



DEPOSITORS' COMPENSATION SCHEME
(in relation to the Compensation of Depositors' Regulations 2008)

ANNUAL REPORT
OF THE SCHEME MANAGER
FOR THE YEAR ENDED
31 March 2021

Depositors' Compensation Scheme

(in relation to the Compensation of Depositors Regulation 2008)

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Depositors' Compensation Scheme

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

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 Isle of Man Financial Services Authority ("the Authority") ("the Scheme Manager") is charged with the administration of the Depositors' Compensation Scheme.

The Transfer of Functions (Isle of Man Financial Services Authority) Order 2015 states "the Authority shall consist of not less than seven qualified persons appointed by the Treasury, subject to the approval of Tynwald".

Members

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

	Date first elected	Retired
Mr P Wright	November 2015	June 2021
Ms L Boyle	November 2015	
Mr M Waterhouse	November 2015	
Ms K Badgerow	November 2015	July 2021
Mr J Clarke	March 2016	June 2021
Ms L Thompson	July 2018	
Ms J McAndry	July 2018	
Mr K Garland	March 2020	
Mr P Hahn	March 2020	
Miss J Hill	July 2021	
Ms L McClements	July 2021	
Mrs B Roth	October 2021	

Depositors' Compensation Scheme

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

OFFICERS AND PROFESSIONAL ADVISORS**SECRETARY**

Mr A Kermode
Financial Services Authority
P O Box 58
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Bucks Road
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Douglas
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AGENT

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P O Box 93
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Isle of Man
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PRINCIPAL BANKER

The Royal Bank of Scotland
International Limited (trading
as Isle of Man Bank)
2 Athol Street
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Isle of Man
IM99 1AN

AUDITOR

Deloitte LLP
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SCHEME MANAGER

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Depositors' Compensation Scheme

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

REPORT OF THE SCHEME MANAGER

INTRODUCTION

This is the thirteenth Annual Report by the Authority in its role as Scheme Manager of the Compensation of Depositors Regulations 2008, known as the Depositors' Compensation Scheme ("the Scheme" or "the DCS"). The Isle of Man Financial Services Authority ("the Authority") ("the Scheme Manager") is charged with the administration of the Depositors' Compensation Scheme.

LEGISLATION

On 9 October 2008, the Treasury Department, Isle of Man Government ("the 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 life of the Scheme in respect of all defaults occurring on or after 23 October 2008 and before 23 October 2010) and funding from the Treasury in respect of all defaults occurring before 23 October 2010 not exceeding £150m, in order to provide monies for the establishment of the Scheme, 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 Scheme established following the default of Kaupthing Singer & Friedlander (Isle of Man) Limited in liquidation ("KSF") in respect of which the Scheme Manager made a determination on 27 May 2009.

ACTIVATION OF THE SCHEME

On 27 May 2009, the Authority, 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.

SUBMISSION OF CLAIMS

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

LEVIES

During the year ended 31 March 2021, no levies were made against the Scheme Participants in accordance with the Regulations (2020: £nil).

DIVIDEND DISTRIBUTION

During the year ended 31 March 2021, the Liquidator of KSF declared no dividends (2020: 1.608p in the £). A total of £nil (2020: £8,993,789 (which is broken down in note 7)) has been received into the Scheme. The amount that has been recognised as income represents the dividends received in respect of accounts assigned to the Scheme Manager, as explained in notes 3(e) and 7 of the financial statements.

Depositors' Compensation Scheme

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

REPORT OF THE SCHEME MANAGER (CONTINUED)**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 £3,393,434 (2020: £Nil), were paid to claimants during the year.

RETIREMENT / APPOINTMENT OF MEMBERS

During the year ended 31 March 2021, and to the date of signing of the report the following members retired with effect from 30 June 2021:

Mr P Wright
Mr J Clarke

During the year ended 31 March 2021, and to the date of signing of the report the following members retired with effect from 30 July 2021:

Ms K Badgerow

During the year ended 31 March 2021, and to the date of signing of the report the following members were appointed with effect from 1 July 2021:

Miss J Hill
Ms L McClements

During the year ended 31 March 2021, and to the date of the signing of the report the following members were appointed with effect from 19 October 2021:

Mrs B Roth

The Scheme Manager adopts a strict policy in determining and managing the conflicts of interest which may arise between members of the Authority and Scheme Participants. Information regarding Authority members' conflicts of interest is available from the Authority's website www.iomfsa.im.

RETIREMENT / APPOINTMENT OF SECRETARY

During the year ended 31 March 2021, and to the date of signing of the report there were no appointments or retirements of the Scheme Secretary.

PAYMENT OF COMPENSATION

During the year, the Scheme Manager made compensation payments (net recoveries) totalling £Nil (2020: £Nil).

Depositors' Compensation Scheme

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

REPORT OF THE SCHEME MANAGER (CONTINUED)

DISTRIBUTION OF SURPLUS FUNDS AND APPORTIONMENT OF COMPENSATION COSTS

As explained in Note 10, following consultation between the Scheme Manager, Scheme Participants and the Treasury, the Scheme Manager exercised its discretion as laid down in the Regulations in the apportionment of the compensation costs and any distribution of surplus funds that has arisen in relation to the compensation fund.

During the year the Scheme Manager returned levies to the Scheme Participants totalling £Nil (2020: £Nil).

Until reasonable efforts have been made to pay deferred and statutory interest to KSF depositors who wish to receive funds, there is uncertainty in relation to the amount of the Treasury funding as at 31 March 2021, that will ultimately be repaid and any further surplus that may be distributable to the Scheme Participants.

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 2021.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

The audited financial statements for the year ended 31 March 2021 are set out as part of this annual report.

GOING CONCERN

As at 31 March 2021, the Scheme is in a deficit (2020: deficit) position and has a net deficit of £2,621,800 (2020: deficit of £1,943,133). The Scheme has cash balances of £5,484,985 (2020: £9,726,868) (refer to note 15).

Whilst there is a current liability of £1,528,997 (2020: £1,528,997) in respect of the Treasury funding, ultimate repayment of this amount and any further return of levies to Scheme Participants, as detailed in regulation 16A of the Regulations, is at the discretion of the Scheme Manager, having regard to the sources of funding from which the compensation payments were made (see note 10).

The Treasury has also confirmed in writing that it will not seek to demand repayment of any funds which would render the Scheme unable to meet its obligations to creditors no sooner than 15 months of the signing of the Scheme Financial Statements.

The Scheme Manager therefore has a reasonable expectation that the Scheme has adequate resources to meet its ongoing costs and to continue in operational existence for the foreseeable future and, therefore, continues to adopt the going concern basis in preparing the annual report and financial statements.

**APPROVED BY THE FINANCIAL SERVICES AUTHORITY AS SCHEME MANAGER OF THE
DEPOSITORS' COMPENSATION SCHEME ON 8 NOVEMBER 2021 AND SIGNED ON ITS BEHALF
BY:**


MEMBER


MEMBER

Depositors' Compensation Scheme
(in relation to the Compensation of Depositors' Regulations 2008)

Financial Statements

For the year ended 31 March 2021

Depositors' Compensation Scheme

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

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 Isle of Man law and regulations.

The Scheme Manager is responsible for preparing financial statements for each financial year in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" to the extent that they do not conflict with the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 2013 and the Audit Directions 2008, as required by 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
8 November 2021**



**Mr A Kermod
Secretary**

**Depositors' Compensation Scheme
Independent auditor's report
to the members of Depositors' Compensation Scheme**

Independent auditor's report to the members of Depositors Compensation Scheme

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Depositors Compensation Scheme (the 'Scheme'):

- give a true and fair view of the state of the Scheme's affairs as at 31 March 2021 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008.

We have audited the financial statements which comprise:

- the income and expenditure account;
- the balance sheet;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) to the extent that they do not conflict with the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 10 in the financial statements, concerning the amount that will ultimately be repaid to Treasury in relation to its funding. Until reasonable efforts have been made to pay out deferred and statutory interest to claimants, the final repayment in relation to the Treasury Funding amount is uncertain and may differ significantly from the amount which is stated in the financial statements as at 31 March 2021. Our opinion is not modified in respect of this matter.

Depositors' Compensation Scheme
Independent auditor's report
to the members of Depositors' Compensation Scheme

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Scheme Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the scheme manager with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The scheme manager is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Scheme Manager

As explained more fully in the scheme manager's responsibilities statement, the scheme manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the scheme manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the scheme manager is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the scheme manager either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Depositors' Compensation Scheme
Independent auditor's report
to the members of Depositors' Compensation Scheme

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Scheme's industry and its control environment, and reviewed the Scheme's documentation of its policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Scheme's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management " the Scheme Manager" concerning actual and potential litigation and claims, and
- reading minutes of meetings of those charged with governance.

**Depositors' Compensation Scheme
Independent auditor's report
to the members of Depositors' Compensation Scheme**

Report on other legal and regulatory requirements

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 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.

Use of our report

This report is made solely to the Scheme's members, as a body. Our audit work has been undertaken so that we might state to the Scheme'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 Scheme and the Scheme's members as a body, for our audit work, for this report, or for the opinions we have formed.



Deloitte LLP
Douglas
Isle of Man

Date: 9 December 2021

Depositors' Compensation Scheme
Income and expenditure account
for the year ended 31 March 2021

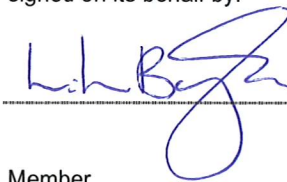
	Notes	2021 £	2020 £
Income			
Dividends received from Liquidator	3e),7	-	8,931,703
Recoveries Treasury re: EPS IT & Administration	6	89,793	67,843
		<u>89,793</u>	<u>8,999,546</u>
Expenditure			
Excess Recoveries paid or payable to claimants	3d),7	-	8,931,703
Scheme Agent Costs		736,064	406,210
Audit fees		30,150	21,995
Bank charges		2,246	293
		<u>768,460</u>	<u>9,360,201</u>
Net fund (expenditure) for the year		<u>(678,667)</u>	<u>(360,655)</u>
Compensation Funds Deficit brought forward		(1,943,133)	(1,582,478)
Compensation Funds Deficit carried forward		<u>(2,621,800)</u>	<u>(1,943,133)</u>

The notes on pages 16 to 24 form part of the financial statements.

**Depositors' Compensation Scheme
Balance Sheet
as at 31 March 2021**

	Notes	2021 £	2020 £
Current assets			
Debtors	9	368,767	118,431
Cash at bank and in hand	15	5,484,985	9,726,868
		<u>5,853,752</u>	<u>9,845,299</u>
Current liabilities			
Other creditors	8	6,946,555	10,259,435
Treasury funding	10	1,528,997	1,528,997
		<u>8,475,552</u>	<u>11,788,432</u>
Net current liabilities		(2,621,800)	(1,943,133)
Net liabilities		<u>(2,621,800)</u>	<u>(1,943,133)</u>
Represented by			
Compensation Funds Deficit brought forward		(1,943,133)	(1,582,478)
Deficit for the financial year		(678,667)	(360,655)
Compensation Fund Deficit		<u>(2,621,800)</u>	<u>(1,943,133)</u>

These financial statements were approved by the Scheme Manager on 8 November 2021 and signed on its behalf by:



Member



Member

The notes on pages 16 to 24 form part of the financial statements.

**Depositors' Compensation Scheme
Statement of Changes in Equity
for the year ended 31 March 2021**

	Income and Expenditure account £	Total £
At 1 April 2019	(1,582,478)	(1,582,478)
Deficit for the financial year	(360,655)	(360,655)
At 31 March 2020	<u>(1,943,133)</u>	<u>(1,943,133)</u>
At 1 April 2020	(1,943,133)	(1,943,133)
Deficit for the financial year	(678,667)	(678,667)
At 31 March 2021	<u>(2,621,800)</u>	<u>(2,621,800)</u>

The notes on pages 16 to 24 form part of the financial statements.

**Depositors' Compensation Scheme
Statement of Cash Flows
for the year ended 31 March 2021**

	Notes	2021 £	2020 £
Cash flows from operating activities			
Net fund expenditure for the year		(678,667)	(360,655)
Creditor reclassifications		48,943	38,852
(Decrease)/Increase in other creditors		(3,361,823)	9,006,873
Increase in debtors		(250,336)	(20,225)
Net cash (outflows)/inflows from operating activities		<u>(4,241,883)</u>	<u>8,664,845</u>
Cash flows from financing activities			
Movement in treasury funding		-	29,594
		<u>-</u>	<u>29,594</u>
Cash flows from financing activities		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
Net cash (outflow)/inflow for the year		(4,241,883)	8,694,439
Opening cash balance		<u>9,726,868</u>	<u>1,032,429</u>
Closing cash balance		<u>5,484,985</u>	<u>9,726,868</u>

The notes on pages 16 to 24 form part of the financial statements.

Depositors' Compensation Scheme
Notes to the financial statements
for the year ended 31 March 2021

1 Basis of preparation

These financial statements and related notes have been prepared under the historic cost convention and in accordance with UK Accounting Standards including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102"), to the extent that it does not conflict with the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008.

2 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 Scheme established following the default of KSF in respect of which the Scheme Manager made a determination on 27 May 2009.

3 Accounting policies

a) *Interest receivable and expenditure incurred*

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

b) *Levies*

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

b. Levies repaid by the Scheme Manager are debited to the income and expenditure account in the period in which they are repaid.

c) *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. Interest is not accrued on compensation claims.

d) *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.

Depositors' Compensation Scheme
Notes to the financial statements
for the year ended 31 March 2021

e) *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"). These distributions are accounted for on an accruals basis for dividends declared by the Liquidator as at the balance sheet date. Dividends on assigned accounts are recognised as income where claims have been agreed by the Scheme Manager.

f) *Presentation and functional currency*

The Scheme is denominated in British pounds ("GBP" or "£") and the financial statements adopt GBP as the presentation currency. The Scheme is based in the Isle of Man, therefore the functional currency is also GBP.

g) *Translation of foreign currency*

Foreign currency transactions 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. All differences are charged to the income and expenditure account.

h) *Going concern*

As at 31 March 2021, the Scheme is in a deficit (2020: deficit) position and has a net deficit of £2,621,800 (2020: deficit of £1,943,133). The Scheme has cash balances of £5,484,985 (2020: £9,726,868) (refer note 15). Whilst there is a current liability of £1,528,997 (2020: £1,528,997) in respect of the Treasury funding, ultimate repayment of this amount and any further return of levies to Scheme Participants, as detailed in regulation 16A of the Regulations, is at the discretion of the Scheme Manager, having regard to the sources of funding from which the compensation payments were made (see note 10). If significant volumes of claims are received, the Scheme can levy participants for additional funding in order to meet costs.

The Treasury has also confirmed in writing that it will not seek to demand repayment of any funds which would render the Scheme unable to meet its obligations to creditors no sooner than 15 months of the signing of the Scheme Financial Statements.

The Scheme Manager therefore has a reasonable expectation that the Scheme has adequate resources to meet its ongoing costs and to continue in operational existence for the foreseeable future and, therefore, continues to adopt the going concern basis in preparing the annual report and financial statements.

i) *Basic financial instruments*

Financial assets and liabilities:

Financial assets and liabilities are recognised when the Scheme becomes a party to the contractual provisions of the instrument.

No financial assets or liabilities are offset in the statement of financial position.

Depositors' Compensation Scheme
Notes to the financial statements
for the year ended 31 March 2021

i) Basic financial instruments (continued)

Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset expire or are settled.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets comprise:

Cash and cash equivalents which relate to cash balances and call deposits. Cash and cash equivalents are recognised at transaction prices.

Debtors are recognised at transaction prices less attributable transaction costs. No debtors are impaired as at the year-end date.

Financial liabilities comprise:

Creditors are recognised at transaction price plus attributable transaction costs. All creditors are on normal terms.

The Treasury funding which is recognised at transaction price plus attributable transaction costs. All terms and conditions on the loan funding have been met. Note that excess recoveries paid and levies repaid are only recognised as a liability when agreed by the Scheme Manager.

4 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 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 the 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 life 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.

5 Taxation

The Scheme is not subject to Income Tax and no relief is available for any expenditure. The Scheme is able to recover VAT on goods and services purchased.

Depositors' Compensation Scheme
Notes to the financial statements
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6 Income and expenditure in the period

EPS IT & Administration resulting from operational costs due to the 30 October 2018 hearing relating to preparation for final dividend EPS administration have been recorded as recoverable from the Treasury. Please refer to note 12.

The Scheme Manager did not raise fees in 2020 and has not raised fees for the 2021 year.

7 Dividends received from Liquidator

The Liquidator declared no dividends during the year (2020: 1.608p in the £). The total amount received from the Liquidator was £nil (2020: £8,993,789, which is broken down below). The funds due to the Treasury of £29,593 has been included in the Treasury funding balance (see note 10) and £32,493 was for unpaid principal amounts and have been included in Other Creditors (see note 8).

	2021	2020
	£	£
Funds due to the Treasury	-	29,593
Unpaid capital amounts	-	32,493
Final dividend	-	8,931,703
	<u>-</u>	<u>8,993,789</u>

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 the 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 10).

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

8 Other Creditors

	2021	2020
	£	£
Trade creditors	103,033	34,925
Excess recoveries agreed but not paid	5,573,609	8,967,043
Dividends received from liquidator on assigned accounts unclaimed/unagreed	499,176	499,176
Compensation agreed but not yet paid	693,994	645,051
Accruals	76,743	113,240
	<u>6,946,555</u>	<u>10,259,435</u>

Depositors' Compensation Scheme
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9 Debtors	2021	2020
	£	£
Debtors - Recoverable VAT	174,511	13,969
Other debtors	194,256	104,462
	<u>368,767</u>	<u>118,431</u>

Other debtors comprises of accrued income for Scheme Agent fees that are recoverable from the Treasury. The Scheme Agent fees are in relation to EPS costs that have been borne by the Scheme.

10 Treasury funding	2021	2020
	£	£
EPS payments made in advance of the Scheme activation	65,949,181	65,949,181
Cash advance	<u>130,000,000</u>	<u>130,000,000</u>
Total funding	195,949,181	195,949,181
Cash repayments	(194,449,778)	(194,449,778)
Payment received from KSF due to the Treasury	29,594	29,594
	<u>1,528,997</u>	<u>1,528,997</u>
Net funding		

As laid out in S11 (2), of the Compensation of Depositors Regulations 2008 the funding for compensation payments to individuals of more than £20,000 but under £50,000 is provided by the 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 the Treasury in advance.

Payments made by the Isle of Man Government under Early Payment Schemes 1 and 2 have been assigned to the Scheme and have been treated as if the funding had also been provided by way of a loan from the 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 and is therefore disclosed as a current liability. Until reasonable efforts have been made to pay deferred and statutory interest to KSF depositors who wish to receive these funds, there is uncertainty in relation to the amount of the Treasury funding as at 31 March 2021 that will ultimately be repaid and any further surplus that may be distributable to the Scheme Participants.

Dividends received from the liquidator of KSF will be retained by the Scheme to the extent necessary to meet its obligations and operating expenses. KSF released funds of £29,594 ultimately due to the Treasury that had not previously been known to the Scheme. As a result, obligations to Treasury increased.

Depositors' Compensation Scheme
Notes to the financial statements
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10 Treasury funding (continued)

Although the Treasury funding is not subject to any terms and conditions, and the Treasury has stated it will not seek to demand repayment of any funds until at least 15 months from the date of signing of the Scheme Financial Statements, there is an expectation that amounts will be repaid as follows:

- After all other obligations of the Scheme have been met, surplus funds will be applied to repay the Treasury funding until such time as the advances made in respect of the Scheme Participants' levies ('the advances') have been repaid. Thereafter such recoveries will be shared between the Scheme Participants and the Treasury. These advances have now all been repaid.
- In accordance with regulation 16A of the Regulations, any surplus remaining, once the Treasury funding in relation to advances to Scheme Participants' levies has been repaid and all other obligations of the Scheme have been met, will be distributed between Scheme Participants and the Treasury on such a 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 exercise of its discretion in accordance with Regulation 16A of the 2008 Regulations, the Scheme Manager concluded that it should base the apportionment of Compensation Expenses having regard to the obligations of the Treasury and Scheme Participants under regulations 12A and 12 respectively of the 2008 Regulations. As a result the Scheme Manager decided upon a basis for the apportionment of Compensation Expenses and Surplus Funds and communicated that basis to the Scheme Participants and the Treasury in September 2012.
- During the year the Scheme Manager returned levies to the Scheme Participants totalling £Nil (2020: £Nil) and repaid £Nil (2020: £Nil) to the Treasury.

Until reasonable efforts have been made to pay deferred and statutory interest to KSF depositors who wish to receive these funds, there is uncertainty in relation to the amount of the Treasury funding currently shown as £1,528,997 as at 31 March 2021 (2020: £1,528,997) that will ultimately be repaid and any further surplus that may be distributable to the Scheme Participants. There is also significant uncertainty in relation to the final surplus that may be distributable to the Scheme Participants. At this stage no formal final estimate of the net cost has been made by the Scheme Manager.

The Treasury has confirmed that they will not seek to recall their funding until such time as the Scheme is in a position to do so, and no sooner than within 15 months of the signing of the Scheme Financial Statements.

Depositors' Compensation Scheme
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11 Compensation paid

No compensation payments have been made in the period.

The amount of compensation payable under the Scheme in respect of an eligible protected deposit, as laid out in section 11 (2) 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.

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 8).

12 KSF Surplus Assets

On 16 June 2017 the High Court of Justice of the Isle of Man ruled that the surplus assets that remain in the liquidation of Kaupthing Singer & Friedlander (Isle of Man) Limited ("KSF") should be distributed at the statutory rate of interest of 4% per annum calculated for the whole period from 9 October 2008 until the date of distribution and then divided pro rata to unsecured creditors.

On the 30 October 2018 directions were made by the Isle of Man Court that the liquidator of KSF will pay Statutory and/or Deferred Interest due to Depositors who claimed in the DCS and/or the EPS.

As a result of this judgement, during the year ended 31 March 2020, the Liquidator of Kaupthing Singer & Friedlander (Isle of Man) Limited declared and paid a final distribution of 1.608p in the £ to the Scheme in respect of assigned account balances.

13 Analysis and reconciliation of net cash/ (debt)

	Net debt at 31 March 2020 £	Cash flow in year £	Net debt at 31 March 2021 £
Cash at bank (note 15)	9,726,868	(4,241,883)	5,484,985
Treasury funding (note 10)	(1,528,997)	-	(1,528,997)
	<u>8,197,871</u>	<u>(4,241,883)</u>	<u>3,955,988</u>

Depositors' Compensation Scheme
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13 Analysis and reconciliation of net cash/ (debt) (continued)

Reconciliation of net cash flow movement in net cash/ (debt)

	2021
	£
Decrease in cash in year	(4,241,883)
Movement in net debt	(4,241,883)
Net debt at 1 April 2020	8,197,871
Net debt at 31 March 2021	3,955,988

14 Related party transactions

The Authority in its role as Scheme Manager and the Treasury are both considered to be related parties of the Scheme, as the Authority is an Independent Statutory Body overseen by the Treasury, and the Treasury is a department of the Isle of Man Government. The transactions relating to these parties are disclosed throughout these financial statements. Refer to note 10 in respect of the Treasury funding and the Comprehensive Income and Expenditure Account in respect of Scheme Manager fees for the current and prior years.

15 Cash at bank

Cash at bank of £5,484,985 (2020: £9,726,868) as at 31 March 2021 is shown net of £266,710 (2020: £63,328) relating to unrepresented cheques. These unrepresented cheques are in respect of compensation and surplus payments made to claimants and include such payments made throughout the period of the Scheme from inception, as well as final dividend cheques issued prior to the year end but not banked by the 31 March 2021.

At the current year end £48,943 (2020: £38,852) of unrepresented cheques have been reclassified to compensation agreed but not paid (note 8) as the counterparty had cheques outstanding for over the statutory proof period of 6 years. This has resulted in cash presented in the balance sheet being £48,943 (2020: £38,852) higher than it would have otherwise been, with scheme creditors being higher by the same amount.

16 Critical accounting judgments

The Scheme Manager has not applied any significant judgments in applying the Scheme's accounting policies. Note 10 sets out a detailed statement of the Treasury funding and the significant uncertainty relating to the circumstances under which repayment might not take place. The Scheme Manager continues to report the full value of the funding liability until such time as the significant uncertainty is removed.

Depositors' Compensation Scheme
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17 Events after the reporting date

No material matters up to the date of signing of the financial statements have arisen.

18 Contingent liabilities and COVID-19

The Scheme has not been materially impacted by the COVID-19 pandemic. The COVID-19 outbreak has not materially impacted the ability of the Scheme to deliver funds to those KSF depositors who have come forward and updated their details. The DCS presently remains open to paying deferred and statutory interest. The DCS has provided for those prospective contingent liabilities in its financial statements.

**Depositors' Compensation Scheme
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APPENDIX A

Scheme Participants

The Scheme participants in the Depositors' Compensation Scheme during the year ended 31 March 2021, in relation to the default of Kaupthing Singer & Friedlander (Isle of Man) Limited under the 2008 Regulations, were as follows:

Current class 1 licenceholders (who were participants)

Barclays Bank PLC
Cayman National Bank (Isle of Man) Limited (formerly Cayman National Bank & Trust Company (Isle of Man) Limited)
Conister Bank Limited
HSBC Bank plc
Lloyds Bank International Limited (formerly Lloyds TSB Offshore Limited) (Licence surrendered on 16 July 2021)
Nedbank Private Wealth Limited (formerly Fairbairn Private Bank (IOM) Limited)
Standard Bank Isle of Man Limited
The Royal Bank of Scotland International Limited

Depositors' Compensation Scheme
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APPENDIX A (continued)

Former class 1 licenceholders (who were participants)

AIB Bank (CI) Limited (licence surrendered on 29 November 2013)
AIB International Savings Limited (formerly Anglo Irish Bank Corporation (International) PLC (licence surrendered on 30 June 2013))
Alliance & Leicester International Limited (licence surrendered on 7 May 2013)
Bank of Ireland (I.O.M.) Limited (licence surrendered on 2 June 2015)
Bank of Scotland International Limited (licence surrendered on 1 January 2010)
Bank of Scotland plc (licence surrendered on 30 November 2018)
Barclays Private Clients International Limited (licence surrendered on 19 December 2016)
Barclays Private Bank & Trust (Isle of Man) Limited (Class 1 licence surrendered on 30 September 2015)
BNP Paribas Securities Services SCA (formerly BNP Paribas Securities Services S.A.) (licence surrendered on 20 June 2015)
Bradford & Bingley International Limited (licence surrendered on 5 August 2011)
Britannia International Limited (licence surrendered on 31 March 2015)
Coutts & Co (Manx) Limited (formerly RBS Coutts Bank (Manx) Limited) (ceased to be a participant in the Scheme under the 2010 Regulations from March 2011, licence surrendered on 31 March 2016)
Duncan Lawrie (IOM) Limited (Class 1 licence surrendered on 31 July 2017)
Habib European Bank Limited (licence surrendered on 31 July 2016)
HSBC Bank International Limited (licence surrendered on 31 December 2012)
Irish Permanent (IOM) Limited (licence surrendered on 30 November 2010)
Isle of Man Bank Limited (licence surrendered on 28 June 2019)
Kleinwort Benson Bank (Isle of Man) Limited (formerly Close Bank (Isle of Man) Limited) (licence surrendered on 23 January 2016)
Nationwide International Limited (licence surrendered on 28 February 2015)
NatWest Markets Plc (formerly The Royal Bank of Scotland plc) (licence surrendered on 1 May 2019)
Permanent Bank International Limited (formerly Irish Nationwide (I.O.M.) Limited) (licence surrendered on 15 December 2017)
Zurich Bank International Limited (licence surrendered on 30 April 2017)

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.