



FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

FINANCIAL STATEMENTS

31 MARCH 2021

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 15th December 2020)

Ian Felice

Keith Bailey

Michael Llamas QC

Nicholas Cowan (Appointed term ended 15th 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 remains a priority and further procedure and data quality enhancements continue to be sought. 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 (moved to 10 days from January 2021).

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. Updated Resolution Plans have been drafted in line with the Resolution Planning cycle. Firms are invited to comment on their Plans with final Plans (including comments from firms) uploaded to FSRCC Cloud when completed.

BRRD II¹

BRRD II has now been transposed into Gibraltar legislation with derogations agreed with both industry and Minister for Digital & Financial Services. The RCU (the operational Unit of the FSRCC) have provided technical training on the impact of BRRD II to firms, including MREL. In conjunction with the GFSC, the RCU have formed part of an industry working group to discuss wider banking policy implementations including BRRD II & CRD V.

Valuations in Resolution

In line with the two-year Strategic plan, operationalising Valuation capabilities at firm level has become a focus of the FSRCC. Valuations are an essential aspect in resolution planning, given they form the basis for informed decision-making, accountability, and transparency. Valuations determine whether an institution is failing or likely to fail, the choice of resolution tool and whether creditors are worse off following a resolution (as opposed to normal insolvency). The RCU have supported firms through a series of technical industry workshops to upskill on Valuation capabilities.

Cooperation and International Relations

Cooperation between the RCU, participating firms and international bodies continues to play an important role in resolution planning and preparing for crisis situations. The RCU proactively contribute to international forums such as the European Federation of Deposit Insurers ("EFDI") & with other smaller European DGSs. From a local perspective, external firm engagement has continued in a collaborative manner both directly and through Industry Dialogue Workshops.

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 2021

For the year ending 31st March 2021, the FSRCC registered a surplus of £2,005,692. Accumulated reserves amount to £10,778,866, of which £10,505,445 (£4,791,291 for DGSD Ex-Ante Fund and £5,714,154 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).

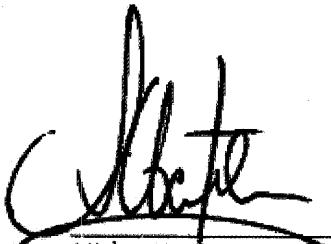
During this period, income relating to industry contributions was £2,177,437 (2020: £1,985,427). This increase reflects the growth in deposits covered by the DGS across participants. Also, from an administrative cost perspective, £173,008 was spent on the cost of running the RCU.

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

Following industry engagement and challenges due to the Covid-19 pandemic and Brexit, the FSRCC agreed to consider alternative funding arrangements in relation to DGS & RFA Ex-Ante contributions.



Albert Mera
Chairman, Financial Services Resolution and Compensation Committee

Date:

11 NOV 2022



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6 Bayside Road
Gibraltar

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 Financial Services Resolution and Compensation Committee ("the FSRCC"), which comprise the balance sheet as at 31 March 2021, and the income and expenditure account and 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 FSRCC's affairs as at 31 March 2021 and of its surplus for the year then ended;
- have been prepared in accordance with the Financial Services Act ("the Act") 2019.

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.

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.

BDO Limited, a Gibraltar limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO Limited is registered in Gibraltar with company number 52200. A list of our directors is available upon request at our offices.



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

Responsibilities of the Committee for the financial statements

The Membership of the FSRCC (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 FSRCC'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 members either intend to liquidate the Committee or 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 judgement 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.



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

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

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.

A handwritten signature in black ink, appearing to read 'C. Summerfield', written over a horizontal line.

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

**5.20 World Trade Center
6 Bayside Road
Gibraltar**

Date: 11 NOV 2022

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2021**

	Notes	2021 £	2020 £
INCOME			
Contributions	1, 3	2,177,437	1,985,427
Other income		1,263	32,495
		<hr/>	<hr/>
		2,178,700	2,017,922
ADMINISTRATIVE EXPENSES	4	(173,008)	(172,162)
		<hr/>	<hr/>
SURPLUS FOR THE FINANCIAL YEAR		£ 2,005,692	£ 1,845,760

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 2021

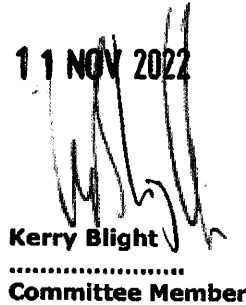
	Notes	2021 £	2020 £
CURRENT ASSETS			
Cash and cash equivalents	5	10,846,517	8,921,935
Debtors and prepayments	6	2,335	2,174
		<u>10,848,852</u>	<u>8,924,109</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	7	(69,986)	(150,935)
NET ASSETS		<u>£ 10,778,866</u>	<u>£ 8,773,174</u>
FUNDS AND RESERVES			
Resolution Financing Fund		5,714,154	4,570,458
Deposit Guarantee Fund		4,791,291	3,947,258
Administration Fund		273,421	255,458
		<u>£ 10,778,866</u>	<u>£ 8,773,174</u>

Approved by the Committee on



Albert Mena
Chairman

11 NOV 2022



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 2021

	Resolution Financing Fund £	Deposit Guarantee Fund £	Administration Fund £	Total £
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	<u>4,570,458</u>	<u>3,947,258</u>	<u>255,458</u>	<u>8,773,174</u>
Ex-Ante Contributions for the year	1,143,075	843,493	-	1,986,568
Admin Contributions for the year	-	-	190,869	190,869
Other income	621	541	101	1,263
Administrative expenses for the year	-	-	(173,008)	(173,008)
As at 31 March 2021	<u>5,714,154</u>	<u>4,791,292</u>	<u>273,420</u>	<u>10,778,866</u>

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 represent 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 under the Income Tax Act.

3. INCOME

	2021	2020
	£	£
Administrative contributions		
Contribution under BRRD	95,983	94,643
Contribution under DGSD	94,886	93,182
	<hr/>	<hr/>
	190,869	187,825
Ex-Ante Contributions		
Contribution under BRRD	1,143,075	1,030,355
Contribution under DGSD	843,493	767,247
	<hr/>	<hr/>
	£ 2,177,437	£ 1,985,427
	<hr/>	<hr/>

4. ADMINISTRATIVE EXPENSES

	2021	2020
	£	£
Salaries and related costs	134,325	117,261
Employer social insurance	4,176	3,828
Employer pension contributions	13,031	11,526
Health insurance	3,096	2,802
Travel Insurance	344	-
Advertising expenses	-	290
Recruitment expenses	-	392
Staff training and travel	1,286	14,431
Depositor awareness	-	308
Postage and carriage	-	55
Stakeholder engagement	-	788
Stationary and office costs	1,040	4,304
Memberships and subscriptions	7,183	7,831
Telephone and internet charges	920	1,060
Legal fees	-	241
Audit fees	7,500	6,700
Bank charges	107	145
Donations	-	200
	<hr/>	<hr/>
	£ 173,008	£ 172,162
	<hr/>	<hr/>

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

The average number of employees for the period was 2 (2020: 2).

The committee members did not receive any remuneration during the year ended 31 March 2021 (2020: nil).

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

5. CASH AND CASH EQUIVALENTS

	2021	2020
	£	£
NatWest reserve account	341,055	466,706
Bank of England (Deposit Guarantee Fund)	4,791,304	3,947,270
Bank of England (Resolution Financing Fund)	5,714,158	4,507,959
	<u>£ 10,846,517</u>	<u>£ 8,921,935</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

	2021	2020
	£	£
Prepayments	2,335	2,174
	<u>£ 2,335</u>	<u>£ 2,174</u>

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021	2020
	£	£
Creditors	647	95,426
Accruals and deferred income	69,339	55,509
	<u>£ 69,986</u>	<u>£ 150,935</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 2021, the GFSC settled liabilities of £168,364 (2020: £178,116) on behalf of the FSRCC. The FSRCC reimbursed the GFSC for £167,718 during the financial year. An amount of £647 remains due to the GFSC as at 31 March 2021, this amount was paid in full in October 2021.

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 affected free movement of people and goods. Overall however, there has been no financial impact on the financial statements for the year ended 31 March 2021 as a result of COVID-19.

The FSRCC continues to recognise the need to adjust its operational activity in this environment. 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.