Credit Finance Company Limited

Annual report
for the year ended 31 December 2019

Registered number: 107372

Credit Finance Company Limited

Annual report for the year ended 31 December 2019

Director's report for the year ended 31 December 2019

The director presents the annual report and the audited financial statements of Credit Finance Company Limited (the "company") for the year ended 31 December 2019.

Principal activities

Credit Finance Company Limited is registered in Gibraltar as a private company limited by shares. It was set up to provide finance on projects considered to be of benefit to the economy and the community. This includes the issue of commercial loans and the funding of pension commutations under the Pensions Act and lump sum retirement payments under the Early Exit Scheme.

Review of business and future developments

During the year the company created debentures with a value of £9,250,000, with interest payable monthly at the rate of 6% and with a maturity date of 1 January 2029.

On 22 March 2019 the company declared and paid a dividend of £9,250,000 to its ordinary shareholder, the Gibraltar Development Corporation ("GDC"). However, as permitted by the company's Article of Association, GDC directed that the dividend be paid to the shareholder of the redeemable preference shares, the Gibraltar Savings Bank ("GSB"). The dividend was paid in specie to the GSB by the allotment of debentures amounting to £9,250,000, as referred to above.

On 1 April 2019, the company created a further £390,750,000 of debentures, with different rates of interest and maturity dates of 3 and 5 years.

Subsequent to the above, the company redeemed 390,750,000 redeemable preference shares of £1 each, issuing £390,750,000 of non-convertible debentures as consideration for the redemption.

The redemption was structured by a fresh issue of 3,908 redeemable preference shares of £1 each at a premium of £390,746,092, with the consideration receivable for the shares remaining outstanding. Subsequent to the issue of fresh shares, the company redeemed 3,908 redeemable preference shares of £1 each, attaching premium to the redemption in the amount of £390,746,092. The consideration payable for the redemption was the offset of the receivable for the initial issue of shares. As this redemption was structured out of profits available for distribution, the company transferred £3,908 from its profit and loss reserves to a capital redemption reserve within equity.

The director is satisfied in the performance of the company and it does not anticipate any change in the company's business (as described above) taking place in the foreseeable future.

On 11 March 2020, the World Health Organisation ('WHO') declared the novel coronavirus (COVID-19) outbreak a global pandemic. The Government of Gibraltar subsequently enacted legislation as a response to the global pandemic to reduce its health impact in Gibraltar and protect its citizens, including social lockdown and the forced closure of certain local businesses. The measures are expected to have a negative impact on Gibraltar and the global economy, these measures cannot be measured at the time of preparing these financial statements. The director is of the opinion that the company is able to continue as a going concern and the economic impact caused by COVID-19 would not have a material impact on the company's result or financial position.

Results and dividends

The profit during the year of £3,121,278 (2018: £1,134,919) was transferred to retained earnings.

The director paid a dividend during the current year of £9,250,000 (2018: £nil).

Director

The director who held office during the year and up to the date of signing these financial statements is given below:

GDC (Directors) Limited

Director's report for the year ended 31 December 2019 - continued

Statement of director's responsibilities

The director is responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations. Company law requires the director to prepare financial statements for each financial year. Under that law the director has prepared the financial statements in accordance with the applicable law and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice), including Gibraltar Financial Reporting Standard 102 ('GFRS 102'), The Financial Reporting Standard applicable in Gibraltar.

Under Company law, the director must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable it to ensure that the financial statements comply with the Companies Act 2014. It is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

At the date the director's report is approved, the director confirms:

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that it ought to have as director in order to make itself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers Limited, have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting.

Secretary and registered office

The current company secretary is GOC (Secretaries) Limited and the registered office address is 206-210 Main Street, Gibraltar.

By order of the board,

GOC (Secretaries) Limited C. SANTOS
Company Secretary

Gibraltar

Date.....16 NOV 2021.....

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Independent auditor's report
To the members of Credit Finance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements of Credit Finance Company Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with Gibraltar Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

What we have audited

We have audited the financial statements of the company, which comprise:

- the balance sheet as at 31 December 2019;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flow for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report for the year ended 31 December 2019 (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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Independent auditor's report
To the members of Credit Finance Company Limited - continued

Report on the audit of the financial statements - continued

Other information - continued

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 this regard.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2014 requires us also to report on certain opinions and matters as described below:

Directors' Report

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

- the information given in the Directors' Report for the year ended 31 December 2019 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

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 Gibraltar 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 company'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 company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

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.

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Independent auditor's report
To the members of Credit Finance Company Limited - continued

Report on the audit of the financial statements - continued

Auditor's responsibilities for the audit of the financial statements - continued

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 company'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 company'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 company to cease to continue as a going concern; and
- 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.

Use of this report

This report, including the opinion on the financial statements and the opinions on other matters prescribed by the Companies Act 2014, 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.

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Independent auditor's report
To the members of Credit Finance Company Limited - continued

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

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

- we have received all the information and explanations we require for our audit.

Colin Vaughan
Statutory auditor
For and on behalf of
PricewaterhouseCoopers Limited
Gibraltar

16th November 2021

Profit and loss account for the year ended 31 December 2019

	Note	**2019** **£**	2018 £
Interest income	5	**27,033,432**	27,163,900
Finance costs	6	**(22,657,506)**	(22,997,138)
Net finance income		**4,375,926**	4,166,762
Administrative expenses		**(44,865)**	(138,093)
Loss on redemption of fixed income investment		**-**	(225,501)
Other income		**-**	11,267
Net foreign exchange (loss)/gain	13	**(191,232)**	2,269
Profit on ordinary activities before taxation	7	**4,139,829**	3,816,704
Tax on ordinary activities	10	**(1,018,551)**	(2,681,785)
Profit for the financial year		**3,121,278**	1,134,919

The company has no recognised gains and losses other than the profit for the financial year above and therefore no separate statement of other comprehensive income has been presented.

All items included above relate to continuing operations.

Balance sheet as at 31 December 2019

	Note	**2019** £	As restated 2018 £
Fixed assets			
Investment in participating interest	12	**20,565,859**	20,565,859
Investment in a listed fixed income security	13	**3,415,621**	3,606,853
Investments: financial asset at amortised cost	14	**108,758,293**	91,617,505
		132,739,773	115,790,217
Current assets			
Investments: financial asset at amortised cost	14	**12,602,666**	11,712,833
Debtors: amounts receivable within one year	15	**299,273,942**	312,853,637
		311,876,608	324,566,470
Creditors: amounts falling due within one year	16	**(11,196,718)**	(376,944,802)
Net current assets/(liabilities)		**300,679,890**	(52,378,332)
Total asset less current liabilities		**433,419,663**	63,411,885
Creditors: amounts falling due after more than one year	17	**(400,000,000)**	(23,863,500)
Net assets		**33,419,663**	39,548,385
Capital and reserves			
Share capital	18	**30,000,000**	30,000,000
Capital redemption reserves	18	**3,908**	-
Retained earnings		**3,415,755**	9,548,385
Total equity		**33,419,663**	39,548,385

The financial statements on pages 7 to 24 were approved and signed by the director on ....16 NOV 2021.

For and on behalf of
GDC (Directors) Limited A. MENA
Director

The notes on pages 11 to 24 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2019

	Note	Called up share capital £	Share premium £	Capital redemption reserves £	Retained earnings £	Total £
At 1 January 2018		30,000,000	-	-	8,413,466	**38,413,466**
Profit for the financial year		-	-	-	1,134,919	**1,134,919**
At 1 January 2019		30,000,000	-	-	9,548,385	**39,548,385**
Profit for the financial year		-	-	-	3,121,278	**3,121,278**
Issuance of shares at a premium	18	3,908	390,746,092	-	-	**390,750,000**
Redemption of shares at a premium	18	(3,908)	(390,746,092)	-	-	**(390,750,000)**
Transfers		-	-	3,908	(3,908)	**-**
Dividends paid	11	-	-	-	(9,250,000)	**(9,250,000)**
At 31 December 2019		**30,000,000**	**-**	**3,908**	**3,415,755**	**33,419,663**

The notes on pages 11 to 24 form an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2019

	Note	2019 £	2018 £
Cash flow (used in)/generated from operating activities	19	**(4,319,923)**	439,219
Interest received from loans		-	231,588
Tax paid		**(3,642,589)**	(2,745,487)
Net cash used in operating activities		**(7,962,512)**	(2,074,680)
Cash flow from investing activities			
Interest received/redemption of fixed income investment	13	**175,956**	3,829,767
Acquisition of investment in associate		-	(1,312,629)
Loans provided to associate		-	(5,250,516)
Maturity of fixed rate notes	15	**20,000,000**	20,000,000
Interest received from fixed rate notes	15	**19,610,911**	20,699,171
Acquisition of investments	14	**(21,598,167)**	(21,543,085)
Cash inflow from investments	14	**10,563,463**	8,649,110
Net cash generated from investing activities		**28,752,163**	25,071,818
Cash flow from financing activities			
Interest paid on debentures	17	**(14,748,974)**	-
Interest paid on issued preference shares	16	**(6,040,677)**	(22,997,138)
Net cash used in financing activities		**(20,789,651)**	(22,997,138)
Net movement of cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

Significant non-cash transactions are shown in note 19.

Notes to the financial statements for the year ended 31 December 2019

1 General information

The company is registered in Gibraltar as a private company limited by shares and it is wholly owned by Gibraltar Development Corporation, a statutory body established under the Gibraltar Development Corporation Act, by virtue of its 100% ownership of the company's ordinary share capital.

Credit Finance Company Limited is a money-lending institution. It was set up to provide finance on projects considered to be of benefit to the economy and the community. This includes the issue of commercial loans and the funding of pension commutations under the Pensions Act and lump sum retirement under the Early Exit Scheme.

2 Statement of compliance

The financial statements of the company have been prepared in compliance with Gibraltar Accounting Standards, including Gibraltar Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in Gibraltar' ('GFRS 102') and the Companies Act 2014.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements are prepared on a going concern basis and under the historical cost convention.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the company accounting policies. The areas which require a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Presentational restatement of comparatives

The prior year financial statements presented the loans to associate within debtors: amounts receivable after more than one year amounting to £13,989,019. The directors have changed the presentation during the current year to present the loans within investment in participating shares in the balance sheet. The change has been applied retrospectively to the comparative period, so that the loans to associate is presented in fixed assets rather than debtors: amount receivable after more than one year in the balance sheet. The restatement was presentational only and does not impact the company's result or financial position.

Notes to the financial statements for the year ended 31 December 2019 - continued

3 Summary of significant accounting policies - continued

Going concern

As at 31 December 2019, the company has net asset of £33,419,663 (2018: £39,548,385) and generated a retained profit of £3,121,278 (2018: 1,134,919). The director considers the company to be able to continue its operations and have prepared the financial statements on the going concern basis. The potential impact of COVID-19 on the company is considered below.

COVID-19

On 11 March 2020, the World Health Organisation ('WHO') declared the novel coronavirus (COVID-19) outbreak a global pandemic. The Government of Gibraltar subsequently enacted legislation as a response to the global pandemic to reduce its health impact in Gibraltar and protect its citizens, including social lockdown and the forced closure of certain local businesses. The measures are expected to have a negative impact on Gibraltar and the global economy, these measures cannot be measured at the time of preparing these financial statements. The director is of the opinion that the company is able to continue as a going concern and the economic impact caused by COVID-19 would not have a material impact on the company's result or financial position.

Foreign currency balances

(i) Functional and presentation currency

Items included in these financial statements are measured and presented using Gibraltar Pounds (£), the currency of the primary economic environment in which the group operates (the 'functional currency'), which is also the group's presentation currency. Subsidiaries with a different functional or presentation currency to the group's presentation currency are converted into the presentation currency during consolidation.

(ii) Transactions and balances

Assets and liabilities denominated in foreign currencies are translated into Gibraltar Pounds at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into Euros at the rates ruling at the date of transaction. Profits and losses arising on translation of foreign currency are taken to the profit and loss account in the year in which they arise.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of finance in the ordinary course of the company's activities. The company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and when specific criteria have been met as described below.

(i) Income from investments

Income from investments are recognised on an accrual basis. The amount represents the annual interest of 6.5% on the gratuities paid to the civil servants who have elected to commute a percentage of their pension that is payable under the Pensions Act and on the lump sum retirement paid to the employees under the Early Exit Scheme.

(ii) Interest income

Interest income for all interest bearing financial instruments is recognised on an accrual basis using the effective interest method.

Notes to the financial statements for the year ended 31 December 2019 - continued

3 Summary of significant accounting policies - continued

Current tax

Where necessary, provision is made at the applicable rate for corporation tax payable on the profits for the period, as adjusted for tax purposes.

Investment in associate

Investment in associate is held at cost less accumulated impairment losses.

Impairment

Investments are subject to an impairment review if there are events or changes in circumstances that indicate that their carrying amount may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the assets with its recoverable amount, which is the higher of net realisable value and value in use. The carrying value of assets is written down by the amount of any impairment and this loss is recognised in the profit and loss account in the period in which it occurs. If an external event gives rise to the reversal of an impairment loss, the reversal is recognised in the profit and loss account by increasing the carrying amount of the asset in the period in which it occurs. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not occurred.

Cash and cash equivalents

The company's cash and cash equivalents include cash in banks which are held by HM Government of Gibraltar. Since these are held by a related party, they are presented as amount due from/to a related party. They are presented on the net basis as there is legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis or to realise the asset and liability simultaneously.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of GFRS 102 in respect of financial instruments. All of the company's financial instruments are measured at amortised cost.

(i) Financial assets

Basic financial assets are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at the effective rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment or bad debt. If an asset is impaired or provided for, the impairment loss or bad debt write-off is recognised in profit and loss account.

Financial assets are derecognised when (a) contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risk and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated or third party without imposing additional restrictions.

Notes to the financial statements for the year ended 31 December 2019 - continued

3 Summary of significant accounting policies - continued

Financial instruments - continued

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities, including other creditors and accruals are classified as creditor amounts due within one year if payment is due within one year or less. If not, they are presented as creditor amounts due after more than one year. Other creditors and accruals are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Preference shares, which result in fixed returns to the holder, or are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as an interest expense.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the debtor and settle the creditor simultaneously.

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the entity's accounting policies

Investment: financial asset at amortised cost

The company entered into an agreement with the HM Government of Gibraltar and individual pensioners to finance the gratuities that are payable to civil servants who have elected to commute a percentage of their pension that is payable under the Pensions Act. At the point of retirement, each pensioner seeking a gratuity in respect of part or the whole of their pension enters into an agreement with the HM Government of Gibraltar and the company to assign part or the whole of their pension as applicable to the company. The pensioner receives their commutation from the company; the HM Government of Gibraltar then pays the equivalent of the corresponding pension directly to the company. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

The company entered into additional agreements with the HM Government of Gibraltar and each eligible retiring employee. The HM Government of Gibraltar has agreed a number of Early Exit schemes with eligible retiring employees payable over 10 years (the "Early Exit Scheme payments"). The agreements allow the employee to assign the Early Exit Scheme payments receivable to the company in exchange for an up-front lump sum payable by the company. The HM Government of Gibraltar then pays the assigned Early Exit Scheme payments to the company over the period of 10 years. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

The director analysed the economic substance of the arrangement, noting that the company's initial cash outflow secures future cash inflows for future periods. As a result, the director opted to classify the financial asset as an investment measured at amortised cost.

Notes to the financial statements for the year ended 31 December 2019 - continued

4 Critical accounting judgements and estimation uncertainty - continued

(a) Critical judgements in applying the entity's accounting policies - continued

Redeemable preference shares

The company issued redeemable preference shares that the director has classified as a financial liability. The director considers that there is a legally binding agreement that results in an obligation for the company to deliver cash or another financial asset. The redemptions of each share issue are set at the date of issue, resulting in a fixed future redemption date. The redemption date can be extended by the holder of the shares. At the date of each issue, the interest is set at a fixed rate which is payable on an annual basis.

As a result of the terms of each issue of redeemable preference share, the director has classified the redeemable preference shares as a financial liability and presented the interest payable on those shares as an interest expense in the profit and loss account.

(b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows.

Recoverability of financial investments measured at amortised cost, fixed income securities and debtors

The company's debtors, fixed income securities and financial investment measured at amortised cost are subject to the requirement for the director to conduct an impairment review at the end of each reporting period. In conducting the review, the director first assesses whether there is objective evidence that a financial asset has suffered an impairment by reviewing factors including but not limited to, observable data about the counterparty and the economy in which it operates. Where there is objective evidence that a financial asset has suffered an impairment loss, the director compares the asset's carrying value against the present value of estimated cash flows, realising an impairment charge if necessary.

In performing this assessment, the director considers the financial ability of the counterparty to make the contractual payments, as well as its financial position taking into account the Gibraltar economy and any other aspects that could result in difficulty in the counterparty meeting its obligations to the company.

As a result of the above, the director does not believe that there are any impairment indicators that would require an adjustment to the carrying value of the assets.

Impairment of investment in associate

If there is an indication that the investment in the associate may be impaired, the director will compare the asset's carrying value with its recoverable amount. In determining impairment indicators, the director considers external sources of information including, technological, market, economical or environmental factors, and internal factors, such as the financial performance and position of the associate. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use, which is defined as the present value of future cash flows as a result of the asset's continued use. Both the fair value and the value in use calculation require the director to estimate significant inputs that are required for the calculation. In performing the estimates, the director uses relevant information to support the calculation.

As a result of the above, the director does not believe that there are any impairment indicators that would require an adjustment to the carrying value of the asset.

Notes to the financial statements for the year ended 31 December 2019 - continued

5 Interest income

	Note	2019 £	2018 £
Interest income from investments	14	**6,995,917**	5,726,804
Interest income from loans	15	**250,648**	231,588
Income from fixed rate notes	15	**19,610,911**	20,699,171
Income from fixed income security	13	**175,956**	506,337
		27,033,432	27,163,900

6 Finance costs

	Note	2019 £	2018 £
Interest paid on issued preference shares	17	**6,040,677**	22,997,138
Interest on debentures	17	**16,616,829**	-
		22,657,506	22,997,138

7 Profit on ordinary activities

	2019 £	2018 £
Profit on ordinary activities is stated after charging:		
Audit fees	**12,000**	10,000
Accounting and tax fees paid to the statutory auditors	**3,000**	3,000

8 Director's emoluments

There were no director's emoluments paid during the current or preceding year.

Notes to the financial statements for the year ended 31 December 2019 - continued

9 Employee information

The company had no employees during the current or preceding year.

10 Tax on ordinary activities

(a) Analysis of tax charge in the year

Current taxation	2019 £	2018 £
Current tax charge for the year	**1,018,051**	2,681,385
Late filing fee	**500**	400
	1,018,551	2,681,785

(b) Factors affecting tax charge for the year

		2019 £	2018 £
Profit on ordinary activities before taxation		**4,139,829**	3,816,704
Notional tax at 10%	(i)	**413,983**	381,670
Non-deductible expenses	(ii)	**604,068**	2,299,715
Tax charge for the year		**1,018,051**	2,681,385

(i) The company is a money-lending institution hence all interest income is integral part of the company's revenue and is taxable.

(ii) In accordance with guidance issued by the Commissioner of Income Tax to the Gibraltar Society of Accountants in August 2013, interest paid on redeemable preference shares should be treated as a dividend payment for tax purposes, irrespective of the accounting treatment. Accordingly, this interest paid has not been allowed as a tax expense in computing the assessable income of the company.

Notes to the financial statements for the year ended 31 December 2019 - continued

11 Dividends paid

	2019 £	2018 £
Ordinary shares		
Dividends paid of £30.83 (2018: £nil) per share	**9,250,000**	-

During the year, the company paid a dividend of £9,250,000 to its ordinary shareholder, the Gibraltar Development Corporation ("GDC"). However, as permitted by the company's Article of Association, GDC directed that the dividend be paid to the shareholder of the redeemable preference shares, the Gibraltar Savings Bank ("GSB"). The dividend was paid in specie to the GSB by the allotment of debentures amounting to £9,250,000.

12 Investment in participating interest

		2019 £	As restated 2018 £
Investment in associate	(i)	**6,576,840**	6,576,840
Loans to associate	(ii)	**13,989,019**	13,989,019
		20,565,859	20,565,859

(i) The investment represents an equity interest held in the associate that was incorporated to develop an onshore small-scale liquefied natural gas receiving and regasification terminal in Gibraltar. It is expected to produce a return in excess of 6%. The net assets of Shell LNG were £20,349,223 at 31 December 2019 (2018: £18,909,723) and the company recorded a profit of £1,484,501 (2018: £11,049,194).

The capitalisation of Shell LNG is to be in proportion of 20% by equity participation in the form of shares and 80% by shareholders loan. As at 31 December 2019, the total loan provided by the company was £13,989,019 (2018: £13,989,019).

	Place of incorporation	Number of shares held	Percentage Held	2019 £	2018 £
Shell LNG Gibraltar Limited	Gibraltar	343 shares of £1 each	49%	**6,576,840**	6,576,840

(ii) The directors have changed the presentation during the current year to present the loans to associate within investment in participating shares in the balance sheet. The change has been applied retrospectively to the comparative period, so that the loans to associate is presented in fixed assets rather than debtors: amount receivable after more than one year in the balance sheet. The restatement was presentational only and does not impact the company's result or financial position.

Notes to the financial statements for the year ended 31 December 2019 - continued

13 Investment in fixed income security

	2019	2018
	£	£
Investment in bonds	**3,415,621**	3,606,853

The amount represents the €4,000,000 (2018: €4,000,000) listed bond that was issued at 99% of the nominal value. The bond accrues interest at EURIBOR (3 months) plus a floating rate margin of 5%, interest is receivable quarterly in arrears and the bond is repayable on 5 September 2022. The bond is measured at amortised cost. The total interest income of £175,956 (2018: £506,337) was recognised during the year. As at year end, the company incurred a foreign exchange loss of £191,232 (2018: £2,269).

14 Investments: financial assets at amortised cost

	2019	2018
	£	£
Fixed asset investments:		
Investments in financial asset at amortised cost	**108,758,293**	91,617,505
Current asset investments:		
Investments in financial asset at amortised cost	**12,602,666**	11,712,833
Total investments in financial asset at amortised cost	**121,360,959**	103,330,338

Movement in investments in financial asset at amortised cost	**2019** **£**	2018 £
At 1 January	**103,330,338**	84,709,559
Acquisition of investments	**21,598,167**	21,543,085
Interest accrued	**6,995,917**	5,726,804
Cash inflow from investments	**(10,563,463)**	(8,649,110)
At 31 December	**121,360,959**	103,330,338

Notes to the financial statements for the year ended 31 December 2019 - continued

14 Investments: financial assets at amortised cost - continued

The company entered into an agreement with the HM Government of Gibraltar and individual pensioners to finance the gratuities that are payable to civil servants who have elected to commute a part or the whole of their pension that is payable under the Pensions Act. The pensioner receives their commutation from the company; the HM Government of Gibraltar then pays the equivalent of the corresponding pension directly to the company. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

The company entered into additional agreements with the HM Government of Gibraltar and each eligible retiring employee. The HM Government of Gibraltar has agreed a number of Early Exit schemes with eligible retiring employees payable over 10 years (the "Early Exit Scheme payments"). The agreements allow the employee to assign the Early Exit Scheme payments receivable to the company in exchange for an up-front lump sum payable by the company. The HM Government of Gibraltar then pays the assigned Early Exit Scheme payments to the company over the period of 10 years. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

The director analysed the economic substance of the arrangement, noting that the company's initial cash outflow secures future cash inflows for future periods. As a result, the director opted to classify the financial asset as an investment measured at amortised cost.

The portion of this financial asset shown under current assets represents the expected repayments receivable in the 12 months following the year end.

15 Debtors: amounts receivable within one year

		2019 £	2018 £
Loans receivable	(i)	**6,082,665**	3,061,748
Amounts due from a related party	(ii)	**3,433,920**	1,935,465
Fixed rate notes	(iii)	**287,843,900**	307,843,900
Other debtors		**11,860**	12,524
Corporation tax asset		**1,901,597**	-
		299,273,942	312,853,637

(i) These amounts represent commercial loans receivable that were issued for projects that are considered to be of benefit to the economy and the community. The loans have average repayment terms of 5 years and accrued interest earned of £250,648 (2018: £231,588) during the year.

(ii) The amounts due from a related party represents cash held by HM Government of Gibraltar on behalf of the company. This amount is unsecured, interest free and have no fixed terms of repayment.

(iii) The company invested in fixed rate notes issued by a related party that accrue interest at the rate of 6.5% and 8% respectively. The fixed rate notes are repayable on demand at the option of the company. During the year, the company received proceeds from the repayments amounting to £20,000,000 (2018: £20,000,000). The interest income earned and received during the year was £19,610,911 (2018: £20,699,171).

Notes to the financial statements for the year ended 31 December 2019 - continued

16 Creditors: amounts falling due within one year

		2019 £	2018 £
Accruals and other creditors		**78,863**	85,861
Corporation tax liability		-	722,441
Redeemable preference shares	(i)	**9,250,000**	376,136,500
Interest payable on debentures (see note 17)		**1,867,855**	-
		11,196,718	376,944,802

(i) Redeemable preference shares represent 9,250,000 (2018: 400,000,000) fully paid shares of £1 each. The shares are redeemable at a specific date specified at the time of issuance, which can be extended by the shareholder. Redeemable preference shares entitle the holder to dividends at a specified rate which is generally between 3 to 8 percent per annum. The total interest incurred and paid during the year was £6,040,677 (2018: £22,997,138). As the shares are mandatorily redeemable on a specified date, they are recognised as liabilities.

During the year, the company redeemed 390,750,000 shares of £1 each to simplify the company's capital structure (see note 18). The redemption was paid by the issuance of debentures (see below).

17 Creditors: amounts falling due after more than one year

		2019 £	2018 £
Redeemable preference shares		-	23,863,500
Debentures	(i)	**400,000,000**	-
		400,000,000	23,863,500

(i) During the year, the company created and issued non-convertible debentures amounting to £400,000,000. The debentures have varying maturity terms of 3 to 10 years and interest at 3 to 6 percent per annum payable monthly in arrears. The total interest incurred on debentures during the year was £16,616,829 of which £14,748,974 was paid and £1,867,855 was outstanding at the balance sheet date.

Debentures	**Rate**	**Maturity date**
9,250,000	6%	1 January 2029
10,000,000	3%	21 March 2022
64,000,000	4%	31 March 2024
40,750,000	5%	31 March 2024
275,000,000	6%	31 March 2024

Notes to the financial statements for the year ended 31 December 2019 - continued

18 Called up share capital

(a) Summary of authorised, allotted and issued shares

	2019 £	2018 £
Authorised		
30,000,000 ordinary shares of £1 each	**30,000,000**	30,000,000
1,000,000,000 redeemable preference shares of £1 each	**1,000,000,000**	1,000,000,000
	1,030,000,000	1,030,000,000
Allotted and fully paid		
Equity		
30,000,000 ordinary shares of £1 each	**30,000,000**	30,000,000
Liability		
9,250,000 (2018: 400,000,000) redeemable preference shares of £1 each (see note 17)	**9,250,000**	400,000,000

(b) Movement in redeemable preference shares

	Number of shares	Nominal value £	Share premium £	Total £
At 1 January 2019	**400,000,000**	**400,000,000**	-	**400,000,000**
Issue of 3,908 shares at a premium	3,908	3,908	390,746,092	390,750,000
Redemption of 390,750,000 shares at par	(390,750,000)	(390,750,000)	-	(390,750,000)
Redemption of 3,908 shares at a premium	(3,908)	(3,908)	(390,746,092)	(390,750,000)
At 31 December 2019	**9,250,000**	**9,250,000**	-	**9,250,000**

On 1 April 2019, the company issued 3,908 redeemable preference shares of £1 each at a premium of £390,746,092 with a view to redeeming the existing preference shares out of the proceeds of this fresh issue in accordance with the Companies Act section 124 (2a). The proceeds for the issue were treated as a receivable. On the same day, the company redeemed 390,750,000 redeemable preference shares of £1 each, issuing £390,750,000 of non-convertible debentures as consideration for the redemption.

The company then redeemed 3,908 redeemable preference shares of £1 each, with the associated premium of £390,746,092. The consideration payable for the redemption was the offset against the receivable for the initial issue of shares. As this redemption was structured out of profits available for distribution, the company transferred £3,908 from its profit and loss reserves to a capital redemption reserve within equity.

Notes to the financial statements for the year ended 31 December 2019 - continued

19 Notes to the cash flow statement

	2019 £	As restated 2018 £
Profit for the financial year	**3,121,278**	1,134,919
Adjustments for:		
Tax on profit on ordinary activities	**1,018,551**	2,681,785
Finance costs	**22,657,506**	22,997,138
Interest income	**(27,033,432)**	(27,163,900)
Net foreign exchange loss	**191,232**	-
Loss on redemption of fixed income investment	-	225,501
	(44,865)	(124,557)
Working capital movements:		
(Increase)/decrease in debtors	**(4,268,060)**	564,274
Decrease in creditors	**(6,998)**	(498)
Cash flow (used in)/generated from operating activities	**(4,319,923)**	439,219

(a) Non-cash transactions

The following non-cash transactions are not included in the statement of cash flows for the year ended 31 December 2019:

- Proceeds on the issuance of debenture amounting to £400,000,000 (see note 17);
- Dividends paid in specie in the amount of £9,250,000 (see note 11); and
- Redemption of shares in the amount £390,750,000 (see note 18).

(b) Analysis of changes in net debt

	At 1 January 2019 £	Cashflows £	Non-cash changes £	**At 31 December 2019-** **£**
Redeemable preference shares	(400,000,000)	-	390,750,000	**(9,250,000)**
Debentures	-	(1,867,855)	(400,000,000)	**(401,867,855)**
	(400,000,000)	**(1,867,855)**	**(9,250,000)**	**(411,117,855)**

Notes to the financial statements for the year ended 31 December 2019 - continued

20 Related party transactions

The director considers that the transactions during the year with related parties were as follows:

	2019 £	2018 £
Gibraltar statutory bodies		
Finance cost	**(22,657,506)**	(22,997,138)
Government and entities under common control		
Interest income from investments	**6,995,917**	5,726,804
Income from fixed rate notes	**19,610,911**	20,699,171
Corporation tax expense	**(1,018,551)**	(2,681,785)

The director considers that the balances with related parties as at 31 December were as follows:

	2019 £	2018 £
Gibraltar statutory bodies		
Redeemable preference shares	**(9,250,000)**	(400,000,000)
Debentures	**(401,867,855)**	-
Government and entities under common control		
Investments in financial asset at amortised cost	**121,360,959**	103,330,338
Fixed rate notes	**287,843,900**	307,843,900
Amounts due from a related party	**3,433,920**	1,935,465
Corporation tax asset/(liability)	**1,901,597**	(722,441)
Associate		
Investment in associate	**6,576,840**	6,576,840
Loan to associate	**13,989,019**	13,989,019

21 Immediate parent undertaking and ultimate controlling party

The immediate parent undertaking as at 31 December 2019 was the Gibraltar Development Corporation, a statutory body established by the Gibraltar Development Corporation Act.