

Guernsey Banking Deposit Compensation Scheme

Report and Financial Statements

Year Ended

31 December 2016

Guernsey Banking Deposit Compensation Scheme

Scheme Information

Board

Charles Tracy (Chairman) (resigned 5 February 2017)
John Lee (Chairman with effect from 5 February 2017)
Steve Butterworth
Nigel Carey

Registered office

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

Guernsey Banking Deposit Compensation Scheme

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Guernsey Banking Deposit Compensation Scheme

Directors' Report For the Year Ended 31 December 2016

The Board present their report and the financial statements for the year ended 31 December 2016.

Boards' responsibilities statement

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

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

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

The Board are responsible for keeping adequate accounting records that are sufficient to show and explain the Scheme's transactions and disclose with reasonable accuracy at any time the financial position of the Scheme and enable them to ensure that the financial statements comply with the Banking Deposit Scheme (Bailiwick of Guernsey) Ordinance 2008. They are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity

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

Results

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

Board

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

Charles Tracy (Chairman) (resigned 5 February 2017)
John Lee (Chairman with effect from 5 February 2017)
Steve Butterworth
Nigel Carey

Guernsey Banking Deposit Compensation Scheme

Directors' Report (continued)
For the Year Ended 31 December 2016

Auditors

The auditors, BDO Limited, are 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 28 April 2017 and signed on its behalf.


Director S W BUTTERWORTH

Guernsey Banking Deposit Compensation Scheme

Independent Auditor's report to Guernsey Banking Deposit Compensation Scheme

We have audited the financial statements of Guernsey Banking Deposit Compensation Scheme for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice').

This report is made solely to the Scheme Board, in accordance with the Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008. Our audit work is undertaken so that we might state to the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Boards' Responsibilities Statement within the Report of the Board, the Scheme Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors, including "FRC Ethical Standard - Provisions Available for Small Entities (Revised)", in the circumstances set out in note 3 to the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Board to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Guernsey Banking Deposit Compensation Scheme

Independent Auditor's report to Guernsey Banking Deposit Compensation Scheme

Opinion on 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 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008.

BDO Limited

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

28 April 2017

Guernsey Banking Deposit Compensation Scheme

Statement of Comprehensive Income For the Year Ended 31 December 2016

	Note	2016 £	2015 £
Income	5	166,790	178,290
Administrative expenses		(169,471)	(164,975)
Operating (loss)/profit		(2,681)	13,315
Interest receivable and similar income		425	1,145
(Loss)/profit for the year		(2,256)	14,460

There was no other comprehensive income for 2016 (2015:£NIL).

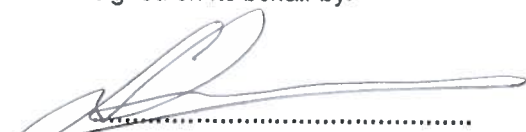
The notes on pages 9 to 11 form part of these financial statements.

Guernsey Banking Deposit Compensation Scheme

Statement of Financial Position As at 31 December 2016

	Note	2016 £	2015 £
Current assets			
Debtors: amounts falling due within one year	6	34,490	7,909
Cash at bank and in hand		<u>301,958</u>	<u>328,695</u>
		336,448	336,604
Creditors: amounts falling due within one year		<u>(210,816)</u>	<u>(208,716)</u>
Net current assets		<u>125,632</u>	<u>127,888</u>
Total assets less current liabilities		<u>125,632</u>	<u>127,888</u>
Net assets		<u><u>125,632</u></u>	<u><u>127,888</u></u>
Capital and reserves			
Profit and loss account		<u>125,632</u>	<u>127,888</u>
		<u><u>125,632</u></u>	<u><u>127,888</u></u>

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


.....
Director


.....
Director

Date: 28/4/17

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

Guernsey Banking Deposit Compensation Scheme

Statement of Changes in Equity For the Year Ended 31 December 2016

	Profit and loss account £	Total equity £
At 1 January 2016	127,888	127,888
Loss for the year	(2,256)	(2,256)
Total transactions with owners	<u>-</u>	<u>-</u>
At 31 December 2016	<u><u>125,632</u></u>	<u><u>125,632</u></u>

Statement of Changes in Equity For the Year Ended 31 December 2015

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

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

Guernsey Banking Deposit Compensation Scheme

Statement of Cash Flows For the Year Ended 31 December 2016

	2016 £	2015 £
Cash flows from operating activities		
(Loss)/profit for the financial year	(2,256)	14,460
Adjustments for:		
Interest received	(425)	(1,145)
(Increase) in debtors	(26,581)	(7,840)
Increase in creditors	2,100	12,150
Net cash (utilised in)/generated from operating activities	(27,162)	17,625
Cash flows from investing activities		
Interest received	425	1,145
Net cash from investing activities	425	1,145
Net (decrease)/increase in cash and cash equivalents	(26,737)	18,770
Cash and cash equivalents at beginning of year	328,695	309,925
Cash and cash equivalents at the end of the year	301,958	328,695

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

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements For the Year Ended 31 December 2016

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 and the Companies (Guernsey) Law 2008.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Scheme's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.2 Going concern

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

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

1.3 Income

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

1.4 Debtors

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

1.5 Cash and cash equivalents

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

1.6 Creditors

Short term creditors are measured at 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 For the Year Ended 31 December 2016

1. Accounting policies (continued)

1.7 Foreign currency translation

Functional and presentation currency:

The company's functional and presentational currency is GBP.

Transactions and balances:

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

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

1.8 Interest income

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

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

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

3. 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.

4. Taxation

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

Guernsey Banking Deposit Compensation Scheme

Notes to the Financial Statements For the Year Ended 31 December 2016

5. Income

During the year the main source of income was obtained from 29 Participant banks of £5,750 per Bank (2015: 31 Participant Banks at £5,750).

6. Debtors: amounts falling due within one year

	2016 £	2015 £
Trade debtors	31,250	5,750
Prepayments and accrued income	3,240	2,159
	<u>34,490</u>	<u>7,909</u>

7. Creditors: amounts falling due within one year

Accruals	(42,066)	(41,966)
Deferred income	(168,750)	(166,750)
	<u>(210,816)</u>	<u>(208,716)</u>

8. Post balance sheet events

There have been no post balance sheet events to note.

9. Controlling party

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

Guernsey Banking Deposit Compensation Scheme

Detailed Accounts

Year Ended

31 December 2016

**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

Detailed profit and loss account For the Year Ended 31 December 2016

	2016 £	2015 £
Income	166,790	178,290
Administration expenses	(169,471)	(164,975)
Operating (loss)/profit	(2,681)	13,315
Interest receivable	425	1,145
(Loss)/profit for the year	(2,256)	14,460
Turnover		
Income	166,790	178,290
Administration expenses		
Directors fees	85,000	85,000
Consultancy	52,500	52,500
Disaster recovery	12,363	12,363
Legal and professional fees	11,480	6,132
Audit fee	4,600	4,400
Travel and meeting expenses	2,014	2,175
Printing and stationery	322	1,106
Website design and maintenance	770	840
Telephone and postage	98	322
Bank charges	324	137
	169,471	164,975
Interest receivable		
Bank interest	425	1,145

Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report 2016.

During the course of last year the Board¹ remained as it had been since the inception of the Guernsey Banking Deposit Compensation Scheme with the following Members:-

Charles Tracy (Chairman)
John Lee (Vice Chairman)
Steve Butterworth
Nigel Carey.

Early this year, after eight valuable years as Chairman, Charles Tracy stepped down to be appointed Consultant to the Board for a limited period while certain items of ongoing business are brought to a satisfactory conclusion including a Policy Letter that will hopefully be going before the States this summer.

This means that I am now Chairman being very ably supported by Steve Butterworth and Nigel Carey.

However this is very much an interim arrangement as both Nigel Carey and myself are retiring from the Board after eight and a half years on the 30th June and three new directors will be appointed as from the 1st July which together with Steve Butterworth will bring the Board up to its full strength.

Formation of the new Board will be made public once the necessary formalities have been completed.

Accounts for the Period to the 31st December 2016.

As you will see from the accounts to 31st December 2016 there was a loss of £ 2,256 but a small loss was anticipated by the Board and, as there was a profit of £ 14,460 the previous year, it was decided that this could be accepted and that the contingency reserve remains in a satisfactory position. The number of licenses issued to banks continues to fall: there were 29 licenses at the start of 2016; as at today this figure stands at 24 and in turn this simply means that there are fewer participants to cover the cost of the Deposit Compensation Scheme.

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

Development of the Scheme.

I could purely repeat the Chairman's remarks from last year and the facts would be correct, but much work has been done and shortly there will be a Policy Letter placed before the States that will cover:-

- Levies by the Banks and caps thereon.
- The policy for making compensation payments.
- Short term cover of the funding cap in the case of a bank failure.

We continue to exercise our minds on the matter of insolvency and the law appertaining thereto and at the same time are very mindful that we could be looking at a different landscape as far as jurisdictions go once the clearing banks achieve the good bank/bad bank splits at the end of next year. as proposed by the Turner Report.

Paying depositors quickly after a failure continues to be a matter of continuous discussion both locally and with other jurisdictions and we still come up against two main problems: the lack of standardised data from the participating banks and the cost of any automated system. For example, the Board maintains and regularly reviews its contingency plans in the event of a bank failure. These are, however, designed to deal with the Scheme terms as they currently stand, with payment of compensation permitted to take up to three months (or longer if payment by instalments is permitted). A system which allows for faster payments will inevitably involve a more complex and expensive approach.

An area which has been taking up our time and will continue to do so, is our compliance or otherwise with the guide lines as set out by International Association of Deposit Insurers (IADI). This is a juggling act between what needs to be done to satisfy the IMF when they visit next and what can be applied to a jurisdiction of our size taking into account resources and cost. The retention of Steve Butterworth on the Board will ensure that this project will move forward.

Co-operation with external parties.

We have continued to have constructive and useful discussions with:-
Guernsey Financial Services Commission
Association of Guernsey Banks.
Jersey Banking Deposit Compensation Scheme
Isle of Man Depositors Compensation Scheme.
and also the Financial Authority in the United Kingdom.

Publicity and Advertising.

We continue to ensure that our website www.dcs.gg is up to date and that all local banks are correctly distributing the latest editions.

Our Managers continue to receive enquires from both the general public and corporates and these are referred to the Board as appropriate.

Administration.

Aon Services (Guernsey) Limited have over the last eight years given excellent service as our managers for which we thank them most sincerely and particular thanks to Eddie Ballard who has been directly responsible for the GBDCS. Sadly Eddie is leaving Aon very shortly and we wish him well for the future and welcome his successor Mathew Lee.



John Lee.
Chairman of the Board,
Guernsey Banking Deposit Compensation Scheme.

