Annual Report
2012

Jersey Financial
Services Commission

Contents

The Island of Jersey

Jersey enjoys a reputation as a well-regulated international finance centre.

Jersey is situated off the north-west coast of France, 14 miles from Normandy and 85 miles from the south coast of England.

Within its 45 square miles the Island has a population of around 98,000 and enjoys a reputation as a well-regulated international finance centre.

Jersey is closely connected with the London markets. Not only is it just 45 minutes flying time from London, but there are significant institutions to be found in both locations, and significant flows of business between the two centres.

Jersey is a Dependency of the Crown of the United Kingdom. The Island is not part of the European Union, being neither a separate Member State nor an Associate Member.

Jersey has its own legislative assembly, called the States of Jersey, which comprises 51 elected members plus the President. Jersey has its own system of local administration, fiscal and legal systems, and courts of law.

Jersey has a ministerial system of government comprising a Council of Ministers led by a Chief Minister. Further information on the workings of government in Jersey can be found on the States of Jersey website, www.gov.je.

The Jersey Financial Services Commission

The Jersey Financial Services Commission (the **"Commission"**) is the Island's unitary financial services regulator.

The Commission is an independent statutory body corporate, set up under the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**). The Commission Law provides for a Board of Commissioners to be the governing body of the Commission. The Commission is accountable for its overall performance to the States of Jersey through the Minister for Economic Development.

The Commission is also responsible, pursuant to powers granted to it under the Companies (Jersey) Law 1991, for appointing a person to exercise certain statutory responsibilities as the Registrar of Companies. The Commission has appointed the Director General of the Commission as the Registrar.

Regulated Businesses

- Banking
- Fund services
- General insurance mediation
- Insurance
- Investment
- Trust and company service providers
- Designated non-financial businesses and professions, which includes accountants and lawyers, for AML/CFT purposes

Main Activity Areas

- Policy
- International engagement
- Regulatory standards
- Supervision
- Enforcement
- Registry

Highlights

Principal Themes During 2012

- Commencing work on a framework for funds that would be compatible with the EU's Alternative Investment Fund Managers Directive.
- Gaining membership of MONEYVAL (a body of the Council of Europe), which is an FATF style Regional Body.
- Monitoring the Basel III package of reforms and the proposals advanced by the UK's Independent Commission on Banking.
- Considering the impact of possible changes to the Bank Licensing Policy.
- Working on the Review of Financial Advice project, which aims to raise the professional standards of investment advisors and eradicate possible conflicts of interest that can be caused by commission based remuneration arrangements.
- Consulting on a civil penalties regime to give a wider spread of enforcement sanctions.
- Signing memoranda of understanding with other regulators, including Germany's BaFin and the United States' Federal Deposit Insurance Corporation.
- Conducting on-site examinations and following up any necessary action arising out of those examinations.

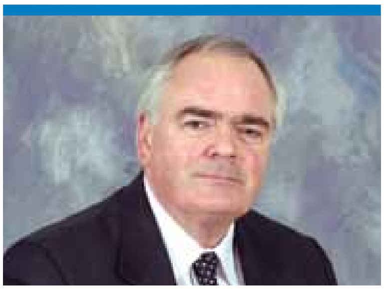
Size of the Finance Industry

The value of the assets under management in the Jersey Finance Industry at the end of 2012 is set out below.

- The total value of banking deposits held in Jersey was £152.1bn.
- The total number of regulated funds was 1,388, with a net asset value of funds under administration of £192.8bn.
- The value of assets held by trusts is estimated to be in the region of £500bn (statistics are not collected for this sector due to the varied nature of those assets).
- The total number of live companies on the Companies Register stood at 32,503.

The Commissioners

NON-EXECUTIVE COMMISSIONERS



Clive Jones - Chairman (October 2007)

Clive retired in June 2007 from an international career with Citi which took him from London to Seoul, Sydney, Melbourne, Athens, Zurich and finally to Jersey over a 36-year period. In Jersey he was the Citigroup Country Officer for the Channel Islands.

He has previously held the posts of President of the Jersey Bankers' Association, Chairman of the Jersey Finance Industry Association, and was one of the founding Board members of Jersey Finance Limited.

Clive is a Fellow of the Institute of Directors and a Chartered Director.

John Averty - Deputy Chairman (December 2005)

John is the Chairman and Chief Executive of the Guiton Group Limited. The Group publishes daily and weekly newspapers in the Channel Islands. It also has a technology division.

He is also a non-executive director of a Jersey registered private bank.

From 1969 to 1984, John served as a Member of the States of Jersey, initially as a Deputy and latterly on the Senatorial benches.

Lord Eatwell of Stratton St Margaret (April 2010)

Lord Eatwell is a Professor of Financial Policy at the University of Cambridge, and he also leads a work stream within the Centre for Financial Analysis and Policy on financial regulatory issues.

Lord Eatwell played a pivotal role in the creation of the Financial Stability Forum (now the Financial Stability Board). He has also undertaken a number of roles with UK regulators and has acted as an adviser on regulatory matters to the Bank for International Settlements, the Banking Committee of the US Senate, the European Parliament and the Hong Kong Monetary Authority.

John Mills, CBE (October 2009)

John's background was spent, until his retirement in 2007, in the UK Civil Service. Senior roles included Director of Consumer Affairs at the Office of Fair Trading and as a member of the Prime Minister's Policy Unit. Outside Whitehall, he was Chief Executive of Cornwall County Council, moving to Jersey in 1999 as Chief Executive for Policy and Resources for the States of Jersey.

John is currently a member of the Shadow Board for the Ports of Jersey and, in the UK, is Vice-Chairman of the Port of London Authority. He holds several States of Jersey appointments to honorary roles in the Island's governance, including as an independent member of the Public Accounts Committee and as an Income Tax Commissioner of Appeal.

Advocate Debbie Prosser (November 2008)

Debbie qualified as a Jersey Advocate in 1990 and is a member of the Jersey Law Society. Debbie was a partner at Bailhache Labesse (now Appleby) from 1991 to 2005. Debbie previously held the position of chairman of the Jersey Child Care Trust and the States of Jersey Education Audit Committee, and was also a member of the States of Jersey Audit Commission and the Tourism Development Fund.

Debbie is currently the chairman of the Jersey Police Complaints Authority and a member of the Jersey Youth Court Panel and holds a number of non-executive directorships.

Crown Advocate Cyril Whelan (June 2010)

Cyril is currently a Senior Consultant at the local law firm Baker & Partners and is also a Door Tenant of Chambers at Seven Bedford Row, London. He was appointed to the office of Crown Advocate immediately upon the creation of that office in 1987 and remains the Island's Senior Crown Advocate.

His background includes 28 years as senior legal adviser in the Law Officers' Department in Jersey. As head of the Section responsible for Serious Crime and International Mutual Legal Assistance, Cyril has advised on all aspects of public law, including serious crimes such as complex fraud and money laundering. He also acted on behalf of successive Attorneys General in the implementation of major regulatory and mutual assistance legislation in Jersey.

Sir Nigel Wicks (July 2007 until June 2012)

Sir Nigel was until recently the Chairman of Euroclear, having previously been non-executive Deputy Chairman, and a director of the Edinburgh Investment Trust plc. Sir Nigel was a member of the British Civil Service for 32 years. Sir Nigel held the position of Second Permanent Secretary and Director of International Finance at HM Treasury from 1989 to 2000. Sir Nigel has held senior positions in the offices of former British Prime Ministers. Sir Nigel served as Chair of the Committee on Standards in Public Life between 2001 and 2004.

Sir Nigel now chairs the British Bankers' Association.

Markus Ruetimann (September 2010)

Born and educated in Switzerland, Markus has worked in the financial services industry in Zurich, Geneva, New York and London. Markus is currently the Group Chief Operating Officer for Schroder Investment Management Limited, based in London. Markus's global responsibilities encompass portfolio services, fund services, information technology, group change and project management and corporate services. Markus has been a member of Group Management Committee of Schroder plc since June 2005 and was appointed as a director of Schroder & Co. Bank AG, Zurich in September 2009.

Prior to joining Schroders, Markus was global Head of Technology & Portfolio Services at UBS Global Asset Management from 1999 to late 2004 and COO at Philips & Drew from 1988 to 1998. External non-executive mandates included CRESTCo in London, Omgeo LLP in New York, and ISSA in Zurich.

The Commissioners

NON-EXECUTIVE COMMISSIONERS

Stephan Wilcke (July 2012)

Stephan joined the board of OneSavings Bank Plc, which trades as Kent Reliance, in 2011 and became chairman in February 2012. He was, until recently, Chief Executive Officer of the Asset Protection Agency, an executive arm of HM Treasury. Prior to this he advised various central banks on difficult situations created by the credit crunch. He was previously a partner and Head of European Financial Services at private equity firm Apax Partners Worldwide LLP.

Stephan started his career at management consultancy Oliver Wyman where he progressed to partner level. He graduated from Oxford University with a Masters in Politics, Philosophy and Economics.

Ian Wright (April 2012)

Ian is a Member of the Institute of Chartered Accountants in England and Wales (ICAEW). Since 2007, Ian has served in a number of roles at the Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance, including Director of Corporate Reporting, he is currently Deputy Chairman of the Financial Reporting Review Panel.

He retired in 2007, having achieved the position of Senior Partner in PricewaterhouseCoopers' (**"PwC"**) Global Corporate Reporting Group based in London. Ian joined PwC in 1979, initially based in Jersey and Bahrain, and has also worked as an Audit Partner based in London and Jersey and as a Senior Technical Partner in London.

Ian has previously served as a member of the International Financial Reporting Interpretation Committee (IFRIC), the Financial Reporting Policy Group of the Fédération des Experts Comptables Européens (FEE), and the Technical Strategy Board of the ICAEW and Chairman of the ICAEW's Financial Reporting Committee.

EXECUTIVE COMMISSIONER

John Harris - Director General (March 2007)

John was appointed the Director General of the Commission on 6 November 2006 and was subsequently appointed to the Board of Commissioners in March 2007. He is a fellow of the Chartered Institute of Bankers.

From 2002 to 2006, he held the position of Director - International Finance in the States of Jersey Chief Minister's Department where he had responsibility for all aspects of the Government's policy on the maintenance and enhancement of Jersey's position as an international finance centre.

John spent 22 years working internationally for the NatWest Bank Group and from 1998 to 2002 he was Chief Executive Officer for NatWest Offshore with responsibility for offices in Jersey, Guernsey, Isle of Man, Gibraltar, Cayman, Bermuda and the Bahamas.

Chairman's Statement

Continued low economic growth in the Island's traditional markets for financial services, increasing waves of international financial services regulation whose effect is often potentially to exclude providers from Jersey and the other Crown Dependencies, and growing pressure on any jurisdiction that can be labelled as a 'tax haven' have all put the finance industry's (**"Industry"**) business models under pressure.

This is potentially an inflection point of some significance to the Island and highlights the importance of a coherent strategy for financial services. The Commission spent some time thinking about this during 2012 and has embarked on some initiatives – outlined in its Business Plan published in April 2013 – to help it play a part. More importantly the Commission has engaged with Government and with Jersey Finance, the promotional and technical body for the Industry, in trying to co-ordinate actions to ensure a properly 'joined-up' approach to Industry development and regulation in the future. This will develop further in 2013.

That is not to say we resile in the slightest from our commitment to meet international standards. Indeed the fate of other offshore centres and even EU members in the past year has illustrated poignantly the legacy of a neglect of international standards and how that can return in times of stress to make recovery even more difficult. But we also believe in a jurisdiction such as Jersey that the Commission has a proper role as an enabler alongside its more traditional role as an enforcer, and it has continued to try to play that role throughout the year.

In a world where politics rather than policy tend to shape international regulation, the Commission is required to engage in order to facilitate that access. We do that by ensuring as far as we can that service providers in Jersey have equal access to the important markets of the UK and the EU, or at least the nearest equivalent to equal access that we can achieve. In our view, there is no sustainable argument for suggesting that our service providers do not deserve equal or equivalent access purely because regulatory standards in Jersey are in some way deficient. They are not.

As I noted last year, in 2012 the Board watched closely as the Executive worked with Industry, Jersey Finance and the European Securities and Markets Authority (**"ESMA"**) on obtaining access for funds providers to the EU under the Alternative Investment Fund Managers Directive (**"AIFMD"**). By the end of the year we believe we achieved everything required to enable us and the other Crown Dependencies to sign a co-operation agreement with ESMA. However, as ESMA's focus shifted towards signing up with other priority countries, we had not achieved our aim by the end of the year.

It continues to be a priority for 2013, along with overseeing the development of considerable secondary legislation that will be required.

As I predicted last year, work on access for our banks to the UK market grew following publication of the recommendations of the Independent Commission on banking (**"ICB"**). Again, this was a joint effort with Government and the banking sector. By the end of the year it was too early to tell the extent to which HM Treasury felt able to accept our views. However, the Board's view is that even in the worst case our major banks will be able successfully to adapt to changed circumstances and, indeed, it might offer us some new opportunities, as I explain below.

It was with the assistance of HM Treasury that Jersey and the other Crown Dependencies achieved membership of MONEYVAL during 2012, a necessary step in being able to demonstrate to the IMF that our AML/CFT standards are both appropriate and effective.

> "It was with the assistance of HM Treasury that Jersey and the other Crown Dependencies achieved membership of MONEYVAL."

In 2012, the Board decided that, given the nature of the ICB's proposals, its traditional policy for granting bank licences would increasingly seem inappropriate. It therefore seemed sensible not merely to consider how that licensing policy might change but, moreover, how it could prudently be changed so as to allow the licensing of a greater number and wider range of banks than hitherto in the expectation that an economic benefit to the Island would arise. The Executive developed comprehensive proposals and these are now being consulted on with the Industry and with Government.

The Board had also felt for some time that in light of the increase in enforcement activity – a regrettable but nonetheless foreseeable consequence of the downturn in the business cycle – that its range of sanctions against wrongdoers was too limited. Basically, the position that exists is that the sanctions available to the Commission range from a non-public letter of censure to an outright ban on working in the Industry, accompanied by a public statement. But there is nothing in between.

Chairman's Statement

Following discussions with the Attorney General, it was agreed that we could develop a range of monetary penalties for infractions of our various Codes of Practice. A survey of Jersey compliance officers by Deloitte in 2011 had indicated that the Industry was prepared for this and might even support it. We also concluded that as far as possible the accumulated penalties should be used to help offset licence fee costs for the Industry sector(s) in respect of which they were levied. This is now being consulted on with the Industry.

"The Commission is its people. They bring to us an ability to work hard, to work intelligently, to be dedicated to maintaining regulatory standards and to work constructively with those whom they regulate."

It is important to note here that the proposed civil penalties regime neither mitigates breaches of the law – which remain the prerogative of the Attorney General – nor lead to a conclusion that the Board will in future shrink from removing from the Industry any person or firm who has done demonstrable and reckless harm to customers.

Last year I spoke about working towards 'scaleability' in relation to our supervisory operations. During 2012, our project to automate the submission of personal questionnaires for Principal Persons went live. This was one of our first projects in this area and has been well-received by the Industry as well as improving our own turnaround times. The Board also approved significant further technology investment in information management and records management to support the work of the Supervision Divisions. This will continue throughout 2013.

As we note later in this annual report, the Board subscribes to the UK Corporate Governance Code and adheres to the Code's principles. Indeed it is the Board's view that our own corporate governance standards should be equal to or better than those of the Industry we regulate. To that end the Board has regular formal meetings with Government and with the Industry - our stakeholders - as well as frequent informal meetings with the Minister for Economic Development and with Jersey Finance.

The Board conducted a review of its effectiveness in 2012. Commissioners were surveyed anonymously for their views, the results of which were discussed at two subsequent Board meetings.

In general, the Commissioners were satisfied with the Board's effectiveness during 2012. That is not to say that there is no room for improvement and Commissioners felt that further effort needed to be made in relation to stakeholder communication, reflecting on strategy and discussing internal succession planning and talent management. I expect we shall conduct a fresh externally-facilitated review in 2013 to build on this work.

We continue to work closely with the Guernsey Financial Services Commission (**"GFSC"**), and during the year the Director General had meetings with his counterpart as I did with the GFSC's Chairman. We will continue to find ways to co-operate and share efficiencies. Additionally, we have the annual formal meeting with the GFSC and the Isle of Man Financial Supervision Commission, which was particularly productive in 2012.

In carrying out my duties, I am fortunate to be supported by an enormously talented Board. In 2012, the Board underwent some changes. In June, Sir Nigel Wicks stepped down after reaching the statutory retirement age for Commissioners and following five years of valuable service. The Commission has been fortunate to have Sir Nigel as a Commissioner since 2007. His unparalleled experience and wise advice, coupled with his ability to move seamlessly from the strategic to the tactical have been of huge benefit to us.

During the year, we were joined by two new Commissioners. In April, Ian Wright joined as a local Commissioner following the customary open application and selection process. His considerable experience as an accountant in private practice as well as his work with the Financial Reporting Council in the UK greatly strengthens the Board in the areas of accounting and governance.

Stephan Wilcke joined the Board in July, replacing Sir Nigel Wicks as one of our off-Island Commissioners. His experience as a consultant and then as head of the financial services practice of a major private equity investor have given him a wide perspective on the Industry. His more recent role as head of HM Treasury's Asset Protection Agency allows him to bring additional insights on hard-to-value assets.

I am delighted to have Ian and Stephan join us and I would like to thank the entire Board for its support and effort throughout the year.

The Commission *is* its people. They bring to us an ability to work hard, to work intelligently, to be dedicated to maintaining regulatory standards and to work constructively with those whom they regulate. The leadership of the Director General exemplifies all of these qualities. On the Board's behalf I thank him and all our Staff for their work and dedication in 2012.

Director General's Report

Overview

It will be apparent to those who have read the Chairman's Statement that this has been a difficult and challenging environment in which, nonetheless, the Commission was able to continue to fulfil its statutory functions, address many of the main issues and tasks confronting it and achieve a significant body of progress both internationally and domestically.

This Annual Report demonstrates this to full effect within the subsequent sections, which focus on the work undertaken by the Executive and the Commission's Staff. Amongst the many achievements, I should particularly like to draw attention to the international outreach activity of the Commission, which we see as a vital component of our many responsibilities in helping Jersey to achieve the highest possible measure of understanding with its key international audiences. This understanding is all the more vital in the current uncertain, some might say febrile, environment of low growth and strained major country public finances.

In this context, the Commission provides a vital contribution to Jersey's future as a responsible and co-operative financial centre in taking the initiative in many areas.

Good examples in 2012 can be found in the Commission by:

- resourcing working groups of international organisations such as the International Organisation of Securities Commissions (IOSCO);
- representing the Island's case to the European Securities and Markets Authority (ESMA) for inclusion in the network of co-operation agreements necessary for participation as a third country within the EU's Alternative Investment Management Directive (**"AIFMD"**); and
- reaching memoranda of understanding with fellow regulators of significance, such as
  - the Federal Deposit Insurance Corporation (FDIC) of the USA,
  - the Federal Financial Supervisory Authority (BaFin) in Germany, and
  - the Reserve Bank of India (RBI).

Also clear are the challenges we face, some six years into the major financial crisis of modern times, in the areas of supervision and enforcement. These are our core tasks and they are ever more exacting, being significantly impacted by the crisis and its consequent effects. While Jersey has been able to avoid the worst outcomes seen elsewhere in recent years such as blows to financial stability from bank failures and other system-wide problems, it would be wrong to pretend that all has been perfect.

In particular, Jersey has seen some cases of clients who have suffered losses through impaired fund vehicles, exacerbated by poor administration standards in a minority of registered firms, and where an underlying theme of causation in some, thankfully isolated but nonetheless important, structures has been the unsuitability of the product and its risks relative to some of the clients involved.

A feature of the pre-crisis years everywhere has been the willingness of some investors to buy risky products they did not understand and which were not properly explained to them. However, they nevertheless signed all the relevant contractual documents acknowledging the higher risk without reading them or making further enquiries through the use of independent third party advisers. Such misplaced trust, allied to the reality of contractual commitments made, pose real challenges to a regulator such as the Commission, which does not have the capacity to intervene at the point of sale. Nor does it have ombudsman powers, and is inevitably chasing events rather than being able to be ahead of them.

With this in mind, conscious also of the comprehensive review material provided elsewhere in this Annual Report and the Commission's compliance with the UK Corporate Governance Code issued by the Financial Reporting Council, I thought I would use the remainder of this year's contribution to set out - in abbreviated terms - our view of the Commission's "business model". Clearly we are not a standard business and thus this model effectively means the approach we take to our regulatory remit and responsibilities. In the circumstances of recent years this is a good opportunity to state what this is and what it means.

Director General's Report

For the Commission, our philosophy and approach is set out below.

Regulatory model

No system of regulation can guarantee that no loss will be incurred by depositors or investors in financial services businesses.

Our objective is to minimise potential losses arising from fraud and error at reasonable cost, whilst providing Industry with enough freedom of action to support long-term sustainable enterprise, investment and employment.

The legislation and the regulatory framework must be capable of implementation on an efficient and effective basis so as to achieve their objectives and command the respect of depositors, investors and financial services businesses. We consult widely on all proposals to change the legislation and the regulatory framework, and work closely with the Industry to ensure that all of the relevant legislation and the regulatory framework are well understood.

> "We seek to ensure that the Island has high standards of financial services regulation so as to comply with all international requirements on a timely basis and for the foreseeable future."

We seek to ensure that the Island has high standards of financial services regulation so as to comply with all international requirements on a timely basis and for the foreseeable future. International requirements are dynamic and are increasingly demanding. As a consequence our legislation and regulatory framework will at times be more demanding than our competitors for a temporary period.

Responsibilities of investors and depositors

Investors and depositors are responsible for their own due diligence. We do not believe that they should rely wholly on the existence of the Commission but should be obliged to satisfy themselves as to the financial standing of financial services businesses and fully understand any product that they intend to invest in. This is particularly relevant with products which are aimed at professional or sophisticated investors.

Financial information and audit

Investors and depositors need access to relevant reliable information to be able to make informed decisions.
We require all financial services businesses to have set minimum levels of capital and liquidity, depending on the nature and size of the business undertaken. We intervene to amend the activities of a registered business where we have concerns about their financial strength or access to liquidity support.

We require all financial services businesses to prepare annual reports and financial statements and make them available to prospective and current depositors and investors, and for these to be audited.

We work with the UK Accountancy Recognised Supervisor Bodies and the UK Audit Quality Review Team to have some of the audit work carried out in the Island inspected and we refer to them issues of potential non-compliance with auditing standards.

Governance and internal control

We believe that the most effective system to minimise loss to depositors or investors is one operated in real time by businesses, which have high standards of corporate governance and internal controls. We set standards of governance and internal control for financial services businesses operating in the Island, including requiring all such businesses to have their own internal compliance officer and compliance function. A great deal of our supervisory programme, including on-site examinations, in recent years has been focused in this area.

We expect regulated businesses and individuals to advise us promptly whenever they identify issues of non-compliance with the legislation and the regulatory framework, and use this experience to inform our risk-based analysis.

We carry out periodic risk-based examinations to ascertain the effectiveness of the internal control systems and the reliability of reports made by compliance functions to their boards and ourselves.

Supervision of individuals

All systems of governance and internal control are dependent upon the honesty and integrity of those in authority and those responsible for ensuring that internal controls are operating effectively.

We rely on the principle that all individuals are innocent until proven guilty, but investigate with vigour should we receive information that calls into question the honesty or integrity of those in authority or in compliance functions. We seek to exclude those who do not meet the necessary standards of honesty and integrity from working in the Industry.

Sources of information about non-compliance

Early information about possible non-compliance with the legislation and the regulatory framework is key to our ability to identify inappropriate products and services, and a failure to comply with necessary standards of honesty and integrity.

We operate a whistleblowing telephone line to provide a confidential communication route for those concerned that making a disclosure about possible non-compliance might have an adverse impact on them individually. We work closely with the States of Jersey Police, including in relation to money laundering and terrorist financing. We also establish information gateways with overseas regulatory bodies so as to be able to receive information on suspicious activity related to Jersey that originates in other locations.

Being transparent and accountable

We make regular presentations to Industry to help them understand our approach and the likely direction of the legislation and the regulatory framework.

We produce an Annual Report to explain our approach and how we performed in a specific year. We also produce a Business Plan and Budget for the next year to explain how we see our strategy and costs developing over the foreseeable future.

We seek to ensure that our Annual Report is well read by sending a copy to all regulated businesses and to overseas regulators, and by publishing it on our website.

> "We make regular presentations to Industry to help them understand our approach and the likely direction of the legislation and the regulatory framework."

Conclusions

In summary, 2012 has been another demanding year for the Executive and the Commission's Staff.

The challenges and responses to those challenges are set out more fully in the subsequent sections of this Annual Report, which cover the following areas:

- international standards and policy development, particularly in relation to AML/CFT;
- regulatory developments within the Supervision Divisions, where the focus has been developing an AIFMD compliant fund regime;
- the supervision of the finance industry in Jersey;
- the Commission's approach to enforcement where there have been breaches of regulatory standards;
- the activities of the Companies Registry;
- the application of resources to sustain the above activity; and
- the Commission's corporate governance framework.

The Executive has continued to receive support and encouragement from the Board of Commissioners, together with necessary agreement on securing the resources to address the many issues facing the Commission. Finally, I wish to thank the Commission's Executive and Staff for their hard work, dedication and unstinting support in taking on the diverse challenges we face both within Jersey and on the international stage.

Structure Chart

CHIEF FINANCIAL OFFICER

Nigel Woodroffe
Chief Financial Officer

Chris Renault
Commission Secretary

Eric Dolan
Deputy Director
Supervisory Operations

BANKING, INSURANCE AND INVESTMENT BUSINESS

Mark Sumner
Director Banking, Insurance and Investment Business

Darren Boschat
Deputy Director
Banking

David Hart
Deputy Director
Insurance and
Investment Business

REGISTRY

Julian Lamb
Director Registry

Sarah Kittleson
Deputy Director Registry &
Non-Supervisory Operations

TRUST COMPANY BUSINESS

David Oliver
Acting Director
Trust Company Business

John Harris
Director General

FUNDS

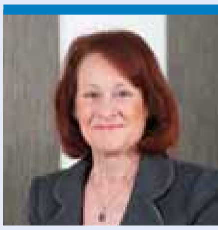
Roy Geddes
Acting Director
Funds

Michael Jones
Acting Director
Funds

OFFICE OF THE DIRECTOR GENERAL

Andrew Le Brun
Director, Office of the
Director General

HUMAN RESOURCES

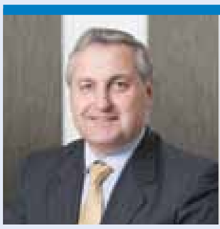


Annette Cullen
Director Human Resources
and Facilities Management

INTERNAL AUDIT

Steven Gardener
Deputy Director
Internal Audit

ENFORCEMENT



Barry Faudemer
Director Enforcement

Jamie Biddle
Deputy Director
Enforcement

International Standards and Policy Development

The Commission seeks to ensure that the Island's framework for regulating and supervising financial services is of a high standard so as to comply with international standards which are dynamic and increasingly demanding.

Main changes in our international relationships during the year

The Commission worked closely through the year with authorities in the UK, Guernsey and the Isle of Man to support an application by the UK for the Crown Dependencies to participate in the mutual evaluation processes and procedures of MONEYVAL - the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism established by the Council of Europe.

The application was agreed by the Committee of Ministers of the Council of Europe in October 2012, and paves the way for:

- a "progress report" in 2013 on how Jersey has addressed recommendations made by the IMF to enhance the Island's compliance with the Financial Action Task Force (**"FATF"**) Recommendations; and
- a full mutual evaluation in 2014 or later on Jersey's compliance with the FATF Recommendations.

Historically, whilst Jersey has been an ordinary member of the International Organisation of Securities Commissions (**"IOSCO"**) for some time, it has not been able to take part in IOSCO's decision-making process. Instead, the UK's former Financial Services Authority had been able to exercise a single vote, covering ordinary members of IOSCO in the UK, Crown Dependencies and Overseas Territories.

Following a period of lobbying by the Commission, IOSCO agreed to the principle of "one member one vote" in 2013, except in the case of elections, where Jersey will share a vote with the other Crown Dependencies and Gibraltar.

Jersey (along with Guernsey and the Isle of Man) continues to be included in transitional provisions that allow Jersey-based (and some other) firms to audit Jersey companies that have securities traded on a regulated market in the EU. These transitional provisions will eventually fall away, by which time it is hoped that Jersey's auditor oversight regime will have been assessed and recognised as "equivalent" by EU Member States. The effect of this is that reliance might be placed on Jersey's oversight of auditors, without need for EU Member States in which a company's securities are traded to duplicate registration and oversight requirements under their national regimes.

In support of such an assessment, the Commission provided a detailed description of Jersey's regime for Recognized Auditors to the European Commission (the **"EC"**) in December 2011, and the EC is now expected to put forward formal proposals to Member States which will recognise the equivalence for a number of jurisdictions, including Jersey. These proposals will be subject to the approval of Member States and comments from the European Parliament, but the current expectation is that an EC Decision – the legal instrument that recognises "equivalence" - will be in place by June 2013.

The Commission explored with the EC and European Payments Council (the **"EPC"**) the future use by Jersey banks of The Single European Payments Area (**"SEPA"**) payment systems, following the EPC's withdrawal in early 2012 of criteria for third country membership.

Ahead of publication in 2013 of a report by the EC on SEPA governance arrangements, it is not clear:

- who will set new criteria for deciding whether third country banks might apply to use euro payment systems; and
- who will assess third country payment frameworks against those criteria.

The Commission negotiates the agreement of memoranda of understanding with domestic and overseas agencies. During 2012, memoranda of understanding were agreed with Germany's BaFin, the National Bank of Slovakia, the United States' Federal Deposit Insurance Corporation and the Reserve Bank of India.

International Regulatory Standards

In order to contribute to the development of these standards and to better understand the effect that changes in standards may have on Jersey, the Commission participates in the work of:

- the Assessment Committee of IOSCO; and
- the FATF - through membership of the Group of International Finance Centre Supervisors.

In particular, a member of the Commission has chaired a working group charged with recommending presentational and accessibility improvements to the methodology used to assess compliance with IOSCO's standards. The group reported to the Assessment Committee in January 2013.

> "Laws and regulations must be capable of implementation on an efficient and effective basis so as to achieve their objectives and command the respect of stakeholders."

Prompted in part by recommendations made in 2009 by the International Monetary Fund (the **"IMF"**), the Commission prepared and delivered instructions to update and amalgamate the money laundering provisions of the Drug Trafficking Offences (Jersey) Law 1988, the Proceeds of Crime (Jersey) Law 1999, and the Terrorism (Jersey) Law 2002.

Work also started in 2012 on considering what changes may be required to the Money Laundering (Jersey) Order 2008 in order to address other recommendations made by the IMF. Proposed changes will be explained in a consultation paper that will be published in the second quarter of 2013.

Laws and regulations must be capable of implementation on an efficient and effective basis so as to achieve their objectives and command the respect of stakeholders. To this end, the Commission conducts a consultation process on changes to legislation and the Codes of Practice (the **"Codes"**).

- The Collective Investment Funds (Amendment and Validation) (Jersey) Law 2012 has amended the Collective Investment Funds (Jersey) Law 1988 to allow fees in respect of certificate holders to be set by notice, and has validated fees paid by certificate holders since April 2008.
- The Financial Regulation (Disclosure of Information) (Amendments) (Jersey) Regulations 2013 now provide the Commission with a clear power to share information with stock exchanges such as the Channel Islands Stock Exchange and London Stock Exchange, and also with the European Supervisory Authorities.
- A number of amendments to "maintain" the Collective Investment Funds (Jersey) Law 1988, the Banking Business (Jersey) Law 1991, the Insurance Business (Jersey) Law 1996, the Financial Services (Jersey) Law 1998, and secondary legislation made under these laws, and also the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 were proposed, and a summary of consultation responses is under preparation.
- In line with Government policy, work has continued on drafting legislation to implement relevant parts of the Payment Services Directive of the European Union (the **"EU"**) - in order to support future access to the SEPA. The effect of this legislation would be to regulate direct debits and direct credits made in euro using SEPA's payment systems.
- A large amount of time was spent in 2012 co-ordinating changes proposed to the seven of the eight published Codes. Changes were proposed to bring the wording of the seven sets of Codes closer together and also to deal with matters specific to a particular set of Codes. The consultation period has closed and it is intended to publish a package of documents in the second quarter of 2013 that includes a feedback paper and seven sets of revised Codes.
- A number of provisions dealing with customer due diligence (**"CDD"**) measures have been updated in Sections 3 and 4 of the AML/CFT Handbook for Regulated Financial Services Business. In particular, additional guidance has been provided on assessing country risk and the CDD measures to be applied in the case of a higher risk customer.

Work has also continued on revising the Commission's Sensitive Activities Policy for applications that are made under the Control of Borrowing (Jersey) Order 1958. A draft of the Policy is shortly to be discussed with the Companies Registry Users Group.

Regulatory Developments

2012 saw a period of reflection in relation to the changes made to the Island's regulatory framework during previous years. Against a backdrop of the international regulatory response to the recent financial crises, the Commission monitored and, where possible, participated in these discussions.

Banking

The key themes for Banking during 2012 have been the need to monitor and respond to external regulatory developments coupled with more in depth supervision of local banking operations.

The structure and form of banking regulation is being recast internationally. Banking has closely monitored key developments and has worked with relevant stakeholders to properly understand the potential impacts on the banking sector in Jersey. The key external developments at this time remain the Basel III package of reforms and the proposals advanced by the UK's Independent Commission on Banking (**"ICB"**). In both cases, the Commission has worked with its counterparts in the other Crown Dependencies to identify a consistent approach.

Structural reform has also involved the reallocation of responsibilities between overseas regulators. In the UK, the former FSA's responsibilities have now been shared between the newly formed Prudential Regulatory Authority and Financial Conduct Authority. Banking will need to maintain its supervisory relationships with both authorities and will also need to closely monitor the planned reallocation of responsibilities between Eurozone national supervisory authorities and the European Central Bank.

The level of information sharing and coordination between supervisory authorities has increased substantially since the financial crisis began and Banking fully participates in this as a member of the supervisory colleges and crisis management groups that have been formed for individual banks. This has provided a valuable insight into challenges faced by banking groups represented in the Island and has helped to identify potential risks at an earlier stage.

At a local level, Banking's supervision of Jersey banking operations has become considerably more intensive in recent years, with the most noteworthy development in 2012 being the introduction of Concession Limits, under which subsidiary banks must seek approval from the Commission for Large Exposures to sovereigns or other banks, including their parent group, all of which had previously been exempted from the need for such approval. This has caused local banks to better assess and monitor the concentration and credit risk they face in relation to upstreaming their deposits to parent banks.

Funds

A Funds Consultation Seminar on the Alternative Investment Fund Managers Directive (**"AIFMD"**) was held with Industry in September 2012 to consider some key legislative developments in relation to Jersey's response to the AIFMD. Subsequently, the States of Jersey approved the legislation on 4 December 2012. Internationally the Commission's discussions continue with the European Securities and Markets Authority (**"ESMA"**), the European Commission and fellow International Regulators. There remains a large amount of work to be undertaken in relation to the AIFMD, a key requirement of which is signing a co-operation agreement with EU supervisory bodies being co-ordinated by ESMA. The aforementioned consultation and legislative drafting should ensure the Island is very well placed to do so.

In addition, a number of other policy initiatives were progressed during 2012. A new Private Placement Fund (**"PPF"**) product was launched in January, Codes of Practice for Certified Funds were introduced in April, and a new Collective Investment Funds (Certified Funds Prospectus) (Jersey) Order 2012 became effective in November 2012. Funds also conducted an IOSCO self-assessment on Principles 6 (systemic risk) and 7 (regulating the perimeter).

The Commission continually looks at ways of improving efficiency and is currently focussing its attention on the way it collects information from Industry and how it processes this information. The first project on this theme, related to Personal Questionnaires (**"PQs"**) and the Commission's new Web portal, designed to facilitate the electronic submission of PQs, was launched on 1 November 2012. The new process has been designed to reduce the administrative burden on Principal and Key Persons and the Commission, and, in the majority of cases, this reduction will lessen the time taken to process applications

Funds successfully negotiated an increase in Fund Services Business and fund fees payable by the sector to secure its medium term inflation based funding. The fee increases were from effective 1 July 2012.

Investment Business (**"IB"**)

IB has continued to participate in the Review of Financial Advice (**"RFA"**) project, which included attending meetings of the RFA working party and contributing to the publication of a feedback paper on the RFA. The aim of the RFA is to raise the professional standards of investment advisors and eradicate possible conflicts of interest that can be caused by commission based remuneration arrangements.

Trust Company Business (**"TCB"**)

In terms of local developments, the trust company business sector has continued its trend of consolidation. The reasons are varied. The primary cause is the challenge of securing organic growth during times of global austerity. In addition, the previous UK centric business model is no longer viable to a large extent, which has reduced the source of what was considered traditional business opportunities. Although there has been a fair degree of consolidation, the total employment numbers in the trust company business sector have remained stable.

Continuing the above theme, TCB has observed an influx of business from jurisdictions that many observers consider high risk. This has resulted in a rise in the general risk profile of the sector. The Commission would comment that a number of registered persons would need to enhance their risk management capability in order to administer such client structures successfully.

The extensive publicity surrounding tax planning structures caused Jersey, and specifically local service providers, to come under the spotlight from commentators in the UK as a number of high profile individuals were named and shamed in the press. Predictably, the UK press focused on the 'offshore' element of the structuring rather than the advice itself which is provided by tax counsel based in the UK.

"There remains a large amount of work to be undertaken in relation to the AIFMD, a key requirement of which is signing a co-operation agreement with EU supervisory bodies being co-ordinated by ESMA."

Supervision

The Supervision Divisions are responsible for two of the Commission's five aims. These are "to ensure all entities that are authorised meet fit and proper criteria" and "to ensure that all regulated entities are operating within accepted standards of good regulatory practice."

The Supervision Package

Approach

- A pro-active risk-based approach aimed at achieving complementary goals of discovery and deterrence, and which seeks to maintain or, where appropriate, to raise, regulatory standards.

Off-site

- Authorisation of regulated entities and principal persons.
- Review of financial information and regulatory/ prudential returns.
- Review of intelligence, including whistle blowing, complaints and Suspicious Activity Reports.

On-site

- Various types of on-site examination as detailed below.
- Mystery shopping, particularly in relation to the provision of financial advice.

Post on-site

- Follow up and remediation.
- Heightened supervision, including the use of enforcement powers.

Authorisations and revocations

Registered businesses comprise: banking; fund services business (**"FSB"**); general insurance mediation business (**"GIMB"**); insurance; investment business (**"IB"**); trust company business (**"TCB"**); and designated non financial businesses and professions (**"DNFBP"**) that carry on a business specified in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999.

During 2012, the number of registered businesses in each sector, together with any authorisations and revocations, was as follows.

Registered businesses in each sector

Sector	1 January 2012	Authorised	Revoked	31 December 2012
Banking	40	2	0	42
FSB	459	33	26	466
GIMB	124	23	7	140
Insurance	186	8	16	178
IB	100	5	8	97
TCB	176	21	8	189
DNFBP	193	37	14	216
Total	**1,278**	**129**	**79**	**1,328**

Examinations

The Commission has continued its focus on risk-based supervision through on-site examinations and following up any necessary action arising out of those examinations. The themes arising from the examinations have also been fed back to Industry in various ways - through seminars, presentations, dialogue with Industry associations, letters to chief executive officers (**"Dear CEO letters"**), the eNewsletter and the Website. The Commission completed 187 examinations during 2012.

"A pro-active risk-based approach aimed at achieving complementary goals of discovery and deterrence, and which seeks to maintain or, where appropriate, to raise, regulatory standards."

Total Examinations 2012

Division	Themed	Supervision	Total
TCB	6	52	58
Funds	3	45	48
IB	0	6	6
Banking	14	0	14
Insurance	0	16	16
AML Unit	0	45	45
Total	**23**	**164**	**187**

Examination activity was a significant feature of 2012. The main issues that have arisen from the on-site examination programme during 2012 are summarised below by each Industry sector. Remediation plans are agreed where necessary with the entities and such plans are monitored to ensure that the remedial work is undertaken within the prescribed timescales.

Banking

Banking has continued to undertake thematic examinations of banks in relation to both information security and prudential reporting during 2012. The prudential reporting theme has highlighted a number of areas in which the Commission's guidance has been misinterpreted and where banks' internal procedures for the production and oversight of prudential reporting could be improved. This has resulted in specific feedback to individual banks together with the publication of consolidated findings. The Commission has extended this series of examinations so as to include all banks during 2013.

Funds

In July 2012, the Funds Supervision resource was split into two teams and a senior manager appointed to head up each team. This proved to be a more effective and focused management model and allowed Funds to increase the number of on-site examinations in the second half of the year resulting in 48 being conducted against a target of 28. A number of joint examinations with TCB and IB were also conducted during 2012.

The findings from the Funds on-site examinations highlighted weaknesses in the following areas: corporate governance oversight; systems and control failures; and the management of conflicts of interests.

Insurance

The findings from the on-site examinations carried out during 2012 included issues in relation to compliance monitoring, conduct of business and the monitoring of client files. However, there is continuing improvement in relation to those issues following feedback from the Commission.

IB

Despite a reduced headcount, six on-site examinations were conducted during the year and a number of common themes were identified. There were a number of inadequacies in procedures relating to client AML risk ratings and the way that registered persons placed reliance upon intermediaries for AML/CFT purposes. A number of registered persons appeared to have inadequately resourced compliance functions and, as a result, the compliance monitoring performed was often insufficiently detailed or infrequent, and some compliance manuals required significant revision to bring them in line with current Jersey regulations. Finally, the examinations identified that many registered persons did not adequately maintain a conflicts of interest register and that conflicts, actual or possible, were not given appropriate consideration by senior management.

TCB

The key examination theme for TCB during 2012 was the testing of registered persons' management of AML/CFT risks. Additional bespoke examinations were conducted in areas such as compliance monitoring, fund administration undertaken by TCBs and Class N registrations (acting as a manager of a managed trust company).

The AML/CFT themed on-site examinations identified deficiencies in terms of risk awareness, risk rating allocation and insufficient rigour in respect of challenging the purpose and rationale behind structures and/or transactions. TCB will continue to look at this area during 2013, and will also be adding the theme of conflict of interest management to the examination schedule.

AML Unit

The majority of DNFBPs have now received at least one supervisory examination. The examinations have uncovered a range of findings, including deficient business risk assessments and insufficient policies and procedures to mitigate the threat of money laundering and the financing of terrorism. The AML Unit continues to provide appropriate guidance to assist businesses in achieving and maintaining the standards required in Jersey.

In addition, the AML Unit has responsibility for the regulation of money service businesses (**"MSB"**) in the Island. There are currently five registered MSBs, which provide a range of financial services, such as bureau de change and money transmission.

The AML Unit is also responsible for registering non-profit organizations (NPOs), which now total 759, and for monitoring this sector in respect of vulnerabilities to terrorist financing.

Enforcement

The Enforcement Division is responsible for work relating to the aim of the Commission "to identify and deter abuses and breaches of regulatory standards".

The increase in enforcement cases in 2011 carried on into 2012, with 103 new cases during the year, compared against a five year average of 89 new cases per annum. Such an increase continued to place a strain on resources and resulted in the recruitment of two additional staff to deal with the workload.

As a general trend, the Enforcement Division has seen an increase in more complex and demanding cases, including significant issues in the larger local financial institutions.

Working with a registered person to achieve compliance and safeguarding investors' interests continues to be a major part of Enforcement's work. Much of this is achieved through working cooperatively with the registered person.

In the most serious cases, Enforcement undertakes culpability reviews of individual conduct to determine if the misconduct warrants the issue of a public statement and any consequent directions restricting or preventing an individual from working in the Industry.

The Commission recognises the importance of applying sufficient checks and balances when considering the use of such powers and has developed a robust process which is published in the document entitled "a Guidance Note to the Decision-Making Process". Any affected person who feels that the Commission has acted unreasonably in the use of such powers is entitled to appeal to the Royal Court. No appeals to the Royal Court were made in 2012.

Those that seek to evade regulatory oversight of their activities by conducting financial services business whilst not registered with the Commission often pose a significant threat to investors. Due to the very real risks associated with those that conduct unauthorised financial services business, the Commission will continue to give priority to investigating such cases.

Receiving good quality intelligence to identify misconduct helps direct the Commission to a specific problem often resulting in swift and focused intervention. In 2012, the Commission received approaches from 14 whistle blowers either through the use of the Commission's whistle blowing line or through direct personal contact.

> "Settlement agreements have proved to be an effective and cost efficient method of dealing with serious regulatory misconduct..."

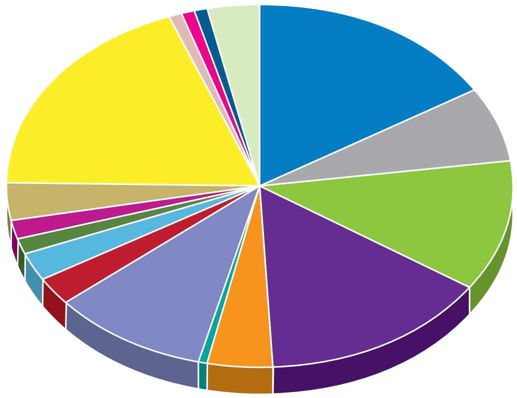
Settlement agreements have proved to be an effective and cost efficient method of dealing with serious regulatory misconduct and 10 agreements were concluded during the year. Such agreements are subject to strict parameters issued by the Board of Commissioners and are also subject to an annual audit.

A consultation paper on the introduction of a civil penalty regime was published in April 2012. The feedback proved to be fundamental in shaping the Commission's thoughts on the structure of a civil penalty regime. The feedback provoked a great deal of discussion by both the Executive and the Board of Commissioners, culminating in the publication of a feedback paper. It is anticipated that a further round of consultation will take place once a draft law is available.

Giving feedback to the Industry on trends and developments is regarded as an important part of Enforcement's role. During the course of the year, Enforcement participated in several seminars organised by the Industry and hosted its own lunchtime seminar. A similar seminar will be held in 2013.

Enforcement case statistics

Percentage breakdown of Enforcement Division activity during the year ended 2012



- Financial Services (J) Law - Investment Business - Non Regulated 16.4%
- Financial Services (J) Law - Investment Business - Regulated 6.6%
- Financial Services (J) Law - Trust Company Business - Non Regulated 11.5%
- Financial Services (J) Law - Trust Company Business - Regulated 14.8%
- Financial Services (J) Law - Fund Services Business - Regulated 4.1%
- Financial Services (J) Law - GIMB - Regulated 0.8%
- Financial Services (J) Law - Insider Dealing 9.8%
- Financial Services (J) Law - Market Manipulation 2.5%
- Financial Services (J) Law - Misleading Statements and Practices 2.5%
- Banking Business (J) Law - Non Regulated 1.6%
- Banking Business (J) Law - Regulated 1.6%
- Companies (Jersey) Law 3.3%
- Proceeds of Crime (Jersey) Law 18.9%
- Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 0.8%
- Insurance Business (J) Law - Regulated 0.8%
- Collective Investment Funds (J) Law - Non Regulated 0.8%
- Collective Investment Funds (J) Law - Regulated 3.3%

Total Enforcement Cases during the period from 1 January 2012 to 31 December 2012

Law	Active 1 January 2012	New Cases in Year (to 31/12/2012)	Total during year (to 31/12/12)	Total shown as percentage	Balance 31 December 2012
Financial Services (J) Law - Investment Business - Non Regulated	2	18	20	16.4	4
Financial Services (J) Law - Investment Business - Regulated	2	6	8	6.6	8
Financial Services (J) Law - Trust Company Business - Non Regulated	5	9	14	11.5	3
Financial Services (J) Law - Trust Company Business - Regulated	4	14	18	14.8	3
Financial Services (J) Law - Fund Services Business - Regulated	1	4	5	4.1	4
Financial Services (J) Law - GIMB - Regulated	0	1	1	0.8	0
Financial Services (J) Law - Insider Dealing	1	11	12	9.8	1
Financial Services (J) Law - Market Manipulation	0	3	3	2.5	0
Financial Services (J) Law - Misleading Statements and Practices	0	3	3	2.5	1
Banking Business (J) Law - Non Regulated	0	2	2	1.6	0
Banking Business (J) Law - Regulated	0	2	2	1.6	0
Companies (Jersey) Law	2	2	4	3.3	1
Proceeds of Crime (Jersey) Law	1	22	23	18.9	1
Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008	0	1	1	0.8	0
Insurance Business (J) Law - Regulated	1	0	1	0.8	1
Collective Investment Funds (J) Law - Non Regulated	0	1	1	0.8	1
Collective Investment Funds (J) Law - Regulated	0	4	4	3.3	2
Total	19	103	122	100.0	30

Registry

The Commission operates Jersey's Companies Registry (the **"Registry"**), which registers Jersey statutory bodies.

The Registry is committed to constructively responding to the needs and requirements of its users. Its Focus Group meets annually to discuss issues such as the quality of service provided by the Registry, online services, the volume of business through the Registry, and new products and fees.

During 2012, the Registry initiated a 'root and branch' review. The objects of the review are to:

- clearly define the requirements of a replacement Registry system;
- ensure that any new system removes the burden of redundant administrative requirements and takes into account any legislative drivers; and
- ensure international standards are met where required.

In order for all Registry stakeholders to participate in this significant review, a number of presentations were made during the year to Registry employees, the Registry Focus Group and Government. Reviews have begun of legislation, the current Registry ICT systems and processes, and the bench marking to international registries.

Overall, the number of Registry transactions continued to grow with registrations and processing, such as special resolutions and searches, having significantly increased when supplied online. This demonstrates that users of the Registry's services are now availing themselves of the improved online environment as their main point of contact.

The Registry adheres to published response time-scales, all of which were met in 2012, as shown in the table on page 43.

Automation and e-commerce projects

The online search facility, the online monitoring and the online filing system were enhanced.

All systems continue to be embedded in the online environment known as Easy Company Registry (**"ECR"**). In particular a new facility was created to allow multiple filings of companies' annual returns with only one payment.

Work on developing an automated Security Interests Register reached user acceptance testing stage with a number of progress demonstrations of the test system being given to Industry during its development.

In partnership with ICT, the Registry continued to enhance and extend its website with the introduction of new features which allow users to verify the authenticity of documents that have been issued by the Registry. A number of online forms have been evolved within the ECR website to achieve further efficiencies from the back office application. A new Registry e-zine was also launched during 2012 to keep users abreast of Registry issues and developments.

International Development of the Registry

The Registry has continued to enhance its profile internationally, participating at events such as the European Commerce Registries' Forum (**"ECRF"**) in Macedonia. According to the ECRF's global benchmarking survey 2012, Jersey processes the highest number of cross-border corporate migrations of all jurisdictions surveyed. Given this statistic, Jersey considers it important to be aware of international registry developments in this area. As part of this programme, the Jersey Registry was elected to the ECRF Working Group set up to progress the requirements of the Directive on the Interconnectivity of European Union (**"EU"**) and non EU (third countries) business registries. The implications for Jersey and other non EU countries of the introduction of this Directive and, consequently, any EU mechanism set up to deliver the requirements of this Directive, remain to be determined.

As part of its programme to match international standards on the supply of registry data, an information sharing agreement was signed with the European Business Register (**"EBR"**). This has enabled information on Jersey companies to be available through the EBR for the last six years.

The International Association of Commercial Administrators (**"IACA"**) represents the company registries of the United States (**"US"**) and Canada. Jersey was jointly awarded, with Germany, an IACA Merit award for "Outstanding Innovation in Registry Interoperability". Canada and the US are regarded as the leading jurisdictions for the administration of secure transactions and, with Jersey's new Security Interests Law being further developed in 2012, access to expert support from some of the North American registries has been beneficial in developing the underlying Security Interests Register.

Resources

One of the aims of the Commission is to "ensure the Commission operates effectively and efficiently…". A number of Divisions are responsible for ensuring that the Commission has in place the necessary information technology, human and physical resources to ensure that this aim is met.

Information and Communications Technology (**"ICT"**)

The key requirements for the Commission are systems that are highly protected and secure from attack by third parties, whilst ensuring that they are up-to-date and so facilitate effective and efficient working practices within the Commission and with regulated entities.

During the year, ICT continued to focus on serving the needs of the Commission through the delivery of high quality systems. 2012 saw a major replacement of its core systems infrastructure. This signals a commitment to both internal and external users of the Commission's technology systems. The new extended infrastructure has provided a significant increase in both the flexibility and capacity with which current and future mission critical systems can be delivered.

ICT was committed to attaining compliance with the findings of the 2011 external ICT audit. This included substantial investment in the areas of network security, information governance and contract management.

ICT also carried out a major upgrade to both the Commission internal and external collaboration tools to the latest 2010 versions. These updated technology products are already providing benefit to the Commission by providing the basis on which the Commission's new Supervision Platform and Portal were delivered, along with a number of new internal management systems.

Human Resources

We were delighted to maintain our Investors in People accreditation in 2012. This required significant sustained effort and was not just a matter of maintaining the status quo.

The Commission is fully committed to the development of its Staff. This is to ensure that its Staff remain up-to-date technically and professionally, and fulfil their continuing professional development obligations. The Commission continues to enhance the performance management process by providing consistent learning tools and education in relevant areas. For example, new training was introduced in 2012 to ensure managers are able to have more effective performance management conversations with their employees. The programme was written internally and all line managers were trained in-house during 2012.

Where possible, the Commission aims to hold training courses in the Island, but is always prepared to find training opportunities elsewhere (including with other regulators) where such learning is evidently important and of significant benefit to the Commission.

Identifying high quality recruits is always a challenge although we are seeing significant new interest through increased visits to the vacancies posted on our Website. A focus of our recruitment efforts during the year was in rebuilding our Investment Business resource as a result of reallocation of Staff within the Commission and, after a successful recruitment campaign, the Team ended the year well prepared for the challenges ahead.

"The Commission is fully committed to the development of its Staff."

Corporate Governance

Introduction

The Commission is committed to high standards of governance and believes that the UK Corporate Governance Code (the **"Code"**) issued by the Financial Reporting Council is the appropriate benchmark for financial services businesses and their regulators. The Code operates on a comply or explain basis where an explanation should be given about how the underlying principles in the Code are met where this is not automatic.

The Commission complies in full with the Code. Although the Commission does not have shareholders, it has instead a wide range of stakeholders and seeks to have an effective dialogue with them by way of the annual Business Plan and Budget, the Annual Report and the wide range of consultation documents about major legislative and policy proposals that it publishes. It also operates a whistle blowing help line to facilitate complaints and has a physical office in a central location to enable the public to make contact. The Board of Commissioners also meets regularly with Ministers and with representatives of the Industry to seek feedback.

The Commission publishes a section on Corporate Governance on its Website, which can be accessed at www.jerseyfsc.org/corporate_governance.asp

"The Board of Commissioners also meets regularly with Ministers and with representatives of the Industry to seek feedback."

Constitution of the Commission

The Commission is a statutory body corporate established under Article 2 of the Financial Services Commission (Jersey) Law 1998 (the **"Commission Law"**). The governing body comprises a Board of Commissioners. The Board of Commissioners is responsible, in particular, for setting the strategy of the Commission and ensuring that the necessary financial and human resources are in place for the Commission to meet its objectives.

Functions of the Commission

The functions of the Commission are set out in Article 5 of the Commission Law which states that the Commission shall be responsible for:

(a) the supervision and development of financial services provided in or from within Jersey;

(b) providing the States of Jersey (the **"States"**), any Minister of the States or any other public body with reports, advice, assistance and information in relation to any matter connected with financial services;

(c) preparing and submitting to the Minister for Economic Development (the **"Minister"**) recommendations for the introduction, amendment or replacement of legislation appertaining to financial services, companies and other forms of business structure; and

(d) such functions in relation to financial services or such incidental or ancillary matters -

(i) as are required or authorised by or under any enactment; or

(ii) as the Government may, by Regulations, transfer.

Constitution of the Board

Article 3(1) of the Commission Law requires the Board to consist of a Chairman and not less than six other Commissioners.

Currently, the Board consists of a Chairman, a Deputy Chairman and eight other Commissioners. One Commissioner is the Director General of the Commission; all other Commissioners are considered to be independent non-executive members of the Board. Seven of the Commissioners live in Jersey, and three in the United Kingdom.

Article 3(3) of the Commission Law requires the Commissioners to include:

(a) persons with experience of the type of financial services supervised by the Commission;

(b) regular users on their own account or on behalf of other, or representatives of those users, of financial services of any kind supervised by the Commission; and

(c) individuals representing the public interest.

The Board is satisfied that its composition provides a proper balance between the interests of persons carrying on the business of financial services, the users of such services and the interests of the public at large. The current membership of the Board, together with a brief description of their experience, is shown in the chapter entitled "The Commissioners".

The roles of the Chairman and Chief Executive (Director General) are split and their respective responsibilities are distinct. The Chairman is responsible for the running of the Board's business and the Director General has executive responsibility for the running of the Commission's day-to-day business.

The Deputy Chairman of the Board is considered by the Board to be its "Senior Independent Director" as described in the Code.

Under the provisions of the Commission Law, the appointment of Commissioners is a matter reserved for decision by the States. When seeking to fill vacancies that arise, the Board follows the procedures recommended by the Jersey Appointments Commission (**"JAC"**) - a body set up by the States to overview all public sector appointments - and a member of the JAC sits on the Selection Panel. The Selection Panel reports to the Nomination Committee, which considers and, where appropriate, recommends a candidate to the Board. The Board determines whether an appointment should be made and recommends such appointment to the Minister. If the Minister is satisfied with the Commission's recommendation, the Minister will take an appropriate proposition to the States for debate.

On appointment, a Commissioner will receive an induction to the work of the Board and each Division of the Commission. This includes an opportunity to meet senior staff in each Division at the earliest stage. Commissioners receive a standing invitation to attend in-house seminars, as well as receiving lunchtime presentations at strategic level from local and overseas speakers of recognized stature. This is in addition to ad hoc continuous development training events.

Under the provisions of the Commission Law, Commissioners are appointed for terms not exceeding five years and, upon expiry of their term of office, are eligible for reappointment.

Operation of the Board

During 2012, the Commission held ten Board meetings and made two resolutions that were passed by way of transactions of business without meeting. In advance of each meeting, Commissioners are provided with comprehensive briefing papers on the items under consideration. The Board is supported by the Commission Secretary who attends and minutes all meetings of the Board.

Article 11 of the Commission Law empowers the Board of Commissioners to delegate any of its powers to the Chairman, one or more Commissioners, or an officer of the Commission. However, the Board has decided to retain to itself those powers that could have a highly significant effect on the achievement of its key purposes or on the finances or reputation of the Commission.

In particular, in relation to licensing decisions, the Board has retained those powers which relate to:

- the authorisation of all new business applicants under the Banking Business (Jersey) Law 1991; and
- the refusal of an application or the revocation of a permit, registration, etc., under the four Regulatory Laws (except in certain limited circumstances, for example where the revocation of a permit, registration or similar is at the request of the registered person).

The Board has adopted a policy statement that sets out in detail which powers the Board has retained to itself and a policy statement on those powers that it has delegated to the Executive of the Commission. The full text of these policy statements can be viewed on the Commission's website at: www.jerseyfsc.org/corporate_governance.asp

On an annual basis, the Board holds an Away Day, which is also attended by the Director General and Divisional Directors, that provides an opportunity to discuss strategic issues for the year ahead. Additional meetings to discuss strategic issues and to review the performance of the Board, the Chairman, and the Director General are also held. Annual meetings are held with the financial services regulators in the other Crown Dependencies (Guernsey and the Isle of Man).

Corporate Governance

The Board conducted a self-evaluation of its performance during 2012. Whilst the conclusions reached were generally satisfactory, the Board concluded that further effort needed to be made in relation to stakeholder communication. The first evidence of this can be seen in the revised content and format of the Commission's Business Plan and Budget. It is anticipated that a further independent evaluation will be conducted in 2013.

The Board maintains a rolling three-year Business Plan and an Annual Budget. In the last quarter of each year, the Executive of the Commission prepares a draft Business Plan and Budget incorporating, amongst other things, any strategic issues raised by the Board at its annual Away Day. The draft Business Plan and Budget is considered by the Board in December of each year.

The Commission publishes an abridged version of the detailed internal Business Plan used by the Commission's staff for comprehensive planning and monitoring purposes.

The Board monitors performance against the objectives set in the Business Plan by reviewing regular reports from each Divisional Director. These reports are considered at the Board's regular meetings at which the relevant Director is present and available to the Board to answer questions and provide any additional information that may be required. Performance against budget is monitored by the presentation of quarterly management accounts to the Board and financial presentations as and when appropriate.

The Commission's financial control processes have been in place throughout the year and have been kept under regular review. The Board concluded that the system of financial control in relation to key items was effective throughout the year.

Principal risks and uncertainties

The Board discusses the risks and uncertainties facing the Commission on a regular basis. Discussions and decisions are influenced by global political, economic, legal and regulatory factors, as well as local considerations and the operation of the Commission itself.

Strategic and operational risks arising from its legal remit have been captured in a risk register, which is regularly reviewed by the Executive, Audit Committee and Board. Of the risks identified, the Commission currently considers the following to be the principal risks and has allocated significant resources to managing them.

International Standards Alignment

This is the risk that the reputation of Jersey and compliance with international standards falls below the level necessary to secure sufficient high quality and profitable financial services business and /or results in international disapproval/sanctions.

The Commission considers this risk to be increasing as a result of the current global political, economic and regulatory environment.

Regulatory Strategy and Execution

This is the risk that the Commission does not choose effective regulatory strategies or is unable to achieve its objectives resulting in public financial loss and/or reputation damage to the Commission and Jersey.

The Commission also considers this risk to be increasing as a result of the current political, economic and regulatory environment.

The Commission is currently integrating risk management aspects within its evolving key performance indicator (**"KPI"**) framework to improve its ability to manage potential deviation from desired regulatory outcomes. The current KPIs highlight the Executive's performance in delivering the Supervision Package across the Industry sectors and are used to identify any emerging strains. The KPIs can also, to a limited extent, highlight emerging trends from Industry.

Committees of the Board

The Board has established three Committees; an Audit Committee, a Nomination Committee and a Remuneration Committee. The Board appoints the members of those Committees. The terms of reference of each Committee are published on the Commission's website at: www.jerseyfsc.org/committeesoftheboard.asp

Audit Committee

Whilst the Audit Committee's terms of reference include the consideration of the annual appointment of the external auditor, the actual appointment of the auditor is a matter reserved to the Minister under Article 21(3) of the Commission Law.

The members of the Audit Committee during 2012 were John Averty (Chairman), Sir Nigel Wicks (until June 2012), Ian Wright (from July 2012) and Stephan Wilcke (from December 2012).

The Audit Committee met four times during the year and spent significant time on the statutory audit, risk, internal controls and KPIs.

The Audit Committee reconsidered which financial and non-financial controls it believed are key controls and drew up a short list of essential controls covering cash payments, contracting and physical security. It then commissioned specific work from internal and external audit to provide it with evidence of their effectiveness.

The Audit Committee concluded that the system of financial control in relation to these key items was effective throughout the year and reported this to the Board. However, it did identify that the back up site and equipment therein listed in the disaster recovery plan was no longer fit for purpose. An alternative site has since been found and the equipment has been updated.

The Audit Committee took a significant interest in the work being conducted by the Board defining the principal risks that the Commission faces and the KPIs that could be generated to enable the Board to monitor how those risks are developing. The Committee plans to devote significant time and resources during 2013 to ensuring that the KPIs are well controlled and meaningful.

The Audit Committee met with the external auditor during the year. The auditor raised concerns that the depreciation period for equipment may be too short and the Audit Committee agreed to keep this under review in relation to future major acquisitions. The Audit Committee also reconfirmed that the auditor had no conflicts of interest that might impair their independence. The Audit Committee considered that using a firm with no presence in the Island avoided the potential for the auditor to also work for a regulated entity which might give rise to certain conflicts.

Nomination Committee

The purpose of the Nomination Committee is to ensure an adequate diversity within the Board of Commissioners and to undertake succession planning for the Board and the Executive.

All members of the Board of Commissioners are members of the Nomination Committee. The Nomination Committee met three times during 2012 to consider two vacancies and one re-appointment to the Board, as detailed in the following paragraph.

On 5 February 2012, Philip Taylor resigned as a Commissioner and, on 17 April 2012, Ian Wright was appointed to fill that vacancy. Sir Nigel Wicks retired on 16 June 2012, having reached the maximum age for a Commissioner and having served as a Commissioner for five years. Stephan Wilcke was appointed on 17 July 2012 to fill the international vacancy. The process for the re-appointment of John Harris to serve a further term as a Commissioner was commenced in December 2012, with the re-appointment being made by the States with effect from 1 March 2013.

Remuneration Committee

The members of the Remuneration Committee during 2012 were, Debbie Prosser (Chairman), Clive Jones, and John Mills. The Remuneration Committee met five times during 2012.

The Remuneration Committee spent a considerable time at the beginning of the year reviewing with the Executive the Commission's performance review and appraisal system for all Commission Staff. This review and the recommendations which flowed resulted in a change of approach to the organisation's appraisal process during 2012. The review also led to a recommendation to move towards the introduction of a competency framework to assess behavioural as well as technical competencies. When completed, it will assist with Staff recruitment, performance management, learning and personal development and with the creation of better developed promotion criteria throughout the Commission.

The Remuneration Committee received and considered recommendations from the Executive for the annual pay review and bonus awards and agreed the remuneration levels for the Executive and Staff.

No increase in Commissioners' remuneration was proposed in 2012. The procedures followed by the Commission ensure that the setting of remuneration packages for Commissioners is formal and transparent and no individual Commissioner is responsible for determining his or her remuneration.

The Remuneration Committee reviewed and made amendments to its terms of reference.

The Remuneration Committee reviewed and reported to the Board on its performance during the year. The Board noted that a challenging but welcome contribution had been made by the Remuneration Committee to the Commission's remuneration and performance review strategy during 2012.

Corporate Governance

Attendance at meetings

During 2012, attendance at meetings of the Board and its Committees was as follows:

Commissioner	Board	Audit	Remuneration	Nomination
Clive Jones	10/10		5/5	3/3
John Averty	10/10	4/4		3/3
John Harris	8/10			2/3
Lord Eatwell	9/10			3/3
John Mills, CBE	10/10		5/5	3/3
Advocate Debbie Prosser	7/10		5/5	3/3
Markus Ruetimann	10/10			3/3
Philip Taylor	1/1			1/1
Crown Advocate Cyril Whelan	10/10			3/3
Sir Nigel Wicks	5/5	2/2		2/2
Stephan Wilcke	3/4	0/1		0/1
Ian Wright	7/7	2/2		3/3

Accountability arrangements

Whilst the Commission is an independent body, it is accountable for its overall performance to the States through the Minister.

As part of its accountability arrangements, the Commission's Business Plan, Budget and Annual Report are presented to, and discussed with, the Minister. Under Article 21(2) of the Commission Law, the Minister is required to lay a copy of the Annual Report before the States not later than seven months after the close of each financial year.

Under powers granted by Article 12 of the Commission Law, the Minister may, after consulting the Commission and where the Minister considers that it is necessary in the public interest to do so, give to the Commission guidance or give in writing general directions in respect of the policies to be followed by the Commission. The Commission has a duty in carrying out its functions to have regard to any guidance and to act in accordance with any directions given to it by the Minister.

The Minister and the Commission have entered into a Memorandum of Understanding to clarify the circumstances and the manner in which the powers granted under Article 12 of the Commission Law will be exercised. The text of the Memorandum can be obtained from the Commission's Website.

Whilst the Commission does not have any shareholders, the Board has taken steps to understand the views of the Commission's major stakeholders by holding annual meetings with senior Government Ministers and bi-annual meetings with Jersey Finance Limited and representatives of other Industry bodies. The Executive also meets with Government Ministers and Officers, and representatives of Jersey Finance Limited and other Industry bodies, on a regular basis. The Commission held a second Industry Survey in March 2012, the results of which were published in full on the Commission's website.

"The Board discusses the risks and uncertainties facing the Commission on a regular basis. Discussions and decisions are influenced by global political, economic, legal and regulatory factors, as well as local considerations and the operation of the Commission itself."

Financial Statements

Introduction

Fee income in 2012 was £13.00 million compared to £12.45 million in 2011. The main reason for the additional income was the increase in funds fees that took effect from 1 July 2012. This was the first increase in such fees for more than ten years.

Bank deposit interest received amounted to £87,000, which was £24,000 higher than in the previous year. This was due to the conversion of some deposits to longer fixed terms, attracting higher interest rates.

The Commission's major item of expenditure is staff costs. As in previous years the Commission has been increasing staff numbers only when absolutely necessary. During 2012 the average number of staff employed increased from 115 to 117, and the annual pay review averaged 2.8%. An analysis of this expenditure is contained in note 5 to the financial statements.

Expenditure on computer systems continued, in order to improve administrative efficiency. The amount of spend represents the maintenance costs for all systems (hardware and development costs are capitalised and depreciated over three years) and the software licence fees.

During 2012, the Commission employed a firm of professional consultants to provide advice and assistance to review the current state of filing, archiving and document retention. Expenditure on legal and professional services therefore increased to £480,000.

The net amount spent on investigations and litigation was £745,000, compared to £398,000 a year earlier. The increase arose mainly because of the costs associated with two major cases that involved considerable time and effort, and which will continue into 2013. Despite this, the Commission has continued its efforts to work with regulated businesses to resolve problems before they reach the stage where formal regulatory action needs to be taken.

Visits continued to be made regularly to overseas regulatory authorities and to international standard-setting organisations. It is important to maintain regular liaison and information exchange with these international bodies. This will continue in the coming years.

The Commission remains committed to staff development, education and training, so appropriate funding will be made available annually for this important aspect of the Commission's activities.

Overall, the level of operating expenses increased by £1.09 million, from £11.88 million in 2011 to £12.97 million in 2012. The net result for the year was an operational surplus of £114,000 and a consequent rise in reserves to £7.25 million. The Commission's has continued its policy in respect of its accumulated reserve in order to build up such a reserve to an amount equal to six months' operating expenditure plus the average of the last five years' cost of investigations and litigation. This is in order to meet contingencies, particularly the sizeable sums of money that may be required to fund investigations and litigation.

The Commissioners are of the opinion that the Financial Services Commission is a going concern, and the financial statements have been prepared accordingly. The auditors, PKF (UK) LLP, who were appointed in accordance with Article 21 of the Financial Services Commission (Jersey) Law 1998, have merged their business with BDO LLP, who have indicated their willingness to continue in office.

The Commissioners are responsible for preparing the financial statements in accordance with applicable law and regulations.

The Financial Services Commission (Jersey) Law 1998 requires the Commissioners to prepare financial statements for each financial year. Under that law the Commissioners have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (being United Kingdom accounting standards and other accounting principles generally accepted in the United Kingdom).

The financial statements are required to give a true and fair view of the state of affairs of the Commission and of the surplus or deficit of the Commission for that year. In preparing these financial statements the Commissioners are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commissioners are responsible for keeping proper accounts and proper records in relation to the accounts. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Commissioners are responsible for the maintenance and integrity of the financial information included on the Commission's website. Legislation in Jersey governing the preparation and dissemination of the financial statements and other information included in Annual Reports may differ from such legislation in other jurisdictions.

For and on behalf of the Board of Commissioners
C F Renault
Commission Secretary
3 June 2013

PO Box 267
14-18 Castle Street
St Helier
Jersey
Channel Islands
JE4 8TP

We have audited the financial statements of the Jersey Financial Services Commission (the **"Commission"**) for the year ended 31 December 2012 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is United Kingdom accounting standards and other accounting principles generally accepted in the United Kingdom (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Minister for Economic Development in accordance with Article 21(3) of the Financial Services Commission (Jersey) Law 1998. Our audit work has been undertaken so that we may state to the Minister for Economic Development those matters that we are required to state in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Minister for Economic Development for our audit work, for this report, or for the opinions that we have formed.

Respective responsibilities of Commissioners and Auditors

As explained more fully in the Statement of Commissioners' responsibilities, the Commissioners are responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and to express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Commissioners, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify any material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2012 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Financial Services Commission (Jersey) Law 1998.

PKF (UK) LLP
Norwich,
United Kingdom

3 June 2013

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Regulatory Income:					
Regulatory fees	4 (a)		10,487		9,953
Registry fees	4 (b)		2,509		2,497
Total regulatory income			12,996		12,450
Other income:					
Bank deposit interest received			87		63
Total income			13,083		12,513
Operating expenses:					
Salaries, fees, social security and pension contributions	5	9,214		8,612	
Operating lease expenditure		471		469	
Other premises costs		296		300	
Computer systems costs		613		623	
Legal and professional services		480		174	
Investigations and litigation	6	745		398	
Public relations costs		18		12	
Travel costs		155		223	
Staff learning and development		207		199	
Recruitment costs		79		79	
Other operating expenses		280		292	
Auditors' remuneration		15		15	
Depreciation of tangible fixed assets	7	396		472	
Loss on disposal of tangible fixed assets		-		8	
Total operating expenses			12,969		11,876
Excess of income over expenditure			114		637
Accumulated reserve brought forward			7,133		6,496
Accumulated reserve carried forward			7,247		7,133

Statement of total recognised gains and losses
There were no recognised gains or losses other than those detailed above.

Historical cost equivalent
There is no difference between the net surplus for the year stated above and its historical cost equivalent.

Continuing operations
All the items dealt with in arriving at the net surplus in the income and expenditure account relate to continuing operations.

The notes on pages 37 to 42 form an integral part of these financial statements.

	Note	£000	2012 £000	£000	2011 £000
Fixed Assets:					
Tangible assets	7		753		542
Current Assets:					
Fee income receivable		25		23	
Sundry debtors		29		91	
Prepayments		318		317	
Cash at bank and in hand	8	11,610		10,897	
		11,982		11,328	
Creditors - amounts falling due within one year:					
Fee income received in advance	4 (c)	4,531		3,825	
Sundry creditors	9	957		912	
		5,488		4,737	
Net Current Assets			6,494		6,591
Total Assets less Current Liabilities			7,247		7,133
Represented by:					
Accumulated reserve			7,247		7,133

The notes on pages 37 to 42 form an integral part of these financial statements.

The financial statements on pages 34 to 42 were approved by the Board of Commissioners, and signed on their behalf on 3 June 2013 by:

C S Jones
Chairman

J R Harris
Director General

	2012 £000	2011 £000
Reconciliation of net income to net cash inflow from operating activities		
Net income for the year	114	637
Interest received	(87)	(63)
Depreciation charges	396	472
Loss on sale of tangible fixed assets	-	8
Decrease in debtors and prepayments	59	82
Increase in creditors	751	183
Net cash inflow from operating activities	1,233	1,319

	2012 £000	2011 £000
Cash Flow Statement		
Net cash inflow from operating activities	1,233	1,319
Returns on investments and servicing of finance		
Interest received	87	63
Capital expenditure		
Payments to acquire tangible fixed assets	(607)	(237)
Increase in cash	713	1,145

	2012 £000	2011 £000
Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	713	1,145
Net funds at 1 January	10,897	9,752
Net funds at 31 December	11,610	10,897

1. Accounting policies

The financial statements have been prepared under the historical cost convention, and in accordance with generally accepted accounting practice in the United Kingdom.

A summary of the more important accounting policies is set out below.

a) Income and expenditure is accounted for on an accruals basis. Regulatory and Registry fees are recognised over the period to which they relate.

b) Registry fees include only the share of fees attributable to the Commission. The Commission acts as agent in collecting the proportion of annual return fees attributable to the States of Jersey (see note 4b).

c) Fixed assets are stated at cost less depreciation.
Depreciation on tangible fixed assets is calculated to write down their cost on a straight line basis to their estimated residual values over their expected useful lives.
Computer equipment is depreciated over three years.
Computer software costs are written off as incurred to the Income and Expenditure Account, except for purchases in respect of major systems. In such cases, the costs are depreciated over three years.
Computer systems under construction are not depreciated. Depreciation is charged when a system has been completed and is in operation.
Office furniture, fittings and equipment are depreciated over five years.

d) Foreign currency transactions during the year have been translated at the rates of exchange ruling at the dates of the transactions.
Any profits or losses arising from such translations into Sterling are accounted for in the Income and Expenditure Account.

e) Costs incurred as the result of investigations and litigation are accounted for as they are incurred. Recoveries are accounted for when they have been awarded and it has become virtually certain that they will be received.

f) All leases are operating leases, and the annual rentals are charged to operating expenses on a straight line basis over the term of the lease. The value of the rent free period that was granted upon the Commission's occupation of its current premises has been accounted for over the term of the lease.

g) The costs of defined contribution pension schemes are accounted for on an accruals basis. The costs of annual contributions payable to defined benefit schemes operated by the States of Jersey are accounted for on an accruals basis because the Commission is unable to obtain the information necessary to apply defined benefit scheme accounting (see note 14).

h) The financial statements contain information about the Commission as an individual entity, and do not include consolidated financial information as the parent of a group. The Commission is exempt from the requirement to prepare consolidated financial statements because the inclusion of its subsidiaries is not material for the purpose of giving a true and fair view.

2. Related party transactions

The Commission has been established as an independent financial services regulator and as such the States of Jersey is not considered to be a related party.

3. Taxation

The Commission is exempt from the provisions of the Income Tax (Jersey) Law 1961, as amended.

4. Income

	2012	2011
	£000	£000
a) Regulatory fees		
Banking	**1,328**	1,303
Funds	**4,041**	3,428
Insurance companies	**759**	784
General insurance mediation	**98**	95
Investment business	**1,239**	1,288
Trust companies	**2,492**	2,528
Designated non-financial businesses and professions	**498**	497
Recognised auditors	**23**	20
Money services business	**9**	10
	10,487	9,953

b) Registry fees

Registry fees comprise income derived from the operation of the Companies Registry, the Business Names Registry, the Registry of Limited Partnerships and the Registry of Limited Liability Partnerships.

Registry fees include annual return fees.
The amount of the annual return fee payable to the Registry comprises two elements - an amount (£35) payable to the Registry to cover its administration costs and an additional amount (£115) set by, collected on behalf of, and payable to, the States of Jersey. The number of annual returns received during the year was 32,047 (2011 - 31,919).

	2012	2011
	£000	£000
Total annual return fee income	**4,807**	4,788
Less collected on behalf of, and payable to, the States of Jersey	**3,685**	3,671
Retained by the Registry	**1,122**	1,117
Other Registry income	**1,387**	1,380
Total Registry income	**2,509**	2,497

c) Regulatory fees received in advance	2012	2011
	£000	£000
Banking	**1,377**	1,354
Funds	**2,169**	1,483
Insurance companies	**534**	554
General insurance mediation	**-**	10
Investment business	**406**	420
Trust companies	**45**	-
Designated non-financial businesses and professions	**-**	2
Money services business	**-**	2
	4,531	3,825

5. Salaries, fees, social security and pension contributions

	2012	2011
	£ooo	£ooo
Staff salaries	7,660	7,116
Commissioners' fees (note 13)	239	245
Social security payments	356	298
Pension contributions	614	610
Permanent health and medical insurance	171	167
Other staff-related costs	174	176
	9,214	8,612

The average number of staff employed during the year was 117 (2011 - 115)

6. Investigation and litigation costs

As part of its regulatory responsibilities the Commission carries out investigations and enters into legal actions from time to time, the costs of which may be significant. The costs of each investigation or legal action are accounted for as they are incurred.

In a few cases, some or all of the Commission's costs may be recoverable. Such recoveries are accounted for when they have been awarded and it has become virtually certain that they will be received.

Costs incurred in 2012 amounted to £821,000 (2011 - £477,000), against which there were recoveries of £76,000 (2011 - £79,000). Net costs incurred during 2012 therefore amounted to £745,000 (2011 - £398,000).

7. Tangible assets

	Office Furniture Fittings & Equipment	Computer Equipment	Computer Systems under construction	Total
	£ooo	£ooo	£ooo	£ooo
Cost of assets at 1 January 2012	595	2,462	78	3,135
Additions during year	43	34	530	607
Systems completed during year	-	590	(590)	-
Disposals during year	-	(274)	-	(274)
Cost at 31 December 2012	638	2,812	18	3,468
Depreciation at 1 January 2012	493	2,100	-	2,593
Charged during year	63	333	-	396
Eliminated on disposals	-	(274)	-	(274)
Depreciation at 31 December 2012	556	2,159	-	2,715
Net book value at 31 December 2012	82	653	18	753
Net book value at 31 December 2011	102	362	78	542

Computer systems under construction have not been depreciated. Depreciation is charged when a system has been completed and is in operation.

8. Financial instruments

The Commission's accumulated financial reserves are invested in bank deposit accounts. In order to mitigate the credit risk and the market risk, these deposit accounts are maintained with six different banks.

9. Sundry creditors

	2012	2011
	£000	£000
General expense creditors	470	522
Accruals	487	390
	957	912

General expense creditors include pension contributions of £87,000 (2011 - £82,000) still to be remitted to the schemes at the balance sheet date.

Accruals contain an amount of £137,000 (2011 - £152,000) relating to the unexpired portion of the rent free period granted at the time when the Commission took out the lease on its premises.

10. Contingent liabilities

At the balance sheet date the Commission had no material contingent liabilities.

11. Financial commitments

The Commission has entered into an agreement through JFSC Property Holdings No.1 Limited (note 12) to lease premises for the Commission's occupation.

	2012	2011
	£000	£000
The annual rentals payable under this operating lease are:		
For a period of more than five years	490	490

The rentals payable under this operating lease are subject to periodic review, rebased to market rates.

12. Interest in wholly-owned companies

The Jersey Financial Services Commission has two wholly owned companies, JFSC Property Holdings No.1 Limited and JFSC Pension Trustees Limited.

JFSC Property Holdings No.1 Limited entered into an agreement on behalf of the Commission to lease premises for the Commission's occupation. Consequently, the Commission entered into an agreement with JFSC Property Holdings No.1 Limited whereby the Commission will be responsible for all expenditure associated with the lease. The company holds no assets or liabilities and therefore has not been consolidated in the financial statements.

JFSC Pension Trustees Limited acted as the corporate trustee of the Jersey Financial Services Commission Staff Pension Scheme. The company has no assets or liabilities and therefore has not been consolidated in the financial statements.

13. Commissioners' remuneration

		2012 £	2011 £
Fees paid to Commissioners were as follows:			
Clive Jones	(Chairman)	**48,000**	48,000
John Averty	(Deputy Chairman)	**27,000**	27,000
Lord Eatwell of Stratton St. Margaret		**30,000**	30,000
John Harris		**nil**	nil
John Mills		**20,000**	20,000
Deborah Prosser		**20,000**	20,000
Markus Ruetimann		**30,000**	30,000
Philip Taylor	(resigned 2 February 2012)	**3,333**	20,000
Cyril Whelan		**20,000**	20,000
Sir Nigel Wicks	(retired 16 June 2012)	**15,000**	30,000
Stephan Wilcke	(appointed 17 July 2012)	**12,500**	n/a
Ian Wright	(appointed 17 April 2012)	**13,333**	n/a

John Harris is the Director General of the Commission. During the year he was paid no fees as a Commissioner, but received total remuneration of £293,000 for the year (2011 - £274,000) in his capacity as Director General.

14. Pension costs

a) Staff initially employed by the Commission before 1 January 1999 are members of the Public Employees Contributory Retirement Scheme (**"PECRS"**) which, whilst a final salary scheme, is not a conventional defined benefit scheme because the employer is not necessarily responsible for meeting any ongoing deficit in the scheme. The assets are held separately from those of the States of Jersey. Contribution rates are determined by an independent qualified actuary so as to spread the costs of providing benefits over the members' expected service lives.

Salaries and emoluments include pension contributions for staff to this scheme amounting to £52,000 (2011 - £67,000). The decrease is due to staff retirement.
The Commission has adopted Financial Reporting Standard 17 "Retirement Benefits" (**"FRS17"**). Because the Commission is unable to readily identify its share of the underlying assets and liabilities of PECRS under FRS 17, contributions to the scheme have been accounted for as if they are contributions to a defined contribution scheme.

The contribution rate paid by the Commission during the year was 13.6% of salary, and this rate is expected to continue to be payable during 2013.

Actuarial valuations are performed on a triennial basis, the most recent published valuation being as at 31 December 2010. The main purposes of the valuation are to review the operation of the scheme, to report on its financial condition, and to confirm the adequacy of the contributions to support the scheme benefits.

The conclusion of the latest published valuation is that there is a surplus in the scheme assets at the valuation date of £40.6 million. Because the scheme is accounted for as if it is a defined contribution scheme, no account has been taken of the Commission's potential share of this surplus.

In addition to this, as at the date of the valuation, there was a debt due to the scheme from the States of Jersey that relates to the period pre-1987. The Commission settled its share of this liability during 2005.

Copies of the latest Annual Accounts of the scheme, and of the States of Jersey, may be obtained from the States Treasury, Cyril Le Marquand House, The Parade, St Helier JE4 8UL.

b) Staff initially employed by the Commission after 1 January 1999 are members of the Jersey Financial Services Commission Staff Pension Scheme, which is a defined contribution scheme whose assets are held separately from those of the Commission. The administration of the scheme is carried out by independent administrators, and the Commission has appointed independent managers for the management of the investments.

Salaries and emoluments include pension contributions for staff to this scheme amounting to £562,000 (2011 - £543,000). The increase is due to rising membership numbers.

Particulars of the scheme may be obtained from The Secretary, Jersey Financial Services Commission, PO Box 267, 14-18 Castle Street, St Helier JE4 8TP.

Statistical Annexe

Companies

Registry Processing - performance against target

	All Companies %	Partnerships %	Searches %	Certification %	Business names %
Achieved	98.4	96.7	100	100	99.8
Target	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	90 achieved within 2 days

Registry Processing - items processed

Year	Company searches	Printed search documents	Business names	Limited partnerships	Certificates of good standing
2010	57,645	4,518	823	102	2,258
2011	60,801	3,230	837	122	2,286
2012	68,157	7,950	845	133	2,295

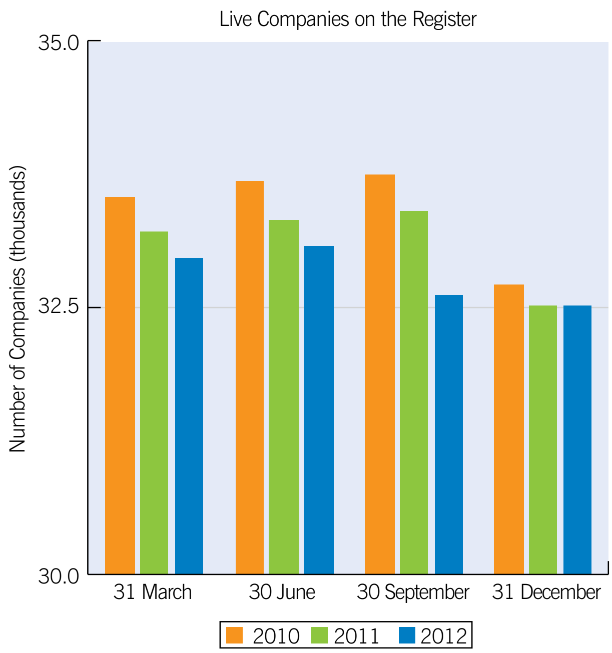
Quarterly Company Incorporations

Year	31 March	30 June	30 September	31 December	Annual Total
2010	709	586	605	584	2,484
2011	629	576	640	675	2,520
2012	646	558	526	643	2,373

Live Companies on the Register

At 31 December 2012 (2011) there were 32,503 (32,508) live companies registered in Jersey.

Year	31 March	30 June	30 September	31 December
2010	33,379	33,570	33,634	32,722
2011	32,998	33,116	33,194	32,508
2012	32,816	32,938	32,628	32,503



Funds

Collective Investment Funds (Jersey) Law 1988 (the "Law")
Control of Borrowing (Jersey) Order 1958 (The "Order")

Summary of Statistical Survey of Funds Serviced in Jersey as at 31 December 2012

From 1 October 2003 the Commission has excluded from the figures the collective investment funds for which a certificate or permit was issued under the Law for the function of distributor or similar minor function. However, the Commission now collects statistics on the private schemes administered in the Island which, although not requiring a certificate or permit under the Law, require consent under the Order (such funds are termed **"COBO Funds"**). Funds regulated under the Law are referred to herein as **"CIFs"**.

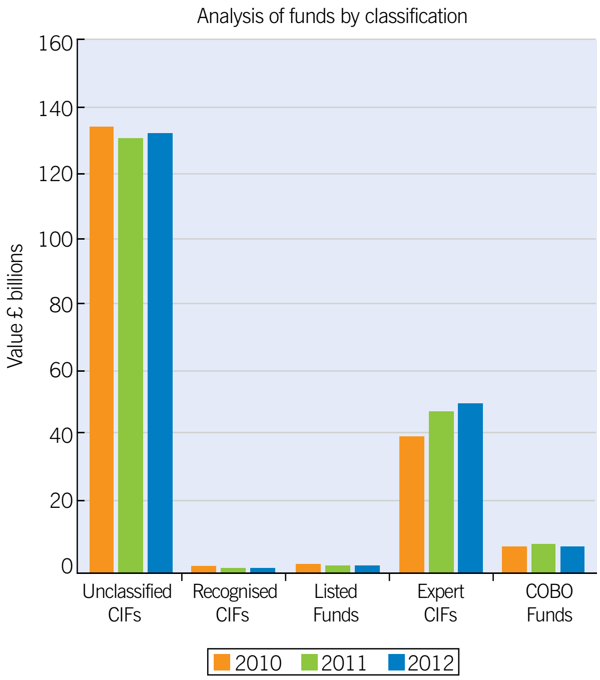
Date	Net asset value (£ billions)	Number of funds	Number of separate pools
31 December 2010	184.703	1,324	2,522
31 December 2011	189.424	1,392	2,454
31 December 2012	192.761	1,388	2,322

Analysis of CIFs and COBO Funds

Fund type	Open-ended/ Closed-ended	Total NAV £ billions	Total No. of funds	Number of separate pools
CIFs	Closed	112.578	508	562
CIFs	Open	72.523	695	1,575
	CIF Sub Total:	**185.101**	**1,203**	**2,137**
COBO Funds	Closed	7.166	163	163
COBO Funds	Open	0.494	22	22
	COBO Sub Total:	**7.660**	**185**	**185**
	Total:	**192.761**	**1,388**	**2,322**

Analysis by Class - 31 December 2012

Fund type	Net asset value (£ billions)	Number of funds	Number of separate pools
Unclassified CIFs	131.673	728	1,431
Recognized CIFs	1.902	10	35
Listed Funds	3.007	24	25
Expert CIFs	48.519	441	646
CIFs Sub Total	**185.101**	**1,203**	**2,137**
COBO Funds	7.660	185	185
Total	**192.761**	**1,388**	**2,322**

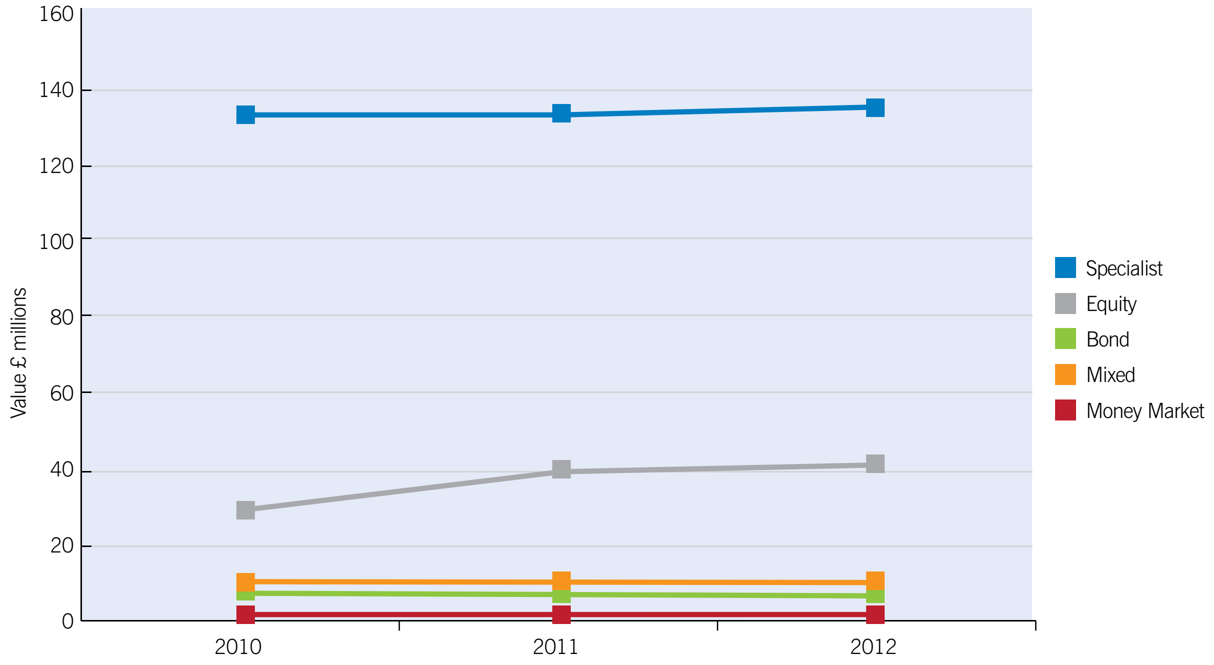


Funds

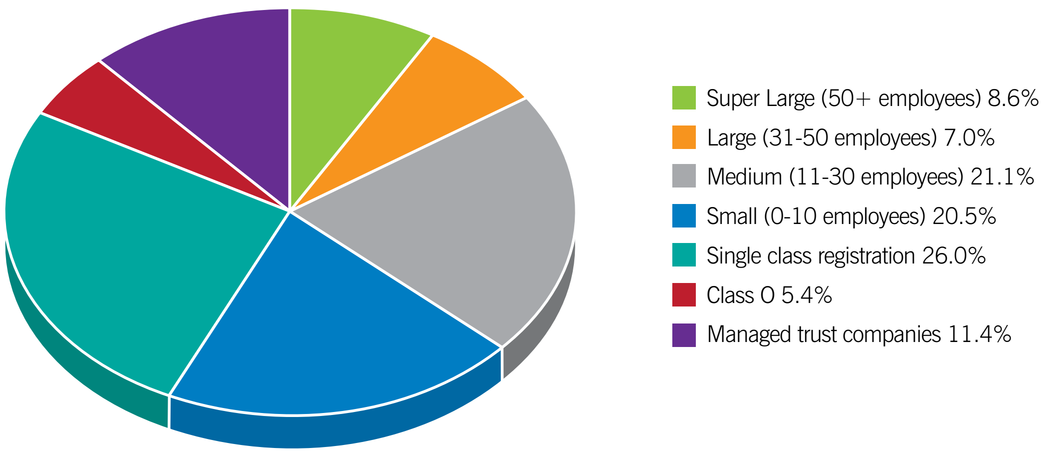
CIFs & COBO Funds - Analysis by Investment Policy Codes

Investment policy	Number of single class funds	Number of umbrella sub-funds	Sales £ millions	Repurchases £ millions	NAV £ millions
B01 - Bond-Global	8	23	177	82	2,250
B02 - Bond-UK Debt	3	15	33	60	1,277
B03 - Bond-US Debt	1	6	7	17	674
B04 - Bond-Europe	0	8	14	43	388
B05 - Bond-Other	3	14	4	15	1,009
Sub Total Bond	**15**	**66**	**235**	**217**	**5,598**
E01 - Equity-UK	11	13	77	24	1,024
E02 - Equity-Europe (Including UK)	26	7	976	1,577	21,268
E03 - Equity-Europe (Excluding (UK)	15	2	44	10	1,744
E04 - Equity-US (North America)	7	8	31	60	1,496
E06 - Equity-Far East (Including Japan)	5	2	28	16	778
E07 - Equity-Far East (Excluding Japan)	2	5	12	13	57
E08 - Equity-Global Emerging Markets	10	12	204	112	1,419
E09 - Equity-Global Equity	22	106	396	500	8,270
E10 - Equity-Other	55	51	79	117	6,287
Sub Total Equity	**153**	**206**	**1,847**	**2,429**	**42,343**
X01 - Mixed-Mixed Equity and Bond	33	193	576	772	9,732
Sub Total Mixed	**33**	**193**	**576**	**772**	**9,732**
M01 - Money Market-Sterling	1	8	29	19	134
M02 - Money Market-US Dollar	0	11	5	25	112
M03 - Money Market-Euro	0	8	7	35	59
M04 - Money Market-Swiss	0	1	1	1	20
M05 - Money Market-Other	2	5	1	5	31
Sub Total Money Market	**3**	**33**	**43**	**85**	**356**
S01 - Specialist-Venture Capital/Private Equity - Emerging Markets	47	0	171	198	6,696
S02 - Specialist-Venture Capital/Private Equity - Other	272	2	1,421	1,824	35,430
S03 - Specialist-Real Property	160	38	594	117	21,642
S04 - Specialist-Derivatives	6	7	8	12	69
S05 - Specialist-Traded Endowment Policies	9	25	45	132	1,187
S06 - Specialist-Hedge/Alternative Investment Funds	401	376	3,270	4,447	47,136
S07 - Specialist-Other	89	188	2,598	1,861	22,572
Sub Total Specialist	**984**	**636**	**8,107**	**8,591**	**134,732**
Grand Total	**1,188**	**1,134**	**10,808**	**12,094**	**192,761**

Funds - Analysis by Investment Code Policies



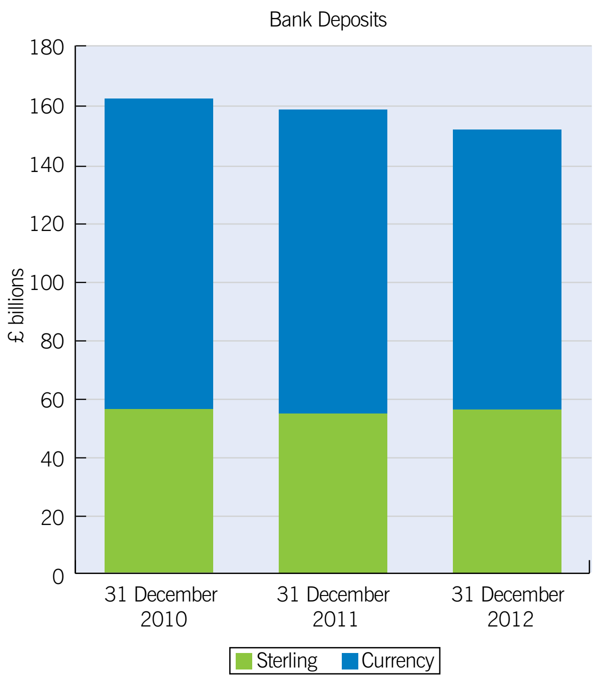
Breakdown of Trust Company Businesses by size



Banking

Banks and Bank Deposits - £ billions

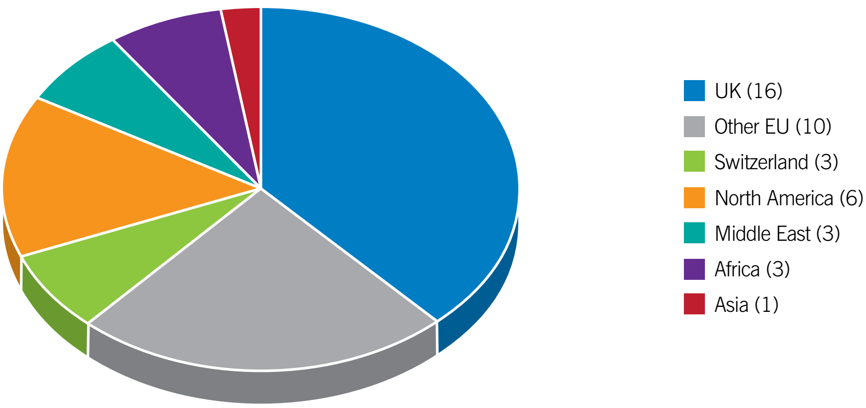
Date	Number of banks	Sterling	Currency	Total
31 March 2010	46	58.955	118.648	177.603
30 June 2010	46	57.474	109.411	166.885
30 September 2010	45	57.089	110.066	167.155
31 December 2010	45	56.376	105.217	161.593
31 March 2011	39	55.979	110.511	166.490
30 June 2011	39	54.468	110.551	165.019
30 September 2011	39	55.909	111.386	167.295
31 December 2011	40	54.276	103.811	158.087
31 March 2012	40	54.860	100.031	154.891
30 June 2012	41	56.397	94.014	150.411
30 September 2012	42	56.109	92.573	148.682
31 December 2012	**42**	**56.126**	**96.018**	**152.145**



Analysis of Bank Deposits - 31 December 2012 (£ billions; currency stated in sterling equivalent)

Residence of depositors	Sterling	Currency	Total
Jersey Resident Depositors	8.132	4.025	12.157
Jersey Financial Intermediaries etc	6.393	6.809	13.201
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	24.988	14.068	39.056
Subtotal	**39.513**	**24.901**	**64.414**
Other EU Members	2.583	12.275	14.858
European Non EU Members	3.697	26.778	30.475
Middle East	1.722	17.821	19.543
Far East	2.130	3.447	5.576
North America	1.813	4.083	5.896
Others, Unallocated non Jersey, UK etc	4.669	6.713	11.382
Subtotal	**16.614**	**71.117**	**87.731**
Overall total of deposits	**56.126**	**96.018**	**152.145**
Percentage of Total	**Sterling**	**Currency**	**Total**
Jersey Resident Depositors	5.3%	2.6%	8.0%
Jersey Financial Intermediaries etc	4.2%	4.5%	8.7%
U.K., Guernsey & I.O.M. + unallocated Jersey, UK etc	16.4%	9.2%	25.7%
Subtotal	**26.0%**	**16.4%**	**42.3%**
Other EU Members	1.7%	8.1%	9.8%
European Non EU Members	2.4%	17.6%	20.0%
Middle East	1.1%	11.7%	12.8%
Far East	1.4%	2.3%	3.7%
North America	1.2%	2.7%	3.9%
Others, Unallocated non Jersey, UK etc	3.1%	4.4%	7.5%
Subtotal	**10.9%**	**46.7%**	**57.7%**
Overall total of deposits	**36.9%**	**63.1%**	**100.0%**

Geographical analysis of deposit-taking licence holders at 31 December 2012



Assets of Banks

Totals and sub-totals for registered deposit takers, split between those that are incorporated in Jersey (**"Jersey Banks"**) and those that operate in Jersey through a branch of an overseas incorporated bank (**"Jersey Branches"**).
All values are in £ millions.

Activity		2008	2009	2010	2011	2012
All Loans		**301,013**	**221,370**	**197,664**	**193,381**	**183,085**
	Jersey Banks	93,264	79,155	82,402	82,877	81,863
	Jersey Branches	207,749	142,215	115,262	110,504	101,222
of which:						
1.1 Funding of group companies		260,767	188,368	164,613	159,180	148,974
	Jersey Banks	63,662	53,185	56,166	55,859	56,133
	Jersey Branches	197,105	135,183	108,447	103,321	92,841
of which intra-Jersey[1] is:		3,712	3,790	5,178	5,386	3,121
1.2 Other Loans		40,246	33,002	33,051	34,201	34,111
	Jersey Banks	29,602	25,970	26,236	27,018	25,730
	Jersey Branches	10,644	7,032	6,815	7,183	8,381
of which:						
1.2.1 Interbank Loans		5,666	3,545	3,116	4,321	3,041
	Jersey Banks	2,794	3,473	2,974	4,199	2,840
	Jersey Branches	2,872	72	142	122	201
1.2.2 Customer Loans		34,581	29,457	29,936	29,879	31,069
	Jersey Banks	26,808	22,497	23,263	22,819	22,890
	Jersey Branches	7,773	6,960	6,673	7,060	8,179
of which:						
1.2.2.1 Retail Loans		7,624	5,737	4,409	4,474	4,523
	Jersey Banks	4,600	3,478	2,442	2,350	2,198
	Jersey Branches	3,024	2,259	1,967	2,124	2,325
1.2.2.2 Residential Mortgages		6,538	6,575	6,448	6,881	7,417
	Jersey Banks	4,057	4,174	3,879	4,062	3,987
	Jersey Branches	2,481	2,401	2,569	2,819	3,430
1.2.2.3 Commercial Loans		20,419	17,145	19,079	18,524	19,129
	Jersey Banks	18,151	14,845	16,942	16,407	16,705
	Jersey Branches	2,268	2,300	2,137	2,117	2,424
All investments		**12,115**	**9,562**	**11,871**	**11,594**	**29,085**
	Jersey Banks	7,095	7,523	8,209	9,682	7,906
	Jersey Branches	5,020	2,039	3,662	1,912	21,179
All other assets		**5,961**	**19,979**	**31,558**	**28,134**	**5,243**
	Jersey Banks	3,250	2,912	3,119	3,695	3,305
	Jersey Branches	2,711	17,067	28,439	24,439	1,938
Balance Sheet Total		**319,089**	**250,911**	**241,093**	**233,109**	**217,413**
	Jersey Banks	103,609	89,590	93,730	96,254	93,074
	Jersey Branches	215,480	161,321	147,363	136,855	124,339
Risk Weighted Assets (Jersey Banks only)		**47,910**	**41,626**	**43,222**	**49,974**	**50,131**

2012 Commentary

The balance sheet total decreased by 1.3% in Q4 2012 (£2.9 billion), driven by the decrease in total funding, which has resulted in significant declines of £1.9 billion in lending (principally to group companies) and £1.0 billion in the total of investments and all other assets (principally the value of items held as hedges versus issued debt). The last two categories fell because of a decline in outstanding issued debt and hence a decline in related hedging activity that falls within these categories. A change in the management of some of these hedging transactions resulted in circa £20 billion of investments being booked, replacing an equal value of derivatives.

For the year as a whole, the decline in balance sheet assets of £15.7 billion (6.7%), is principally due to: (1) a reduction in funding of group companies (£10.2 billion), related to a decline in deposits and outstanding issued debt; and (2) a net reduction in investments and all other assets (£5.4 billion), related to the decline in outstanding issued debt.

[1]Intra-Jersey funding represents deposits placed by banks registered in Jersey with other Jersey banks.

Funding of Banks

Totals and sub-totals for registered deposit takers, split between those that are incorporated in Jersey (**"Jersey Banks"**) and those that operate in Jersey through a branch of an overseas incorporated bank (**"Jersey Branches"**).
All values are in £ millions.

Activity	2008	2009	2010	2011	2012
All Deposits	**209,792**	**169,010**	**166,771**	**163,474**	**155,266**
Jersey Banks	87,998	78,114	80,665	82,256	78,681
Jersey Branches	121,794	90,896	86,106	81,218	76,585
of which:					
1.1 Customer Deposits	120,603	106,801	109,816	111,980	108,635
Jersey Banks	83,007	73,607	74,978	77,106	75,081
Jersey Branches	37,596	33,194	34,838	34,874	33,554
1.2 Bank Deposits	89,189	62,209	56,955	51,494	46,630
Jersey Banks	4,991	4,507	5,688	5,150	3,600
Jersey Branches	84,198	57,702	51,267	46,344	43,030
of which intra-Jersey is:	3,712	3,790	5,178	5,386	3,121
All senior debt issued	**87,072**	**63,528**	**54,089**	**50,815**	**42,712**
Jersey Banks	5,084	2,270	2,779	2,839	3,330
Jersey Branches	81,988	61,258	51,310	47,976	39,382
All other liabilities and equity	**22,226**	**18,374**	**20,234**	**18,820**	**19,435**
Jersey Banks	10,526	9,207	10,287	11,159	11,064
Jersey Branches	11,700	9,167	9,947	7,661	8,371
Balance Sheet Total	**319,089**	**250,911**	**241,093**	**233,109**	**217,413**
Jersey Banks	103,609	89,590	93,730	96,254	93,075
Jersey Branches	215,480	161,321	147,363	136,855	124,338
Regulatory Capital (Jersey Banks only)	**6,634**	**6,325**	**6,617**	**7,280**	**7,396**
Capital and Reserves (Jersey Banks only)	**5,561**	**5,373**	**5,569**	**6,222**	**6,871**

2012 Commentary

The decrease of 1.3% (£2.9 billion) in total funding was driven by a £4.3 billion decrease in outstanding issued debt. Offsetting this, deposits increased by £2.3 billion, the relative weakness in sterling explaining around £0.8 billion of this. Intra-Jersey deposits from banks decreased significantly but deposits grew faster - by around £3.4 billion. This increase is entirely due to the rise in deposits from non-Jersey banks (£4.5 billion), with customer deposits falling by £1.1 billion. All other liabilities and equity also declined by around £ 0.9 billion (the largest component relating to settlement positions).

For the year as a whole, the decline of £15.7 billion (6.7%), is principally due to a reduction in deposits (£8.2 billion) and issued debt (£8.1 billion). Deposits from banks (down £4.9 billion) declined significantly faster than deposits from customers (down £3.3 billion).

Key trends and profitability of Banks that are incorporated in Jersey

	2008	2009	2010	2011	2012
Trend in Balance Sheet Total	+6.9%	-13.5%	+4.6%	+2.7%	-3.3%
Trend in Customer Loans		-16.1%	+3.4%	-1.9%	+0.3%
Trend in Customer Deposits		-11.3%	+1.9%	+2.8%	-2.6%
Trend in Regulatory Capital	+26.5%	-4.7%	+4.6%	+10.0%	+1.6%
Net Interest Income ("NII")	**1,653** +31.9%	**1,338** -19.1%	**1,183** -11.6%	**1,229** +3.9%	**1,119** -9.0%
Total Income	**2,630** +35.7%	**2,294** -12.8%	**2,084** -9.2%	**2,222** +6.6%	**1,915** -13.8%
Operating Expenses	**1,183** +31.0%	**1,088** -8.0%	**1,118** +2.8%	**1,126** +0.7%	**968** -14.0%
Bad Debt Provisions	**194** +280.4%	**793** +308.8%	**355** -55.2%	**202** -43.1%	**204** +1.0%
Profit Before Tax	**1,253** +27.3%	**413** -67.0%	**611** +47.9%	**894** +46.3%	**743** -16.9%

2012 Commentary

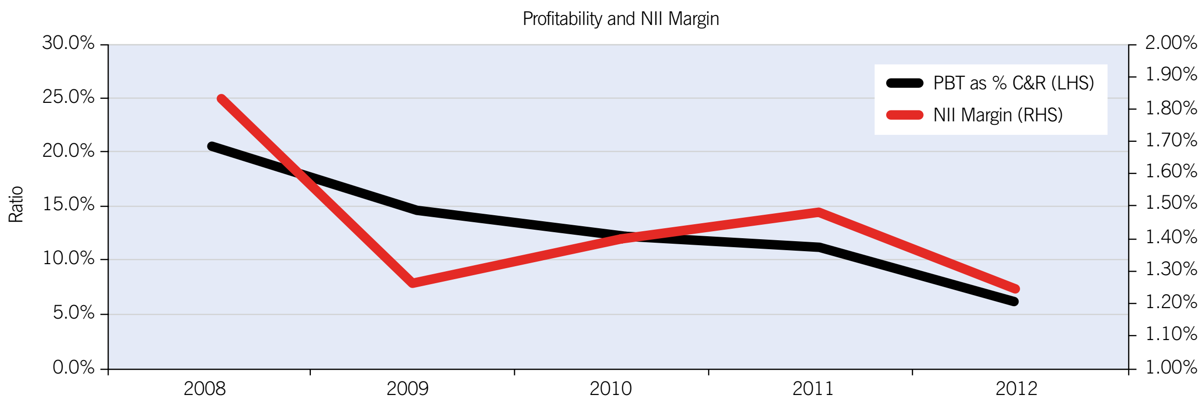
2012 results saw only limited changes in both deposit and loan volumes. Net interest income fell, driven by a continued decline in margins. Profitability declined, largely due to reduced non-interest income, partly offset by continued reductions in costs, with new provisions stable.

Key performance indicators of Banks that are incorporated in Jersey

	2008	2009	2010	2011	2012
Profit before tax (**"PBT"**) as percentage of total assets	1.25%	0.43%	0.67%	0.93%	0.80%
PBT as percentage of capital and reserves (**"C&R"**)	24.8%	7.6%	11.2%	14.4%	10.8%
PBT as percentage of regulatory capital	21.1%	6.4%	9.4%	12.3%	10.0%
NII margin (i.e. as a percentage of total assets)	1.65%	1.39%	1.29%	1.27%	1.20%
Cost/Income ratio (Operating Expenses as a percentage of Total Income)	45.0%	47.4%	53.6%	50.7%	50.5%

2012 Commentary

Profitability has declined throughout 2012, reversing some of the gains seen in 2010/2011. The decrease in total income was smaller in percentage terms than the decline in operating expenses, leading to a decrease in the Cost/Income ratio.

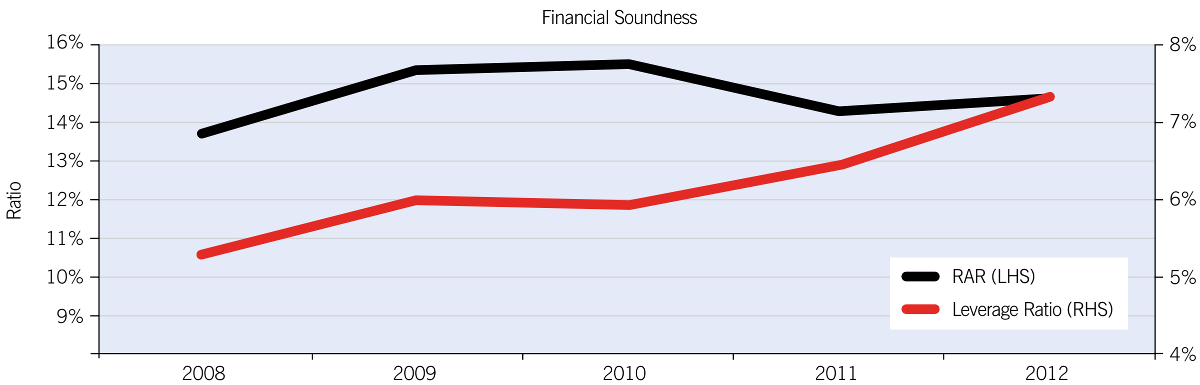


Key risk ratios of Banks that are incorporated in Jersey

	2008	2009	2010	2011	2012
Regulatory capital as percentage of risk weighted assets (**"RAR"**)	13.8%	15.2%	15.3%	14.6%	14.8%
Capital and Reserves as percentage of total assets (**"leverage ratio"**)	5.4%	6.0%	5.9%	6.5%	7.4%
Non-performing loans (**"NPLs"**), i.e. all loans considered to be impaired, to any extent)	**258**	**869**	**1,517**	**1,581**	**1,560**
NPLs as % of Customer Loans	1.0%	3.9%	6.5%	6.9%	6.8%
Provisions	**245**	**797**	**982**	**1,053**	**1,124**
Provisions as % of NPLs	95.0%	91.7%	64.7%	66.6%	72.1%
Interest rate risk (**"IRR"**), impact of 200 bp adverse move)		**199**	**257**	**235**	**288**
IRR as % of regulatory capital		3.1%	3.9%	3.2%	3.9%
FX Risk (Aggregate net open Foreign Exchange position)		**502**	**716**	**1,004**	**888**
FX Risk as % of regulatory capital		7.9%	10.8%	13.8%	12.0%

2012 Commentary

Non performing loans and provisions remained broadly stable. The leverage ratio increased as the balance sheet declined and capital and reserves increased, mainly due to retained earnings. The improvement in the RAR was smaller, as risk weighted assets increased, despite the decline in balance sheets, due principally to risk weights being increased to reflect credit rating downgrades in Q1 2012 of exposures arising from upstreaming.

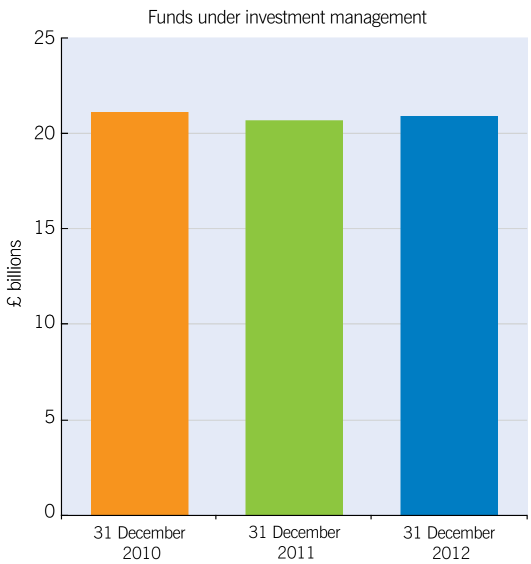


Investment Business

Total funds under management (Class B of the Financial Services (Jersey) Law 1998) = £21.2 billion.

The total number of clients of investment managers = 14,209

Date	Funds under management (£ billions)	Number of clients
31 December 2010	21.394	14,736
31 December 2011	20.802	14,381
31 December 2012	21.202	14,209



www.jerseyfsc.org

Jersey Financial
Services Commission