



Guernsey Banking Deposit
Compensation Scheme

Annual Reports and Accounts

2011



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Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report 2011

This is my third report as Chairman of the Board¹, incorporating the accounts for the Scheme for the calendar year 2011.

The original and continuing members of the Board are myself, as Chairman, and the following members:

John Lee (Vice Chairman)
Steve Butterworth
Nigel Carey

I am grateful for their help and support over this period.

This report summarises the work of the Board since my last report, summarises work in progress and sets out some plans for future development for the Board.

Accounts for the period to 31 December 2011

The accounts for the year to 31 December 2011, which are included at the back of this report, show a surplus, although slightly less than that achieved in 2010. The annual fee charged to each bank for 2012 has thus been further reduced, as the Board considers that the balance sheet provides a suitable contingency reserve.

Cooperation with the Guernsey Financial Services Commission

In keeping with the Memorandum of Understanding entered into with the Guernsey Financial Services Commission in 2011, regular meetings are now held with the Commission. These have been most helpful to the Board who have been encouraged by the positive steps taken by the Commission to improve the balance sheets of local banks and specifically to reduce the risk arising from up-streaming of deposits.

¹ As before, this report uses the abbreviations 'Scheme', 'Board', 'Department' and 'Commission' for the Guernsey Banking Deposit Compensation Scheme, its Board, the Commerce and Employment Department and the Guernsey Financial Services Commission.

During the year the number of banks which are participants in the Scheme has fallen to 35 (from 38), with Yorkshire (Guernsey) the most notable departure.

Legislative drafting

The Board has spent further time in finalising recommended changes to the original Ordinance² which established the Scheme. These reflect the resolution of the States in 2010 which removed pre-funding as a feature of the Scheme, some minor technical defects and some suggested improvements such as the inclusion of deposits from charities within the class of ‘qualifying deposits’.

The process of drafting has proved more protracted than expected. During discussion with the Commission a technical issue was identified which concerned the treatment of depositors in the event that two banks defaulted in close succession. After some discussion, this issue has now been resolved to the satisfaction of the Board, which is ready to present its revised proposals to the new members of the board of the Department.

Publicity and Advertising

The Scheme’s website **www.dcs.gg** has continued to be updated as necessary. As soon as the legislative proposals referred to above are adopted, the website will be updated, as will any associated literature. The Board routinely reviews the brochure issued to participant banks for their clients to ensure that it is clear and accurate.

The Board continues to work with the Association of Guernsey Banks on agreeing suitable wording to be used in advertising material.

The Board routinely receives enquiries about a number of aspects of the Scheme by telephone, email or letter and responds to these as appropriate. Responses are either agreed by Board members or reviewed at routine meetings.

Administration

The administrative arrangements with Aon Services (Guernsey) Limited have now been in operation for over three years. The Board would like to acknowledge the considerable contribution made by the staff of the Administrator during the year to the work of the Board, and to express its thanks to those involved.

The International Association of Deposit Insurers ‘IADI’

Through its membership of IADI, the Board keeps in touch with developments around the world in deposit insurance. There have been no significant changes in policies adopted by the international community in the last year and, specifically, the ‘Basle Principles’ mentioned in previous reports have not changed.

In this context the Board met during the year with members of the Jersey Bank Depositors Compensation Scheme board for an exchange of views.

² The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008

Current work

The work referred to in my previous report on a response plan to deal with any claim on the Scheme has progressed considerably during the year, with a final plan now agreed and in the process of being circulated to those concerned. The aim is to ensure that the Board is in a position to deal promptly and efficiently with both actual claims and enquiries from the public in the event of a bank default, so as to ensure efficient payment of compensation and to minimise uncertainty for depositors. This plan includes:

- Timely press briefing and public information
- Use of a pre-arranged office suite
- Communication facilities, including an information line
- IT facilities
- Agreed job descriptions for temporary staff
- New website version
- Availability of claim forms

The Board believes it has now taken the key steps necessary to have a suitable infrastructure in place to meet the above aims. Necessary expenditure has been met from the Board's routine funds.

Longer –term plans

The Board monitors external developments in the deposit compensation field and is aware that there is a range of different approaches to this subject, which are evolving in the light of individual countries' experience of recent bank defaults. It will continue to debate with the Department appropriate changes to the Scheme with the aim of ensuring that Guernsey depositors are properly protected in accordance with high international standards.

Charles Tracy

Chairman of the Board

Guernsey Banking Deposit Compensation Scheme

GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME

FINANCIAL STATEMENTS

31 DECEMBER 2011

GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME

FINANCIAL STATEMENTS

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REPORT OF THE BOARD

The Board submits its report and the audited financial statements of the Guernsey Banking Deposit Compensation Scheme ("the Scheme") for the year ended 31 December 2011.

BOARD'S RESPONSIBILITIES

The Board is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Scheme and of the surplus or deficit of the Scheme for that period and are in accordance with applicable laws. In preparing those financial statements the Board is 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 Scheme will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme and to enable it to ensure that the financial statements have been properly prepared in accordance with the Banking Deposit Commission Scheme (Bailiwick of Guernsey) Ordinance, 2008. The Board is also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Board members are aware, there is no relevant audit information of which the Scheme's auditor is unaware, having taken all the steps the Board members ought to have taken to make themselves aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

PRINCIPAL ACTIVITY

The principal activity of the Board is the administration of the Scheme which was established by the States of Guernsey on 26 November 2008.

RESULTS AND DIVIDENDS

The results of the Scheme for the year are set out in detail on page 5.

REPORT OF THE BOARD

BOARD

The members of the Board who served during the year were:-

- Charles Tracy - Chairman
- John Lee - Deputy Chairman
- Steve Butterworth
- Nigel Carey

AUDITOR

A resolution to re-appoint BDO Limited as auditor will be proposed at a Board Meeting.

APPROVED BY THE MEMBERS OF THE BOARD

CHARLES TRACY - CHAIRMAN

.....
Board Member

JOHN LEE - DEPUTY CHAIRMAN

.....
Board Member

**INDEPENDENT AUDITOR'S REPORT TO THE
BOARD OF THE GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME**

We have audited the financial statements of the Guernsey Banking Deposit Compensation Scheme for the year ended 31 December 2011 which comprise the Income and Expenditure Account, the Balance Sheet and the notes on pages 7 to 8. 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 Board, in accordance with the Banking Deposit Commission Scheme (Bailiwick of Guernsey) Ordinance, 2008. Our audit work is undertaken so that we might state to the Board those matters we are required to state to them in an auditors' 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 Board as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Scheme Board and auditor

As explained more fully in the Board's Responsibilities Statement within the Report of the Board, the Scheme Board 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, including "APB Ethical Standard – Provisions Available for Small Entities (Revised)", in the circumstances set out in note 2 to the financial statements.

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 Board; and the overall presentation of the financial statements.

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

**INDEPENDENT AUDITOR'S REPORT TO THE
MEMBERS OF THE GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME
(continued)**

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Scheme's affairs as at 31 December 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- have been properly prepared in accordance with the Banking Deposit Commission Scheme (Bailiwick of Guernsey) Ordinance, 2008.

BDO LIMITED

CHARTERED ACCOUNTANTS

Place du Pré
Rue du Pré
St Peter Port
Guernsey

18 APRIL 2012

Date:

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | | 2010 |
|---------------------------------------|------|-----------|-------------|
| INCOME | 3 | 195,140 | 407,100 |
| Administrative expenses | | (148,397) | (315,455) |
| | | <hr/> | <hr/> |
| OPERATING SURPLUS | 3 | 46,743 | 91,645 |
| Interest receivable | | 1,346 | 180 |
| | | <hr/> | <hr/> |
| SURPLUS FOR THE FINANCIAL YEAR | 7 | £ 48,089 | £ 91,825 |
| | | <hr/> | <hr/> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no recognised gains or losses other than the surplus for the financial year.

A statement of movements on reserves is included in note 7 to the financial statements.

The notes on pages 7 to 8 form an integral part of these financial statements.

BALANCE SHEET

31 DECEMBER 2011

| | Note | | 2010 |
|--|------|-----------|-------------|
| CURRENT ASSETS | | | |
| Debtors | 5 | 110 | 103,138 |
| Cash at bank and in hand | | 282,522 | 150,755 |
| | | <hr/> | <hr/> |
| | | 282,632 | 253,893 |
| CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR | | | |
| | 6 | (169,250) | (188,600) |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | £ 113,382 | £ 65,293 |
| CAPITAL AND RESERVES | | | |
| INCOME AND EXPENDITURE ACCOUNT | 7 | 113,382 | 65,293 |
| | | <hr/> | <hr/> |
| RESERVES | | £ 113,382 | £ 65,293 |
| | | <hr/> | <hr/> |

APPROVED BY THE MEMBERS OF THE BOARD AND AUTHORISED FOR ISSUE BY:

CHARLES TRACY - CHAIRMAN

.....
Board Member

JOHN LEE - DEPUTY CHAIRMAN

.....
Board Member

18 APRIL 2012

.....
Date

The notes on pages 7 to 8 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2011

1. ACCOUNTING POLICIES

(a) CONVENTION

These financial statements have been prepared under the historical cost convention. The principal accounting policies which the scheme has adopted within that convention are set out below.

(b) FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in currencies other than sterling have been translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions during the year have been translated at the rates of exchange ruling at the date of the transaction.

(c) GOING CONCERN

The Board has prepared the financial statements on a going concern basis.

The Board has the power to levy the Participants of the Scheme on an annual basis to cover the expected costs of the forthcoming year.

(d) INCOME RECOGNITION

Bank interest receivable is accounted for on an accruals basis.

Turnover comprises fees receivable which are accounted for on an accruals basis.

2. APB ETHICAL STANDARD - PROVISIONS AVAILABLE FOR SMALL ENTITIES

In common with many other entities of its size and nature the scheme uses its auditors to assist with the preparation of the financial statements.

3. INCOME AND OPERATING SURPLUS

Income and operating surplus derive wholly from continuing activities.

4. TAXATION

In accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 the Scheme is exempt from tax. Provision has therefore not been made in these financial statements for Guernsey Income Tax.

5. DEBTORS

2010

| | | |
|---------------|-------|-----------|
| Trade debtors | £ 110 | £ 103,138 |
| | <hr/> | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2011

6. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

| | | 2010 |
|-----------------|-----------|-------------|
| Other creditors | 16,250 | 18,600 |
| Deferred income | 153,000 | 170,000 |
| | <hr/> | <hr/> |
| | £ 169,250 | £ 188,600 |
| | <hr/> | <hr/> |

7. INCOME AND EXPENDITURE ACCOUNT

| | |
|--------------------------------|-----------|
| Balance at 1 January 2011 | 65,293 |
| Surplus for the financial year | 48,089 |
| | <hr/> |
| Balance at 31 December 2011 | £ 113,382 |
| | <hr/> |

8. CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS

The Scheme is established under the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 and is under the direction of the Board. The Board members are appointed by the States of Guernsey Commerce and Employment Department.

The Board members' fees for services rendered for the year were £85,000 (2010: £85,000).

The Scheme is administered, under an administration and management agreement, by Aon Services (Guernsey) Limited. Administration fees for the year paid to Aon Services (Guernsey) Limited were £50,000 (2010: £60,000). Administration fees of £12,500 (2010:£15,000) were due and payable at 31 December 2011.

DETAILED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

2010

| | | |
|---------------------------------------|-----------|-----------|
| INCOME | 195,140 | 407,100 |
| ADMINISTRATIVE EXPENSES | | |
| Administrator's fees | 50,000 | 60,000 |
| Insurance premium | - | 155,000 |
| Board members' fees | 85,000 | 85,000 |
| Telephone and postage | 308 | 77 |
| Advertising, printing and stationery | 145 | 1,892 |
| Audit fee | 3,750 | 3,600 |
| Legal and professional fees | 8,003 | 9,082 |
| Bank charges | 60 | 104 |
| Website design & maintenance | 1,131 | 700 |
| | <hr/> | <hr/> |
| | (148,397) | (315,455) |
| OPERATING SURPLUS | <hr/> | <hr/> |
| | 46,743 | 91,645 |
| INTEREST RECEIVABLE | | |
| Bank interest receivable | 1,346 | 180 |
| SURPLUS FOR THE FINANCIAL YEAR | <hr/> | <hr/> |
| | £ 48,089 | £ 91,825 |
| | <hr/> | <hr/> |

**THE FOLLOWING PAGE DOES NOT FORM A PART OF THE
AUDITED FINANCIAL STATEMENTS OF THE SCHEME
AND IS PRESENTED FOR INFORMATION PURPOSES ONLY**