

Guernsey Banking Deposit Compensation Scheme

Guernsey Banking Deposit Compensation Scheme

Annual Report and Financial Statements

Year Ended

31 December 2021

Guernsey Banking Deposit Compensation Scheme

Scheme Information

Board Members

Richard Denton (Chairman)
Steve Hogg (term ended 1 July 2022)
William Simpson (term ended 1 July 2022)
Diane Colton

Registered office

PO Box 33
Dorey Court
Admiral Park
St Peter Port
Guernsey
GY1 4AT

Guernsey Banking Deposit Compensation Scheme

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The detailed profit and loss account is not audited and does not form part of the audited financial statements of the Scheme.



Chairman's Annual Report 2021

Introductory remarks and succession arrangements

In 2021, there has been no change in the composition of the Board which has the following Members:

Diane Colton	
Richard Denton	Chairman
Steve Hogg	
William Simpson	Deputy Chairman

However, in 2022 the five-year terms of service of three members of the Board, including my own, come to an end in June. I have agreed to extend my term by up to one year to ensure orderly succession arrangements and to select and prepare the chosen future Chair to take forward the work of the Board.

I would like to recognise the invaluable work that William Simpson and Steve Hogg have provided over the past five years during which time there have been significant improvements to the Scheme as part of our objective of improving the Scheme's ability to respond to a default promptly and to meet the relevant international standards established by the International Association of Deposit Insurers (IADI).

I use this opportunity to thank Messrs Hogg and Simpson for their work ethic, contributing considerably more hours than contracted, and for their perseverance to deliver meaningful progress across the range of development projects initiated by the Board. They have also provided meaningful support to me in the role of Chair of the Board. On behalf of myself, of fellow Board member Diane Colton, and on behalf of the Guernsey community, I thank them for their work. They have put the Scheme in a significantly stronger position and left a legacy on which their successors can build.

Financial Statements for the Year Ended 31 December 2021

The Financial Statements for the year ended 31 December 2021 show an increase in the Scheme's reserves to £98,123 compared to £53,895 for the year ended 31 December 2020. This is considered reasonable given the continued investment in improvement projects during the period and the Board considers the Scheme's remaining reserves a satisfactory position for its continuing operation, although fees will be reviewed in 2022 to ensure the Scheme can continue to achieve its purpose and with the aim of improving reserves to enable further systems development.

Banking Industry in Guernsey

The Board considers it important to inform its stakeholders of key features of the current banking industry in Guernsey to provide the context in which the Scheme operates, before outlining its future plans.

The number of licenses issued to banks dropped to 20 for the year with two banks surrendering their licenses in 2021. Since the inception of the Scheme in 2008, the number of Licensed Banks in the Bailiwick has fallen from 45.

This reduction has been led by the banks' overseas headquarters and reflects the trends of increasing consolidation and streamlining by these multinational institutions. Changes to the regulatory requirements have also caused banks to critically review their infrastructure and jurisdictional coverage.

However, total deposits have increased over the last decade, demonstrating that investors continue to recognise Guernsey as a safe and leading International Financial Centre.

The emergence and spread of the new coronavirus has caused volatility across financial markets and significant disruption to the economy resulting in an increase in non-performing loans and pressure on capital adequacy and liquidity. As a result, the Scheme and international deposit compensation scheme bodies remain in a state of heightened alert and recognise a need to ensure readiness to support their local communities. The Scheme has worked closely with the Association of Guernsey Banks (AGB) during this time and remains vigilant should an event occur. The Board updated the Scheme's Memorandum of



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Understanding with the Guernsey Financial Services Commission on 27 November 2020 and regular meetings are held between our two organisations recognising the pivotal role we each have in the Bailiwick's financial stability.

International Standards

The Board have identified two sets of global standards by which deposit compensation schemes can benchmark themselves.

The first is the IADI Core Principles for Effective Deposit Compensation Systems (the Core Principles). First published in November 2014, the Board reviewed its previous analysis of its compliance with these principles during 2021, noting several areas of interest and development. These have been key drivers for the continued improvement of the Scheme during the last two years, informing the development of workstreams for the Board and Aon Services (Guernsey) Limited as Scheme Manager (Aon) which are outlined in this report. The Board will continue to work to meet the IADI standards where these are consistent with the public policy objectives and legal framework established by the States of Deliberation in 2008. However, further to the decision announced in last year's report, the Board has been working more closely with the European Forum of Deposit Insurers (EFDI) as a guiding body given their more proactive stance to ensure the Scheme's readiness and the greater availability of guidance and support given.

Secondly, although the Bailiwick and the Scheme fall outside the European Union (EU), the EU's Deposit Compensation Scheme Directive is considered an important influence given it guides the standards of deposit compensation schemes throughout Europe.

Given the Bailiwick's status as an International Financial Centre, the Board considers it important to ensure the Scheme's response to a default scenario will be in line with our international counterparts. The Board has also worked co-operatively with the Affiliation of Micro European States (AMES), a working group of EFDI, to share resources and knowledge. This has been a major support to the Guernsey Board's project plans and has helped achieve a consistent pace of improvement across these smaller jurisdictions.

Co-operation with external parties

We have continued to hold discussions with important stakeholders and have enjoyed a constructive dialogue with:

Affiliation of Micro European States
Association of Guernsey Banks
Banca Centrale Della Repubblica Di San Marino
Channel Islands Ombudsman
Deposit Guarantee and Investment Compensation Foundation PCC (EAS Liechtenstein) European Forum of Deposit Insurers
Financial Services Compensation Scheme (UK)
Gibraltar Deposit Guarantee Scheme
Guernsey Financial Services Commission
Icelandic Depositors and Investors Guarantee Fund
Isle of Man Depositors Compensation Scheme
Jersey Banking Deposit Compensation Scheme
States' Finance Sector Development
Depositors in Guernsey banks

The Board continued its active participation in EFDI, attending online conferences to develop relationships and enhance our understanding of the Core Principles and developments in the deposit compensation environment globally. The Scheme joined the EFDI Fintech Project initiative in 2019 and participated in a Business Continuity Readiness Project in January 2020. It has also gained knowledge by attending the EFDI Public Awareness Working Group sessions.



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Within EFDI we continue to play a leading role in the development of the subgroup AMES. This body, comprised of smaller jurisdictions, initially including the other Crown Dependencies, Gibraltar, Liechtenstein and San Marino, facilitates the sharing of resources, exchange of information and allows the jurisdictions to progress projects of mutual interest. During the year, the organisation has grown to include Iceland. Our Single Customer View (SCV) project, which aims to facilitate all constituent banks being able to automatically report data on deposits which may be compensated for each customer across multiple accounts, is an example of how this collaboration can benefit multiple jurisdictions, the banks and depositors by sharing resources and achieving a consistently high standard.

The Board continues to ensure that the Scheme's website www.dcs.gg is up to date and that all local banks are correctly distributing the latest edition of the Scheme's information leaflet (last amended in December 2017).

Given the importance of the Scheme's website to our communication with the public, the Board upgraded the website, including changing the infrastructure during 2019 to ensure the website continues to be secure whilst facilitating the changes required to increase the efficiency of data collection in a default scenario.

Aon continues to receive enquires about the application of the Scheme from both the general public and corporates. These are referred to the Board as appropriate. Aon has also ensured the Scheme is compliant with the General Data Protection Regulations concerning any personal data held.

Funding of the Scheme

The reduction in the number of Licensed Banks in the Bailiwick reduces the base from which the Scheme can charge administrative levies and, in the event of a default, compensation levies. The implications in respect of this reduction have been reviewed by the Board and the Scheme has begun to develop plans to mitigate the impact.

To ensure the Scheme has immediate funds available in the event of a bank default and any time delay in receiving funds levied from other Guernsey-based banks, the Scheme has arranged for a liquidity facility of £15m with the States of Guernsey. This facility was formalised in 2019.

The administrative levy per bank for the year ending 31 December 2021 increased to £13,000 (2020: £10,000) per annum to help replenish decreasing reserves whilst spending more on projects for essential improvements. The budgeted administrative income remains in line with that proposed in the 2008 policy paper before inflation.

Ordinance amendments

The current Ordinance, upon which the Scheme was founded, was reviewed in 2017 and 2018 in a process stimulated by a review of the Scheme's alignment with the Core Principles. The review identified that, due to developments in the global deposit compensation scheme environment, the Ordinance is too restrictive operationally and does not address several issues identified in international deposit scheme practice since its initial drafting.

In response to this assessment, the Board began a project to seek the redrafting of the statute and to improve legal protection for depositors. Progress has been made during 2021 with several key improvements already made. At the same time, there have been parallel developments in Preferred Creditor Protection and the creation of a Resolution body on which we have been cooperating and liaising with the States' Finance Sector Development team. The Board thanks them for their work and assistance in this regard.

Operational improvements

The Board is continuing to review deposit data of the Bailiwick's Licensed Banks to ensure it has the necessary information to enable it to react efficiently in any default scenario, supported by appropriate operating procedures and systems. The importance of data presentation to meet international standards has been highlighted as a development area through our increased participation with EFDI where the



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standardisation of information from Licensed Banks has been proven to have a hugely positive impact on a scheme's ability to respond to default scenarios. The SCV project is perhaps the most ambitious in the history of the Scheme and this is being managed with support from the AGB and other stakeholders.

Processes and procedures in the event of a default, to ensure compensation is as efficient as possible, continue to be a matter of discussion both locally and amongst other jurisdictions. To this end, the Board has identified areas which could expedite the process and reduce costs, both through its review of international standards and following discussions with other Deposit Compensation Scheme representatives. Some progress was made during the year, but more will follow the implementation of SCV which has a target completion date of 30 June 2022, a six-month extension following discussions with some Licensed Banks.

A key step to ensure operational efficiency is our ongoing testing program. The Board has worked closely with Aon to provide improved cyber security and assess the impact of Covid-19, including testing to ensure that our proposed method of remote working and communications is secure.

Cross Border Co-operation

A further area of development concerns the management of cross border issues in the event of a bank failure and pay-out to international depositors that use local banks. This is an item of critical importance as identified by the Core Principles, and something the Board also recognises as being key given the multinational nature of the Bailiwick's banks and customers. A default scenario of any bank is likely to require international cooperation and to this end, the Board is working to improve dialogue and understanding of the cross-border issues through increased participation in international bodies. The establishment of the AMES subgroup in EFDI demonstrates both the Board's commitment to international cooperation and to learn from this engagement, as well as benefiting from sharing of resources and applying the specialist knowledge of other jurisdictions.

Support Services

The GBDCS Board has enjoyed superior support for the Scheme management and administration from Aon Services (Guernsey) Limited since 2008. In line with good practice the Board placed this contract in the market in 2021 for a competitive tender. Whilst the tender process was ongoing during this reporting period, it is appropriate to confirm that subsequently, after a review of eleven tender bids received from a range of good quality professional service businesses, Aon were reappointed as manager. This tender was subject to independent challenge by Finance Sector Development representatives and the appointment of Aon reconfirms their capabilities and commitment to the support of the Scheme and its future development.

A Personal Note

I am proud of the work being achieved by our Board and their commitment to introducing continual improvements to the Guernsey Banking Deposit Compensation Scheme in line with international standards. This work will continue to enhance the reputation of the strong Guernsey banking industry and the wider reputation of the jurisdiction for its financial stability.

I look forward to recruiting and working with a revised Board in 2022 and 2023 to continue to drive this important work.

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Richard Denton

Chairman of the Board,
Guernsey Banking Deposit Compensation Scheme

Guernsey Banking Deposit Compensation Scheme

Board Report For the Year Ended 31 December 2021

The Board presents their report and the financial statements for the year ended 31 December 2021.

Board's responsibilities statement

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

The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008 ("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 operation.

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 which 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.

Results

The Statement of Comprehensive Income for the year is set out on page 10.

Board

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

Richard Denton (Chairman)
Steve Hogg
William Simpson
Diane Colton


Guernsey Banking Deposit Compensation Scheme

Board Report (continued) For the Year Ended 31 December 2021

Independent auditor

The auditor, BDO Limited, is deemed to be reappointed in accordance with the Banking Deposit Compensation 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 16-Aug-2022 and signed on its behalf.

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Richard Denton
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Chairman

Guernsey Banking Deposit Compensation Scheme

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 of the Guernsey Banking Deposit Compensation Scheme (“the Scheme”):

- give a true and fair view of the state of the Scheme’s affairs as at 31 December 2021 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

We have audited the financial statements of the Scheme for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (“United Kingdom Generally Accepted Accounting Practice”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

The Board is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Guernsey Banking Deposit Compensation Scheme

Independent Auditor's Report to the Members of Guernsey Banking Deposit Compensation Scheme continued

We have nothing to report in this regard.

Responsibilities of Board

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Based on our understanding of the Scheme and the environment in which it operates, we identified that the principal risk of non-compliance with laws and regulations related to the operation of the Scheme, and we considered the extent to which non-compliance might have a material effect on the Scheme's financial statements.

We also considered those laws and regulations that have a direct impact on the financial statements such as the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of management override of controls) and determined that the principal risk was related management bias in preparation of the financial statements, particularly with regard to journals posted in the accounting records.

Audit procedures performed by the engagement team to respond to the risk, identified included:

- Discussions with management and those charged with governance, reading minutes of meetings of the Board and reviewing correspondence with the States of Guernsey including consideration of known or suspected instances of non-compliance with laws and regulations;
- Obtaining an understanding of the internal control environment in place to prevent and detect irregularities; and
- Review and challenge of accounting records including review of the general ledger inclusive of journal transactions.

Guernsey Banking Deposit Compensation Scheme

Independent Auditor's Report to the Members of Guernsey Banking Deposit Compensation Scheme continued

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available at the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

BDO Limited

Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date 17 August 2022

Guernsey Banking Deposit Compensation Scheme

Statement of Comprehensive Income For the Year Ended 31 December 2021

	Note	2021 £	2020 £
Income	4	286,000	220,158
Administrative expenses		(241,772)	(258,032)
OPERATING PROFIT/(LOSS)		44,228	(37,874)
Interest receivable and similar income		-	9
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		44,228	(37,865)

There was no other comprehensive income for 2021 (2020: £NIL).


The notes on pages 14 to 17 form an integral part of these financial statements.


Guernsey Banking Deposit Compensation Scheme

Statement of Financial Position As at 31 December 2021

	Notes	2021 £	2020 £
CURRENT ASSETS			
Debtors: amounts falling due within one year	5	45,000	91,000
Cash at bank		432,951	333,286
		<u>477,951</u>	<u>424,286</u>
Creditors: amounts falling due within one year	6	(379,828)	(370,391)
NET CURRENT ASSETS		<u>98,123</u>	<u>53,895</u>
NET ASSETS		<u>98,123</u>	<u>53,895</u>
CAPITAL AND RESERVES			
Profit and loss account		<u>98,123</u>	<u>53,895</u>
		<u>98,123</u>	<u>53,895</u>

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

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 Board Member

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 Board Member

Date: 16-Aug-2022

The notes on pages 14 to 17 form an integral part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Statement of Changes in Equity For the Year Ended 31 December 2021

	Profit and loss account	Total equity
	£	£
At 1 January 2021	53,985	53,895
Profit for the year	44,228	44,228
	98,123	98,123
AT 31 DECEMBER 2021	98,123	98,123

Statement of Changes in Equity For the Year Ended 31 December 2020

	Profit and loss account	Total equity
	£	£
At 1 January 2020	91,760	91,760
Loss for the year	(37,865)	(37,865)
	53,895	53,895
AT 31 DECEMBER 2020	53,895	53,895

The notes on pages 14 to 17 form an integral part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Statement of Cash Flows For the Year Ended 31 December 2021

	2021 £	2020 £
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the financial year	44,228	(37,865)
ADJUSTMENTS FOR:		
Decrease/(increase) in debtors	46,000	(55,917)
Bank interest receivable	-	(9)
Increase in creditors	9,437	86,770
	99,665	(7,021)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank interest received	-	9
	-	9
NET CASH GENERATED FROM FINANCING ACTIVITIES		
	99,665	(7,012)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	333,286	340,298
	432,951	333,286
Cash and cash equivalents at the end of the year	432,951	333,286

The notes on pages 14 to 17 form an integral part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements For the Year Ended 31 December 2021

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland ("FRS 102").

The Guernsey Banking Deposit Compensation Scheme (the "Scheme") was established in Guernsey on 26 November 2008 by the States of Guernsey. The Board acts as an administrator to the Scheme in order to collect levies from Guernsey banks. The Scheme's registered office can be seen on the Scheme Contact us page. Note that the Board consider the Scheme to be a Public Benefit Entity (PBE) defined in FRS 100 as an entity whose primary objective is to provide goods or services for the general public community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.

The Scheme's functional and presentation currency is Sterling ("GBP"), being the primary currency of the economic environment in which the Scheme operates.

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 accounting policies.

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 have considered the potential impact of the COVID-19 pandemic and the Russian invasion of Ukraine on the Scheme and its ability to continue as a going concern. All of the assets are held in cash with banks of a rating of at least A on S&P. There is not a significant amount owed in the case of debtors to the Scheme and the majority of the creditors are the levies for 2022 received in advance. The Board are satisfied that the Scheme is a going concern.

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.

The Scheme has entered into a loan facility arrangement with the States of Guernsey for £15,000,000 which is available for drawdown in the event of a default by a licensed bank.

1.3 Income and deferred 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 at bank

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

1.6 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

1. Accounting policies (continued)

1.7 Financial instruments

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

Financial liabilities are classified according to the substance of the contractual arrangement entered into.

i. Initial recognition and subsequent measurement

All financial assets and financial liabilities are initially measured at transaction price (including transaction cost), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction cost), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a marked rate of interest for a similar debt instrument.

During the year no gain or loss was made on the financial assets therefore no gain or loss has been recognised through profit or loss.

Financial assets and financial liabilities are offset in the Statement of Financial Position when, and only when, there is a legally enforceable right to offset the recognised amounts and the Scheme intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

ii. Derecognition of financial instruments

Financial assets are derecognised when and only when:

- a) the contractual right to the cash flows from the financial asset expire or are settled,
- b) the Scheme transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or
- c) the Scheme, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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

iii. Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

1. Accounting policies (continued)

1.7 Financial instruments (continued)

iv. Impairment of financial assets

The Board assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Board first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Board determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Statement of Comprehensive Income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the Statement of Comprehensive Income.

1.8 Profit and loss reserve

The Scheme's reserves comprise the cumulative profits (or losses) net of any adjustments.

2. Financial Reporting Council 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.

3. 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.

4. Income

During the year the main source of income was obtained from 22 Participant banks of £13,000 per Bank (2020: 22 Participant Banks at £10,000).

5. Debtors: amounts falling due within one year

	2021 £	2020 £
Trade debtors	45,000	91,000

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

6. Creditors: amounts falling due within one year	2021 £	2020 £
Accruals	(79,828)	(84,391)
Deferred income	(300,000)	(286,000)
	<u>(379,828)</u>	<u>(370,391)</u>

7. Related party transactions

Key management personnel include all members of the Board who together have authority and responsibility for planning, directing and controlling the activities of the Scheme. The total compensation paid to key management personnel for services provided to the Scheme was £85,000 (2020: £85,000). At 31 December 2021, £21,250 (2020: £21,250) was outstanding and is included within accruals.

8. Controlling party

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 Committee for Economic Development. There is no ultimate controlling party.

9. Events after the reporting date

There were no events after the reporting date of the financial statements that would require a change to the financial statements. The Russian invasion of Ukraine does not impact the Scheme.

Guernsey Banking Deposit Compensation Scheme

Unaudited Detailed Profit and Loss Account

For the Year Ended

31 December 2021

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

Guernsey Banking Deposit Compensation Scheme

Unaudited detailed profit and loss account For the Year Ended 31 December 2021

	2021 £	2020 £
Income	286,000	220,158
Administration expenses	(241,772)	(258,032)
Operating profit/(loss)	44,228	(37,874)
Interest receivable	-	9
Profit/(loss) for the year	44,228	(37,865)
Turnover		
Income - fees	286,000	220,158
Administration expenses		
Directors fees	85,000	85,000
Consultancy fees	12,500	4,219
Management fees	102,401	102,400
Sundry expenses	1,510	170
Disaster recovery costs	12,362	12,363
Legal and professional fees	3,520	3,416
Audit fees	7,120	6,875
Travel and meeting expenses	-	2,229
Printing and stationary	-	3,590
Website design and maintenance	1,676	10,407
Facility fees	15,000	26,250
Bank charges	683	1,113
	241,772	258,032
Interest receivable		
Bank interest receivable	-	9