



FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

FINANCIAL STATEMENTS

31 MARCH 2017

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") 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 (Chairperson)
Barry Pillans
Ian Felice
Keith Bailey
Michael Llamas QC
Nicholas Cowan
Samantha Barrass

SECRETARY

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

ADDRESS

Suite 3, Ground Floor
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") is pleased to present its inaugural set of audited financial statements, in respect of the following functions of the Committee:

- The Deposit Guarantee Scheme ("DGS")
- The Resolution Financing Arrangements ("RFAs")
- Administration Fund

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.
- RFAs: 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 the critical functions of failing banks with minimum impact on the real economy and the public finances of the Gibraltar and Home Resolution jurisdictions.

Committee Structure

July 2016 saw the establishment of the Financial Services Resolution and Compensation Committee (the FSRCC). This Committee provides 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 of the Committee who served during the period under review and to date and changes thereof, are as noted on page 1.

Beyond the appointment of the FSRCC as a new body, 2016 also saw the formation of the Resolution and Compensation Unit ("the RCU") who carry out the day to day functions of the FSRCC. The Unit is now fully operational, and appropriately positioned to deliver the strategic objectives of the FSRCC.

Consumer Awareness

In line with the FSRCC's consumer awareness strategy, the RCU launched a newly redesigned DGS website in early 2017. This medium offers quick and easy access to key information for Gibraltar's depositors and banks, while also providing a comprehensive understanding of the local Deposit Guarantee Scheme. The rebranding of both the FSRCC and the RCU was also completed at this time.

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 first of such contributions was collected in 2017. These contributions are anticipated to continue until 2024, at which point the agreed target fund is expected to be achieved.

Financial Results as at 31 March 2017

For the period ending 31st March 2017, the FSRCC registered a surplus of £2,129,671. £2,052,465 of this surplus (£912,207 for DGSD Ex-Ante Fund and £1,140,258 for Resolution Financing Arrangements) is now 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 period, total income amounted to £2,209,694. From an administrative cost perspective, £63,547 was spent on salary and related expenses which cover the cost of running of the RCU.

Procedure for the Payment of Claims

The FSRCC are also responsible for establishing procedures for the payment of claims for the compensation to eligible depositors within 21 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 the medium of Single Customer View ("SCV") reporting, which has now been largely implemented by participating DGS firms.

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE


REPORT OF THE MEMBERSHIP OF THE COMMITTEE

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.



Albert Mena
Chairperson, Financial Services Resolution and Compensation Committee

Date: 06 NOV 2017

**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 FSRCC”), which comprise the balance sheet as at 31 March 2017, and the profit and loss account, the statement of changes in funds for the period 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 2017 and of its profit 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:

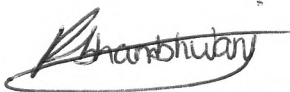
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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**

06 NOV 2017

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 31 MARCH 2017

	Notes	2017 £
INCOME		
Contributions	1, 3	2,209,388
Other income		306
ADMINISTRATIVE EXPENSES	4	<u>(80,023)</u>
PROFIT FOR THE FINANCIAL PERIOD		£ 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 2017

	Notes	2017 £
CURRENT ASSETS		
Cash at bank	5	2,256,439
Debtors and prepayments	6	1,398
		<hr/> 2,257,837
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
	7	(60,961)
NET CURRENT ASSETS		<hr/> £ 2,196,876 <hr/>
FUNDS AND RESERVES		
Resolution Financing Fund		1,140,258
Deposit Guarantee Fund		912,207
Administration Fund	8	144,411
		<hr/> £ 2,196,876 <hr/>

Approved by the Committee on 06 NOV 2017


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Committee Member


.....
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 PERIOD ENDED 31 MARCH 2017**

	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>

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 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 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

	2017 £
Administrative contributions	
Contribution under BRRD	78,125
Contribution under DGSD	79,063
	<hr/> 157,188
Ex-Ante Contributions	
Contribution under BRRD	1,140,111
Contribution under DGSD	912,089
	<hr/>
	£ 2,209,388 <hr/>

4. ADMINISTRATIVE EXPENSES

	2017 £
Salaries and related costs	63,547
Employer social insurance	1,923
Employer pension contributions	6,098
Health insurance	797
Travel insurance	25
Staff training and travel	2,270
Stationary and office costs	132
Memberships and subscriptions	58
Internet charges	101
Audit fees	5,000
Bank charges	72
	<hr/>
	£ 80,023 <hr/>

The average number of employees for the period was 2.

The committee members did not receive any remuneration during this period.

FINANCIAL SERVICES RESOLUTION AND COMPENSATION COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS

5. CASH AT BANK

	2017
	£
NatWest reserve account	203,974
Bank of England (Resolution Financing Fund)	912,207
Bank of England (Deposit Guarantee Fund)	1,140,258
	<hr/>
	£ 2,256,439
	<hr/> <hr/>

6. DEBTORS AND PREPAYMENTS

	2017
	£
Prepayments	£ 1,398
	<hr/>

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017
	£
Accruals and deferred income	£ 60,961
	<hr/>

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 period, the GFSC collected all contributions on behalf of the FSRCC, totalling £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 £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.