JERSEY OFFICE MARKET 2016

And the Island's Status as an International Finance Centre - October 2016

RESEARCH

BNP PARIBAS REAL ESTATE

Real Estate for a changing world

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KEY HIGHLIGHTS - JERSEY OFFICE MARKET

- The Jersey economy continues to perform well, annual GVA rate increased by 2% in 2015, unemployment rate was estimated to be around 4% in 2015. Q2 2016 showed a record number of people employed-60,320.
- The occupier office market has been strong, around 82,000 sq ft has completed and more than 111,000 sq ft is under offer. Annual take-up is therefore on track to surpass the five year annual average of just above 100,000 sq ft.
- Current vacancy rate stands at 8.5%. We estimate that around 80,000 sq ft of the stock currently available is obsolete. The lack of good quality space and fragmented supply historically resulted in occupiers having to work in multiple locations. The new stock coming online will set higher standards, whilst allowing occupiers to consolidate in a cost-efficient manner.
- Office investment in the UK has slowed this year, 26% down on the corresponding period last year (Q1-Q3). However, Jersey's office investment market has performed well. Total office investment volumes for 2015 topped £70m, nearly doubling 2014 volumes. This was significantly above the five year annual average of £25.7m. This year's data shows the market has continued to perform positively-£68m has either completed or is under offer.
- Prime yields are currently in the region of 6.25%. However, for trophy assets, with strong covenants and very appealing lease terms, we expect this to move in below 6%.

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Jersey is a unique Island, despite its population being similar to that of a regional town in the UK, it punches well above its weight in terms of financial expertise and investment flowing into the UK. As with any significant financial centre, multi-national businesses will require modern, efficient Grade A space. Until recently, building efficiency had been neglected, with major corporates having to operate out of multiple sites within St. Helier.

Those developers who have realised the urgent need for modern Grade A space have benefitted and we have seen record rents achieved on prime sites. Not surprisingly there is considerable inherent demand from existing occupiers, however stock selection from an investment perspective will be crucial going forward.

Phil Dawes
Managing Director, BNP Paribas Real Estate Jersey.

BNP PARIBAS REAL ESTATE

As with London (and the UK), Jersey enjoys a competitive advantage in financial services, the Greenwich Mean Time (GMT) zone means that the business hours overlap with those in Europe, Singapore, Tokyo and Hong Kong in the morning and New York and San Francisco in the evening.

As at December 2015 there was an estimated population of 102,700, with a total net inward migration of 1,500 people in 2015. Since year-end 2005, total change in population (natural growth rate plus net inward migration) has averaged 1,700 annual population growth.

According to the latest figures published by Jersey Airport, 2015 saw an annual increase in the number of passengers of 4% - in excess of 1.5m passengers. Improved performances were seen on routes to Germany, London, Scotland and Ireland, which testifies to the close link between the economies of Jersey and the UK and indeed Jersey and Europe.

Office take-up has reached 82,000 sq ft this year, with more than 111,000 sq ft under offer, we expect the total annual figures to surpass the five year annual average of around 100,000 sq ft. The current vacancy rate stands at 8.5%. This is in line with some of the major UK regional office markets, but lower than some of the tier 1 markets, namely Birmingham and Manchester.

On the back of the solid performance witnessed in 2015, office Investment volumes are on track to exceed the 5 year annual average with £68m either completed or under offer.

Total office stock currently stands at 3.06m sq ft, of which around 265,000 sq ft is obsolete. We estimate that around 65,000 sq ft of prime new available space will be completed in the next 6 months.

4,700 people across 32 banking licences operating from the Island with nearly £127 billion in deposits *

Total value of regulated funds increased by nearly £3 billion to £228.4 billion in Q2 2016, this compares to £225.8 billion in Q1 2016.

WealthBriefing European Awards 2016
"Best International Finance Centre"

"Best Fund Administration Centre" 2015 - 3rd consecutive year at the Investment Week Fund Services Awards.

JERSEY VALUE TO THE UK**

£2.3 billion in tax revenues each year.

JERSEY VALUE TO THE UK**

Supports 180,000 UK jobs.

JERSEY VALUE TO THE UK**

Circa £2.3 billion in taxes paid by British residents, as a result of financial inflows into the UK.

*as at December 2015 / ** Source: Jersey Finance - Update due to be released in the second half of October 2016

Sources: Jersey Finance, States of Jersey Statistics Unit, BNPP Real Estate

ST. HELIER'S OFFICE MARKET

Occupier market

The office district in Jersey is concentrated in St. Helier, the Island's capital. Traditionally the heart of the office market in St. Helier was centred around Hill Street, Broad Street and Library Place due to their proximity to the States Chambers, Royal Court and prime retail areas of King Street and Queen Street.

The growth of St. Helier's office market in the 1970's and 1980's saw the piecemeal development of office buildings throughout the Town in locations such as Grenville Street, Colomberie, La Motte Street, New Street and Union Street. There was not, however, a distinct central business district. The Island Plan of July 2014 identified the Esplanade as the primary area for office development and since then, this area has been the focus for new office development and is considered to be the prime office location.

The financial services sector contributes approximately 42% of the total GVA for the Island and as this sector has matured in St. Helier, the provision of office accommodation has not kept pace with the demands of the occupiers. Many of the Island's fiduciary and legal businesses have grown significantly, driven in part by a raft of mergers. This has resulted in a number of the Island's larger occupiers being located across inefficient multiple sites, creating demand to consolidate into larger, purpose built accommodation. Recent examples of this include Ogier/Elian/Intertrust, The Royal Bank of Canada, JTC Group, UBS and BNP Paribas.

The Island has also been very successful in attracting a number of high value, low footprint businesses within the funds, mining and minerals sectors. This has been supported by the Island's wealth of expertise, high standards of service and a tried and trusted regulatory & governance environment. Additionally, the Island is geographically well positioned and an attractive place in which to live for business principals.

2015 take-up was around 120,000 sq ft, down 23% on the solid performance witnessed in 2014 but 17.5% higher than the five year annual average. One needs to put these figures into context - with an estimated 2015 office stock totalling 2,900,000 sq ft, take-up represents 4.1% of the Island's total stock and similarly in line with the Bristol (4.1%) and Edinburgh (4.1%) office markets, but lower than Birmingham (5.8%) and Manchester (7.1%). Demand for office space this year so far has been robust, with around 82,000 sq ft having completed and BNP Paribas Real Estate estimate that more than 111,000 sq ft is under offer, which would result in take up exceeding 6%, based on an increase in total stock to 3,060,000 sq ft as new developments reach practical completion.

The spike in 2014 was bolstered by the Royal Bank of Canada's 80,000 sq ft pre-let at 66-72 Esplanade which also included an option to acquire further accommodation in the future. Some of the most notable recent transactions include the 30,000 sq ft pre-let to JTC Group at 27 Esplanade, UBS's 16,500 sq ft pre-let at No. 4 Jersey International Finance Centre (JIFC) and BNP Paribas pre-let to take 24,000 sq ft at No.4 JIFC. Both buildings are currently being built and are scheduled for completion in 2017.

The 1954 Landlord & Tenant Act does not apply and tenants have no automatic right to renewal. As a result, tenants tend to be more inclined to sign up for longer terms than their UK counterparts, therefore unbroken 15 year lease terms, particularly on prime buildings are commonplace.

Supply and rents

At present Jersey's total office stock is approximately 3,060,000 sq ft (an increase from 2015) with the quality varying significantly from new Grade A, 'BREEAM' rated accommodation to converted warehouse buildings. Historically the Island has had a very low vacancy rate and this currently stands at around 8.5%, this

FIGURE 1 - OFFICE TAKE-UP - (2009 - 2016*)

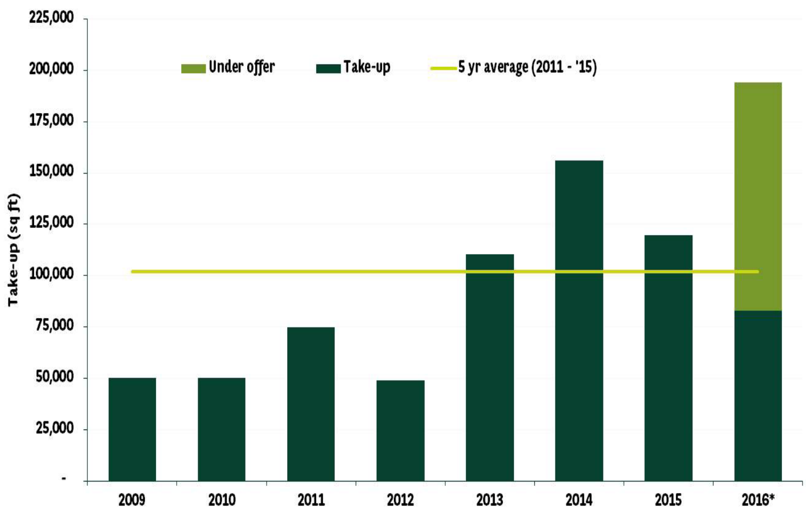
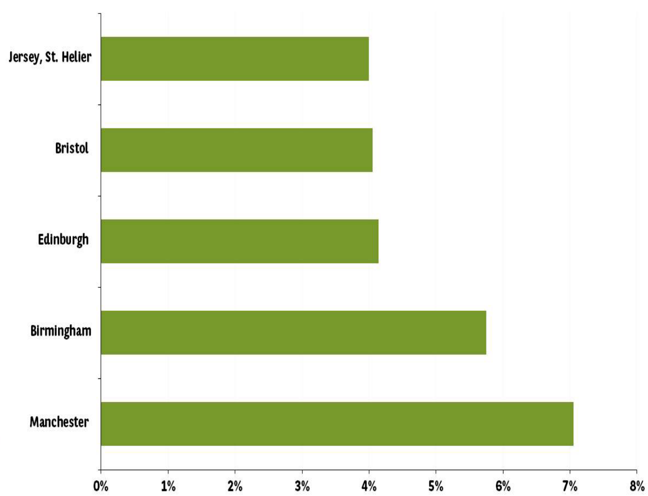


FIGURE 2 - TAKE-UP AS % OF STOCK - (2015)



Note: * As at end September 2016

Source: BNP Paribas Real Estate

St. Helier map

The development of additional homes will principally have to be within the existing built up area, particularly around the town of St Helier...and where there appears a strong desire for significant regeneration as businesses begin to migrate to newer and more efficient office space.

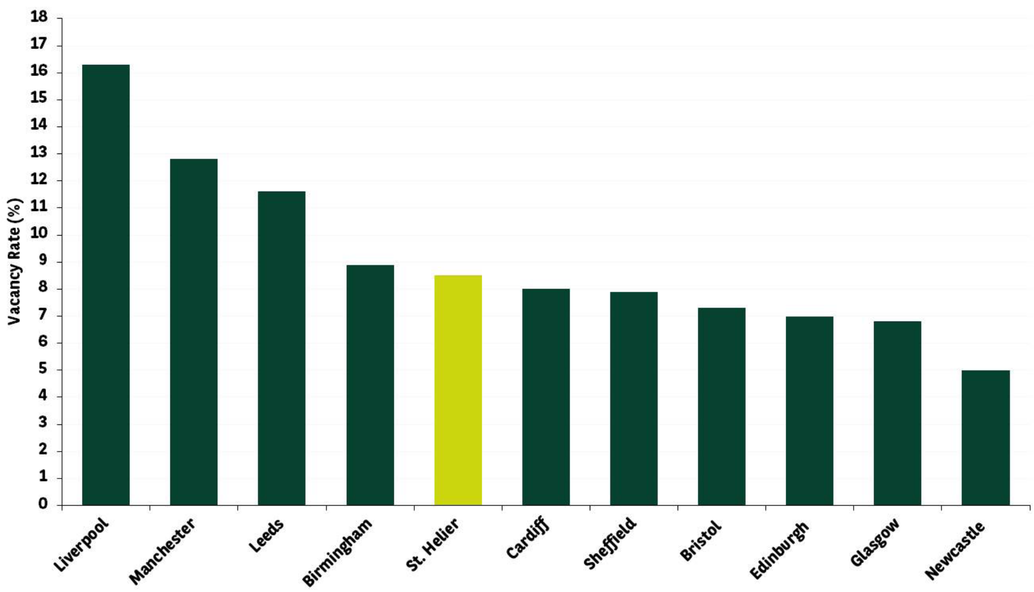
2014 – 2019 Strategic Business Plan - Andium Homes (Former States of Jersey's Housing Department)

will increase to circa 10% in 2017 as two new schemes reach practical completion and assuming no further lettings are agreed on those buildings, bringing the total stock up to 3,200,000 sq ft. However, we estimate that around 80,000 sq ft of the stock currently available is functionally or locationally obsolete and does not provide the quality of accommodation required by modern occupiers. If one were to remove the obsolete stock out of the calculation, while assuming no pre-lets are agreed over the next 3 to 6 month period, then the resultant vacancy rate would decrease to below 8%. Still relatively low when compared to tier 1 and tier 2 major UK regional office markets.

Local developers have been cautious in the past resulting in little significant speculative development. While this has been beneficial to maintain pricing levels, and a healthy supply/demand balance, it has in turn provided very limited options for occupiers, hence limiting market growth. The lack of good quality stock has made it difficult for prospective tenants to effectively plan and execute their property requirements and has resulted in major corporates having to occupy multiple buildings within the town. As a result of this historically subdued commercial development activity, some of the office stock on the Island is or will become obsolete or less appealing to commercial occupiers over the near term.

The Island is therefore in need of new office stock if it is to retain existing occupiers and also attract new businesses. As at end September 2016 there was 320,000 sq ft of office stock under construction in four buildings (66-72 Esplanade - 165,000 sq ft, No 4 JIFC - 67,000 sq ft, 29 Seaton Place – 20,000 sq ft and 27-28 Esplanade - 70,000 sq ft). The majority of this space has

FIGURE 3 - VACANCY RATE (2016)



Source: BNP Paribas Real Estate, PMA

44 Esplanade: Largest office investment deal in 2015

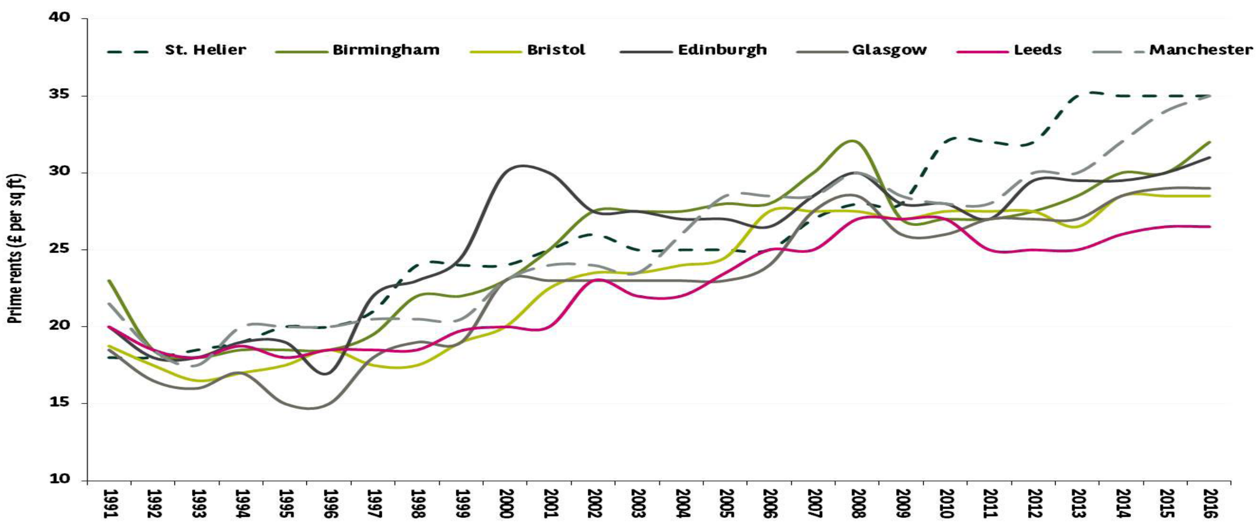
been pre-let. Completion on these buildings is imminent, and assuming there are no more pre-lets this will provide around 120,000 sq ft of new, grade A space. However BNP Paribas Real Estate Research estimates that there is around 390,000 sq ft of space being occupied by tenants in sub-standard buildings, with lease expiries due in the next 4 years, so there is still a shortage of Grade A space if no further development takes place. We estimate that out of the entire office stock in St. Helier around 265,000 sq ft is obsolete.

The Jersey Development Company (JDC) is providing new purpose built BREEAM Excellent quality office stock on the Esplanade Car Park site, now known as the International Finance Centre which will set a new standard for the office market on the Island. JDC is a wholly owned government developer that is planning to deliver six office buildings providing 470,000 sq ft. The Company is well aware of the risks around delivering office accommodation and each building will need a significant pre-let to kick start work. The first building (Building 4) of the project is currently under construction and due for practical completion in Q1 2017. As at Sept 2016 the building was 60% pre-let.

Car parking is a major consideration for occupiers in St. Helier and with the majority of the car parks being located around the Esplanade and Waterfront, this has widened the gulf between prime Esplanade buildings and secondary offices to the North East of the town.

In the secondary market we estimate there is approximately 200,000 sq ft of vacant space as at September 2016. We expect this figure to increase as occupiers relocate to more suitable and modern accommodation on the Esplanade. This could trigger an increase in conversions of office space to alternative uses as occupiers vacate old stock and seek more modern and functional accommodation. There are a number of recent examples of this including 22 La Colomberie, Queens House and Templar House, Waverley House and Westaway Chambers, which together total some 98,000 sq ft of stock. The Island is facing a real challenge to accommodate a growing population given the limited land availability and its increasing value. As at December 2015 there

FIGURE 4 - PRIME RENTS (1991 - 2016*)



Source: BNP Paribas Real Estate / Note: * As at September 2016 was an estimated population of 102,700, with a total net inward migration of 1,500 people in 2015. Since year-end 2005, the total population has increased by an average of 1,700 people per year.

Prime rents have historically increased slowly but steadily; for the period 1998 to 2006, prime office rents only increased from £24 to £25 per sq ft. During this period the market had a tenant bias and occupiers were able to demand significant incentives in terms of rent free periods. However, between the end of 2006 and the middle of 2008 strong demand and a fragmented supply led to rental inflation. During the recession, due to the shortage of Grade A available stock, rents north of £30 per sq ft were achieved for pre-lets. Headline rents now stand in the region of £35 per sq ft for 15 year lease terms, and higher for leases offering flexibility (ie break options).

Office investment market

The UK and European investment markets performed strongly over the two year period 2014-2015. High investment volumes were recorded across most core cities as well as peripheral locations. Solid occupier market fundamentals, with decreasing vacancy rates created the perfect opportunity for investors to reassess their risk adjusted returns as attractive LTVs and low financing costs allowed them to take on relatively higher risk over the period in question.

On the 23rd June 2016 the UK voted to leave the European Union. Before the Referendum, most investors appeared to be maintaining a somewhat cautious position (limiting aspects of their activity until the result was known). Conversely we expected a potential downside fall in investment volumes of up to 25%. The uncertainty created by the referendum result has brought forward these declines with a gradual return to the long-term average.

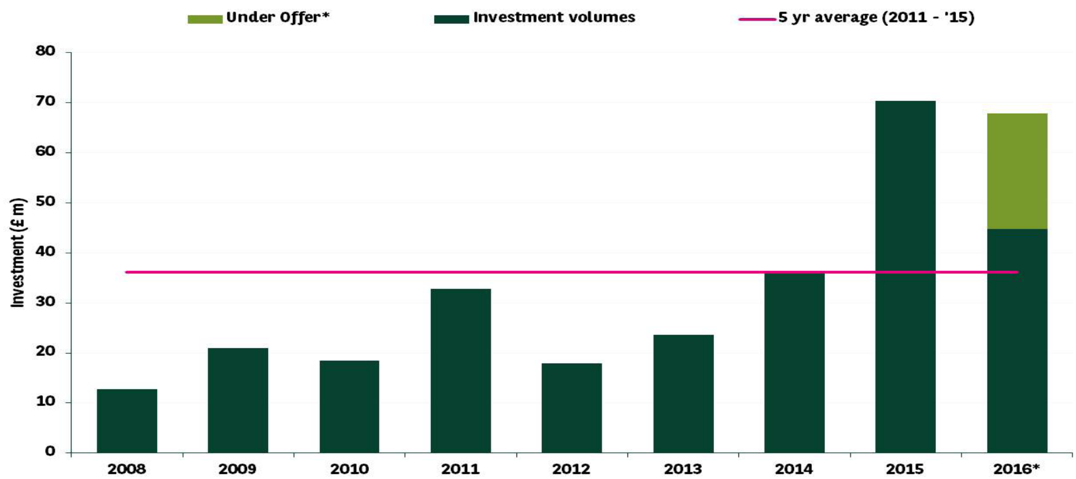
Regarding initial yields, capital growth and total returns, perceptible impacts are expected for most markets. Upward pressures on yields may materialise as retail funds re-assess their strategy to maintain liquidity levels. However, this will vary significantly depending on the quality, location and type of asset. A weaker Pound and a "pause-for-breath" from UK Institutions will create attractive opportunities for overseas money to capitalise on the attractive pricing levels.

On the UK mainland, office investment for the first nine months of 2016 topped £13bn*, down 26% year-on-year. Given the nature of real estate as an asset class and the relatively attractive returns, compared to equities and fixed income, we expect the market to perform relatively well over the remainder of 2016. With a 10 year annual average of around £19bn, we estimate 2016 total office investment to be in line with its long-term average performance.

The investment market in Jersey shares similar fundamentals to some more established UK office markets. Despite investment from UK and overseas institutions the Jersey office market can be considered a 'micro market', where local investors and developers have used their intimate knowledge to pursue profitable opportunities. It could be argued that the lack of market data transparency has hampered investment activity historically. However, as this is addressed by market participants, we expect investors to be attracted by the strong investment fundamentals; good covenant strengths, appealing long lease structures, a stable economy and fixed rental uplifts. The prime investment stock should appeal to institutional investors, particularly core income funds. The fact that we have not seen any negative impact on values in Jersey post the Referendum result goes a long way in demonstrating the stability of the market.

Weighbridge House, former Southampton Hotel
Source/Note: *Property data/BNPP Real Estate - *provisional Q3 2016 data

FIGURE 5 - INVESTMENT VOLUMES (2008-2016)



Source: BNP Paribas Real Estate / Note: * As at September 2016

As positive sentiment radiated out from the continent and the UK mainland, office investment volumes in Jersey topped £70m in 2015, nearly doubling 2014 volumes, and significantly above the five year annual average of £25.7m. In terms of lot size, 2015 witnessed nine deals with an average sale price of £7.8m. The biggest deal of the year occurred when 44 Esplanade changed hands in January 2015; Gref Jersey Esplanade Ltd paid circa £27m at a Net Initial Yield (NIY) of 7.5% from Anthony Investments. The property had 6 years unexpired and was let to Elian. Furthermore, the sale of the Foundation Commercial Property's 40,000 sq ft building 26 New Street and Dumaresq House, to Hailsham Investments for £14.27m at a NIY of 7%, helped push the total office investment to a record high.

During 2016 the positive investment sentiment has continued and so far £68m has either completed or is under offer. The largest being Windward and Liberation House, for in excess of £30m.

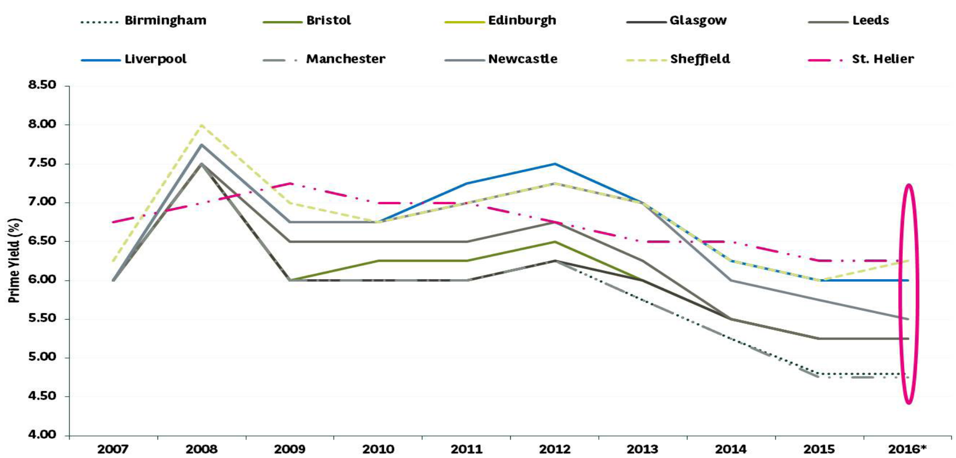
It is noteworthy that a number of significant transactions have completed over recent years in Guernsey including the sale of Trafalgar Court to Stenprop (£61.3m at a 6.5% NIY – AWULT 12 years) and Dorey & Martello Court (£51m, 6.75%) let to Kleinwort Benson and ABN AMRO, respectively. This does demonstrate liquidity for larger lot sized investments in the Channel Islands.

Transparency regarding tenant covenants can have a significant impact on investment decisions. Jersey's registered 'non-public' companies are not obliged to disclose their books publically. However, some landlords are now requiring that occupiers disclose financial information as part of their tenancy agreement so that a prospective investor would be able to access this data. This is encouraging and will support the investment market going forward. It is also worth noting that Jersey has a relatively low rate of bankruptcy. According to a list of bankruptcies published by the States of Jersey, records show only two financial services providers who have declared bankruptcy since 2011.

Yields on prime stock currently range between 6% and 6.25%, down 75 bps over the last 15/18 month period. Having analysed the yield gap between prime UK cities, where in some cases there is a 150 bps differential, we expect there to be further yield compression for the best buildings.

FIGURE 6 - PRIME YIELD BIG 9 REGIONAL UK CITIES & ST. HELIER.

ZUK REGIONAL CITIES * - YIELD DIFFERENTIAL**



Regional cities	Bps
Birmingham	-145
Bristol	-100
Edinburgh	-100
Glasgow	-100
Leeds	-100
Liverpool	-25
Manchester	-150
Newcastle	-75
Sheffield	0

Source: BNP Paribas Real Estate / Note: * End June 2016 - ** Respective city's prime yield minus St. Helier's prime yield

APPENDIX

1.0 THE ISLAND OF JERSEY AND ITS DISTINCTIVE CHARACTERISTICS

Jersey is an autonomous dependency that owes its allegiance to the Crown. It is internationally represented by the UK government, but for internal matters, the elected members of The States Assembly have the authority to legislate on domestic affairs, public expenditure and other sovereign matters. Furthermore, the Island regulates its own legal, administrative and tax systems, hence it benefits from a much greater autonomy to bolster its economy.

The Island of Jersey has its own currency, with the Jersey Treasury acting independently from the Bank of England and issuing its own coins and banknotes. However, given the size of its economy and the disproportionately large volume of international financial flows, it operates under a currency union with the UK. The Jersey Pound is pegged to the British Pound and being at par prevents the local economy from falling into self-inflationary or deflationary pressures that would put at risk the overall level of economic activity.

Jersey forms part of the British Crown Dependencies alongside the Bailiwick of Guernsey. The Island has historically been characterised by a thriving financial industry bolstered by a tax neutral framework, which has allowed financial institutions and corporations to use this jurisdiction as a centre to conduit financial flows between corporations and financial services providers. An early sign of the rise of Jersey as an International Finance Centre (IFC) originated across the late 1950's and early 1960's with the creation of the European Economic Community (ECC) and the rapid growth of the London offshore Eurocurrency Markets.

Jersey is now one of the world's leading International Finance Centres. Reliability, political stability, local expertise and a sophisticated legal infrastructure have maintained the Island's position at the forefront of global finance. The Island has been recognised as being a well regulated international finance centre by a number of leading bodies including the OECD. To reinforce this, according to a letter sent by the former Chancellor of the Exchequer, George Osborne MP, on 12 May 2016 to Senator Ian Gorst – Chief Minister of Jersey, the UK Chancellor commented:

2.0 JERSEY AND ITS ECONOMY

Jersey is rated by Standard and Poor's as being AA and unlike the majority of developed countries, has negligible debt, substantial reserves and little fiscal deficit. The States of Jersey has recognised there could be challenges ahead, and is aware of a possible increase in deficit in the years to come, which has resulted in them taking mitigating measures, such as public sector pay constraint, similar to all major economies. However, Jersey is in the enviable position of still being able to budget for significant capital investment of around £168m up to 2019, including £40m per annum in health and in education. Against this background the States have a substantial property portfolio, and a reported £5.6bn worth of assets, the majority of which are liquid.

In terms of economic activity the lack of historic data makes it difficult to accurately assess wider economic performance. The tracking of GDP figures has only been introduced in 2012, hence the size of the economy has been commonly measured by Gross Value Added (GVA) data – the contribution of each sector of the economy without taking into account taxes and / or subsidies. The latest available real GVA data (2015) released by States of Jersey Statistics Unit shows an increase of 2% in real terms on 2014. The Financial Sector makes up around 42% of total GVA for the Island. GVA for the finance sector showed negative growth of -1%, whilst the non-finance sector grew by a positive 5%.

FIGURE 7 - GVA AND GDP PER HEAD - JERSEY, THE UK & GUERNSEY - (2015*, £)

	GVA	GDP
JERSEY	40,000	39,700
THE UK	25,200	28,700
GUERNSEY	N/A	37,400

Note: *Current Year Values, (2015, £)

Jersey has taken a lead on global transparency as a cooperative jurisdiction, including through your early commitment to the Common Reporting Standard, your joining of the Multilateral Convention and the important role that you have played and continue to play in the Global Forum for Tax Transparency where you are rated Largely Compliant. This has been influential in helping achieve rapid global uptake of these standards and a step-change in global tax transparency.

George Osborne
Former Chancellor of the Exchequer

With respect to measuring labour market performances, unemployment estimates are compiled as part of the Jersey Annual Social Survey which has run since 2005. May 2015 unemployment rate was estimated at 4%, 149 bps and 287 bps lower than the UK rate and the average OECD rate for the same period, respectively. This translates into approximately 1,330 registered as actively seeking work and excludes 'underemployed', those still looking for full time employment, but having to work less than 35 hours a week-latest figures for June 2016 showed a record high number, 60,320 people employed.

Productivity growth measured as Gross Value Added per Full Time Equivalent (GVA per FTE) has remained broadly flat over the medium term and this has been a drag on the economy over recent years. The financial services sector once again acted as a locomotive in 2014. According to the Fiscal Policy Panel's January 2015 report, productivity growth for the economy as a whole improved in 2014 and was 3% higher relative to 2013. This coincided with the trend turning positive for the first time since the aftermath of the financial crisis. The latest data release for 2015 'All sectors' GVA per FTE, shows little change, down -0.2% on 2014.

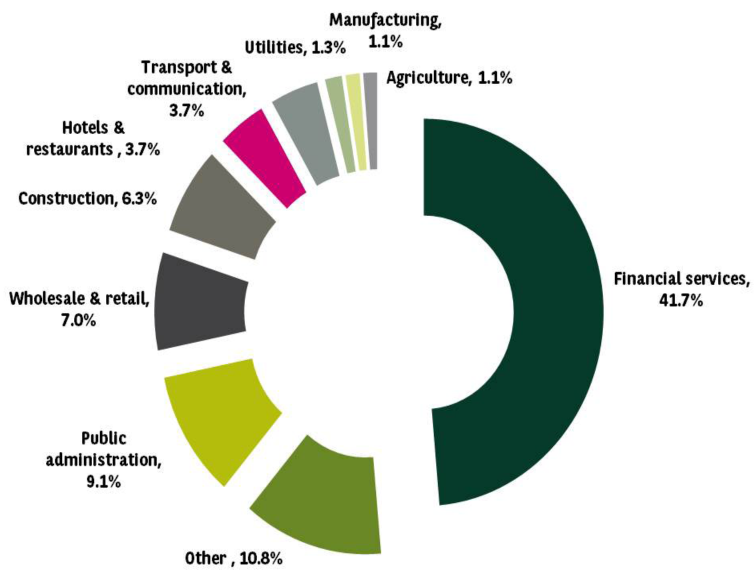
In terms of business sentiment, results from The Jersey Business Tendency Survey for Q1 2016, show that "The All-Sector Business Activity" indicator in March 2016 was in positive territory, but less positive when compared to end 2015 results. Q4 2015 results were driven by the strong performance of the Finance sector, in contrast, the Non-Finance sector indicator remained unchanged. Similarly, Q1 2016 Business Optimism for the Finance and Non-Finance sectors followed the same pattern, stabilising in positive territory. Q4 2015 Business sentiment for the Construction industry scored highly, with more than 44% of the respondents stating higher business optimism for 2016 than results showed in Q3 2015. However, the latest data for Q1 2016 paints a more neutral picture, 53% of the respondents reported that Business Activity in the construction industry had remained in positive territory but broadly flat, with 23% of the interviewed sample stating to feel more pessimistic. Furthermore, the profitability indicator for the Finance sector was flat for Q1 2016, remaining in positive territory as recorded in Q4 2015.

Despite an environment where Central Banks are unconventionally trying to stimulate their respective economies, global economic growth is expected to be sluggish. Given the composition of the Jersey economy, the Island's economic performance is not immune to global headwinds and weaker than expected overseas growth.

Over the next few years global growth is set to slow further, and the UK's decision to leave the EU will affect the short-term growth outlook for both the EU and the UK in a number of ways: a direct impact on trade, heightened uncertainty and a tightening of financial conditions. The uncertainty over the future UK-EU relationship and the UK political outlook will weigh on the economy as long as negotiations last.

According to BNP Paribas Economic Research, GDP growth in the UK is forecast to be 1.4% and 0.7% in 2016 and 2017 respectively (rather than 1.7% and 2.1% in the "pre-Brexit" scenario), with business investment falling by 1.6% in 2016 and 2.5% in 2017. Consumer spending in the UK is likely to be negatively affected. Unemployment will most probably rise, putting downward pressure on wage growth relative to the baseline scenario. This increased uncertainty will indirectly have an impact on the Jersey economy as well, according to the latest real GVA forecasts published by The Fiscal Policy Panel (FPP), the economy of the Island will grow below 0.5% in real terms in 2016 and be largely flat in 2017 and 2018. The "pre-Brexit" base scenario showed 2% average annual growth over the period 2015-2017. According to the FPP the economy will be at near full capacity by 2019.

FIGURE 8 - GVA CONTRIBUTION - 2015



Source: States of Jersey Statistics Unit, Office for National Statistics (ONS)

Jersey is in the enviable position of having a strong balance sheet, low debt and high net asset position, with net assets of £6bn, including almost £3bn of assets held in predominantly liquid investments. This strong position and resilient revenues enables Jersey to be able to budget for significant capital investment, of £168m up to 2019, on top of the investment in social and affordable housing funded through the debut bond issuance of £250m.

A medium term plan of sustainable finances, including sizable efficiency savings over the period, also allows for £40m per annum of additional investment in health and social care services in response to the global challenge of an ageing population, as well as £11m per annum in education.

Richard Bell
Treasurer of the States, States of Jersey

FIGURE 9 - GVA, CONSTANT YEAR 2013 – £ MILLION & % ANNUAL CHANGE 2015 VS 2014

SECTOR	£ M 2015	% CHANGE 2015
CONSTRUCTION	253	9%
ELECTRICITY, GAS & WATER	52	8%
OTHER BUSINESS ACTIVITIES	434	6%
TRANSPORT, STORAGE & COMMUNICATIONS	149	5%
WHOLESALE & RETAIL	282	4%
HOTELS, RESTAURANTS & BARS	150	4%
AGRICULTURE	43	1%
PUBLIC ADMINISTRATION	366	1%
MANUFACTURING	44	0%
FINANCIAL SERVICES	1,676	-1%

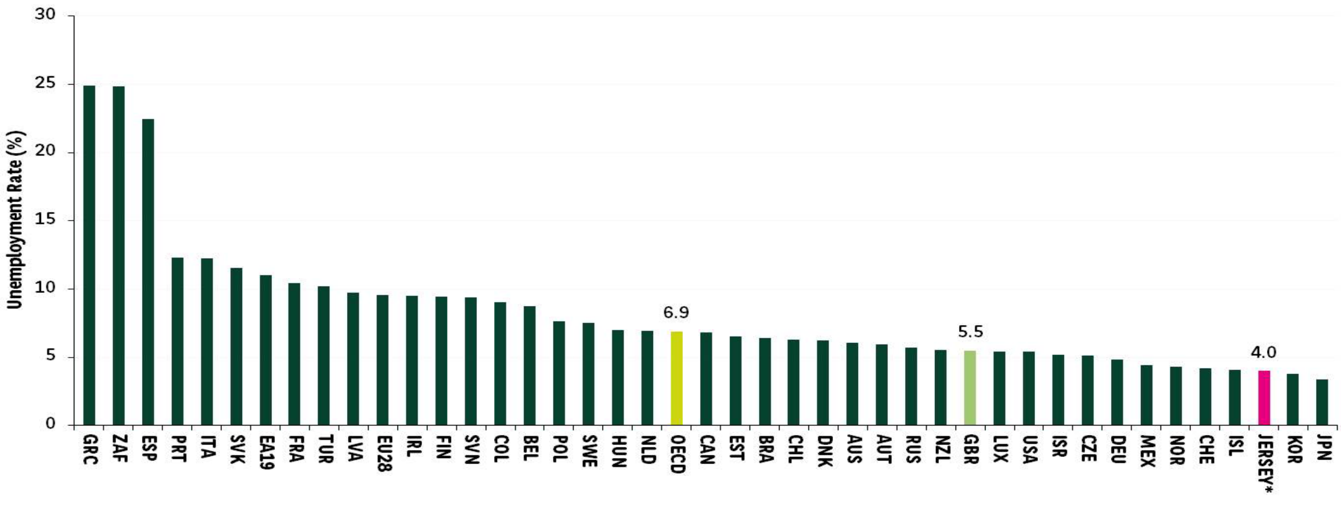
Source: States of Jersey Statistics Unit

2.1 AN INTERNATIONAL FINANCE CENTRE & ITS VALUE TO THE UK

Globalisation has become increasingly important in today's world. People are willing to travel, live and invest abroad, and national boundaries have ever decreasing significance. For investment to be viable there needs to be an established platform for investors to comply with international regulatory and supervisory regimes.

If the provision of financial services in an International Finance Centre (IFC) adheres to international regulation, the finance

FIGURE 10 - Q2 2015 UNEMPLOYMENT RATE



Source: OECD Statistics, States of Jersey Statistics Unit

Note:* May 2015 observation as estimated by the States of Jersey Statistics Unit industry can actually create value to a neighbouring economy. According to Capital Economics's 'Jersey Value to UK' report (2013), it is estimated that Jersey generates around £2.3bn in tax revenues each year while supporting 180,000 UK jobs. Furthermore, 40% of assets administrated or managed across the financial and wealth management sectors in Jersey come from markets outside the EU and the UK. In terms of funding, Jersey's banks send about £120bn to their 'up-stream' banks in the UK. If we look at the possible loss in tax revenue to the UK Government, the report estimates that about £150m in tax could be potentially evaded, while it shows circa £2.3bn in taxes paid by British residents, as a result of financial flows into the UK.

To reinforce this, research carried out by Property Week, and based on Land Registry data shows about one third of the total spent on UK property from offshore companies for the period 2000 – 2013 was attributable to Jersey, totalling £85bn out of £263bn.

Global investment vehicles are highly regulated and potentially complex structures. The advantage of Jersey is that it has the expertise, regulatory framework and track record to set these structures up and manage them efficiently. Having the right platform, expertise and support ultimately bolsters investment into the UK.

An example would be a multi-national group of investors seeking to set up a fund to acquire assets globally. An IFC would provide the "tax neutral" home where each investor pays their tax according to their own relevant jurisdiction.

Aside from the investment flowing into the UK, another significant advantage to the UK is that Jersey has taken a lead in tax transparency and anti-money laundering. An assessment published in May 2016 by the Council of Europe's Committee of Experts on the Evaluation of Anti Money Laundering Measures and Financing of Terrorism (MONEYVAL) found that Jersey's beneficial ownership regime put it at the forefront of the transparency agenda.

Jersey's combination of a central register of the UBO with a high level of vetting/evaluation not found elsewhere and regulation of TCSPs of a standard found in few other jurisdictions has been widely recognised by international organisations and individual jurisdictions as placing Jersey in a leading position in meeting standard of beneficial ownership transparency.

An extract from the OECD's MONEYVAL assessment report on Jersey

The Island of Jersey is an IFC and, as such, its finance industry has flourished under more favourable regulatory and financial frameworks, while acting as a conduit between parties domiciled in different jurisdictions. Its Finance industry is founded on four main pillars; Banking, Private Wealth, Funds and Capital Markets and the majority of Jersey banks 'up-stream' to their parents' operation in London, New York, Paris, Frankfurt, etc. where capital is partially re-invested.

An IFC can broadly be assessed against a few different set of indicators, such as Connectivity & Accessibility, Speciality, Stability (Country Risks Mitigation & Asset Protection) and Financial Regulatory Homogeneity:

Connectivity & Accessibility
Given the importance of its offshore financial industry, Jersey has become an extension of the City of London and this can also be seen from the outbound and inbound flight connectivity to major UK cities.

Speciality
Its close links with the City of London and the regulated provisions of financial products has contributed to the Island's success in recent years.

Stability (Country risks mitigation & Asset Protection)
Investors often seek to diversify their portfolio allocations hedging for example against currency fluctuations or country risk from volatile jurisdictions.

Financial Regulatory Homogeneity
Regulation in the financial sector in the European Union (EU) is changing. In order for this industry to thrive, Jersey's regulators ensure that an appropriate regulatory framework is in place to channel investment in the Island.

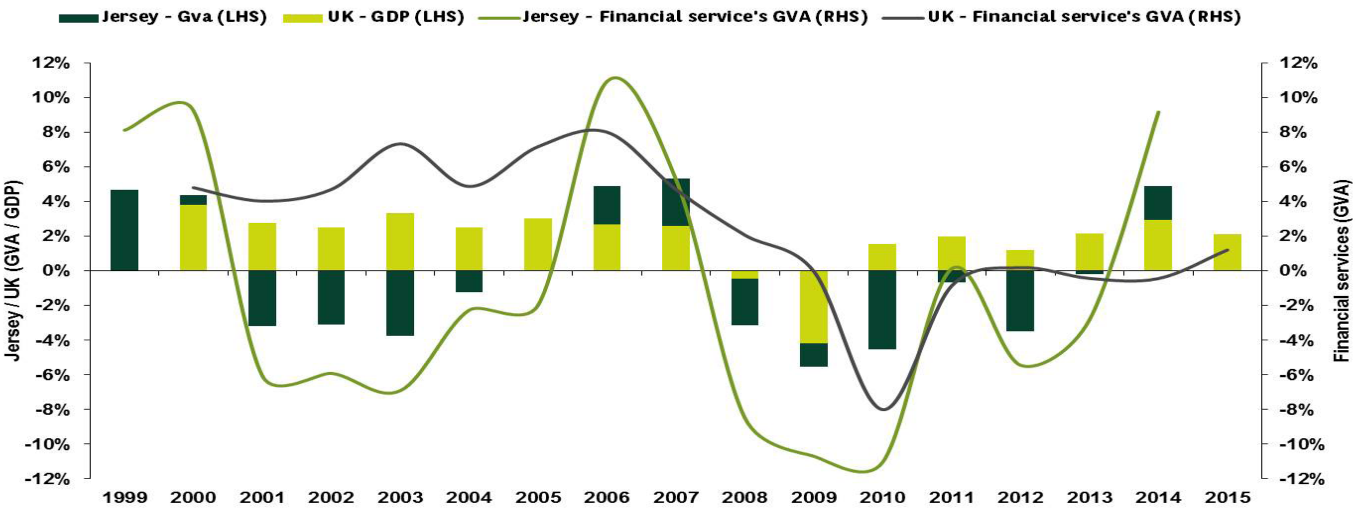
2.3 THE FINANCIAL SECTOR & REGULATORY ENVIRONMENT

Jersey has its own financial regulatory body which is responsible for licencing, registering and supervising financial institutions and other businesses for complying with AML/CTF legislation and other regulatory requirements. The Jersey Financial Services Commission (JFSC) is aware of the risks and works towards preserving the Island and industry international reputation.

In 2013 the Island agreed to join 35 other countries in a serious commitment to implement the G5 (France, Germany, Italy, Spain and the UK) proposal on Common Reporting Standards. This entails the automatic exchange of information for tax purposes.

The following year, the JFSC increased its focus towards complying with international regulatory standards while embracing the EU's Alternative Investment Fund Directive (AIFMD). This process has temporarily enabled Jersey based investment managers to market their alternative funds into 26 EU/EEA Member states whilst meeting EU's regulatory requirements.

FIGURE 11 - JERSEY VS UK - PERFORMANCE OF THE FINANCIAL SERVICE'S SECTOR (1999 - 2015)



Source: Office for National Statistic (ONS) & Jersey Statistics Unit

Furthermore, in July 2014, the Government outlined a package of measures to counter abusive tax-planning structures. The Government have shown a significant desire to place Jersey at the forefront of this new process.

2.4 THE ECONOMIC ENVIRONMENT, BANKING AND THE FUND INDUSTRY

Increased international cooperation on aligning regulatory standards meant that in July 2016, the European Securities and Market Authority (ESMA) recommended to the European Parliament, Council and Commission that Jersey should be granted an AIFMD passport as a 'third country'. According to JFSC, there should now follow a period of up to six months for European authorities to propose new legislation to address the 'third country' passporting rules applicable to Jersey AIFs and AIFMs. This is a further vote of confidence for the robustness of the island's fund industry.

According to the JFSC, 2014 saw a 19% increase in the volume of assets under management for Jersey and non-Jersey domiciled funds administered on the Island (£228bn). Despite a small decline recorded over the 12 months to December 2015 (£225bn), volumes have since recovered back to £228bn in Q1 2016.

Given global macroeconomic challenges, the banking sector in Jersey continues to exceed expectations and it employs more than 4,700 people across 32 banking licences operating from the Island with nearly £127bn in deposits as at December 2015. The sector does not rely only on wholesale funding operations but is home to a variety of multidisciplinary banking groups, core retail & commercial banking, large UK clearers, global private banks and specialist providers.

However, the banking industry is contracting globally. According to the latest Bank of International Settlement (BIS) quarterly review for Q3 2015, cross-border bank lending shrank for the second consecutive quarter, the stock of cross-border claims contracted by $151bn, resulting in a total volume of outstanding claims of $27tn. This contraction was due mainly to falling lending in emerging markets.

Unconventional monetary policies and a 'Lower-for-Longer' rate environment across central banks since the end of the last economic cycle have eroded operative margins in the banking sector. Market participants' anxiety increased in April 2016 when the Federal Open Market Committee (FOMC) officially scaled back forecasts for Federal Fund Rate rises as Fed Chair Janet Yellen announced in Washington that "economic and financial developments globally continue to pose risks". However, the US economy has now less room to run than might have previously been thought. This may prompt Federal Reserve's officials to restart a gradual rate-rise cycle before the end of the year.

On the other side of the Atlantic in March 2016, the ECB president Mario Draghi announced a base rate cut to 0% from 0.25%, as well as slashing the deposit rate to -0.4% (meaning banks will have to pay to keep their deposits overnight in Frankfurt). During the announcement of a further expansionary stance, the president explicitly reinforced his accommodative view while stating that there are 'no limits' on what he would do to meet his mandate of price stability.

The Bank of England (BoE) Governor Mark Carney has repeatedly shown increased caution on the medium term outlook for the UK economy. Following the 23rd of June "Vote-to-Leave" outcome, the BoE decreased its base rate to 0.25% from 0.5% on the 3rd of August, while introducing further measures such as; the purchase of up to £10bn of UK corporate bonds and an expansion of the asset purchase scheme for UK government bonds of £60bn.

This combination of dovish signals has dampened inflation expectations in the Continent over the medium term while flattening the yield curve. Central Banks in the Eurozone, Denmark, Sweden, Switzerland and Japan have decided to operate under negative deposit rate environments to bolster lending into the real economy, whilst trying to shield the effectiveness of their monetary policy's transmission mechanism.

The Jersey banking sector is not immune to this globally adverse backdrop but saying that the banking and the wider financial sector on the island are on a slippery slope is far from accurate. Those sectors were severely hit by the global financial crisis in 2007/2008 and the consequent European sovereign debt crisis in 2011/2012. In order to boost liquidity, lending and investment, low central bank main rates have forced the banking sector and investors to find more creative ways to seek returns as saving accounts and yields on the fixed income markets have been performing poorly. Many investors, pensions and alternative funds have increased their real estate allocations in search of higher returns while securing stable income streams.

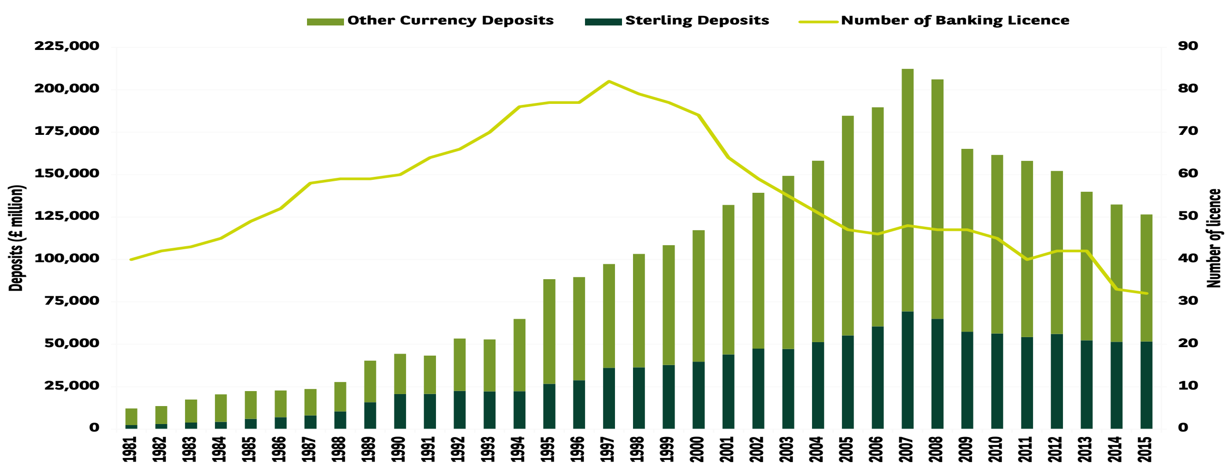
Figure no. 12 shows the volumes of deposits (bar chart) shrinking considerably since 2008 as liquidity in the financial markets decreased. It's also clearly noticeable that during the late 1990's, there was a sudden drop in the number of banking licences (line chart) held by banking groups and their subsidiaries. During those years the financial markets were being shaken by the knock on effects of the Asian financial crisis; decreased liquidity and increased uncertainty made market participants re-assess their business models on the Island as well.

The banking and financial sectors in general have entered a process of re-adjustment, Jersey is well placed to sail its financial industry into calmer water, the provision of a well regulated environment, the presence of a great variety of financial organisations and more than 32 year experience of Trust law have supported the development of the funds industry. According to Jersey Finance, total net asset value of regulated funds increased by more than £2.4 billion to £228.4 billion (across 1,326 funds) in the first three months of 2016. These figures heavily underestimate the total volume of funds under management as published statistics

The latest data shows that the islands, Jersey and Guernsey hold £240 billion in bank deposits to which collective investment funds add a further £450 billion. Beyond these regularly reported figures, other assets under administration or custody bring the total amount of assets managed by banks, funds and trustees to over £1 trillion. This places the Islands as significant international finance centres and combines with their recent successful Moneyval reports which rated them amongst the most compliant in international standards.

David Myatt
Country Head, BNP Paribas Channel Islands

FIGURE 12 - NUMBER OF BANKING LICENSES AND DEPOSITS (1981-2015)

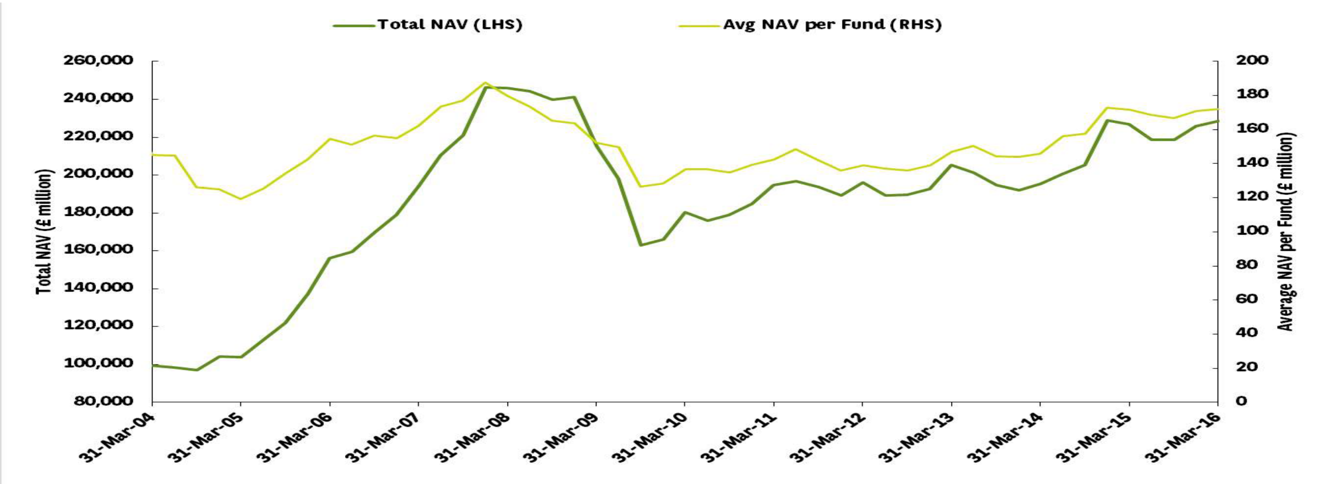


Source: jersey Finance, JerseyFsc

only represent funds where quarterly reporting is required, most club deals and Jersey Property Unit Trusts where no formal public offering is required, would not be accounted for in the official data.

According to the latest BIS cross-border statistics, more than $181bn circulated via Jersey in Q3 2015, this is the lowest volume since the series begun in Q4 2001. Again these figures only reflect those operations where quarterly reporting is required. This is reinforcing how the financial sector has evolved on the Island; those financial institutions are switching some of their assets held in their balance sheets to trustee & foundations as they seek to provide more value added services to their clients in a much more challenging environment.

FIGURE 13 - TOTAL NET ASSET VALUE (NAV) IN JERSEY AND AVERAGE NAV PER FUND (Q1 2004 - Q1 2016)



Source: Jersey Finance, JerseyFsc

6 BUSINESS LINES in Europe

A 360° vision

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