



Guernsey Banking Deposit Compensation Scheme

Annual Reports and Accounts

2013



Index

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



Guernsey Banking Deposit Compensation Scheme

Chairman's Annual Report 2013

This is my fifth report as Chairman of the Board¹, incorporating the accounts for the Scheme for the calendar year 2013.

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. During the period, and in accordance with the Ordinance governing the Scheme², the Department renewed the tenure of the Board members for a further five years from November 2013.

This report summarises the work of the Board since my last report, details work in progress and sets out some plans for future development for the Board.

Accounts for the period to 31 December 2013

The accounts for the year to 31 December 2013, which are included at the back of this report, show a modest income surplus, which reflects a stable level of annual fees coupled with a small reduction in annual expenditure. There remains, in the Board's opinion, an adequate contingency reserve.

Changes in the UK Banking environment

Following the publication of the Vickers Report, covering the UK banking system, in 2011 and the Liikanen Report, covering the EU banking system, in 2012, there has been much discussion on the future shape of the UK banking industry. Outline proposals involved the creation of low-risk retail banks (so-called 'ring-fenced' banks) and higher-risk commercial banks. It was unclear how the local affiliates of the clearing banks in particular might be affected by these changes, and the existence of branches of UK banks in the Crown Dependencies raised the interesting possibility that these branches might be brought within the UK ring-fence and become

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

² The Banking Deposit Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008

participants in the UK Financial Services Compensation Scheme ('FSCS'), or at the least a version of that scheme designed to be exactly equivalent to the UK scheme. There was a strong argument in favour of such a move, as the Crown Dependency branches of the clearing banks typically deposit the majority of their surplus funds with their head offices in the UK and their risk exposure is thus very much aligned with that of their parent organisations.

Whatever the merits of this argument, it was eventually decided by HM Treasury not to make any special compensation scheme arrangements for the clearing banks in the Crown Dependencies. At the simplest level, this means that the rôle of the Guernsey Scheme is not going to change, but it still leaves the unsatisfactory position that, in the unlikely event of a clearing bank failing, the chief risk lies with the parent bank in the UK. This risk is of particular concern in that, as a result of changes made in the UK Banking Act, the FSCS ranks prior to other creditors – including, of course, the Guernsey Scheme. The Board understands that the need for change in this respect is acknowledged in the UK, and it will be working to ensure the Guernsey Scheme ranks *pari passu* with the FSCS under UK law.

One constructive outcome of this debate was a meeting with the FSCS in November 2013, attended by representatives of the Isle of Man, Jersey and Guernsey Schemes. It was agreed that the Crown Dependency Schemes' discussion with the FSCS will be a valuable basis for future cooperation.

Cooperation with the Commerce and Employment Department

The Board met on several occasions during the year with the board of the Department, principally to discuss issues relating to changes in the Ordinance. Now that the landscape for the Guernsey Scheme is clear, the Board will have to engage actively with the Department in the next year to deal with some of the difficult issues highlighted elsewhere in this report.

Cooperation with the Treasury and Resources Department ('T&R')

During the year the Board met with T&R to discuss funding issues for the Scheme. The present arrangements mean that in the event of a large default, the Scheme would rely heavily on governmental funding in the short term. The changes in the Core Principles referred to below both imply that any such funding should be formally agreed and accelerate the speed at which pay-out should be made. These changes mean that the Board will be revisiting this topic with T&R in the near future.

Cooperation with the Guernsey Financial Services Commission

In keeping with the Memorandum of Understanding entered into with the Guernsey Financial Services Commission in 2012, regular meetings are held with the Commission. These help to keep the Board informed of actions being taken by the Commission and any relevant matters in connection with banks which have received negative comment from the media.

During the year the number of banks which are participants in the Scheme has fallen to 30 (from 32). This reduction includes the withdrawal of the Co-operative Bank PLC, which could be considered significant, even if it reflects factors outside Guernsey, rather than any problems with the local operation. Nevertheless, it should

be noted that although the number of banks that participate in the Scheme has fallen from 36 to 30 in the last three and half years, the value of retail deposits has actually risen slightly in the same period.

Cooperation with Association of Guernsey Banks

The Board meets with AGB representatives from time to time to discuss current issues. Some of the issues highlighted in this report will require close cooperation in the development of the Scheme over the next year.

Legislative drafting

I referred in my previous report to delays in legislative drafting. After further debate, and some final changes agreed with the Legislative Committee, a Billet containing the agreed changes to the Ordinance is now being submitted for approval to the States of Deliberation in September 2014. This is an important milestone, but it merely deals with a number of anomalies in the Ordinance as originally drafted. More fundamental changes may be needed to keep the Scheme up to date, as discussed below.

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 are approved, the website will be updated, as will any associated literature. There will be specific publicity related to the inclusion within the Scheme of charities as qualifying depositors.

The Board regularly reviews the Scheme Brochure (which is issued to participant banks for their clients and is also available on the website) to ensure that it is clear and accurate. The Board has considered on a number of occasions whether it should engage in wider publicity, such as radio or newspaper advertising. Given that many depositors are resident outside the Bailiwick, it does not currently believe that wider publicity is appropriate, but it will keep this topic under regular review.

The Board routinely receives enquiries about a number of aspects of the Scheme by telephone, email or letter and responds to these as appropriate. Responses are either agreed by Board members or reviewed at routine meetings.

Administration

The administrative arrangements with Aon Services (Guernsey) Limited have now been in operation for over five 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 International Association of Deposit Insurers 'IADI': revised 'Core Principles'

Through its membership of IADI, the Board keeps in touch with developments around the world in deposit insurance. One of the principal contributions of IADI has been the 'Core Principles' mentioned in previous reports, and first issued in June 2009.

As mentioned in my last report, the Board has been aware of a number of changes in the international approach to deposit compensation schemes. This has now resulted in the recent publication of a draft new set of Core Principles, which are both more detailed and more prescriptive than the previous edition. The Board will obviously be

studying this in detail, as compliance with the Core Principles is a key test for reviews carried out by bodies such as the IMF.

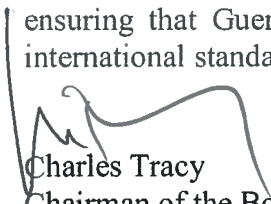
The Board would however highlight the following as some of the areas where the Scheme may need to be enhanced:

- Participation in resolution mechanisms. A popular approach is that of 'bail-in', one example of which would be that levies which the Scheme is entitled to claim from participant banks were not used directly to reimburse depositors but to recapitalise the failed bank in some way, mitigating losses by speedier resolution.
- Contingency planning. The Scheme must not only have a tested contingency plan but also a clear role in crisis management in the wider context.
- Rapid pay-out. Increasingly, schemes are emphasising the speed of claims payment as a vital part of maintaining public confidence. Seven day 'straight-through' pay-out is becoming the norm, requiring banks to be able to provide advance data in a standardised format and a much greater commitment of resources by the Scheme.
- Advance funding. Ex-ante funding through a routine levy on banks is becoming standard. Even with ex-ante funding the Scheme also needs formal funding arrangements as mentioned above.
- Better integration into liquidation law. The Scheme's special status in any recovery process needs recognition and, in addition, the need for a Special Resolution Regime (in which the supervisory authorities have special powers in the event of a bank liquidation) needs exploring.
- Increased public awareness. Better publicity for the Scheme and monitoring of its effectiveness.
- Improved resources. The Scheme will need better IT resources and specialised staff will need to be available on a guaranteed basis.

These imply some fairly fundamental changes to the Scheme, and the Board is already looking at some other issues such as: the current £100 million cap on compensation; the treatment of sums recovered through subrogation and the limits on bank levies.

Longer-term plans

The Board will continue to monitor external developments in the banking sector, and specifically in the deposit compensation field; it will be working closely with the Department to map out a plan for the Scheme's future enhancement, in line with the new IADI Core Principles, and any other appropriate changes, with the aim of ensuring that Guernsey depositors are properly protected in accordance with high international standards.


Charles Tracy
Chairman of the Board
Guernsey Banking Deposit Compensation Scheme

GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME

FINANCIAL STATEMENTS

31 DECEMBER 2013

GUERNSEY BANKING DEPOSIT COMPENSATION SCHEME

FINANCIAL STATEMENTS

CONTENTS

Report of the Board	1
Auditor's report	3
Income and expenditure account	5
Balance sheet	6
Notes to the financial statements	7
Detailed income and expenditure account	9

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 2013.

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 surplus or deficit 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;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- 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 Compensation 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

BDO were re-appointed as auditor during the year.

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 2013 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes 1 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 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 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors, including 'FRC Ethical Standard – Provisions Available for Small Entities (Revised)', in the circumstances set out in note 2 to the financial statements.

Scope of the audit of the financial statements

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

**INDEPENDENT AUDITOR'S REPORT TO THE
MEMBERS OF 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 2013 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 Compensation Scheme (Bailiwick of Guernsey) Ordinance, 2008.

BDO Limited

CHARTERED ACCOUNTANTS

Place du Pré

Rue du Pré

St Peter Port

Guernsey

Date: *23 April 2014*

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note		2012
INCOME	3	165,062	162,060
Administrative expenses		(163,611)	(179,009)
		<hr/>	<hr/>
OPERATING SURPLUS/(DEFICIT)	3	1,451	(16,949)
Interest receivable		1,178	1,556
		<hr/>	<hr/>
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR	7	£ 2,629	£ (15,393)
		<hr/>	<hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

A statement of movements on reserves is included in note 7 to the financial statements.


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

BALANCE SHEET

31 DECEMBER 2013

	Note		2012
CURRENT ASSETS			
Debtors	5	-	83
Cash at bank and in hand		288,953	283,127
		<hr/>	<hr/>
		288,953	283,210
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	6	(188,334)	(185,220)
		<hr/>	<hr/>
NET CURRENT ASSETS		£ 100,619	£ 97,990
		<hr/>	<hr/>
CAPITAL AND RESERVES			
INCOME AND EXPENDITURE ACCOUNT	7	100,619	97,990
		<hr/>	<hr/>
RESERVES		£ 100,619	£ 97,990
		<hr/>	<hr/>

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



 Board Member



 Board Member

23 April 2014

 Date

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

1. ACCOUNTING POLICIES

(a) CONVENTION

These financial statements have been prepared under the historical cost convention. The principal accounting policies which the scheme 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 scheme 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. During the year the main source of income was obtained from 33 Participant Banks at £5,000 per Bank (2012: 36 Participant Banks at £4,500).

4. 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.

5. DEBTORS

	2012	
Trade debtors	£ -	£ 83
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

6. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

		2012
Deferred income	165,000	159,545
Other creditors	23,334	25,675
	<hr/>	<hr/>
	£ 188,334	£ 185,220
	<hr/>	<hr/>

7. INCOME AND EXPENDITURE ACCOUNT

Balance at 1 January 2013	97,990
Surplus for the financial year	2,629
	<hr/>
Balance at 31 December 2013	£ 100,619
	<hr/>

8. 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 members' fees for services rendered for the year were £85,000 (2012: £85,000).

The Scheme is administered, under an administration and management agreement, by Aon Services (Guernsey) Limited. Administration fees for the year paid to Aon Services (Guernsey) Limited were £52,500 (2012: £52,500). Administration fees of £13,125 (2012: £13,125) were payable at 31 December 2013.

DETAILED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2013

		2012
INCOME	165,062	162,060
ADMINISTRATIVE EXPENSES		
Board members' fees	85,000	85,000
Administrator's fees	52,500	52,500
Disaster recovery	11,075	18,126
Consultancy fees	-	8,775
Legal and professional fees	8,213	7,999
Audit fee	3,600	3,685
Travel and entertaining	2,070	1,321
Website design and maintenance	700	700
Plain English campaign	-	435
Telephone and postage	258	218
Advertising, printing and stationery	155	150
Bank charges	40	100
	<hr/>	<hr/>
	(163,611)	(179,009)
OPERATING SURPLUS/(DEFICIT)	<hr/>	<hr/>
	1,451	(16,949)
INTEREST RECEIVABLE		
Bank interest receivable	1,178	1,556
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR	<hr/>	<hr/>
	£ 2,629	£ (15,393)
	<hr/>	<hr/>

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