



**FINANCIAL SERVICES RESOLUTION
AND COMPENSATION COMMITTEE**

FINANCIAL STATEMENTS

31 MARCH 2018

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

INDEX

Contents	Page
Committee members and other information	1
Report of the membership of the committee	2 - 3
Independent auditor's report	4 - 5
Income and expenditure account	6
Balance sheet	7
Statement of changes in funds	8
Notes to the financial statements	9 - 11

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") for Gibraltar. 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 ("RCU").

The powers of the GFSC as RA will be delegated to the FSRCC and the RCU will work for the FSRCC.

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

Albert Mena (Chairman)
Barry Pillans
Ian Felice
Keith Bailey
Lloyd DeVincenzi (appointed 11 January 2018)
Michael Llamas QC
Nicholas Cowan
Samantha Barrass

SECRETARY

The Resolution and Compensation Unit shall act as the Secretary for the Committee.

ADDRESS

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Atlantic Suites
Europort Avenue
Gibraltar

BANKERS

NatWest Gibraltar
57 Line Wall Road
Gibraltar

Bank of England
Threadneedle Street
London
EC2R 8AH
United Kingdom

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")

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 31 December 2024.

This fund will contribute to the orderly resolution of the critical functions of failing banks with minimum impact on the real economy and the public finances of Gibraltar and Home Resolution jurisdictions.

Committee Structure

The year ending 31 March 2018 was the FSRCC's first fully operational year, and saw the addition of Lloyd DeVincenzi to the Committee. This Committee continues to provide appropriate governance structures for swift and effective decision-making. A robust and credible DGS and insolvency regime has complemented 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 changes thereof, are as noted on page 1.

Single Customer View ('SCV') Implementation

Following the issuance to industry participants of technical instructions relating to SCV requirements described in the Act, DGS participants have now, to the most part, made the requisite system and control changes to be in a position to provide the FSRCC with an SCV within 72 hours of a request. The Resolution and Compensation Unit ("RCU") acting as the operational function of the FSRCC, 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.

Stress Testing

The FSRCC is responsible for the performance of the stress tests on its systems relating to the payment of compensation in respect of eligible deposits at least once every three years and more frequently where it considers it appropriate. As required, an approved 'Programme for Stress Testing' was submitted to the European Banking Authority in April 2017. In line with European Banking Authority requirements, the first independently observed DGS stress test on single customer view was completed in June 2017.

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 second cycle of such contributions were collected during the financial year ended 31 March 2018, 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 has provided transparency to industry participants on the FSRCC's application of legislative requirements in this area.

Financial Results as at 31 March 2018

For the year ended 31 March 2018, the FSRCC registered a surplus of £1,994,348 (2017: £2,129,671).

Accumulated financial reserves amount to £4,191,224 (2017: £2,196,876); of which £3,984,444 (2017: £2,052,465), (£1,994,301 for DGSD Ex-Ante Fund and £1,990,143 for Resolution Financing Arrangements), is held on trust with the Bank of England and can only be used for the purposes intended under the relevant local legislation (namely bank resolution or DGS invocation).

Also, in this year, total income amounted to £2,134,945 (2017: £2,209,694). From an administrative cost perspective, £107,413 (2017: £63,547) was spent on salary and related expenses which cover the cost of running the RCU.

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

REPORT OF THE MEMBERSHIP OF THE COMMITTEE

International Membership

The FSRCC was accepted as a Member of the European Forum of Deposit Insurers ("EFDI") in December 2017. EFDI's principal objective is to contribute to the stability of financial systems by enhancing the role of, and promoting European (including non EU Members) and International co-operation in deposit insurance, facilitating discussion and exchange of experiences and expertise among its members.

Procedure for the Payment of Claims

In line with the International Association of Deposit Insurers ("IADI") principles, the FSRCC have continued to establish procedures for the payment of claims for the compensation to eligible depositors within 20 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, with significant steps already taken in contingency planning for crisis scenarios.

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 financing arrangements 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 DGS participants in the further operationalisation of legislative requirements.



Albert Mena

Chairman, Financial Services Resolution and Compensation Committee

Date: 24 JAN 2019

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

**Report on the Audit of the Financial Statements
Opinion**

We have audited the financial statements of the Financial Services Resolution and Compensation Committee ("the Committee"), which comprise the balance sheet as at 31 March 2018, and the income and expenditure account, the 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 Committee's affairs as at 31 March 2018 and of its surplus for the period then ended;
- have been prepared in accordance with the Financial Services (Compensation and Resolution) Act 2015.

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 Committee for the Financial Statements

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 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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**

24 JAN 2019

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £	2017 £
INCOME			
Contributions	1, 3	2,129,236	2,209,388
Other income		5,709	306
ADMINISTRATIVE EXPENSES	4	(140,597)	(80,023)
SURPLUS FOR THE FINANCIAL YEAR		£ 1,994,348	£ 2,129,671

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 2018

	Notes	2018 £	2017 £
CURRENT ASSETS			
Cash at bank	5	4,246,060	2,256,439
Debtors and prepayments	6	1,647	1,398
		<hr/>	<hr/>
		4,247,707	2,257,837
 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	7	(56,483)	(60,961)
		<hr/>	<hr/>
NET CURRENT ASSETS		£ 4,191,224	£ 2,196,876
 FUNDS AND RESERVES			
Resolution Financing Fund		1,990,143	1,140,258
Deposit Guarantee Fund		1,994,301	912,207
Administration Fund	8	206,780	144,411
		<hr/>	<hr/>
		£ 4,191,224	£ 2,196,876

Approved by the Committee on 24 JAN 2019


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Committee Member


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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 2018

	Resolution Financing Fund £	Deposit Guarantee Fund £	Administration Fund £	Total £
As at 7 July 2016	-	-	67,205	67,205
Ex-Ante Contributions for the period	1,140,111	912,089	-	2,052,200
Admin Contributions for the period	-	-	157,188	157,188
Other income	147	118	41	306
Administrative expenses for the period	-	-	(80,023)	(80,023)
As at 31 March 2017	<u>1,140,258</u>	<u>912,207</u>	<u>144,411</u>	<u>2,196,876</u>
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	<u>1,990,143</u>	<u>1,994,301</u>	<u>206,780</u>	<u>4,191,224</u>

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 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.

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 are 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

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

	2018 £	2017 £
Administrative contributions		
Contribution under BRRD	101,044	78,125
Contribution under DGSD	101,355	79,063
	202,399	157,188
Ex-Ante Contributions		
Contribution under BRRD	847,154	1,140,111
Contribution under DGSD	1,079,683	912,089
	£ 2,129,236	£ 2,209,388

4. ADMINISTRATIVE EXPENSES

	2018 £	2017 £
Salaries and related costs	107,413	63,547
Employer social insurance	3,796	1,923
Employer pension contributions	11,654	6,098
Health insurance	1,808	797
Travel insurance	225	25
Staff training and travel	3,710	2,270
Committee meeting costs	1,583	-
Stationery and office costs	295	132
Memberships and subscriptions	2,561	58
Internet charges	135	101
Audit fees	7,200	5,000
Bank charges	178	72
Sundry Expenses	39	-
	£ 140,597	£ 80,023

The average number of employees for the period was 2 (2017: 2).

The committee members did not receive any remuneration during the year ended 31 March 2018 (2017: £nil).

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

5. CASH AT BANK

	2018		2017
	£		£
Bank of England (Resolution Financing Fund)	2,090,145		1,140,258
NatWest reserve account	61,613		203,974
Bank of England (Deposit Guarantee Fund)	2,094,302		912,207
	<u>£ 4,246,060</u>		<u>£ 2,256,439</u>

6. DEBTORS AND PREPAYMENTS

	2018		2017
	£		£
Prepayments	£ 1,647		£ 1,398
	<u>£ 1,647</u>		<u>£ 1,398</u>

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018		2017
	£		£
Accruals and deferred income	£ 56,483		£ 60,961
	<u>£ 56,483</u>		<u>£ 60,961</u>

8. OPENING RESERVES

In line with Section 36 (2) of the Financial Services (Compensation and Resolution Schemes) Act, the closing cash balance of £67,205 of the Gibraltar Deposit Guarantee Board was transferred to the FSRCC on the 7 July 2016 and is included within its Administration Fund.

9. 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 £2,129,236 (2017: £2,209,388). 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 £142,109 (2017: £73,733) 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.