



FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

FINANCIAL STATEMENTS

31 MARCH 2020

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") is Gibraltar's appointed 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 established a Financial Services Resolution and Compensation Committee ("the FSRCC") and a Resolution and Compensation Unit ("the RCU"). These regulations have since been adopted as part of the Financial Services Act 2019 ("the Act").

The powers of the GFSC as RA are delegated to the FSRCC and the RCU work directly for the Committee.

The FSRCC are responsible for the financing arrangements under the Act as well as the Gibraltar Deposit Guarantee Scheme.

MEMBERSHIP OF THE FSRCC

Albert Mena (Chairman)

Kerry Blight

Barry Pillans (Appointed term ended 15 December 2020)

Ian Felice

Keith Bailey

Michael Llamas QC

Nicholas Cowan (Appointed term ended 15 December 2020)

Lloyd DeVincenzi

Louise Cruz (Appointed 24th June 2021)

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 International Gibraltar

57 Line Wall Road

Gibraltar

AUDITOR

BDO Limited

5.20 World Trade Center

6 Bayside Road

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 Act 2019 ("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")

The 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 cross border resolution jurisdictions.

Committee Structure

The Committee continues to provide appropriate governance structures for swift and effective decision-making. A credible DGS and insolvency regime complements the jurisdiction's resolution regime (also 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

SCV reporting by firms and associated testing has now been embedded within a 'business as usual' environment. A SCV contains the required information, at covered depositor level, to be used in the event of an invocation of the DGS. 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 (moving to 10 days from January 2021).

DGS Stress Testing

During the year under review, the Resolution and Compensation Unit ('RCU') formally planned and carried out European Banking Authority ('EBA') mandated stress tests on the Operational and Funding Capabilities of the Gibraltar DGS. This dry run exercise tested the documented DGS crisis management framework and recently developed DGS Crisis Manual, the results of which were provided to the EBA.

BRRD II¹

In conjunction with the Gibraltar Financial Services Commission, engagement has now commenced regarding the rollout of BRRDII, in advance of its transposition in December 2020. The objective of BRRDII is to further reduce risk in the banking sector by making a number of targeted amendments to existing legislation in line with global reform in this area.

Preparing and Carrying Out Effective Crisis Management

The FSRCC continues to further strengthen Resolution Plans and thus the resolvability of the institutions under its remit. The banking industry has had significant recent improvements in the quality of data required for the resolution plans. In addition, progress has now been made regarding Simplified Obligation firms (i.e. those of less systemic importance), specifically on the scope of resolution planning for these firms, and on expectations from a resolution planning perspective.

Cooperation and International Relations

The RCU continue to proactively contribute to regulatory discussions at industry and international level. From a local perspective the RCU has engaged firms in a collaborative manner, exchanging views and supporting them both directly and through the forum of technical Industry Dialogue Workshops. In addition, a key deliverable in early 2020 was a publication of an 'Introduction to Bank Resolution', summarising the RCU's Bank Resolution policies in a single document for the benefit of industry participants.

¹ The Bank Recovery and Resolution Directive (BRRD) establishes a common approach to the recovery and resolution of banks and certain investment firms. The BRRD II makes amendments to the BRRD and update resolution policy in this area.

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

REPORT OF THE MEMBERSHIP OF THE COMMITTEE

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 FSRCC continues to build its capacity in this regard, with these contributions anticipated to continue until 2024, at which point the agreed target fund is expected to be achieved. The RCU publication of methodology documentation continues to provide transparency to industry participants on the FSRCC's application of legislative requirements in this area.

Financial Results as at March 31st 2020

For the year ending 31st March 2020, the FSRCC registered a surplus of £1,845,760. Accumulated reserves amount to £8,733,174, of which £8,517,716 (£3,947,258 for DGSD Ex-Ante Fund and £4,570,458 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 (specifically in the event of a Bank Resolution or DGS invocation).

During this period, income relating to industry contributions was £1,985,427 (2019: £2,884,294). This decrease reflects the reduction in the number of firms within the DGS. Also, from an administrative cost perspective, £172,162 was spent on the cost of running 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

The FSRCC will now focus on its two-year Strategic Plan, which was shared with industry participants at the RCU's annual industry seminar in March 2020. This ambitious roadmap focusses on further improving resolution planning & crisis preparedness.

Separately, the FSRCC, together with the GFSC, will continue to monitor and address the challenges posed by the Covid-19 pandemic and Brexit. The FSRCC have to date adopted a pragmatic common-sense approach as and when required, whilst at the same time, our collective work has carried on at a steady pace to ensure stability in our financial system.



Albert Mena
Chairman, Financial Services Resolution and Compensation Committee

Date: 23rd August 2021

Independent auditor's report to the Shareholders of Financial Services Resolution and Compensation Committee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Financial Services Resolution and Compensation Committee ("the Committee"), which comprise the statement of financial position as at 31 March 2020, and the statement of comprehensive income and statement of changes in funds for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Financial Services Resolution and Compensation Committee's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards;
and
- have been prepared in accordance with the Companies Act 2014

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with applicable law in Gibraltar and International Financial Reporting Standards, and for such internal control as the directors 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 directors are responsible for assessing the Committee'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 directors either intend to liquidate the Committee or to cease operations, or have no realistic alternative but to do so.



Independent auditor's report to the Shareholders of Financial Services Resolution and Compensation Committee (*continued*)

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 directors.
- Conclude on the appropriateness of the directors' 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 directors 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.



Independent auditor's report to the Shareholders of Financial Services Resolution and Compensation Committee (continued)

Report on Other Legal and Regulatory Requirements

Opinion on other matter prescribed by the Companies Act 2014

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the requirements of the Companies Act 2014.

In the light of the knowledge and understanding of the committee and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the matter where the Companies Act 2014 requires us to report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 257 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Christian Summerfield (Statutory Auditor)
for and on behalf of
BDO Limited

5.20 World Trade Center
6 Bayside Road
Gibraltar

23rd August 2021

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2020**

	Notes	2020 £	2019 £
INCOME			
Contributions	1, 3	1,985,427	2,884,294
Other income		32,495	21,840
		<hr/>	<hr/>
		2,017,922	2,906,134
ADMINISTRATIVE EXPENSES	4	(172,162)	(169,943)
		<hr/>	<hr/>
SURPLUS FOR THE FINANCIAL YEAR		£ 1,845,760	£ 2,736,191
		<hr/>	<hr/>

The notes on pages 10 to 12 form part of these financial statements.

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

BALANCE SHEET

AS AT 31 MARCH 2020

	Notes	2020 £	2019 £
CURRENT ASSETS			
Cash and cash equivalents	5	8,921,935	7,051,319
Debtors and prepayments	6	2,174	201
		<hr/>	<hr/>
		8,924,109	7,051,520
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	7	(150,935)	(124,105)
NET ASSETS		<hr/> £ 8,773,174	<hr/> £ 6,927,415
FUNDS AND RESERVES			
Resolution Financing Fund		4,570,458	3,523,770
Deposit Guarantee Fund		3,947,258	3,165,410
Administration Fund		255,458	238,235
		<hr/>	<hr/>
		£ 8,773,174	£ 6,927,415

Approved by the Committee on, 23rd August 2021



Albert Mena
.....
Committee Member



Kerry Blight
.....
Committee Member

The notes on pages 10 to 12 form part of these financial statements.

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

STATEMENT OF CHANGES IN FUNDS

FOR THE YEAR ENDED 31 MARCH 2020

	Resolution Financing Fund £	Deposit Guarantee Fund £	Administration Fund £	Total £
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
Ex-Ante Contributions for the year	1,030,355	767,247	-	1,797,602
Admin Contributions for the year	-	-	187,825	187,825
Other income	16,333	14,601	1,560	32,494
Administrative expenses for the year	-	-	(172,162)	(172,162)
As at 31 March 2020	4,570,458	3,947,258	255,458	8,773,174

The notes on pages 10 to 12 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 and cash equivalents 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 Act 2019 the income of the Resolution and Compensation Committee is exempt from income tax and all other taxes.

3. INCOME

	2020	2019
	£	£
Administrative contributions		
Contribution under BRRD	94,643	100,001
Contribution under DGSD	93,182	100,001
	<hr/>	<hr/>
	187,825	200,002
Ex-Ante Contributions		
Contribution under BRRD	1,030,355	1,523,175
Contribution under DGSD	767,247	1,161,117
	<hr/>	<hr/>
	£ 1,985,427	£ 2,884,294
	<hr/>	<hr/>

4. ADMINISTRATIVE EXPENSES

	2020	2019
	£	£
Salaries and related costs	117,261	120,855
Employer social insurance	3,828	4,081
Employer pension contributions	11,526	12,678
Health insurance	2,802	2,064
Advertising expenses	290	-
Recruitment expenses	392	-
Staff training and travel	14,431	6,320
Depositor awareness	308	5,573
Postage and carriage	55	-
Stakeholder engagement	788	-
Stationary and office costs	4,304	-
Memberships and subscriptions	7,831	274
Telephone and internet charges	1,060	135
Legal fees	241	7,833
Audit fees	6,700	10,050
Bank charges	145	80
Donations	200	-
	<hr/>	<hr/>
	£ 172,162	£ 169,943
	<hr/>	<hr/>

Memberships and subscription fees include the annual European Federation of Deposit Insurers membership fee. From 2021, a non-EU membership rate shall apply, culminating in a reduction from €8,000 to €4,000.

The average number of employees for the period was 2 (2019: 2).

The committee members did not receive any remuneration during the year ended 31 March 2020 (2019: nil).

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

5. CASH AND CASH EQUIVALENTS

	2020	2019
	£	£
NatWest reserve account	466,706	362,139
Bank of England (Deposit Guarantee Fund)	3,947,270	3,165,410
Bank of England (Resolution Financing Fund)	4,507,959	3,523,770
	<u>£ 8,921,935</u>	<u>£ 7,051,319</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

	2020	2019
	£	£
Prepayments	2,174	201
	<u>£ 2,174</u>	<u>£ 201</u>

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020	2019
	£	£
Creditors	95,426	-
Deferred income in relation to Ex-Ante Contributions	-	60,440
Accruals and deferred income	55,509	63,665
	<u>£ 150,935</u>	<u>£ 124,105</u>

8. RELATED PARTY TRANSACTIONS

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

During the financial year ended 31 March 2020, the GFSC settled liabilities of £178,116 (2019: £161,236) on behalf of the FSRCC. The FSRCC reimbursed the GFSC for £82,690 during the financial year. An amount of £95,426 was due to the GFSC as at 31 March 2020, this amount was paid in full on 5 May 2020.

9. COVID-19

On 11 March 2020, the World Health Organisation declared COVID-19 as a pandemic. Most governments have since taken restrictive measures to reduce its spread; this has affected free movement of people and goods. 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.