



FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

FINANCIAL STATEMENTS

31 MARCH 2019

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

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FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

COMMITTEE MEMBERS AND OTHER INFORMATION

GENERAL INFORMATION

Pursuant to the Bank Recovery and Resolution Directive, the Gibraltar Financial Services Commission ("GFSC") has been appointed as the Resolution Authority ("RA"). In order to retain its operational independence from the supervisory function of the GFSC, the Financial Services Bank Recovery and Resolution Regulations 2014 establishes a Financial Services Resolution and Compensation Committee ("the FSRCC") and a Resolution and Compensation Unit.

The powers of the GFSC as RA will be delegated to the Committee and the Unit will work for the Committee.

In addition, the FSRCC will be responsible for the financing arrangements under the Bank Recovery and Resolution Directive as well as the Gibraltar Deposit Guarantee Scheme.

MEMBERSHIP OF THE FSRCC COMMITTEE

Albert Mena (Chairman)
Kerry Blight (*appointed 1st October 2019*)
Barry Pillans
Ian Felice
Keith Bailey
Michael Llamas QC
Nicholas Cowan
Lloyd DeVincenzi
Samantha Barrass (*resigned 1st October 2019*)

SECRETARY

The Resolution and Compensation Unit acts as the Secretary for the Committee.

ADDRESS

Suite 3, Ground Floor
Atlantic Suites
Europort Avenue
Gibraltar

BANKERS

NatWest Gibraltar
57 Line Wall Road
Gibraltar

AUDITOR

Deloitte Limited
Merchant House
22/24 John Mackintosh Square
Gibraltar

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

REPORT OF THE MEMBERSHIP OF THE COMMITTEE

Report of the membership of the Committee

Introduction

In line with the Financial Services (Compensation and Resolution Schemes) Act 2015 ("the Act"), the Financial Services Resolution and Compensation Committee ("the FSRCC") are pleased to present its audited financial statements, in respect of the following functions of the Committee:

- The Deposit Guarantee Scheme ("DGS")
- The Resolution Financing Arrangements ("RFA's")

These principal objectives with respect to these functions are as follows:

- DGS: To provide a means of protection for Bank depositors and promote confidence in licenced banks within the framework of the Act.
- RFA's: To ensure available financial means reach the target level of 1% of the amount of covered deposits of all authorised institutions by 31st December 2024. This fund can contribute to the orderly resolution of failing banks with minimum impact on the real economy and the public finances of the Gibraltar and Home Resolution jurisdictions.

Committee Structure

The year ending 31st March 2019 was the FSRCC's second fully operational year. This Committee continues to provide appropriate governance structures for swift and effective decision-making. A robust and credible DGS and insolvency regime complements the jurisdiction's resolution regime (also currently under the remit of the FSRCC), and has further strengthened the financial stability framework for local Banks. The Members, who served during the year under review and to date, are as noted on page 1.

Single Customer View ("SCV") Implementation

DGS participants have now, in the most part, made the requisite system and control changes to be in a position to provide the FSRCC with a SCV within 72 hours of a request. A SCV contains the required information, at covered depositor level, to be used in the event of an invocation of the DGS. The Resolution and Compensation Unit will continue to test such files and work closely with firms where remediation has been identified. The provision of an accurate SCV will provide the FSRCC with the information required to make a fast pay-out, with a pay-out target set out within the legislative timeframes.

Preparing and Carrying Out Effective Crisis Management

The year under review saw significant progress in resolution planning, both in the scope of banks covered by the plans and in their content. In the coming year, less systemic institutions¹ previously not covered, will be addressed within the planning cycle. The Resolution Compensation Unit ("RCU") will continue to enhance resolution plans, analyse impediments to resolvability, and work closely with firms to mitigate any substantive gaps that may exist.

Minimum requirements for own funds and eligible liabilities ('MREL')

MREL non-binding 2022 targets have been issued to firms through close engagement at both individual firm level and with the Gibraltar Bankers Association. MREL is the minimum requirement for own funds and eligible liabilities which exists to enable banks to absorb losses and restore their capital position, allowing continuity during and after severe financial difficulty. MREL represents one of the key tools in enhancing banks' resolvability.

Cooperation and International Relations

Cooperation between the RCU (the operational unit of the FSRCC), participant firms, and international bodies has continued to be prioritised in day-to-day resolution planning and in preparing for crisis situations. The development of international relations has provided a framework for exchanging views, co-ordinating cross border action, and collaboration.

¹ Less systemic institutions are those that would likely enter insolvency (i.e. would not be resolved) in the event of a failure, as they do not pose a systemic risk to Gibraltar's economy.

Contributions to DGS and Resolution Financing Arrangements

Gibraltar Bank Resolution and DGS participating firms are required to contribute to Ex-Ante funds, which can be accessed in times of severe financial difficulty within the jurisdiction. The third cycle of such contributions were collected in 2019, with these contributions anticipated to continue until 2024, at which point the agreed target fund is expected to be achieved. The publication of methodology documentation continues to provide transparency to industry participants on the FSRCC's application of legislative requirements in this area.

Depositor Awareness

2018 saw an increased focus from the RCU on raising awareness of Gibraltar's Deposit Guarantee Scheme. Dedicated resource was provided in upskilling officials from across the banking community. In addition to increasing online and social media visibility, 'in bank' and 'on street' engagement was carried out with depositors in the latter half of the year.

Procedure for the Payment of Claims

In line with International Association of Deposit Insurers principles, the FSRCC have continued to establish procedures for the payment of claims for the compensation to eligible depositors within 15 days in the event of an invocation of the DGS. Significant progress has been made on the identification of depositors at individual bank level through SCV reporting as well as operational capabilities for crisis scenarios.

Financial Results as at March 31st 2019

For the year ending 31st March 2019, the FSRCC registered a surplus of £2,736,191. Accumulated reserves amount to £6,927,415, of which £6,689,180 (£3,165,410 for DGSD Ex-Ante Fund and £3,523,770 for Resolution Financing Arrangements) is held in the form of a 'Special Fund' within the Government of Gibraltar's account held with the Bank of England. These funds are held on trust, and can only be used for the purposes intended under the relevant local legislation (in the event of a Bank Resolution or DGS invocation).

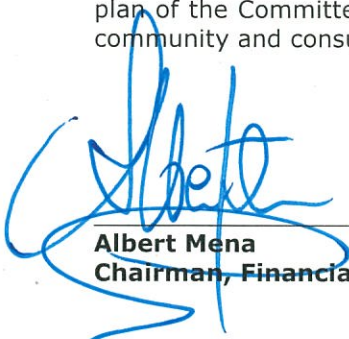
Also, in this period, total income amounted to £2,906,135. From an administrative cost perspective, £169,943 was spent on salary and related expenses which cover the cost of running of the RCU.

Depositor Claims

The FSRCC are pleased to report that there has been no bank default of any of its DGS Members and therefore no invocation of the DGS within the jurisdiction during this financial period.

Future developments

Going forward the FSRCC will continue to develop its DGS and resolution planning frameworks, whilst also ensuring agreed relevant DGS priority stress tests are completed in line with its overall business plan of the Committee. The FRSCC will also continue to consider depositor awareness focusing on community and consumer education, whilst also working hand in hand with industry participants.



Albert Mena
Chairman, Financial Services Resolution and Compensation Committee

Date: ~~10 December~~ 2020

**INDEPENDENT AUDITOR'S REPORT TO THE
FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE**

Report on the Audit of the Financial Statements

Opinion

In our opinion the financial statements of the Financial Services Resolution and Compensation Committee ("the FSRCC"):

- give a true and fair view of the state of the Committee's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been prepared in accordance with the Financial Services (Compensation and Resolution) Act 2015.

We have audited the financial statements which comprise of:

- the profit and loss account
- the balance sheet
- statement of changes in funds
- the related notes 1 to 9.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 Committee in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), 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.

Other information

The Committee members are responsible for 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial statements or our knowledge obtained in 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

We have nothing to report in respect of these matters.

Responsibilities of the Committee

The Committee is responsible for the preparation of financial statements that give a true and fair view in accordance with applicable law in Gibraltar, and for such internal control as the Committee 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 Committee is responsible for assessing the Committee's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

**INDEPENDENT AUDITOR'S REPORT TO THE
FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE**

Responsibilities of the Committee (continued)

and using the going concern basis of accounting unless the Committee intend 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Committee's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Committee.
- Conclude on the appropriateness of the Committee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Committee's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Committee to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Reshma Bhambhwani (Statutory Auditor)

For and on behalf of Deloitte Limited

Statutory Auditor

Merchant House

22/24 John Mackintosh Square

Gibraltar

10 December 2020

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
INCOME			
Contributions	1, 3	2,884,294	2,129,236
Other income		21,840	5,709
ADMINISTRATIVE EXPENSES	4	(169,943)	(140,597)
SURPLUS FOR THE FINANCIAL PERIOD		£ 2,736,191	£ 1,994,348

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

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

BALANCE SHEET

AS AT 31 MARCH 2019

	Notes	2019 £	2018 £
CURRENT ASSETS			
Cash and cash equivalents	5	7,051,319	4,246,060
Debtors and prepayments	6	201	1,647
		<hr/>	<hr/>
		7,051,520	4,247,707
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	7	(124,105)	(56,483)
		<hr/>	<hr/>
NET CURRENT ASSETS		£ 6,927,415	£ 4,191,224
		<hr/> <hr/>	<hr/> <hr/>
FUNDS AND RESERVES			
Resolution Financing Fund		3,523,770	1,990,143
Deposit Guarantee Fund		3,165,410	1,994,301
Administration Fund		238,235	206,780
		<hr/>	<hr/>
		£ 6,927,415	£ 4,191,224
		<hr/> <hr/>	<hr/> <hr/>

Approved by the Committee on 10 December 2020.



Albert Mena
.....
Committee Member



Kerry Blight
.....
Committee Member

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

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

STATEMENT OF CHANGES IN FUNDS

FOR THE YEAR ENDED 31 MARCH 2019

	Resolution Financing Fund	Deposit Guarantee Fund	Administration Fund	Total £
As at 31 March 2017	1,140,258	912,207	144,411	2,196,876
Ex-Ante Contributions for the year	847,154	1,079,683	-	1,926,837
Admin Contributions for the year	-	-	202,399	202,399
Other income	2,731	2,411	567	5,709
Administrative expenses for the year	-	-	(140,597)	(140,597)
As at 31 March 2018	1,990,143	1,994,301	206,780	4,191,224
Ex-Ante Contributions for the year	1,523,175	1,161,117	-	2,684,292
Admin Contributions for the year	-	-	200,002	200,002
Other income	10,452	9,992	1,396	21,840
Administrative expenses for the year	-	-	(169,943)	(169,943)
As at 31 March 2019	3,523,770	3,165,410	238,235	6,927,415

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

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the principle of conservatism and the following basic assumptions:

- Going concern principle
- Consistency principle

Basis of accounting

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the FSRCC's financial statements.

Going Concern

The financial statements have been prepared on a going concern basis as the members have an expectation that the FSRCC has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements.

Contributions

Contributions represent fees levied in relation to the Deposit Guarantee Scheme ("DGS"), the Resolution Financing Arrangements ("RFA") and the Administration Fund on respective members of the scheme.

The contributions in relation to DGS and RFA are recorded as income in full when they are invoiced.

The portion of contributions in the administration fund which relate to periods after the balance sheet date is carried forward as deferred income where relevant.

Administrative expenses

Expenditure is accounted for on an accruals basis, recognised in the period to which they relate.

Expenditure is apportioned across the different functions of the scheme only when a cost grouping can be identified directly with that function, or they can be assigned based on a cost analysis if this results in an equitable distribution of the costs.

Cash and cash equivalents

To ensure that the Ex-Ante funds are protected, contributions for Ex Ante funding of the Deposit Guarantee Scheme and the Resolution Financing Arrangement are held in the form of a special fund within the Government of Gibraltar's account held with the Bank of England.

This money is held on trust and can only be used for the specified purposes intended. Under section 18 of the Gibraltar Public Finance (Control and Audit) Act 1977, special funds do not form part of the Government's Consolidated Fund and neither the receipts nor accruals of a special fund nor any balance of monies standing to the credit of a special fund at the close of a financial year can be paid into the Consolidated Fund, and must be retained in that fund for the original purposes of such fund.

As such, when required, the Committee can provide the Government of Gibraltar with instruction to remit funds at any time and receive the said funds within the time specified on the request.

Cash at bank represents funds held in current accounts and the special fund accounts as disclosed above which are ring-fenced for purposes set out by legislation. These amounts are measured at fair value.

Accruals

Costs are accrued as they are incurred and recorded in the period to which they relate. Accrued expenses are calculated based on information available at the time of signing its financial statements.

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

2. TAXATION

Under the provision of the Financial Services (Compensation and Resolution Schemes) Act 2015, the income of the Resolution and Compensation Committee is exempt from income tax and all other taxes.

3. INCOME

	2019	2018
	£	£
Administrative contributions		
Contribution under BRRD	100,001	101,044
Contribution under DGSD	100,001	101,355
	<hr/>	<hr/>
	200,002	202,399
Ex-Ante Contributions		
Contribution under BRRD	1,523,175	847,154
Contribution under DGSD	1,161,117	1,079,683
	<hr/>	<hr/>
£	2,884,294	£ 2,129,236
	<hr/>	<hr/>

4. ADMINISTRATIVE EXPENSES

	2019	2018
	£	£
Salaries and related costs	120,855	107,414
Employer social insurance	4,081	3,796
Employer pension contributions	12,678	11,654
Health insurance	2,064	1,808
Travel insurance	-	225
Staff training and travel	6,320	3,710
Depositor awareness	5,573	-
Committee meeting costs	-	1,583
Stationary and office costs	-	295
Memberships and subscriptions	274	2,561
Internet charges	135	135
Legal fees	7,833	-
Audit fees	10,050	7,200
Bank charges	80	178
Sundry Expenses	-	38
	<hr/>	<hr/>
£	169,943	£ 140,597
	<hr/>	<hr/>

The average number of employees for the period was 2 (2018: 2).

The committee members did not receive any remuneration during the year ended 31 March 2019 (2018: nil).

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

5. CASH AND CASH EQUIVALENTS

	2019	2018
	£	£
NatWest reserve account	362,139	61,613
Bank of England (Resolution Financing Fund)	3,523,770	2,094,302
Bank of England (Deposit Guarantee Fund)	3,165,410	2,090,145
	<u>£ 7,051,319</u>	<u>£ 4,246,060</u>

The amounts held in the Bank of England are in the form of a previously Gazetted 'Special Fund' within the Government of Gibraltar's account at the Bank of England. These funds are held by the Government of Gibraltar on trust, and can only be used for the purposes intended under the relevant local legislation (in the event of a Bank Resolution or DGS invocation).

6. DEBTORS AND PREPAYMENTS

	2019	2018
	£	£
Prepayments	201	1,647
	<u>£ 201</u>	<u>£ 1,647</u>

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	2018
	£	£
Deferred income in relation to Ex-Ante Contributions	60,440	-
Accruals and deferred income	63,665	56,483
	<u>£ 124,105</u>	<u>£ 56,483</u>

8. RELATED PARTY TRANSACTIONS

The Gibraltar Financial Services Commission ("GFSC") has been appointed as the Resolution Authority pursuant to the Bank Recovery and Resolution Directive. Powers of the GFSC as RA have been delegated to the FSRCC.

During the financial year, the GFSC collected all contributions on behalf of the FSRCC, totalling £2,944,734 (2018: £2,129,236), £60,440 of these contributions were Ex-Ante contributions received in advance. All funds were transferred by the GFSC to the FSRCC bank account during the financial period so that there are no amounts outstanding as at the balance sheet date. The GFSC also settled liabilities of £161,236 (2018: £142,109) on behalf of the FSRCC. The FSRCC reimbursed the GFSC in full during the financial period so that there are no amounts outstanding as at the balance sheet date.

9. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation, and most governments have taken restrictive measures to contain its further spread since then affecting free movement of people and goods. No adjustments have been made in these financial statements as a result of those events. Overall, there has been no financial impact on the financial statements for the year ended 31 March 2020 as a result of COVID-19.

In this environment, the FSRCC has recognised the need to adjust its operational activity. We have the systems and infrastructure in place to be able to perform our functions remotely with negligible disruption, and have executed plans to minimise the risk of transmission from within our office space.