



Annual Reports and Accounts

2015



Index

	Page
Chairman's Report.....	2
Accounts	6



Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report 2015

This is my sixth report as Chairman of the Board¹, incorporating the accounts for the Scheme for the calendar year 2015.

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, details work in progress and sets out some plans for future development for the Board.

Accounts for the period to 31 December 2015

The accounts for the year to 31 December 2015, which are included at the back of this report, show a modest income surplus, which reflects a slightly increased level of annual fees payable by participants coupled with marginally reduced annual expenditure. There remains, in the Board's opinion, an adequate contingency reserve.

During the year, the number of banks that are participants in the Scheme has fallen to 29 (31 as at my last report). This continues the somewhat worrying trend for bank numbers to fall: there were 46 participant banks at the beginning of 2009. This trend both places an additional funding burden on the remaining banks and potentially reduces the availability of short-term funding to the Scheme – see commentary on this topic below.

¹ As before, this report uses the abbreviations 'Scheme', 'Board', 'Ordinance', 'Department' and 'Commission' for the Guernsey Banking Deposit Compensation Scheme, its Board, The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 (as amended), the Committee for Economic Development of the States of Guernsey and the Guernsey Financial Services Commission.

Development of the Scheme

The main part of my report last year was taken up with proposals for the development of the Scheme, many of which derive from the updated Core Principles issued by the International Association of Deposit Insurers of which the Guernsey Scheme is a member. While the Board does not feel that total compliance on each and every core principle is either achievable or desirable, it is working towards remedying some of the more significant deficiencies.

- The first of these relates to the funding of the scheme. There has been extensive debate involving the Policy & Resources Committee and the Department as to how the potential funding gaps can be eliminated. These arise because the maximum levies payable by participant banks in the period following a default may initially fall short of the amounts potentially payable out of the Scheme. The Board's chosen solution is to use a mixture of approaches.

In the first place The Board is recommending an increase in the cap on maximum levies payable by participants in each twelve month period. Secondly it is looking to adopt a formal policy of paying compensation in instalments, possibly with preference being given to smaller accounts. Thirdly it is looking to achieve committed funding from the States to cover any residual short-term funding gap, coupled with the possibility of further funding to be negotiated depending on the exact circumstances of a specific default. These changes involve both formal States resolutions to achieve approval for the funding and some small changes to the Ordinance that governs the Scheme. These proposals are at an advanced stage of discussion with the Department.

- In many jurisdictions (for example the UK) deposit compensation schemes are given special preference in any liquidation. There is certainly a case for making amendments on these lines to Guernsey law, but it has to be recognised that by far the majority of Guernsey banks are not incorporated in the Bailiwick, being either branches or subsidiaries of banks in other jurisdictions. A constructive debate has begun with Jersey and the Isle of Man regarding mutually supportive changes to the insolvency laws in those jurisdictions, but it has to be recognised that this may not be achievable in other jurisdictions.
- Because it has no 'lender of last resort' mechanism, Guernsey has been left somewhat behind in the debate about bank resolution mechanisms. It may be far more attractive to provide capital to a failing bank than to permit it to default, but the legislation to achieve this is lacking here. The Scheme has some very limited powers in this respect, but they are of minimal value since they are only triggered by a default, whereas resolution mechanisms are, almost by definition, most valuable prior to a default. The Board does not feel that its mandate extends to leading any debate on this topic, but it may have a role to play since one method of preventing a default is to use the funding available to a compensation scheme. Any such funding should in the end reduce rather than increase the burden on participant banks,. The Board awaits with interest any recommendations that may emerge on this topic.

- One area in which the Guernsey Scheme can be seen to be falling behind international standards is in speedy pay-out. The EU standard is increasingly to attempt to pay compensation within seven days without the need for a formal claim mechanism ('Straight Through Payment'). Guernsey does not necessarily need to go to this extreme (and there are serious obstacles to achieving this speed of pay-out in practice), but it must look to improving in this area. One key issue is the availability of reliable data in a standardised format (usually referred to as the 'Single Customer View' as soon as a bank is declared in default).

The Board is developing its thinking in this area, with a view to making recommendations to the Department in due course. Its principal short-term aim is to establish with individual banks how viable standardised data in the Single Customer View format would be in practice.

- Given the changes that may take place, the Board has also been working on improving its existing contingency planning. When this has been completed, the Board will look to the implications, and specifically the cost implications, of more rapid pay-out. The value of standardised data depends critically on the quality of data and some form of routine testing of this data will be essential in future.
- The Board has also made some further suggestions for minor modifications to the Ordinance.

The Board looks forward to discussing these topics with the Department and its staff in due course.

Cooperation with external parties

The Board maintains a routine programme of liaison with other interested parties. Meetings during the year have included attendance from:

- Guernsey Financial Services Commission
- Association of Guernsey Banks
- Jersey Banking Deposit Compensation Scheme
- Isle of Man Depositors Compensation Scheme

Publicity and Advertising

The Board continues to keep its website www.dcs.gg up to date and to alter literature available, in keeping with any necessary changes. It is planning to conduct a survey of public awareness in the course of the next twelve months to establish whether better publicity might be advantageous.

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 seven years. The Board would like to acknowledge the considerable contribution made by the staff of Aon during the year to the work of the

Board. Specifically, the Board would like to express its thanks to Eddie Ballard, who has been the Board's main point of contact during the year, for his valuable assistance.

The potential advent of the Single Customer View approach, with the possibility of Straight Through Payment, raises some difficult issues about the staffing of the Scheme, and suggests that it may be necessary for it to have more extensive staffing arrangements and improved IT resources, with consequent cost implications. The Board notes that both Jersey and the Isle of Man have committed significant government service resources to their schemes, and that Guernsey may need to do the same. This will be an active topic for debate in the forthcoming year.

Longer-term plans

The Board, through its membership of IADI monitors external developments in the deposit compensation field. It will continue to work closely with the Department to map out a plan for the Scheme's future enhancement, 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 BOARD

FINANCIAL STATEMENTS

31 DECEMBER 2015

Guernsey Banking Deposit Compensation Scheme

Report and Financial Statements

Year Ended

31 December 2015

Guernsey Banking Deposit Compensation Scheme

Scheme Information

Board

Charles Tracy (Chairman)
John Lee (Deputy Chairman)
Steve Butterworth
Nigel Carey

Registered office

PO Box 380
Maison Trinity
Trinity Square
St Peter Port
Guernsey
GY1 3FY

Guernsey Banking Deposit Compensation Scheme

Contents

	Page
Directors' Report	1 - 2
Independent Auditors' Report	3 - 4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9 - 11

Guernsey Banking Deposit Compensation Scheme

Directors' Report For the Year Ended 31 December 2015

The Board present their report and the financial statements for the year ended 31 December 2015.

Boards' responsibilities statement

The Board are responsible for preparing the Scheme financial statements in accordance with applicable law and generally accepted accounting practice.

The Ordinance requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Scheme and of the profit or loss of the Scheme for that period. In preparing these financial statements, the Board are required to:

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

The Board are 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 Banking Deposit Scheme (Bailiwick of Guernsey) Ordinance 2008. They are 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.

Principal activity

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

Dividends paid

There were no dividends paid in the year under review (2014 -£NIL).

Results

The Profit and Loss Account for the year is set out on page 5.

Board

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

Charles Tracy (Chairman)
John Lee (Deputy Chairman)
Steve Butterworth
Nigel Carey

Guernsey Banking Deposit Compensation Scheme

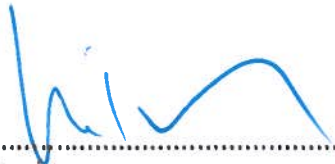
Directors' Report For the Year Ended 31 December 2015

Auditors

The auditors, BDO Limited, are deemed to be reappointed in accordance with the Banking Deposit Scheme (Bailiwick of Guernsey) Ordinance 2008 by virtue of an elective resolution passed by the members on 21 January 2015.

This report was approved by the board on 18 April 2016

and signed on its behalf.



.....
Director

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

We have audited the financial statements of Guernsey Banking Deposit Compensation Scheme for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows 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 Board, in accordance with The Banking Deposit Compensation 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 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

As explained more fully in the Boards' 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 Financial Reporting Council's Ethical Standards for Auditors, including "FRC Ethical Standard - Provisions Available for Small Entities (Revised)", in the circumstances set out in note 3 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. In addition, we read all the financial and non-financial information in the Report of the Board to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
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 2015 and of its profit 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 Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008.

BDO Limited

CHARTERED ACCOUNTANTS
Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date: 18 April 2016

Guernsey Banking Deposit Compensation Scheme

Statement of Comprehensive Income For the Year Ended 31 December 2015

	Note	2015 £	2014 £
Income		178,290	176,957
Administrative expenses		<u>(164,975)</u>	<u>(165,446)</u>
Operating profit		13,315	11,511
Interest receivable and similar income		<u>1,145</u>	<u>1,298</u>
Profit for the financial year		<u>14,460</u>	<u>12,809</u>
Other comprehensive income		-	-
		<u>14,460</u>	<u>12,809</u>

The notes on pages 9 to 11 form part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Statement of Financial Position As at 31 December 2015

	Note	2015 £	2014 £
Current assets			
Debtors: Amounts falling due within one year	6	7,909	69
Bank and cash balances		328,695	309,925
		336,604	309,994
Creditors: Amounts falling due within one year	7	(208,716)	(196,566)
Net current assets		127,888	113,428
Total assets less current liabilities		127,888	113,428
Net assets		127,888	113,428
Capital and reserves			
Profit and loss account		127,888	113,428
		127,888	113,428

The financial statements were approved and authorised for issue by the Members of the Board and were signed on its behalf by:

.....
Director

.....
Director

Date: 18/04/2016

The notes on pages 9 to 11 form part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Statement of Changes in Equity As at 31 December 2015

	Retained earnings £	Total equity £
At 1 January 2015	113,428	113,428
Profit for the year	14,460	14,460
Total transactions with owners	<u>-</u>	<u>-</u>
At 31 December 2015	<u><u>127,888</u></u>	<u><u>127,888</u></u>

Statement of Changes in Equity As at 31 December 2014

	Retained earnings £	Total equity £
At 1 January 2014	100,619	100,619
Profit for the year	12,809	12,809
Total transactions with owners	<u>-</u>	<u>-</u>
At 31 December 2014	<u><u>113,428</u></u>	<u><u>113,428</u></u>

The notes on pages 9 to 11 form part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Statement of Cash Flows For the Year Ended 31 December 2015

	2015 £	2014 £
Cash flows from operating activities		
Profit for the financial year	14,460	12,809
Adjustments for:		
Interest received	(1,145)	(1,298)
Increase in debtors	(7,840)	(69)
Increase in creditors	12,150	8,232
Net cash generated from operating activities	<u>17,625</u>	<u>19,674</u>
Cash flows from investing activities		
Interest received	1,145	1,298
Net cash from investing activities	<u>1,145</u>	<u>1,298</u>
Net increase in cash and cash equivalents	<u>18,770</u>	<u>20,972</u>
Cash and cash equivalents at beginning of year	309,925	288,953
Cash and cash equivalents at the end of year	<u>328,695</u>	<u>309,925</u>
Cash at bank and in hand	<u>328,695</u>	<u>309,925</u>

The notes on pages 9 to 11 form part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements For the Year Ended 31 December 2015

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies (Guernsey) Law 2008.

Information on the impact first-time adoption of FRS 102 is given in note 10.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Scheme's accounting policies (see note 10).

The following principal accounting policies have been applied:

1.2 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.

1.3 Income

Income is recognised in the Statement of Comprehensive Income on an accruals basis. Fees received in advance are deferred over the period to which they relate.

1.4 Debtors

Short term debtors are measured at their transaction price, less any impairment.

1.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.6 Creditors

Short term creditors are measured at transaction price and are subsequently measured subsequently at amortised cost using the effective interest method.

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements For the Year Ended 31 December 2015

1. Accounting policies (continued)

1.7 Foreign currency translation

Functional and presentation currency:

The company's functional and presentational currency is GBP.

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

1.8 Interest income

Interest income is recognised in the Income Statement using the effective interest method.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

There were no key judgements required in the application of the Scheme's accounting policies.

3. APB Ethical Standard - Provisions Available for Small Entities

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

4. Income

During the year the main source of income was obtained from 31 Participant banks of £5,750 per Bank (2014: 32 Participant Banks at £5,500, during September 2014 an additional bank joined the Scheme and the fee was pro rated for 2 months of the financial year).

5. Taxation

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

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements For the Year Ended 31 December 2015

6. Debtors

	2015 £	2014 £
Due within one year		
Trade debtors	5,750	-
Prepayments and accrued income	2,159	69
	<u>7,909</u>	<u>69</u>

7. Creditors: Amounts falling due within one year

	2015 £	2014 £
Accruals	41,966	41,316
Deferred income	166,750	155,250
	<u>208,716</u>	<u>196,566</u>

8. Post balance sheet events

There have been no post balance sheet events to note.

9. Controlling party

The Scheme is established under the Banking Deposit Compensation Scheme (Baliwick 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.

10. First time adoption of FRS 102

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.

The company has presented comparative information under FRS102 and therefore the company's date of transition was 1 January 2014. This is the first set of financial statements prepared under FRS 102.

Guernsey Banking Deposit Compensation Scheme

Detailed Accounts

Year Ended

31 December 2015

**THE FOLLOWING PAGES DO NOT FORM A
PART OF THE AUDITED FINANCIAL
STATEMENTS OF THE SCHEME AND ARE
PRESENTED FOR INFORMATION
PURPOSES ONLY**

Guernsey Banking Deposit Compensation Scheme

Detailed profit and loss account For the Year Ended 31 December 2015

	2015 £	2014 £
Income	178,290	176,957
Gross profit	<u>178,290</u>	<u>176,957</u>
	<u>178,290</u>	<u>176,957</u>
Less: overheads		
Administration expenses	(164,975)	(165,446)
Operating profit	<u>13,315</u>	<u>11,511</u>
Interest receivable	1,145	1,298
Profit for the year	<u>14,460</u>	<u>12,809</u>

Guernsey Banking Deposit Compensation Scheme

Schedule to the Detailed Accounts For the Year Ended 31 December 2015

	2015 £	2014 £
Income	<u>178,290</u>	<u>176,957</u>
Administration expenses		
Directors fees	85,000	85,000
Consultancy	52,500	52,500
Disaster recovery	12,363	12,641
Legal and professional fees	6,132	7,977
Audit fee	4,400	3,825
Travel and entertaining	2,175	302
Printing and stationery	1,106	1,834
Website design and maintenance	840	1,170
Telephone and postage	322	84
Bank charges	137	113
	<u>164,975</u>	<u>165,446</u>
Interest receivable		
	2015 £	2014 £
Interest received		
Bank interest	<u>1,145</u>	<u>1,298</u>