



Guernsey Banking Deposit
Compensation Scheme

Annual Reports and Accounts

2010



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Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report 2010

This is my second report as Chairman of the Board, including the accounts for the calendar year 2010.

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.

Although the initial flurry of activity following the establishment of the Scheme has subsided, it has still been a busy year. This report summarises the work of the Board since my last report, and sets out some plans for future development for the Board.

Accounts for the period to 31 December 2010

The accounts for the period since inception to 31 December 2010, which are included at the back of this report, show a surplus, in contrast to a small deficit in 2009. The annual fee for 2010 was designed to achieve this aim. Our budget for 2010 also included a contingency sum for exceptional expenditure; in the event this was not needed. The annual fee has therefore been reduced for 2011, and the Board considers that the balance sheet now provides a suitable contingency reserve.

Setting the levies

One main focus of the Board's attention during the year has been achieving agreement on the setting of levies. The original plan was for a degree of pre-funding to be achieved by the use of a captive insurance approach, as discussed in my last report. After protracted debate, the Commerce and Employment Department¹ presented

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

proposals to the States of Guernsey in November 2010 which, in essence, recommended the deferral of any pre-funded element to the Scheme. These were duly accepted.

The Board took an active part in this process, both in terms of briefing the Department in the early stages and in attending meetings with members of the States during the period leading up to the meeting in November.

One of the proposals agreed was that the captive insurance company should be wound up and that the costs associated with its work should be borne by the participant banks by way of an insurance levy.

In my last report, I set out in some detail the Board's proposals for setting levies. These proposals were duly accepted and new Regulations² for setting compensation and insurance levies were issued in November and are available on the Scheme's website www.dcs.gg. These use the concept of 'Capped Value at Risk' set out in that report. Having therefore established the methodology for setting levies, the Board made an insurance levy on participants at the end of 2010. The captive insurance company has now been duly wound up.

Cooperation with the Guernsey Financial Services Commission

The Basle Principles, which I covered extensively in my last report, say:

"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."

The Board has therefore been working with the Commission to implement more formal arrangements in this context. As a result, a Memorandum of Understanding was agreed with the Commission and signed on 31 May 2011. This specifically envisages the exchange of confidential information with a view to improving the Board's ability to deal with a default.

Legislative drafting

The States debate in November also approved in principle a number of drafting changes to the original Ordinance³ which established the Scheme. The Board has become aware that there a number of technical defects in the legislation and has also suggested some improvements in the Scheme. One specific matter that has been agreed is that deposits from charities will now be included as 'qualifying deposits'.

² The Banking Deposit Compensation Scheme (Liability of Participants to Compensation Levy) (Bailiwick of Guernsey) Regulations, 2010

³ The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008

Subject to agreeing formal legislative drafting for these proposals, the Board has now made its final recommendations in this respect.

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.

After much discussion on this topic last year, the new agreed wordings for an advertising code of conduct are now working routinely. The Board and the Commission monitor literature to ensure compliance.

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

Administration

The administrative arrangements with Aon Services (Guernsey) Limited have now been in operation for over two 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 Basel Principles

In my last report I included a detailed analysis of the Basle Principles which act as a Governance Code for deposit insurers. There have been no changes to the Principles in recent months, but some of the Principles are referred to elsewhere in this report.

Current work

I referred in my last report to the requirement to be prepared for a default even if no default is currently anticipated. The Basle Principles say:

"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."

The Ordinance is silent on the topic of prompt access, merely requiring compensation to be paid within three months of a claim being received. The Board is fully aware, however, that an unresponsive Scheme can worsen any financial crisis. It has therefore spent considerable time during the year on its contingency plans for an event of default. The Board's aim is to be able to respond promptly in such an event, firstly

by providing immediate information and secondly by arranging at least partial compensation within much shorter timetables than envisaged by the Ordinance.

The first stage of any response to a default is to cope with the requirements for public information. The signing of the Memorandum of Understanding with the Commission should allow the Board to have at least some early warning of a default, and thus be better prepared. The Board is in the final stages of producing a detailed response plan which will include:

- Special telephone contact arrangements
- Press briefing
- IT and premises
- New website version
- Availability of claim forms

In this context, the Board has had discussions with firms on the island with direct experience of recent bank defaults in order to gain from their experience.

The Board will also consider whether any further improvement in the information currently available to depositors, either on the website or in any literature provided, is appropriate.

Conclusion

The Board wishes to ensure that the Guernsey Scheme matches high international standards. The completion of the work set out above is very much in keeping with this aim.



Charles Tracy
Chairman of the Board
Guernsey Banking Deposit Compensation Scheme

10 AUGUST 2011

GUERNSEY BANKING DEPOSIT COMPENSATION BOARD

FINANCIAL STATEMENTS

31 DECEMBER 2010

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 2010.

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 profit or loss 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


.....
Board Member


.....
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 2010 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.

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

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 2010 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

Date: *10 August 2011*

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note		Period 26 November 2008 to 31 December 2009
INCOME	3	407,100	230,960
Administrative expenses		(315,455)	(257,583)
OPERATING SURPLUS/(DEFICIT)	3	91,645	(26,623)
Interest receivable		180	91
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR/PERIOD	8	£ 91,825	£ (26,532)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

A statement of movements on reserves is included in note 8 to the financial statements.


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

BALANCE SHEET

31 DECEMBER 2010

	Note		2009
CURRENT ASSETS			
Debtors	6	103,138	-
Cash at bank and in hand		150,755	245,049
		<hr/>	<hr/>
		253,893	245,049
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	7	(188,600)	(271,581)
		<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)		£ 65,293	£ (26,532)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
INCOME AND EXPENDITURE ACCOUNT	8	65,293	(26,532)
		<hr/>	<hr/>
RESERVES		£ 65,293	£ (26,532)
		<hr/>	<hr/>

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



 Board Member



 Board Member

10th August 2011

 Date

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

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

These financial statements have been prepared under the historical cost convention. The principal accounting policies which the member 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 company 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. INSURANCE PREMIUM

During the year an insurance premium was paid to DCS Insurance LBG in the sum of £155,000 to cover its operating costs to 31 December 2010. These costs were covered by a one off insurance levy imposed on participants of the Scheme.

5. 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.

6. DEBTORS**2009**

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2010

7. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

		2009
Other creditors	18,600	49,581
Deferred income	170,000	222,000
	<u>£ 188,600</u>	<u>£ 271,581</u>

8. INCOME AND EXPENDITURE ACCOUNT

Balance at 1 January 2010	(26,532)
Surplus for the financial year	91,825
	<u>£ 65,293</u>

9. 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 member's fees for services rendered for the year were £85,000 (2009: £85,000).

The Scheme is administered, under an administration and management agreement, by Aon Services (Guernsey) Limited. Administration fees for the year paid to the Administrator were £60,000 (2009: £83,194). Administration fees of £15,000 (2009:£14,179) were due and payable at 31 December 2010.

Aon Global Risk Consulting, a member of the same group of companies as the Administrator, was engaged to perform consulting services to the Scheme during the prior year. Consulting fees of £1,500 (2009:£69,748) were paid in respect of such consulting services.

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

DETAILED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note		Period 26 November 2008 to 31 December 2009
INCOME		407,100	230,960
ADMINISTRATIVE EXPENSES			
Administrator's fees		60,000	83,194
Insurance Premium	4	155,000	-
Board members' fees		85,000	85,000
Telephone and postage		77	127
Consultancy fees		-	69,748
Advertising, printing and stationery		1,892	2,278
Travel and entertaining		-	800
Audit fee		3,600	3,500
Legal and professional fees		9,082	11,361
Bank charges		104	-
Website design & maintenance		700	1,575
		<u>(315,455)</u>	<u>(257,583)</u>
OPERATING SURPLUS/(DEFICIT)		91,645	(26,623)
INTEREST RECEIVABLE			
Bank interest receivable		180	91
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR/PERIOD		<u>£ 91,825</u>	<u>£ (26,532)</u>