hr/> <hr/>	<hr/> <hr/>

#### Analysis and reconciliation of net debt

	Net debt at 31 March 2010	Cash flow in year	Net debt at 31 March 2011 £
Cash at bank and in hand	9,573,658	(4,280,749)	5,292,909
Treasury funding	(97,954,221)	54,010,000	(43,944,221)
	<hr/>	<hr/>	<hr/>
<b>Net debt</b>	<b>(88,380,563)</b>	<b>49,729,251</b>	<b>(38,651,312)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Depositors' Compensation Scheme

Notes to the financial statements (continued)  
*(forming part of the financial statements for the year ended 31 March 2011)*

### 10 Notes to the cash flow statement (continued)

<b>Reconciliation of net cash flow movement in net debt</b>	<b>2011</b>
	<b>£</b>
Decrease in cash in year	<b>(4,280,749)</b>
Debt repaid	<b>54,010,000</b>
	<hr/>
<b>Movement in net debt resulting in year</b>	<b>49,729,251</b>
<b>Net debt at 1 April 2010</b>	<b>(88,380,563)</b>
	<hr/>
<b>Net debt at 31 March 2011</b>	<b>(38,651,312)</b>
	<hr/>

# Depositors' Compensation Scheme

## Appendix A

### Scheme Participants

The scheme participants in the Depositors' Compensation Scheme during the year ended 31 March 2011, in relation to the default of Kaupthing Singer & Friedlander (Isle of Man) Limited under the 2008 Regulations, were as follows:

AIB Bank (CI) Limited  
Alliance & Leicester International Limited  
Anglo Irish Bank Corporation (International) PLC  
Bank of Ireland (I.O.M.) Limited  
Bank of Scotland International Limited (***licence surrendered on 1 January 2010***)  
Bank of Scotland Plc  
Barclays Bank PLC  
Barclays Private Clients International Limited  
Barclays Private Bank & Trust (Isle of Man) Limited  
BNP Paribas Securities Services S.A.  
Bradford & Bingley International Limited  
Britannia International Limited  
Cayman National Bank & Trust Company (Isle of Man) Limited  
Close Bank (Isle of Man) Limited  
Conister Bank Limited  
Duncan Lawrie (IOM) Limited  
Fairbairn Private Bank (IOM) Limited  
Habib European Bank Limited  
HSBC Bank International Limited  
HSBC Bank plc  
Irish Nationwide (I.O.M.) Limited  
Irish Permanent (IOM) Limited (***licence surrendered on 30 November 2010***)  
Isle of Man Bank Limited  
Lloyds TSB Offshore Limited  
Nationwide International Limited  
RBS Coutts Bank (Manx) Limited (***ceased to be a participant in the Scheme under the 2010 Regulations from March 2011***)  
Standard Bank Isle of Man Limited  
The Royal Bank of Scotland International Limited  
The Royal Bank of Scotland plc  
Zurich Bank International Limited

The obligations of participants at the time of the default of KSF under the 2008 Regulations continue until the conclusion of the Scheme in relation to this default, irrespective of whether they continue as participants under the 2010 Regulations or as continuing licence holders.