



# Guernsey Banking Deposit Compensation Scheme

Annual Reports and Accounts

2009



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## **Guernsey Banking Deposit Compensation Scheme**

### Chairman's Annual Report 2009

I am pleased to present my first report as Chairman of the Board, covering the period since the inception of the Scheme in November 2008<sup>1</sup>, to date.

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

John Lee (Vice Chairman)  
Steve Butterworth  
Nigel Carey

The additional members of the Board bring the benefit of many years of experience, and I am grateful for their help and support over this busy period.

Of necessity, the Board has met frequently to implement the Scheme as envisaged by the States of Guernsey. Since inception, formal meetings have been held at approximately fortnightly intervals throughout the year. The Board has attended numerous other meetings with third parties to assist development, and also to brief or consult with relevant bodies about its progress. This report summarises the outcomes of this work and sets out some plans for future development for the Board.

### Accounts for the period to 31 December 2009

The accounts for the period since inception to 31 December 2009 show a small deficit. The annual fee for 2009 was based on the budget suggested by the Department; given that the exact requirements for the Board were uncertain at the outset, this is a satisfactory outcome. The main expenditures for the Board were: Directors' remuneration, the administrator's fees and consultancy costs (in relation to the levy setting assessment process, described below).

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<sup>1</sup> The Guernsey Banking Deposit Compensation Scheme was established by Ordinance of the States of Guernsey (The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008) on 26 November 2008. It is administered by a Board of Directors appointed by the Commerce and Employment Department of the States. For simplicity I refer in this report to the 'Ordinance', the 'States', the 'Scheme', the 'Board' and the 'Department'.

### Publicity and Advertising

It is essential to ensure that information about the Scheme is readily available to the public. With this in mind a website [www.dcs.gg](http://www.dcs.gg) was launched by the Board in April 2009. This included a summary of the Scheme, together with links to key documents for in-depth study. Simultaneously, the Board issued a printed leaflet which is available from the Scheme's Administrator on request, and also through licensed Guernsey banks.

Part of this process has been the setting up and maintenance of an up to date list of participating banks available for public scrutiny via the website, while also being useful for the promulgation of information to all banks about the Board's policy decisions.

The Board routinely receives enquiries about a number of aspects of the Scheme by telephone, email or letter and responds to these as appropriate.

The Board has been concerned to ensure that advertising by local banks gives accurate information about the Scheme. Given that the Scheme does not cover all deposits and that there are limits to the amounts of compensation payable, there is a danger that advertising may mislead depositors as to the Scheme's coverage. In co-operation with the Guernsey Financial Services Commission (the 'Commission'), the Board has now agreed revised wording to the Code of Conduct for Deposit Advertisements which is binding on the banks, together with detailed wording for use by the banks in advertisements which allows for a degree of flexibility. There has been active consultation on this wording with the Association of Guernsey Banks ('AGB').

### Claims Procedure

The Ordinance requires the Board to have a claim form available for claimants as soon as a bank default occurs. A suitable form has been drafted, which will no doubt be refined in due course, but which meets this requirement.

### Administration

In its early stages, the Board was assisted by staff from the Department, but it rapidly became apparent that a corporate administrator would be necessary. After reviewing candidates for this position, the Board formally appointed Aon Services (Guernsey) Limited as Administrator to the Scheme in February 2009. This company holds a full fiduciary license under the terms of the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000. It now acts as administrator and secretary to the Board, keeping the Scheme's books and records, as well as acting as a first point of contact for members of the public. The Board would like to acknowledge the considerable contribution made by the staff of the Department and of the Administrator to the work of the Board, and to express its thanks to those involved.

The Board has set up its own PO Box and email addresses; opened necessary bank accounts; created a logo for use in stationery and Scheme literature; and appointed auditors as required by the Ordinance.

### Insurance aspects

One planned aspect of the Scheme was that a measure of funding would be achieved by the use of insurance. A captive insurance company (owned by the States) was established to progress these ideas, and two members of the Board have also been appointed to the board of this company. The initial proposal was for a first layer of insurance cover of £20 million, for which participants in the Scheme would bear premiums of the same amount, spread over a period of ten years, backed by a guarantee from the States for any cash shortfall. The aim was to achieve a form of pre-funding for any Scheme losses of up to £20 million. It was also proposed to investigate taking out commercial reinsurance for the top layer of risk for the Scheme.

At the time of writing, it is not clear whether the proposals for insurance cover will be realised in the short term. It has not to date been possible to find commercial reinsurance; other reasons for possible deferral are explained below.

### Setting the Levies

The Board can make three types of levy on participant banks. The first is a purely administrative levy (the 'annual fee'), set at a fixed amount for each bank and aimed at recovering the Board's administrative costs for each financial year. For 2009 this annual fee was set at £5,000 per participant, based on the budget for the Scheme proposed by the Department at inception. As the Scheme accounts show, the original budget proved remarkably prescient; in addition, no cash outlay was incurred in the period to 31 December 2008, and it was therefore unnecessary to require assistance from the States for this period. For 2010 the annual fee has been set at £6,000.

The second levy is a levy to recover the costs of any insurance premiums paid by the Board (an 'insurance levy'). Although no final decision has been made on whether to proceed with this aspect of the Scheme, the Board has agreed that the calculation of any levy would follow exactly the same methodology as for the 'variable levy', as set out below.

The third levy (the 'compensation levy') is intended to recover the cost to the Scheme of any compensation payable to depositors over and above any insurance recoveries (if relevant). It consists of two elements: a 'fixed levy' intended to recover the first £10 million of any such cost and payable by all banks in equal shares and a 'variable levy' intended to recover any balance, on the basis of criteria set by the Department. The Policy Letter<sup>2</sup> which accompanied the original legislation clearly envisaged that these criteria would reflect the risk presented by each individual bank; however, the initial regulations<sup>3</sup> simply used a multiple of each bank's 'qualifying deposits' (essentially its total retail deposits).

The Board therefore set out to recommend to the Department an improved method of calculating the variable levy (and the insurance levy) which would more accurately reflect the expressed wishes of the States as set out in the original proposals. This required better statistics to be acquired, as well as analysis of a number of possible risk-weighting approaches. After a selection process, the Board chose Aon Group

<sup>2</sup> See Billet d'Etat No. XIX of 2008 – copy available on the Scheme website

<sup>3</sup> The Banking Deposit Compensation Scheme (Liability of Participants to Compensation Levy) (Bailiwick of Guernsey) Regulations, 2008 (the 'Regulations') – copy also available on the website

Risk Consultants Limited to perform this work. A survey was sent to all banks and the results were analysed, together with externally verifiable information about banks' risk profiles, and after consultation with the AGB.

The calculation of the risk presented by any one bank to the Scheme can be seen as a multiple of two numbers: the amount at risk and the level of risk expressed as a risk factor. After examining the data, the Board concluded that the correct figure for the amount at risk was the total of a bank's qualifying deposits capped by the Scheme limit of £50,000 per qualifying claimant, and subject further to an overall cap of £100 million per bank on the basis of the Scheme's overall limit of that amount on compensation in any five year period. The Board uses the term 'Capped Value at Risk' for the figure which results from this calculation.

This approach gives a fair weighting not only to those banks which have a small number of large retail depositors (whose compensation is limited to a maximum of £50,000 per depositor) but also to those banks which have a large retail business, but for which compensation cannot in any case exceed £100 million in total.

The calculation of a risk factor is more complex. The Board considered a number of approaches, but most proved to be difficult to operate and to involve a degree of subjective judgement which the Board felt was inappropriate. Its conclusion was that the only reliable method of risk weighting would have to be based primarily on publicly available ratings from firms such as Standard & Poor's, Fitch and Moody's.

Having reached its conclusions, the Board presented its detailed findings to the Department, the Commission and the AGB. The last argued that the use of Capped Value at Risk was a sufficient measure of risk and that the additional use of risk weightings was inappropriate. The AGB also expressed strong objections to the concept of pre-funding (i.e., in effect, the use of insurance).

#### The Foot Report, the Hunt Review and Jersey deposit compensation scheme proposals.

The Board made its presentation on risk weighting to interested parties in August 2009. At about that time a number of initiatives were also current:

- i) A Jersey proposal to adopt a new deposit compensation scheme, which would have features in common with the Guernsey Scheme.
- ii) A Review of British Offshore Centres commissioned by the British Government, commonly referred to as the 'Foot Report', published in October 2009.
- iii) A review of Guernsey's banking industry commissioned by the States of Guernsey, the 'Hunt Review', published in November 2009.

The Board participated in the debate surrounding these items, meeting representatives of Lord Hunt's team and also a delegation from Jersey in connection with the design of the Jersey scheme, which came into effect on 6 November 2009 and which includes no provision for pre-funding. (Note: The current Isle of Man scheme is not pre-funded, although consideration is being given to this possibility.)

Having evaluated the outcome of these initiatives, the Board concluded that the AGB's reaction to the proposals for an insurance levy should not be dismissed out of hand, but equally recognised that, if there was to be no pre-funding, the result would run contrary to the expressed wishes of the States. The Board therefore circulated a consultation paper on this matter in November 2009 and the responses, together with the Board's conclusions, were presented to the Department in January 2010. No final decision has been reached on this matter, but it has been agreed that the risk factor aspects of levy setting should be deferred, leaving the simpler Capped Value at Risk as the sole method of levy allocation for the variable levy (and a possible insurance levy); this is the basis on which any variable levy will now be made.

The Board awaits with interest the outcome of the debate on pre-funding.

### The Basel Principles

In June 2009, the Basel Committee on Banking Supervision and the International Association of Deposit Insurers ('IADI') issued a paper entitled "Core Principles for Effective Deposit Insurance Systems", more commonly referred to as the 'Basel Principles'. These provide, for the first time, an internationally agreed standard for deposit insurance schemes. The Board has taken up membership of IADI and it is appropriate that it assesses the adherence of the Scheme to the Basel Principles. An appendix to this report gives a summary of the Board's assessment, based in part on my attendance at an IADI conference in September 2009, which aimed to introduce members to the Basel Principles. This analysis confirms that the Scheme adheres closely to the Principles, but identifies some matters which require attention.

### Legislative drafting

In examining in some detail the workings of the Ordinance which established the Scheme, the Board has become aware of some matters which need clarification in the Ordinance wording. These are essentially technical points which in no way affect the original purpose of the Scheme, but which the Board feels merit resolution. Accordingly a number of proposals for changes to the Ordinance have been made to the Department, which the Board anticipates being passed into law.

Having reviewed other comparable schemes, the Board has also suggested that coverage be extended to include charitable bodies and, in response to a number of enquiries on this topic, overseas pension schemes analogous to Guernsey retirement annuity trust schemes.

The Board has proposed a set of revised Regulations covering the proposed approach to levy setting, as described above. Subject to formal drafting and the approval of the Department, the revised Regulations should come into force shortly, and will be a key milestone in the Board's progress.

### Future plans

Although much has been achieved in this first year, there remains much to be done. Several items are discussed in the main text of this report. Some further actions will flow directly from the review of the Basel Principles; some are simply needed for practical reasons. Examples of issues to be dealt with are:

- The requirement to be prepared for a default even if no default is currently anticipated. Although the Board has developed outline plans, more work is needed on this topic, which will include discussion with banks about obtaining statistics rapidly and in a usable format to expedite claims, and considering contingency plans for temporary staffing, office space etc.
- The limited powers that the Board has as a safety net participant under current legislation. Effective exercise of its powers depends very much on cooperation with the Commission. While a good relationship has already been established, this topic requires more detailed thought. One item of which the Board is already aware is that the Commission's power to share information with the Board is currently restricted by the relevant legislation. This means that the Board could, for example, be ignorant of a possible bank default, and thus unable to take specific advance steps to cope with potential claims.
- Ongoing work to improve literature, including the website, and general public awareness. Knowledge of the Scheme should both diminish the likelihood of a default and assist in its prompt resolution.



Charles Tracy  
Chairman of the Board  
Guernsey Banking Deposit Compensation Scheme

Date 19.7.10



## Core Principles for Effective Deposit Insurance Systems

This appendix considers the principles (in italics) and assesses the degree of compliance of the Guernsey Banking Deposit Compensation Scheme with these principles.

### ***Principle 1 – Public policy objectives***

*The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors.*

Assessment: The stated objectives of the Scheme set out in the original Policy Letter which accompanied the relevant legislation are to:

- protect small retail depositors from losing their deposits in a banking collapse, and
- enhance Guernsey's international reputation as a well regulated financial centre.

The first objective is incorporated into the legislation, while the second is a likely outcome of the setting up of the Scheme. The stated objectives of the Scheme do not, however, explicitly include contributing to the stability of the financial system. Implicitly, the existence of a scheme will tend to improve stability by increasing confidence among depositors, but, as designed, the Scheme is passive in this respect.

### ***Principle 2 – Mitigating moral hazard***

*Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net.*

Assessment: The 'moral hazard' in this context is that the existence of a compensation scheme may encourage depositors to use a riskier bank, while placing the ultimate risk on the other, less risky banks in the event of its failure. In this sense a scheme can actually increase the risk of default by encouraging riskier business models. Proper and effective regulation by the Commission is the key method of reducing moral hazard here; the fact that pre-funding is not as yet a feature of the Scheme reduces its ability to provide a direct disincentive to riskier business models.

By limiting the Scheme's powers to compensate, however, larger depositors will tend to avoid riskier banks. Moreover, the fact that variable levies will depend on the scale of a bank's retail business will tend to act as a disincentive to such business.

### ***Principle 3 – Mandate***

*It is critical that the mandate selected for a deposit insurer be clear and formally specified and that there be consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.*

Assessment: The Ordinance acts as the Schemes mandate and the Board is satisfied that it is consistent with the stated public policy objectives.

### ***Principle 4 – Powers***

*A deposit insurer should have all powers necessary to fulfil its mandate and these powers should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.*

Assessment: The powers granted to the Board are generally contained within Schedule 1 of the Ordinance. They are wide ranging and S.20 of the Ordinance also includes a power to obtain information for the purposes of the Scheme from participants. The Board is not aware of any significant deficiency in this area.

### ***Principle 5 – Governance***

*The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political interference.*

Assessment: The Board consists of four independent directors, none of whom currently work within the banking industry. It is transparent and has its own administrative set-up, website etc. While the Board is accountable to the Department, and its members are appointed by the Department, it is not subject to undue political (or industry) influence.

### ***Principle 6 – Relationships with other safety net participants***

*A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety net participants. Such information should be accurate and timely (subject to confidentiality when required). Information-sharing and coordination arrangements should be formalised.*

Assessment: The key safety net participants apart from the Scheme are the Commission, the Department and the Treasury and Resources department. While there are good relationships between the participants, and regular communications on general topics, current legislation is somewhat restrictive as regards the Board and the Commission sharing information which might forewarn of any bank failure. The Board has suggested that this deficiency be remedied by changes to the relevant legislation.

### ***Principle 7 – Cross-border issues***

*Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit*

*insurers and other foreign safety net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.*

Assessment: The Board communicates on general matters with IADI and receives guidance on the workings of other schemes which is very helpful. Since it has no regulatory functions, however, it is not likely to be in a position to divulge other information which might be useful in this context.

In broad terms, the Board is satisfied that the overlap between compensation schemes is not a matter of concern; most local banks are either independent subsidiaries or branches with separate balance sheets.

#### ***Principle 8 – Compulsory membership***

*Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (e.g. retail and small business depositors) to avoid adverse selection.*

Assessment: All Guernsey-licensed banks in are participants. It should be noted that the Scheme does not, however, protect small incorporated businesses or partnerships.

#### ***Principle 9 – Coverage***

*Policymakers should define clearly in law, prudential regulations or by-laws what an insurable deposit is. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the large majority of depositors to meet the public policy objectives of the system and be internally consistent with other deposit insurance system design features.*

Assessment: The Ordinance is clear what an ‘insurable deposit’ is (the term ‘qualifying deposit’ is used). The level of cover is limited (a maximum of £50,000, subject to an overall 5-year cap of £100 million) and is thought to be credible in the local context. Determining what is covered is thought to be straightforward, but, in line with the UK and other EU jurisdictions, consideration is being given to removing the references in the Ordinance to right of set-off. Payment of compensation is likely to be delayed if issues such as set-off have to be considered, and rapid pay-out is an important aspect of retaining public confidence in the safety net.

The Scheme covers all retail depositors wherever located, as well as a small number of other categories of depositor, but, as observed above, it does not cover small incorporated businesses or partnerships, nor is it planned to extend its coverage in this respect. The Board has suggested that coverage be extended to include charitable bodies and, in response

to a number of enquiries on this topic, overseas pension schemes analogous to Guernsey retirement annuity trust schemes.

***Principle 10 – Transitioning from a blanket guarantee to a limited coverage deposit insurance system***

[This Principle is not applicable to Guernsey.]

***Principle 11 – Funding***

*A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by the banks since they and their clients directly benefit from having an effective deposit insurance system.*

*For deposit insurance systems (whether ex-anti, ex-post or hybrid) utilising risk-adjusted differential premium systems, the criteria used in the risk-adjusted differential premium system should be transparent to all participants. As well, all necessary resources should be in place to administer the risk-adjusted differential premium system appropriately.*

Assessment: The report summarises the funding mechanisms available to the Board and in particular the various levies and methods of levy setting, including the use of Capped Value at Risk.

All levies are paid by the participant banks. Variable levies are, however, subject to profit-related caps which may restrict the ability of the Scheme to recover compensation costs in any one year. For this reason, the Board has entered into an agreement with the Treasury and Resources department for a credit facility to make up any short term cash flow deficits and this is evidenced in a letter dated 27 April 2009 from that department.

On that basis, the Board is of the opinion that its funding mechanisms are appropriate and viable.

The methods of levy setting are clearly set out in the Ordinance and any relevant Regulations. Routine information is obtained from the participants to enable the levies to be assessed correctly.

***Principle 12 – Public awareness***

*In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.*

Assessment: This topic is considered at some length in the report. The website, leaflet and advertising code together are designed to ensure that members of the public are fully and accurately informed.

**Principle 13 – Legal protection**

*The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in good faith while discharging their mandates. However, individuals must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable. Legal protection should be defined in legislation and administrative procedures, under appropriate circumstances, cover legal costs for those indemnified.”*

Assessment: This is covered by Section 31 of the Ordinance. The Board will be considering whether appropriate conflict of interest rules and codes of conduct should be adopted to ensure that they remain accountable. Consideration will also be given to appropriate insurance to cover legal costs.

**Principle 14 – Dealing with parties at fault in a bank failure**

*A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.*

Assessment: As the Scheme is presently drafted, the Board has only the rights and powers of a creditor of a participant in default. As far as the Board is aware the Commission only has disciplinary powers (which include a limited right to apply fines) but no specific power to seek redress.

**Principle 15 – Early detection and timely intervention and resolution**

*The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks. The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well defined criteria by safety net participants with the operational independence and power to act.*

Assessment: The current design of the Scheme places the responsibility for these actions entirely with the Commission. The Board feels this is appropriate within the Guernsey context.

**Principle 16 – Effective resolution processes**

*Effective failure resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimise resolution costs and disruption of markets; maximise recoveries on assets; and, reinforce discipline through legal actions in cases of negligence or other wrongdoings. In addition, the deposit insurer or other relevant financial system safety net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (e.g. providing depositors with continuous access to their funds and maintaining clearing and settlement activities).*

Assessment: The question of failure resolution processes and specifically that of contingency planning is currently under review. Discussion will focus

both on practical matters, including administrative procedures, as well as debate with the Commission on the allocation of duties under these circumstances. As explained above, the Board has limited powers to seek redress, but the other matters referred are, in the Board's view, adequately dealt with by the Ordinance.

***Principle 17 – Reimbursing depositors***

*The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the depositor should be notified or informed sufficiently in advance of the conditions under which a reimbursement may be required and be provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.*

Assessment: The Board's contingency plans are intended to ensure that prompt payment of compensation can be achieved. The Board's suggestions with regard to set-off have been made with this in mind. The rights of Depositors are clearly defined in the Ordinance and information on this and other topics is available through the Scheme's website and leaflet.

***Principle 18 – Recoveries***

*The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits.*

Assessment: Section 22 of the Ordinance gives the Board the rights and powers of a creditor in relation to a bank default. Section 23 gives the Board rights of subrogation in respect of the claims of depositors receiving compensation. Under Schedule 1 (2) the Board, under certain conditions, has wide powers in relation to the operations of a failed bank's business, and the disposal of its assets.

**GUERNSEY BANKING DEPOSIT COMPENSATION BOARD**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

# **GUERNSEY BANKING DEPOSIT COMPENSATION BOARD**

## **FINANCIAL STATEMENTS**

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**REPORT OF THE MEMBERS**

The Members submit their report and the audited financial statements of the Guernsey Banking Deposit Compensation Board, which is established in Guernsey, for the period ended 31 December 2009.

**ESTABLISHMENT**

These are the first financial statements of the Board which was established by the States of Guernsey on 26 November 2008 and commenced operations on that date.

**MEMBERS' RESPONSIBILITIES**

The Members are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Board and of the profit or loss of the Board for that period and are in accordance with applicable laws. In preparing those financial statements the Board are required to:

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

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

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

**PRINCIPAL ACTIVITY**

The principal activity of the Board is the administration of the Guernsey Banking Deposit Compensation Scheme ("the scheme") which was established by the States of Guernsey on 26 November 2008.

**RESULTS**

The results of the Board for the period are set out in detail on page 5.

**REPORT OF THE MEMBERS**

**MEMBERS**


The Members who served during the period were:-

Charles Tracy - Chairman	(appointed 26 November 2008)
John Lee - Deputy Chairman	(appointed 26 November 2008)
Steve Butterworth	(appointed 26 November 2008)
Nigel Carey	(appointed 26 November 2008)

**AUDITORS**

The Board's auditors, BDO Novus Limited changed its name to BDO Limited on 1 January 2010 and therefore the audit report has been signed off in the name of BDO Limited.

**APPROVED BY THE MEMBERS**

  
.....  
Member

  
.....  
Member

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GUERNSEY BANKING DEPOSIT COMPENSATION BOARD**

We have audited the financial statements of Guernsey Banking Deposit Compensation Board for the period ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the historical cost convention and in accordance with the accounting policies set out on page 7.

This report is made solely to the Board, as a body, 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 Members 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's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Members and Auditors**

As described in the Statement of Boards' Responsibilities within the Report of the Board the Members responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008. We also report to you if, in our opinion, the Report of the Members is not consistent with the financial statements, if the Board has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law is not disclosed.

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

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Board's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have undertaken the audit in accordance with the requirements of APB Ethical Standards including APB Ethical Standard - Provisions Available for Small Entities, in the circumstances set out in note 3 to the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE  
MEMBERS OF GUERNSEY BANKING DEPOSIT COMPENSATION BOARD  
(continued)**

**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Board's affairs as at 31 December 2009 and of its loss for the period from 26 November 2008 to 31 December 2009; and
- have been properly prepared in accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008.

*BDO Limited*

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

*19 July 2010*

**PROFIT AND LOSS ACCOUNT**

**FOR THE PERIOD 26 NOVEMBER 2008 TO 31 DECEMBER 2009**

	Note	£
<b>TURNOVER</b>	4	230,960
Administrative expenses		(257,583)
<b>OPERATING LOSS</b>	4	(26,623)
Interest receivable and similar income		91
<b>LOSS FOR THE FINANCIAL PERIOD</b>		<b>£ (26,532)</b>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

There were no recognised gains or losses other than the loss for the financial period.

There have been no movements in reserves during the period other than the loss for the financial period.

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

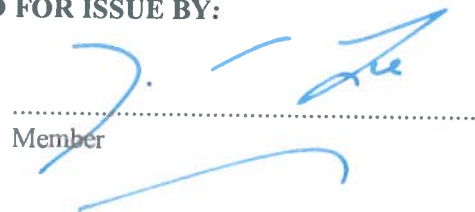
BALANCE SHEET

31 DECEMBER 2009

	Note	£
<b>CURRENT ASSETS</b>		
Cash at bank and in hand		245,049
<b>CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		
	6	(271,581)
<b>NET CURRENT LIABILITIES</b>		£ (26,532)
<b>CAPITAL AND RESERVES</b>		
PROFIT AND LOSS ACCOUNT		(26,532)
<b>RESERVES</b>		£ (26,532)

APPROVED BY THE MEMBERS AND AUTHORISED FOR ISSUE BY:

  
 .....  
 Member

  
 .....  
 Member

19.7.10  
 .....  
 Date

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

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2009

**1. INCORPORATION**

These are the first financial statements of the Board which was established on 26 November 2008 and commenced operations on that date.

**2. ACCOUNTING POLICIES****(a) CONVENTION**

These financial statements have been prepared in accordance with the historical cost convention. The principal accounting policies which the Members have adopted within that convention are set out below.

These accounts only reflect movements in respect of the administration of the Scheme, which are dealt with in the 'administration fund' as defined in the Ordinance which established the Scheme. Discussion has been taking place with DCS Insurance LBG with regard to an insurance policy for the Scheme for which premiums in respect of 2009 may become due. This discussion has not yet concluded, and, as at the date hereof, no insurance premium has been paid, nor is the quantum of any premium decided. No account has therefore been taken of such possible premium, but, if charged, it would be matched by an insurance levy on the participants in the Scheme of an identical amount, thus having no net effect on the administration fund.

**(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 period have been translated at the rates of exchange ruling at the date of the transaction.

**(c) GOING CONCERN**

The Members prepared the financial statements on a going concern basis.

The Members have the power to levy the Participants of the Scheme on an annual basis to cover the expected costs for the forthcoming year. During the first period a net loss has been recorded and therefore the 2010 levy has been increased to cover the deficit incurred during this initial period.

**(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.

**3. APB ETHICAL STANDARD - PROVISIONS AVAILABLE FOR SMALL ENTITIES**

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

**4. TURNOVER AND OPERATING LOSS**

Turnover and operating loss derive wholly from continuing activities.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2009

5. TAXATION

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

6. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	£
Deferred income	222,000
Other creditors	49,581
	<hr/>
	£ 271,581
	<hr/>

7. RELATED PARTIES

Member's fees for services rendered for the year were £85,000. Member 's fees of £21,250 were due and payable at 31 December 2009.

The Board is administered, under an administration and management agreement, by Aon Services (Guernsey) Limited. Administration fees for the year paid to the Administrator were £83,194. Administration fees of £14,719 were due and payable at 31 December 2009.

Aon Global Risk Consulting, a member of the same group of companies as the Administrator, was engaged to perform consulting services to the Board during the 2009 year. Consulting fees of £69,748 were paid in respect of such consulting services.

8. CONTROLLING PARTY

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



**DETAILED PROFIT AND LOSS ACCOUNT**

**FOR THE PERIOD 26 NOVEMBER 2008 TO 31 DECEMBER 2009**

		£
<b>TURNOVER</b>		230,960
<b>ADMINISTRATIVE EXPENSES</b>		
Members' fees	85,000	
Administrator's fees	83,194	
Consultancy fees	69,748	
Professional fees	11,361	
Audit fee	3,500	
Advertising, printing and stationery	2,278	
Website design	1,575	
Telephone and postage	127	
Travel and entertaining	800	
	<hr/>	(257,583)
<b>OPERATING LOSS</b>		<hr/> (26,623)
<b>INTEREST RECEIVABLE AND SIMILAR INCOME</b>		
Bank interest receivable		91
		<hr/>
<b>LOSS FOR THE FINANCIAL PERIOD</b>		£ (26,532) <hr/>