OFFERING CIRCULAR

THE STATES OF GUERNSEY

£330,000,000 3.375 per cent. Notes due 2046
Issue price: 98.841 per cent.

The £330,000,000 3.375 per cent. Notes due 2046 (the "**Notes**") are issued by the States of Guernsey, acting by and through the Treasury and Resources Department (the "**Issuer**" or the "**States**").

Application has been made to The Channel Islands Securities Exchange Authority Limited (the "**Channel Islands Securities Exchange**") for the listing of and permission to deal in the Notes on the Official List of the Channel Islands Securities Exchange.

The Notes are expected to be assigned on issue a rating of AA+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"). Standard & Poor's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority **(**"**ESMA**") on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes will initially be represented by a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or about 12 December 2014 (the "**Closing Date**") with a common depositary for Euroclear Bank SA/NV **(**"**Euroclear**") and Clearstream Banking, *société anonyme* **(**"**Clearstream, Luxembourg**"). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**"), without interest coupons, on or after 22 January 2015 (the "**Exchange Date**"), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - *see "Summary of Provisions relating to the Notes while represented by the Global Notes".*

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 3**.**

JOINT LEAD MANAGERS

Barclays **Deutsche Bank** **RBC Capital Markets**

The date of this Offering Circular is 10 December 2014

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains all material information with respect to the Issuer and the Notes (including all information which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the financial, economic and political condition of the Issuer and of the rights attaching to the Notes), that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts, the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect.

Where information in this Offering Circular has been sourced from third parties, this information has been accurately reproduced and that, so far as the Issuer is aware, and is able to ascertain from information published by the third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

The Joint Lead Managers (as described under *"Subscription and Sale"*, *below*) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Notes. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers.

Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Offering Circular or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on the distribution of this document, *see "Subscription and Sale" below*.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom and Guernsey, *see "Subscription and Sale".*

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

IN CONNECTION WITH THE ISSUE OF THE NOTES, RBC EUROPE LIMITED AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to "**U.S. dollars**" and "**U.S.$**" refer to the currency of the United States of America, to "**euro**" or "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended and to "**Sterling**" and "**£**" refer to the currency of the United Kingdom.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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OVERVIEW

This Overview must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference.

Words and expressions defined in *"Conditions of the Notes"* shall have the same meanings in this Overview.

Issuer:	The States of Guernsey, acting by and through the Treasury and Resources Department.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. These are set out under *"Risk Factors" below*. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes. These are also set out under *"Risk Factors" below*.
Description of Notes:	£330,000,000 3.375 per cent. Notes due 2046 (the "**Notes**"), to be issued by the Issuer on 12 December 2014 (the "**Issue Date**").
Joint Lead Managers:	Barclays Bank PLC, Deutsche Bank AG, London Branch and RBC Europe Limited
Interest:	3.375 per cent. per annum payable semi-annually in arrear.
Optional Redemption by the Issuer:	On giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (*Notices*), the Issuer may redeem some or all of the Notes for the time being outstanding at any time at the Redemption Price together with interest accrued to (but excluding) the date of redemption. See Condition 5(b) (*Redemption at the option of the Issuer*).
Events of Default:	Events of Default under the Notes include non-payment of principal for seven days, non-payment of interest for 14 days, breach of other obligations under the Notes (which breach is not remedied within 30 days), cross default as described in Condition 8 (*Events of Default*) and certain other events described in Condition 8 (*Events of Default*).
Negative Pledge:	The terms of the Notes contain a negative pledge described in Condition 3 (*Negative Pledge*).
Status of the Notes:	The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer and rank and will rank *pari passu,* without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future.
Meetings of Noteholders:	The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority. The Conditions of the Notes also include cross-series

modification provisions.

Modification: The Conditions of the Notes contain a provision permitting the Notes and the Conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or cure an ambiguity or if the modification is of a formal or technical nature or for the benefit of the Noteholders.

Withholding Tax and Additional Amounts: The Issuer will pay such additional amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding for any taxes imposed by tax authorities in Guernsey upon payments made by or on behalf of the Issuer in respect of the Notes, will equal the amount which would have been received in the absence of any such withholding taxes, subject to customary exceptions, as described in Condition 7 (*Taxation*). See *"Taxation" below*.

Listing and admission to trading: Application has been made to the Channel Islands Securities Exchange for the listing of and permission to deal in the Notes on the Official List of the Channel Islands Securities Exchange.

Governing Law: The Notes will be governed by English law.

Form: The Notes will be issued in bearer form in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

Credit Ratings: The Notes are expected to be assigned on issue a rating of AA+ by Standard & Poor's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Selling Restrictions: The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including Guernsey and Member States of the European Economic Area) only in compliance with applicable laws and regulations. See "*Subscription and Sale" below*.

Use of Proceeds: The net proceeds of the issue of the Notes will be applied by the Issuer: (i) to consolidate existing debt which is either directly provided by or guaranteed by the Issuer and (ii) to invest the capital thereby raised in accordance with the rules, directives, guidance, procedures, policies and resolutions of the Issuer in place at the time of the issue of the Notes or from time to time thereafter.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

A decline in the financial services sector could significantly affect the stability of the Guernsey economy as a whole

In 2013, the financial services sector in Guernsey accounted for 37.3 per cent. of Guernsey's nominal GDP and 21.3 per cent. of direct employment in Guernsey, making the sector the primary source of economic activity in Guernsey. This dependence on the financial services sector exposes Guernsey's economy to risk should the output of the financial services sector seriously decline.

Guernsey's economy is dominated by the financial services sector. The sector itself is diversified and consists of four major sub-sectors - the investment sector, the banking sector, the fiduciary sector and the insurance sector. The financial services sector's cumulative contribution to growth was 8.6 per cent. between 2006 to 2012 and its cumulative contribution to employment growth was 60 per cent. between 2006 and 2013.

Although Guernsey's government continues to promote the financial services sector through a regulatory framework, legislation and a tax regime that boosts Guernsey's competitiveness, there can be no assurance that the positive trends seen in the recent past will continue. If the output of the financial services sector declines, this may have a material adverse effect on the States' financial condition and consequently its ability to make payments on the Notes.

Changes in the international tax and regulatory environment could have a negative impact on the States' economy and revenue

Funds, asset managers, banks, fiduciary services, insurers and other companies that do business in Guernsey are all becoming subject to greater tax and regulatory scrutiny from the United Kingdom Government, European Governments and international organisations. In response, any significant changes implemented in Guernsey to meet increasing and more stringent international disclosure and transparency requirements has the risk of increasing the costs associated with operating in Guernsey and this may reduce the attractiveness of Guernsey as a financial centre. Given the small size of the Guernsey economy and the dominance of the financial services sector, this could have a negative impact on the domestic economy and the States' future revenue.

The negative impact of potential regulatory and tax changes by foreign governments and international organisations on Guernsey's financial services sector and the economy as a whole are difficult to predict. The potential tightening of international financial regulation and taxation could adversely affect Guernsey's competitiveness as a financial centre and consequently, Guernsey's economy, the States' revenues and its ability to make payments on the Notes.

Factors which are material for the purpose of assessing the market risks associated with the Notes

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

The Notes are subject to optional redemption by the Issuer

The Notes contain an optional redemption feature, which is likely to limit their market value. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The terms of the Notes may be modified or waived without the consent of all the Holders of the Notes

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority. Any such change in the conditions of the Notes may adversely affect the trading price of the Notes.

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or to cure an ambiguity, or where the modification is of a formal, minor or technical nature or is for the benefit of the Noteholders.

In addition, the conditions of the Notes permit "cross-series modifications" to be made to one or more series of debt securities, **provided that** those debt securities also contain a cross-modification provision. In the case of a cross-series modification, a majority of holders of not less than 75 per cent. of the aggregate principal amount of the outstanding debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series, **provided that** holders of more than 66 2/3 per cent. of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually) of debt securities approves the relevant amendment, or a written resolution signed by holders of not less than 66 2/3 per cent. of the aggregate principal amount of the outstanding debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series, **provided that** a written resolution signed by holders of more than 50 per cent. of the aggregate principal amount of each affected series (taken individually) of debt securities approves the relevant amendment.

Event of Default

The conditions of the Notes contain a provision which, if an Event of Default occurs and is continuing, allows the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Issuer, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest.

The conditions of the Notes also contain a provision permitting the holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be rescinded. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be rescinded and shall have no further effect. Such rescission will be conclusive and binding on all Noteholders.

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the "**EUSD**"), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the EUSD, in particular to include additional types of income payable on securities. The EUSD will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the EUSD.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Although not a Member State of the European Union, Guernsey, in common with certain other jurisdictions, entered into agreements with EU Member States on the taxation of savings income. From 1 July 2011, paying agents in Guernsey must automatically report to the Director of Income Tax in Guernsey any interest payment to individuals resident in the contracting EU Member States which falls within the scope of the EUSD as applied in Guernsey. Based on Guidance Notes issued by the Commerce and Employment Department of the States of Guernsey on application of the agreements entered into between Guernsey and each EU Member State in support of the EUSD, under the existing regime, any payments made by the Issuer to a paying agent established outside Guernsey will not be subject to reporting obligations.

Guernsey, along with other dependent and associated territories, will consider the effect of the amendments to the EUSD in the context of existing bilateral agreements and domestic law. If changes to the implementation of the EUSD in Guernsey are brought into effect, the treatment of payments by the Issuer in respect of Notes and the position of Noteholders in relation to the EUSD may be different to that set out above.

Pursuant to Condition 7(b) (*Taxation*), if a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Pursuant to Condition 11 (*Paying Agents*), the Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EUSD.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Denominations involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum of £100,000 or its equivalent plus one or more higher integral multiples of £1,000 or its equivalent. It is possible that the Notes may be traded in amounts that are not integral multiples of £100,000 or its equivalent. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 or its equivalent in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to £100,000 or its equivalent.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 or its equivalent may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. As such, the Notes generally will have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority **(**"**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:

The £330,000,000 3.375 per cent. Notes due 2046 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further issues*) and forming a single series therewith) of the States of Guernsey, acting by and through the Treasury and Resources Department (the "**Issuer**") are the subject of a fiscal agency agreement dated 12 December 2014 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, HSBC Bank plc as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. FORM, DENOMINATION AND TITLE

The Notes are serially numbered and in bearer form in denominations of £100,000 and integral multiples of £1,000 in excess thereof with Coupons and talons (each, a "**Talon**") for further Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes, the Coupons and the Talons will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. STATUS

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future.

3. NEGATIVE PLEDGE

(a) *Negative Pledge*: So long as any of the Notes remains outstanding (as defined in the Agency Agreement) the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a "**Security Interest**") over any of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

  (i) all amounts payable by it under the Notes and the Coupons are secured by the Security Interest equally and rateably with such Relevant Indebtedness; or

  (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by a Resolution (as defined in the Agency Agreement of not less than three-fourths of the votes cast) of the Noteholders.

(b) *Interpretation*: For the purposes of these Conditions, "**Relevant Indebtedness**" means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for money borrowed or raised which is in the form of or represented by any notes, bonds, debentures, debenture stock, loan stock or other securities which are, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market and (ii) any guarantee or indemnity of any such indebtedness.

4. **INTEREST**

The Notes bear interest from 12 December 2014 (the "**Issue Date**") at the rate of 3.375 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 12 June and 12 December in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be £16.88 in respect of each Note of £1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest pence (half a pence being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means £1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the product of (1) the number of days in the Regular Period in which the relevant period falls and (2) two; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. **REDEMPTION AND PURCHASE**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 12 December 2046, subject as provided in Condition 6 (*Payments*).

(b) *Redemption at the option of the Issuer*: On giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (*Notices*), the Issuer may redeem some or all of the Notes for the time being outstanding at any time at the Redemption Price (as defined below) together with interest accrued to (but excluding) the date of redemption (the "**Redemption Date**").

The "**Redemption Price**" shall be the higher of (a) the principal amount of the Notes to be redeemed and (b) the product of the principal amount of the Notes to be redeemed and the price, expressed as a percentage (rounded to three decimal places, with 0.005 being rounded down), (as reported in writing to the Issuer by an independent financial adviser (a "**financial adviser**") appointed by the Issuer) at which the Gross Redemption Yield on the Notes on the Calculation Date is equal to the sum of (i) the Gross Redemption Yield at 11.00 a.m. (London time) on such date of the 4.250 per cent. UK Treasury Stock 2046 (or, where such financial adviser advises the Issuer that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as such financial adviser may recommend) and (ii) 0.15 per cent.

For such purposes:

"**Business Day**" means a day on which banks are generally open for business in London;

"**Calculation Date**" means the date which is the second Business Day prior to the date on which the notice to redeem is dispatched; and

"**Gross Redemption Yield**" means a yield, expressed as a percentage, calculated by the financial adviser on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 5, Section One: Price/Yield Formulae (Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8 June, 1998 and updated on 15 January, 2002 and 16 March, 2005) (as updated, amended or supplemented from time to time) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places) or, if such formula does not reflect generally accepted market practice at the time of redemption, a yield calculated in accordance with generally accepted market practice at such time, all as advised to the Issuer by such financial adviser.

Any notice given pursuant to this Condition 5(b) shall be irrevocable and shall specify the Redemption Date. If any such notice has been given, references in these Conditions to "**principal**", and "**principal amount**" shall, unless the context otherwise requires, be deemed to include references to the Redemption Price in relation to any redemption pursuant to such notice. Upon the expiry of any such notice, the Issuer shall be bound to redeem the Notes so called for redemption at the applicable Redemption Price on the Redemption Date together with accrued interest as aforesaid unless previously purchased and cancelled or redeemed.

(c) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 5(b) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 5(b) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed.

(d) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (b) (*Redemption at the option of the Issuer*) above.

(e) *Purchase*: The Issuer may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons and unexchanged Talons are purchased therewith.

(f) *Cancellation*: All Notes so redeemed or purchased by the Issuer and any unmatured Coupons or unexchanged Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

6. PAYMENTS

(a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Sterling cheque drawn on, or by transfer to a Sterling account maintained by the payee with, a bank in London.

(b) *Interest*: Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

(e) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.

(f) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(g) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and the date of such payment.

(h) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a "**Coupon Sheet**"), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (*Prescription*). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

7. TAXATION

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Guernsey or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with Guernsey other than the mere holding of the Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment pursuant to European Council Directive 2003/48/EC (as amended from time to time) on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or

(d) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days assuming that day to have been a business day as defined in Condition 6(e) (*Payments on business days*).

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

8. EVENTS OF DEFAULT

If any of the following events occurs and is continuing (each, an "**Event of Default**"):

(a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and the failure continues for the period of 45 days following the service by any Noteholder on the Issuer of written notice requiring the same to be remedied; or

(c) if:

(i) any Indebtedness for Borrowed Money of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness for Borrowed Money of the Issuer is declared to be due and payable prior to its stated maturity otherwise than at the option of the Issuer as a result of an event of default (howsoever described); or

(iii) the Issuer fails to pay when due or within any originally applicable grace period any amount payable by it under any guarantee or indemnity of any Indebtedness for Borrowed Money,

provided that the amount of Indebtedness for Borrowed Money referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money relative to all (if any) other events specified in (i) to (iii) above exceeds £25,000,000 (or its equivalent in any other currency or currencies); or

(d) the Issuer declares a moratorium on any of its Indebtedness for Borrowed Money or is unable, or officially admits its inability to, pay its debts as they fall due; or

(e) any government order, decree or enactment of the Issuer or the United Kingdom shall be made or come into force or, as the case may be, be revoked whereby the Issuer is prevented from observing and performing in full its payment obligations contained in the Notes or the performance of such obligations becomes unlawful,

then Noteholders holding not less than one-quarter of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, declare all the Notes to be immediately due and payable (an "**Acceleration Notice**"), whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

If the Issuer receives notice in writing from holders of more than 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to the above mentioned Acceleration Notice is or are cured following any such Acceleration Notice and that such holders request the Issuer to rescind the relevant Acceleration Notice, the Issuer or the Fiscal Agent shall, by notice in writing to the Noteholders (with a copy to the Fiscal Agent), rescind the relevant Acceleration Notice whereupon it shall be rescinded and shall have no further effect. Such rescission will be conclusive and binding on all Noteholders and Couponholders, but no such rescission shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

For the purposes of this Condition 8, "**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any borrowed money.

9. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. REPLACEMENT OF NOTES, AND COUPONS AND TALONS

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

11. PAYING AGENTS

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain (a) a fiscal agent and (b) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing or complying with or introduced in order to confirm to, European Council Directive 2003/48/EC.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. MEETINGS OF NOTEHOLDERS; MODIFICATION

(a) *General*: The provisions relating to modifications and for convening meetings of Noteholders as set out in Schedule 5 to the Agency Agreement shall apply to the Notes.

For the purposes of this Condition 12 (*Meeting of Noteholders; Modification*), a Note will be deemed to be not "**outstanding**" as set out in Schedule 5 to the Agency Agreement. In addition, in respect of any of the Notes which are held by the Issuer, by a department, ministry or agency of the Issuer, or by a corporation, trust or other legal entity that is controlled by the Issuer or a department, ministry or agency of the Issuer and, in the case of a Note held by such corporation, trust or other legal entity, the holder of such Notes does not have autonomy of decision, such Notes will be deemed to be not outstanding for the purposes of this Condition 12 (*Meeting of Noteholders; Modification*) where:

(i) the holder of a Note for these purposes is the entity legally entitled to vote the Note for or against a proposal and/or proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposal and/or proposed modification; and

(ii) a corporation, trust or other legal entity is controlled by the Issuer or by a department, ministry or agency of the Issuer if the Issuer or any department, ministry or agency of the Issuer has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and

(iii) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Issuer:

(A) the holder may not, directly or indirectly, take instruction from the Issuer on how to vote on a proposal and/or proposed modification; or

(B) the holder, in determining how to vote on a proposal and/or proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or

(C) the holder owes a fiduciary or similar duty to vote on a proposal and/or proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this definition.

The following paragraphs constitute a summary of the relevant provisions of the Agency Agreement and shall be subject to the provisions set out therein as amended by the foregoing paragraphs in this Condition 12(a) (*General*).

(b) *Convening a meeting of Noteholders*: A meeting of Noteholders:

(i) may be convened by the Issuer or the Fiscal Agent at any time; and

(ii) will be convened by the Issuer if an Event of Default has occurred and is continuing and a meeting is requested in writing by the holders of not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding.

(c) *Quorum*:

(i) The quorum at any meeting of Noteholders convened to vote on a proposal in relation to, or a proposed modification of:

(A) a Reserved Matter (as defined in the Agency Agreement) will be one or more persons present and holding or representing at least 66 2/3 per cent. of the aggregate principal amount of the outstanding Notes; and

(B) a matter other than a Reserved Matter (a "**Non-Reserved Matter**") will be one or more persons present and holding or representing at least 50 per cent. of the aggregate principal amount of the outstanding Notes.

(ii) where a meeting is adjourned and rescheduled owing to a lack of quorum, the quorum at any adjourned or rescheduled meeting of Noteholders will be one or more persons present and holding or representing:

(A) at least 66 2/3 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter modification or a proposal relating to a Reserved Matter; and

(B) at least 25 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Non-Reserved Matter modification or a proposal relating to a Non-Reserved Matter.

(d) *Non-Reserved Matters Modification*: Save as otherwise provided in the Agency Agreement, any modification in relation to, or proposal relating to, a Non-Reserved Matter affecting the terms and conditions of the Notes and/or any agreement governing the issuance or administration of the Notes may only be approved, with the consent of the Issuer and:

(i) the affirmative vote of a holder or holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of holders of the Notes; or

(ii) a written resolution signed by or on behalf of a holder or holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

(e) *Reserved Matters Modification*: Except as provided by Condition 12(f) (*Cross-Series Modifications and Cross-Series Proposals*) below, any modification in relation to, or proposal relating to, a Reserved Matter affecting the terms and conditions of the Notes and/or any agreement governing the issuance or administration of the Notes may only be approved, with the consent of the Issuer and:

(i) the affirmative vote of a holder or holders of not less than 75 per cent. of the aggregate principal amount of the Notes then outstanding represented at a duly called and quorate meeting of holders; or

(ii) a written resolution signed by or on behalf of a holder or holders of not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding.

(f) *Cross-Series Modifications and Cross-Series Proposals*: In the case of a Cross-Series Modification and/or Cross-Series Proposal, any modification in relation to, or proposal relating to, a Reserved Matter, the terms and conditions of the Notes and any other series of debt securities, and any agreement governing the issuance or administration of the Notes or debt securities of such other series may only be approved, with the consent of the Issuer and:

(i)

(A) the affirmative vote of not less than 75 per cent. of the aggregate principal amount of the outstanding debt securities represented at separate duly called and quorate meetings of the holders of the debt securities of all the series (taken in the aggregate) that would be affected by the proposal and/or proposed modification; or

(B) a written resolution signed by or on behalf of the holders of not less than 66 2/3 per cent. of the aggregate principal amount of the outstanding debt securities of all the series (taken in the aggregate) that would be affected by the proposal and/or proposed modification; and

(ii)

(A) the affirmative vote of more than 66 2/3 per cent. of the aggregate principal amount of the outstanding debt securities represented at separate duly called and quorate meetings of the holders of each series of debt securities (taken individually) that would be affected by the proposal and/or proposed modification; or

(B) a written resolution signed by or on behalf of the holders of more than 50 per cent. of the aggregate principal amount of the then outstanding debt securities of each series (taken individually) that would be affected by the proposal and/or proposed modification.

For the purposes of this Condition 12(f) (*Cross-Series Modifications and Cross-Series Proposals*):

"**debt security**" means the Notes, any bill, bond, debenture, note or other debt security issued by the Issuer in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a debt security;

"**Cross-Series Modification**" means a modification involving (i) the Notes or any agreement governing the issuance or administration of the Notes, and (ii) one or more other series of debt securities or any agreement governing the issuance or administration of such other series of debt securities;

"**Cross-Series Proposal**" means a proposal or matter for consideration affecting or concerning (i) the Notes or any agreement governing the issuance or administration of the Notes, and (ii) one or more other series of debt securities or any agreement governing the issuance or administration of such other series of debt securities; and

"**series**" means a tranche of debt securities, together with any further tranche or tranches of debt securities that in relation to each other and to the original tranche of debt securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series, and includes the Notes and any further issuances of Notes,

provided that the definitions set out immediately above shall be subject to and construed in accordance with Condition 12(a) (*General*).

(g) *Written Resolutions*: A written resolution signed by or on behalf of holders of the requisite majority of the Notes will be valid for all purposes as if it was a resolution passed at a quorate meeting of holders duly convened and held in accordance with these provisions. A written resolution may be set out in one or more documents in like form each signed by or on behalf of one or more holders.

(h) *Binding Effect*: A resolution duly passed at a quorate meeting of holders duly convened and held in accordance with the provisions of the Agency Agreement, and a written resolution duly signed by the requisite majority of holders, will be binding on all holders, whether or not the holder was present or represented at the meeting, voted for or against the resolution or signed the written resolution.

(i) *Manifest error, technical amendments*: Notwithstanding anything to the contrary herein, the Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders:

(i) to correct a manifest error or cure an ambiguity; or

(ii) if the modification is of a formal or technical nature or for the benefit of the Noteholders.

In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is (i) to correct a manifest error or cure an ambiguity or (ii) if the modification is of a formal or technical nature or not materially prejudicial to the Noteholders. The Issuer will publish the details of any modification of the Notes made pursuant to this Condition 12(i) (*Manifest error, technical amendments*) within ten days of the modification becoming legally effective and in accordance with Condition 14 (*Notices*).

13. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

14. NOTICES

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

15. GOVERNING LAW AND JURISDICTION

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute regarding any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 15(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 15 (*Governing law and Jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Service of Process*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to TMF Corporate Services Limited at 6 St Andrew Street, 5th Floor, London, EC4A 3AE, United Kingdom, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) *Consent to enforcement etc.*: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denominations of £100,000 and integral multiples of £1,000 in excess thereof each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of £100,000 and higher integral multiples of £1,000, notwithstanding that no Definitive Notes will be issued with a denomination above £199,000.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 12 December 2014 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payments on business days: In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note "**business day**" in Condition 6(e) (*Payments on business days*) shall be amended to mean any day which is a day on which dealings in foreign currencies may be carried on in London.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 5(b) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 14 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders on the date of delivery to Euroclear and Clearstream, Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately £325,515,300, will be applied by the Issuer: (i) to consolidate existing debt which is either directly provided by or guaranteed by the Issuer and (ii) to invest the capital thereby raised in accordance with the rules, directives, guidance, procedures, policies and resolutions of the Issuer in place at the time of the issue of the Notes or from time to time thereafter.

GUERNSEY

An overview of Guernsey

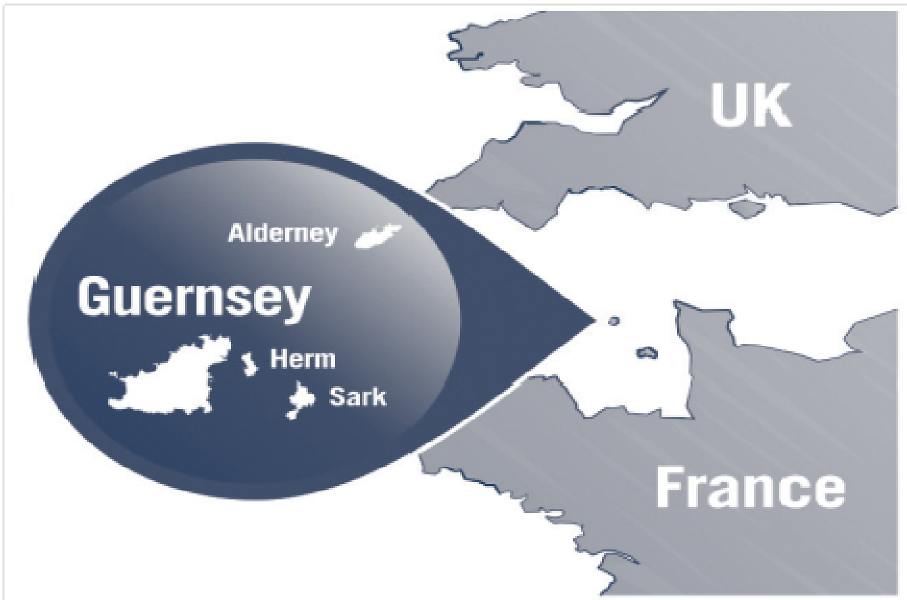
The island of Guernsey ("**Guernsey**") is a self-governing dependency of the British Crown with its own directly elected legislative assembly, its own administrative, fiscal and legal systems, and its own courts of law. Guernsey has a long history of being self-governing and self-funding. It is politically and economically stable with no public debt, and has strong links to the United Kingdom ("**UK**") and wider Europe.

Although Guernsey is not part of the UK, or the European Union ("**EU**"), it is part of the sterling zone. Guernsey has a formal commitment to continue meeting international standards, evidenced by its ongoing adherence to UK, EU, G20, G7, Organisation for Economic Co-operation and Development ("**OECD**") and International Monetary Fund ("**IMF**") standards for transparency and financial stability.

In 2013, Guernsey had a Gross Domestic Product ("**GDP**") of £2.2 billion and GDP per capita of £34,846. As of June 2014, Guernsey's population was 62,732 with a working population of 31,767. Guernsey has a strong financial services sector which constituted 37.3 per cent. of its GDP in 2013 with £77 billion of banking deposits and £261 billion of funds under management.

Guernsey's information communication technology and creative industries are growing sectors which are underpinned by a strong intellectual property regime. Other sectors that comprise Guernsey's economy include: professional, accounting and legal services; construction; retail; agriculture, horticulture and fishing; manufacturing; tourism and hospitality; and an emerging renewable energy sector.

Guernsey has been assigned long-term and short-term sovereign credit ratings of AA+ / A-1+ with a stable outlook by Standard & Poor's Credit Market Services Europe Limited.



Guernsey and the UK

Although Guernsey is geographically much closer to France than the UK, it is loyal to the British Crown. This loyalty can be traced back to Norman times when the Channel Islands first became part of the English realm and it forms the basis of Guernsey's constitution. It has never been a colony or an overseas territory and its status constitutionally is, and always has been, distinctly different from that of the British Overseas Territories.

The residents of Guernsey have British nationality and Guernsey participates in the Common Travel Area (which is a travel zone that comprises the Republic of Ireland, the UK, the Isle of Man, Jersey and Guernsey). Guernsey is not represented in the UK Parliament but the British Crown, in practice through Her Majesty's Government, is formally responsible for Guernsey's defence and its formal international relations.

Through a Framework Agreement signed in December 2008 between the UK and Guernsey, it has been agreed that the UK will not act internationally on account of Guernsey without prior consultation and recognises that Guernsey has an international identity that is different from that of the UK.

Guernsey is part of the sterling zone and the UK's payment and clearing system, although it has its own independent regulator, the Guernsey Financial Services Commission (the "**GFSC**"), and regulatory systems.

Guernsey and the EU

Guernsey has a special relationship with the EU provided by Protocol 3 to the UK's Treaty of Accession to the European Economic Community in 1972. Under Protocol 3, Guernsey is part of the customs territory of the EU. The common customs tariff, levies and other agricultural import measures therefore apply to trade between Guernsey and non-Member States of the EU. There is free movement of goods and trade between Guernsey and Member States of the EU.

Guernsey is not, however, part of the single market in financial services and, as a result, is not required to implement European Union Directives on such matters as movement of capital, company law or money laundering. However, Guernsey voluntarily adopts such measures where appropriate, having particular regard to its commitment to meeting international standards of financial regulation and countering money laundering and terrorist financing.

The Channel Islands Brussels Office ensures that Guernsey's interests are promoted in Europe and also advises Guernsey on EU policy issues.

Constitutional Arrangement and Legal System

Similar to the UK, Guernsey does not have a written constitution. There are a number of Royal Charters from successive sovereigns that define the rights, freedoms and privileges of Guernsey's residents. There are a number of "constitutional" laws which define the States of Deliberation, give effect to rights described in certain international treaties and shape the way that the States interacts with the residents of Guernsey.

The legal system in Guernsey is derived from several different systems, including Norman customary law and English common law, and it now uses aspects of both civil and common law. Guernsey operates its own legal and judicial system. Primary legislation passed in Guernsey requires Royal Assent from the Privy Council with the UK Ministry of Justice examining legislation to ensure that there is no conflict with international obligations or any fundamental constitutional principles.

Guernsey's principal court is the Royal Court with jurisdiction for civil and criminal matters. Appeals are dealt with in the first instance by Guernsey's Court of Appeal. Except in respect of human rights cases to be determined in the European Court of Human Rights, the Judicial Committee of the Privy Council is the final court of appeal.

The Royal Court is composed of the Bailiff, Deputy Bailiff (presiding judges) and 16 Jurats (permanently sitting jurors). As well as being head of the judiciary, the Bailiff is the Presiding Officer of the States of Deliberation and the civic head of Guernsey.

Legislature and Executive

Guernsey is administered by the States of Guernsey, which is constituted under the Reform (Guernsey) Law, 1948 (as amended) and consists of two bodies namely, the States of Deliberation and the States of Election.[1]

Guernsey's parliament is called the States of Deliberation and its members consist of forty-five democratically elected Guernsey Deputies and two Alderney representatives elected by the States of Alderney. Guernsey Deputies are elected from one of the seven multi-seat constituencies in Guernsey by universal adult suffrage and the legal voting age is 16 years old. The States of Deliberation sits for a term of four years after which there is a general election. Party politics do not exist in Guernsey; consequently,

[1] The only function of the States of Election is to act as an Electoral College for Jurats, an office which has no direct comparison in the United Kingdom but which is akin to a permanently sitting jury.

if a proposed measure is to be approved, the legislative process demands that the independent members of the States of Deliberation reach a majority consensus.

The States of Deliberation is the overarching executive and legislature of Guernsey with power to raise taxation, determine expenditure and pass legislation. The Chief Minister is chosen from and by the elected Deputies. Each position of Minister and Board Member for each of the ten Departments of the States of Deliberation [2] (the "**States Departments**") is also allocated to elected Deputies. The Chief Minister and the Ministers of the ten Departments constitute the Policy Council, which is responsible for Guernsey's constitutional and external affairs, developing strategic and corporate policy and coordinating States business. It also examines proposals and reports placed before the States of Deliberation by the States Departments and non-States bodies. In addition, there are four parliamentary committees which form part of the States of Deliberation, which deal with non-executive functions such as scrutiny, review of draft legislation and the functioning of the States of Deliberation.

The elected States Departments and Committees are supported by a professional civil service of some 1,800 staff under their immediate control and direction. In Guernsey, therefore, the civil service derives its authority from the States of Deliberation and not from the British Crown. Each States Department and Committee has a Chief Officer. The Chief Executive of the States is the Head of the Guernsey Civil Service and the Chief Officers are accountable to him. The States Departments also directly employ manual workers, nurses, teachers, police officers and customs officers.

The enacted law in Guernsey is contained in Royal Charters, Orders in Council, Conventions, Acts of Parliaments extending to Guernsey, Ordinances, and Statutory Instruments made under such legislation. Most legislation in force takes the form of Orders in Council embodying *Projets de Loi* approved by the States of Deliberation, and Ordinances of the States.

The wider Bailiwick

The Bailiwick of Guernsey (the "**Bailiwick**") comprises the three separate jurisdictions of Guernsey, Alderney and Sark.

Alderney

The government of Alderney is administered by the States of Alderney. Since 1948, with the agreement of the States of Alderney, the States has exercised financial and administrative responsibility for certain public services in Alderney. In recognition of Guernsey's responsibility for these reserved services, Alderney is represented by two members in the States of Deliberation with full voting rights on matters laid before that assembly. The States of Alderney is responsible for initiating its own domestic legislation. The States has the power to enact criminal legislation in Alderney, as well as legislation relating to certain reserved public services.

Sark

The government of Sark is administered by the Chief Pleas of Sark. By means of a committee system, the Chief Pleas administers the functions of government in a manner very similar to the States and the States of Alderney. As with Alderney, the States has power to legislate for Sark on criminal matters and any other matters with the agreement of the Chief Pleas. The States does not exercise financial and administrative responsibility for public services in Sark.

International standards and co-operation

Guernsey fully recognises the obligations (domestic and international) that follow from its position as an international finance centre. Accordingly Guernsey continues to build on its reputation for being well regulated, co-operative and transparent.

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[2] The 10 Departments of the States of Deliberation are: Commerce & Employment; Culture & Leisure; Education; Environment; Health & Social Services; Home; Housing; Public Services; Social Security; and Treasury & Resources.

Financial stability and tax transparency

The IMF[3], OECD[4] and the UK Government's Revenue and Customs[5] agency continually place Guernsey within the top tier of international finance centres globally. Guernsey has been automatically exchanging information under the EUSD for a number of years and has also signed a number of tax information exchange and double taxation agreements.

Tackling financial crime

Guernsey recognises the important role it has to play in tackling financial and economic crime, particularly in the areas of anti-money laundering ("**AML**") and countering terrorist financing ("**CFT**"). The IMF assessed Guernsey's compliance with AML/CFT standards, concluding that its legal system and enforcement were among the strongest in the world.[6] Many EU Member States, including the UK and Germany, also recognise the Guernsey AML/CFT regime as being equivalent to the Third EU Money Laundering Directive (Directive 2005/60/EC). Meanwhile Guernsey participates actively and constructively in the development of new international standards, including providing input to the 2012 consultation process for the revision of the EU's Third Money Laundering Directive.

Asset recovery

Assisting countries that have emerged from authoritarian government regimes to recover assets illegally hidden abroad during the period while such a government was in power is a priority for the international community. As an established international financial services centre, Guernsey is playing an active part in these international efforts. Guernsey was among the founder members of the Camden Asset Recovery Inter-Agency Network ("**CARIN**") in 2004, and will have the CARIN Presidency in 2015. Guernsey participates actively in the exchange of information and co-operation through CARIN, the European Judicial Network, Eurojust and the Egmont Network of Financial Intelligence Units. Guernsey has participated in the Stolen Asset Recovery initiative of the United Nations Office on Drugs and Crime and of the World Bank since its commencement in 2007, and contributed to successive Fora on Asset Recovery organised by the G8, as part of the Deauville Accord.

International Sanctions

Guernsey adopts all EU sanctions and asset freezes voluntarily, thereby ensuring that institutions regulated in Guernsey cannot be used for parking or transferring targeted assets. All EU restrictive measures imposed since January 2011 have been implemented and are administered robustly, while significant attention is paid to the granting of any licences or authorisations, and Guernsey's competent authorities communicate proactively with their counterparts in Member States.

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3 *Source: IMF – Guernsey – Financial System Stability Assessment Update, January 2011*

4 *Source: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews: Guernsey 2013, Phase 2: Implementation of the Standard In Practice*

5 *Source: HMRC Territory categorisation for offshore penalties (2013)*

6 *Source: IMF, Guernsey: Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism, 2011*

THE ECONOMY

Background

Over the past decades, Guernsey's economy has undergone a significant transformation from dependence on quarrying, ship-building, tomato-growing and flower-growing to an established financial services centre.

The internationally recognised financial institutions that have a presence in Guernsey and Guernsey's legal and accountancy professionals provide a range of financial services in line with Guernsey's position as an established financial services centre. A competitive and stable environment has attracted several hundred financial services firms who provide a wide range of financial products and services to a global client base. Guernsey's financial services sector is based on a balanced range of financial services providers within the areas of banking, fiduciary services (trust and company administration), funds management, insurance and asset management. There is an established Guernsey Registry for company formation and intellectual property, and the Channel Islands Securities Exchange (the "**CISE**"). There is positive collaboration among these businesses and the supporting professional services infrastructure, including multi-jurisdictional law firms, global accountancy and tax practices and actuarial providers. Supervision is provided by an independent regulator, the GFSC, which is responsible for the regulation and supervision of the financial services industry in Guernsey and is the supervisory body for sectors subject to regulatory oversight of anti-money laundering and countering the financing of terrorism.

As well as a strong financial services sector, Guernsey's economy is made up of a number of other sectors, including: professional and legal services; agriculture, horticulture and fishing; manufacturing; energy; construction; retail; information communication technology; the creative and cultural industries; tourism and hospitality.

Gross Domestic Product

Gross Domestic Product ("**GDP**") is calculated as the sum of Guernsey's income (wages plus profits and other local income from capital) with accompanying linear adjustments. Reflated figures take into account the effects of inflation and are shown at 2013 values.

GDP figures for the period 2011 to 2013 are presented as estimated figures throughout this Offering Circular, as there is a delay in the receipt of the corporate tax data that is required for the definitive calculation of GDP.

The table below provides GDP figures for Guernsey (at current and constant 2013 values) for the years 2009 to 2013:

Year	**Nominal GDP**	**Real GDP (2013 values)**
	(£ million)	*(£ million)*
2009	1,832	2,050
2010	1,909	2,089
2011(E)	2,033	2,156
2012(E)	2,117	2,175
2013(E)	2,186	2,186

Source: Guernsey Facts and Figures 2014
Note: (E) - Estimated

In line with most European economies, Guernsey's economy has been impacted by the global economic crisis since 2008. However, Guernsey's GDP has been on the upward trend since 2010 with the nominal GDP for 2013 being an estimated £2.2 billion, which is a 0.5 per cent. growth in real terms from 2012. Whilst this is lower than the States agreed target rate of average GDP growth of 2.0 per cent. per annum, global economic conditions in recent years have meant that achieving this target has not been practical in the short term.

Gross Domestic Product Per Capita

The division of GDP by the total population gives GDP per capita. The table below provides the GDP per capita figures (at current and constant 2013 values) for Guernsey for the years 2009 to 2013:

Year	Nominal GDP per capita	Real GDP capita (2013 values)
	(£ thousand)	*(£ thousand)*
2009	29.4	32.9
2010	30.6	33.5
2011(E)	32.3	34.0
2012(E)	33.6	34.3
2013(E)	34.8	34.8

Source: Guernsey Facts and Figures 2014

Note: (E) - Estimated

GDP per capita has been increasing over the last four years. The increase in GDP per capita recorded from 2010 – 2012 (a 2.4 per cent. increase in real terms) results from a 4.1 per cent. increase in GDP in real terms over the same period. Over this period, Guernsey's population has also increased by 1.04 per cent. In 2013, nominal GDP per capita was £34,842, which is 1.1 per cent. higher than in 2012 in real terms. This was due to an increase in nominal GDP of 0.5 per cent. to £2.2 billion and a decrease in Guernsey's population by approximately 350 people to 62,732.

Gross Domestic Product Per Worker

GDP per worker is calculated by dividing GDP by the total number of employees and self-employed people in Guernsey. It provides an indication of the average output or productivity per worker. The table below provides the GDP per worker figures (at current and constant 2013 values) for Guernsey for the years 2009 to 2013:

Year	Nominal GDP per worker	Real GDP per worker (2013 values)
	(£)	*(£)*
2009	56,866	63,616
2010	59,354	64,933
2011(E)	62,755	66,542
2012(E)	65,809	67,605
2013(E)	68,586	68,586

Source: The States Strategic Monitoring Report 2014

Note: (E) - Estimated

Real GDP per worker has been on an upward trend since 2009 and has increased by 7.8 per cent. from 2009 to 2013. In 2013, real GDP per worker was £68,586, which is 1.5 per cent. higher than in 2012.

Principal Sectors of the Economy

The table below sets out the percentage contribution of each sector of Guernsey's economy to Guernsey's total nominal GDP for the years 2009 to 2013:

Sector	2009	2010	2011 (E)	2012 (E)	2013 (E)
	(%)	*(%)*	*(%)*	*(%)*	*(%)*
Financial services	40.8	40.7	38.2	37.7	37.3
Public administration	12.0	11.6	11.1	11.2	11.2
Business services	10.4	8.3	9.7	10.4	11.1
Information	3.0	6.1	8.6	11.2	11.0
Construction	7.0	6.4	6.1	5.9	6.2
Retail	6.6	6.7	6.6	5.9	5.5

Sector	2009	2010	2011 (E)	2012 (E)	2013 (E)
Health	2.6	2.6	2.7	2.6	2.6
Hostelry	2.8	2.8	2.6	2.5	2.5
Legal	2.9	2.6	2.0	2.1	2.3
Manufacturing	2.1	2.0	1.9	1.8	1.8
Personal services	1.5	1.8	1.8	1.6	1.7
Transport	1.8	1.9	2.3	1.7	1.6
Wholesale	2.3	2.3	2.2	1.7	1.6
Recreation	1.0	1.0	0.9	0.9	0.8
Agriculture and fisheries	0.8	0.9	0.8	0.8	0.8
Utilities	0.8	0.8	0.9	0.7	0.7
Education	0.7	0.6	0.6	0.6	0.6
Non-Profit	0.4	0.4	0.4	0.4	0.4
Horticulture	0.6	0.6	0.6	0.4	0.3

Source: Guernsey Facts and Figures 2014
Note: (E) – Estimated.

The table below sets out the percentage contribution of each sector of Guernsey's economy to Guernsey's total employment as at 31 March in each of the years 2009 to 2013:

Sector	2009	2010	2011	2012	2013
	(%)	*(%)*	*(%)*	*(%)*	*(%)*
Financial services	22.2	21.6	21.4	21.2	21.3
Public administration	17.1	17.5	17.0	17.3	17.3
Wholesale, retail & repairs	13.7	13.8	13.6	13.6	12.5
Construction	9.9	9.7	9.8	9.4	10.2
Professional, business, scientific & technical	5.9	6.1	6.3	6.3	6.4
Hostelry	5.5	5.6	5.8	5.7	5.9
Human health, social & charitable work	4.7	5.0	5.1	5.3	5.5
Administrative & support services	4.1	3.9	4.0	4.3	4.3
Information & communication	3.3	3.3	3.2	3.3	3.0
Transport & storage	3.1	3.0	3.2	3.2	3.0
Manufacturing	2.3	2.3	2.2	2.2	2.2
Other services	1.6	1.6	1.8	1.8	1.9
Education	1.5	1.5	1.5	1.6	1.6
Agriculture, horticulture, fishing & quarrying	1.5	1.4	1.4	1.3	1.3
Arts, entertainment & recreation	1.2	1.2	1.3	1.2	1.1
Electricity, gas, steam & air conditioning	1.0	1.1	1.0	1.0	1.0
Real estate	0.6	0.6	0.7	0.7	0.7
Activities of households as employers	0.5	0.5	0.4	0.4	0.3
Water, sewerage, waste & remediation	0.2	0.2	0.3	0.3	0.3
Other	0.1	0.1	0.0	0.0	0.1

Source: Guernsey Facts and Figures 2014

The financial services sector accounted for approximately 37 per cent. of total GDP in 2013. The next largest contributors to total GDP in 2013 were the business services, information and public administration sectors, each accounting for approximately 11 per cent.

The financial services sector's contribution to total nominal GDP has decreased over time from approximately 41 per cent. in 2009 to 37 per cent. in 2013, thereby highlighting Guernsey's efforts to diversify its economy. From 2009 to 2013, the information sectors' contribution to total nominal GDP has increased from 3 per cent. to 11 per cent.

Financial Services Sector

Alongside a focus on the non-financial sectors of the economy, the States is vigilant in promoting the financial services sector through a regulatory framework and tax regime that boosts Guernsey's competitiveness whilst meeting international regulatory obligations. In order to support the future growth of the financial services sector, the States has put in place stringent legislation and regulation, whilst seeking to maintain a competitive position with respect to other financial centres. Guernsey's finance sector activity closely mirrors that of the UK - almost all captive insurance and fiduciary business in Guernsey originates in the UK.

The GFSC continues to work with international bodies to ensure that Guernsey maintains its competitive position as a well regulated international financial centre (see "*Monetary and Financial System – Regulatory Framework*" below). The overall success of Guernsey's finance industry is underpinned by its clear, competitive and simple zero/ten business taxation system. Guernsey's tax regime gives it a competitive advantage over other jurisdictions with more complex taxation systems (see "*Public Finance – Taxation Policies and Transparency*" below for a description of the zero/ten taxation system).

The financial services sector in Guernsey is very large in comparison to the size of Guernsey's economy: the financial sector asset value was approximately 120 times the nominal GDP in 2013. The financial services sector remains the key source of activity in Guernsey accounting for:

- approximately 37 per cent. of total GDP in 2013; and
- approximately 21 per cent. of direct employment.

Guernsey's financial services sector consists of four major sub-sectors: the investment sector, the banking sector, the fiduciary sector and the insurance sector (which is dominated by captives and life insurance). The financial services sector contributes to the Guernsey economy through:

- Investment fee income: the collection of investment fees based on the amount of funds under management and investment performance (this is the primary contributor to the economy); and
- Net interest income: the banking sector also generates income through net interest income (which is the margin between deposit rates and the interbank rate).

Due to the diverse nature of the financial services sector, the output of the financial services sector has increased to a greater extent over the last 7 years than the output of the economy as a whole. The financial services sector's cumulative contribution to growth was 8.6 per cent. between 2006 to 2012 and its cumulative contribution to employment growth was 60 per cent. between 2006 and 2013. The output of the financial services sector in 2013 was less than 2 per cent. below that in 2008 before the financial crisis. However, other sectors of Guernsey's economy have performed strongly since 2008 and this has resulted in the financial services sector's overall percentage contribution to GDP being reduced.

In addition, some non-financial sectors of the economy (such as the professional and business sub-sector and the information and communication sector) are strongly linked to and have a dependency on the financial services sector.

Impact of the Global Financial Crisis

Like many economies in Europe, Guernsey's financial services sector suffered following the financial crisis in 2008. However, despite this, the output of the financial services sector has grown more over the last seven years than the economy as a whole. The following table highlights cumulative percentage contribution of the financial services and non-financial services sectors to real GDP growth for the period 2009 to 2013.

Year	Finance Sector	Non Finance Sectors
	(%)	
2009	10.0	(3.5)
2010	10.0	(3.3)
2011 (E)	9.8	(2.4)
2012 (E)	8.5	(1.4)
2013 (E)	9.0	(0.5)

Source: Annual Independent Fiscal Policy Review 2013

Note: (E) – Estimated.

Employment in the financial services sector has declined by 5 per cent since 2009. However, this decline has been offset by a slight increase in employment in other sectors of the economy, which has resulted in a total decrease in Guernsey's employment of 1 per cent over that period. The following table highlights the employed and self-employed figures for the financial services and non-financial services sectors as at 31 March for each of the years 2009 to 2013:

Year	Finance Sector	Non Finance Sectors	Total
2009	7,113	24,868	31,981
2010	6,835	24,770	31,605
2011	6,903	25,283	32,186
2012	6,815	25,294	32,109
2013	6,756	24,890	31,646

Source: Guernsey Labour Market Bulletin (all figures Q1)

Employment and Unemployment

The employment rate is the number of people in employment as a percentage of the working age (16 to 64 years old) population. The working age population has been calculated each March since 2007, using Social Security Department headcount data. The table below provides the employment figures and employment rate in Guernsey as at 31 March for each of the years 2009 to 2013:

Year	Employed Persons	Employment Rate
		(%)
2009	31,981	76.1
2010	31,605	75.2
2011	32,186	75.9
2012	32,109	76.5
2013	31,646	76.3

Source: Guernsey Facts and Figures 2014

As at 31 March 2013, the employment rate in Guernsey was 76.3 per cent., which is 0.2 per cent. lower than as at 31 March 2012. Whilst there was a decline both in the number of people employed and in the working age population (the latter decline was largely due to an increase in the number of people reaching retirement age and a decline in the overall population), the number of employed people declined by 0.2 per cent. more than the working age population, and this led to the decline in the employment rate. The Guernsey employment rate in 2012 was 8.1 per cent. above the average employment rate for the twenty eight members of the European Union (68.4 per cent.).[7]

The table below provides the unemployment figures and unemployment rate in Guernsey as at 31 March for each of the years 2009 to 2013:

Year	Registered Unemployment (*by ILO definition*)	Unemployment Rate (*by ILO definition*)
		(%)
2009	335	1.0
2010	339	1.1
2011	301	0.9
2012	416	1.3
2013	427	1.3

Source: Guernsey Facts and Figures 2014

The internationally comparable registered unemployment rate for Guernsey, as defined by the International Labour Organisation ("**ILO**"), was 1.3 per cent. as at 31 March 2013. While this is high relative to Guernsey's long term average rates of unemployment, unemployment rates in Guernsey are very low compared to international averages. The ILO definition of being unemployed excludes anybody

[7] *Source: European Commission Paper, "Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth" (March 2014).*

on a government training scheme (such as the Community and Environmental Projects Scheme) and anybody who carries out at least one hour of paid work in a week (which could be the case for some of those claiming benefits as a jobseeker).

Inflation

Underlying inflation in Guernsey is measured by RPIX (being RPI excluding mortgage interest payments) and RPI. The percentage change in RPIX indicates the change in the cost of goods and services purchased by households, excluding mortgage payments.

The table below provides the annual average percentage changes in RPI and RPIX in Guernsey for the years 2009 to 2013:

Year	Annual Average percentage change in RPI	Annual Average percentage change in RPIX
	(%)	
2009	(0.4)	2.8
2010	2.4	2.6
2011	3.1	2.8
2012	3.2	3.1
2013	2.7	2.1

Source: The States Strategic Monitoring Report 2014

In 2013, the average annual change in RPI was 2.7 per cent. and RPIX was 2.1 per cent. Since 2010, inflation rates in Guernsey have been low and stable.

Inflation in Guernsey has historically tracked reasonably closely to that of the UK although generally higher, highlighting that local retailers encountered less resistance to price increases. In recent years, however, Guernsey's inflation has been generally lower than that of the UK. This in part reflects changes in UK consumption taxes which are not applicable in Guernsey.

PLANNING FRAMEWORK

States Strategic Planning

The States Strategic Plan ("**SSP**") is a set of plans that together propose strategic aims and objectives over the medium to long-term (up to 25 years) concentrating on how Guernsey's resources will be managed to pursue those objectives. The government of Guernsey aims to protect and improve:

- the quality of life of Guernsey's residents;
- Guernsey's economic future; and
- Guernsey's environment, unique cultural identity and rich heritage.

The SSP promotes a co-ordinated and consistent approach to policy-making and is developed across the following three main policy areas:

- Fiscal and Economic Policy;
- Social Policy; and
- Environmental Policy.

The SSP assesses the challenges ahead for which the government needs to plan and sets high-level strategic policy and a political "direction of travel". The SSP is underpinned by three Corporate Policy Plans (for Fiscal and Economic Policy, Social Policy and Environmental Policy) and four Island Resource Plans (covering energy, infrastructure, population management and strategic land use).

The SSP is prepared by the Policy Council following consultation with all members of the States of Deliberation. It is fully reviewed once every four years early in each States term.

To ensure effectiveness of government policies, the Policy Council publishes an annual Strategic Monitoring Report, which evaluates policy effectiveness against key indicators.

Government Service Plan

The States is moving to a multi-year business planning and budgeting process – the Government Service Plan (the "**GSP**") – which is a rolling four year plan reviewed and approved annually by the States.

The GSP is intended to be the mechanism for corporately integrating policy and financial planning so that the States' strategy can be actioned and government spending can be directed to areas of highest priority.

The GSP will inform the preparation of the States Budget and, in addition to being reviewed annually to monitor performance against targets, it will be fully reviewed every four years to ensure it is aligned with any significant changes in the States Strategic Plan.

Fiscal and Economic Policy

The Policy Council has a Fiscal and Economic Policy Group with a mandate to "oversee the development of long-term fiscal and economic strategy". This group is responsible for the Fiscal and Economic Policy (the "**FEP**"), one of the key components of the SSP.

The FEP uses the following working assumptions:

- sustainable economic growth is desirable and is to be pursued as a means of increasing the standard of living of Guernsey's residents and providing tax revenues to fund ever increasing demands for public services, in particular education, health and law and order;
- the principle that the private sector is the engine of economic growth;
- the public sector's role is to provide the necessary competitive fiscal and macroeconomic environment to enable the private sector to flourish;

- fiscal policy's prime objective is to promote long-term economic growth; and
- the maintenance of a competitive position for Guernsey is an imperative for future economic success.

The FEP states that the maintenance of Guernsey's competitive position is best served by (i) a continued conservative fiscal stance of the States (and internationally competitive tax position), (ii) preserving Guernsey's reputation for being a well regulated, tax transparent jurisdiction, and (iii) the implementation of measures to control inflation (and hence costs) and supply side[8] measures that foster innovation and improve the productivity of both the workforce and companies. In addition, the FEP highlights that continued investment in key strategic infrastructure is essential to maintain Guernsey's competitive position.

The general objectives of the FEP are as follows:

- Long term fiscal balance: spending within the constraints of the Fiscal Policy Framework (as described below in "*Fiscal Policy Framework*");
- Continuing OECD Tier One Status;
- Average economic growth of 2 per cent. or more per annum;
- Stable and low inflation: target RPIX of 3.0 per cent. per annum;
- Continuing full employment;
- Developing and maintaining a skilled, flexible labour market;
- Maintaining a diversified, broadly balanced economy;
- Well regulated, competitive domestic markets;
- Modern key strategic infrastructure, with public capital investment averaging 3 per cent. of GDP per annum;
- Maintaining an internationally competitive fiscal regime;
- Maintaining an internationally respected financial services regulatory regime: adopting and applying international regulatory standards.

A final specific short-term objective has been added to the FEP to help facilitate a return to fiscal balance: a real term freeze on aggregate States revenue expenditure.

Fiscal Policy Framework

A Fiscal Policy Framework (the "**FPF**") was adopted in 2009 based on the assumption of the following principles underlying fiscal policy:

1. Stability is at the heart of sustainable economic prosperity;
2. Fiscal policy needs to be focused on the medium-term; and
3. Economic and fiscal policy should be stable, transparent and predictable.

Consistent with these underlying principles, the overarching objective of the FPF is that fiscal policy should achieve the economic position of "long run permanent balance" (assuming a "long run permanent balance" position implies the acceptance of long run "permanent", i.e. normal, levels for taxation and public spending including public sector capital investment: these long run levels provide "norms" for future plans and are calculated with reference to historic or international empirical experience), in other

[8] "*Supply side*" is the side of the economy concerned with the production of goods and services, usually in reference to the factors of production such as labour and land (as opposed to "*demand side*" which is concerned with the demand for such goods and services.)

words, that income and expenditure should match over the medium term to ensure that the conservative fiscal policies of the States may continue.

Under the FPF, deviations, and hence any fiscal deficits, from these long run norms are only acceptable if they are of a temporary nature, for example where income is mistimed and capital expenditure increases or where such deficits are caused by severe swings of the economic cycle.

Any borrowing to fund temporary mismatches between expenditure requirements and revenue income will be restricted by strict conservative limits to ensure the sustainability of Guernsey's long term finances and the international credit rating of the States. Under the FPF, gross public debt can only be accumulated to fund capital investment.

Any use of the Contingency Reserve (as described in "*Public Finance – Reserves*" below) as an alternative to borrowing to fund these mismatches will require the replenishment of the Contingency Reserve in subsequent years to ensure that the value of such reserve is maintained at the level agreed in the FPF.

Limits to Fiscal Expenditure

In addition to these underlying principles and overarching objective, the FPF imposes the following specific limits on fiscal expenditure by the States:

- the level of gross borrowing by the States may not exceed 15 per cent. of Guernsey's GDP;
- the maximum annual operating deficit of the States may not exceed 3 per cent. of Guernsey's GDP;
- the maximum additional borrowing sanctioned in any one States term may not exceed one times the level of "permanent" capital expenditure over that time period; and
- the assumed "norms" for permanent capital expenditure and revenues from taxation are 3 per cent. and 21 per cent. of Guernsey's GDP respectively.

To ensure adherence to the FPF, identified deficits must be addressed by the States within five years of their appearance and measures to counter identified structural deficits are agreed within two years of their identification.

To provide credibility to this framework, the Policy Council commissions an Annual Independent Fiscal Review which provides objective analysis on the conduct of fiscal policy through an independent external assessment of the States' fiscal conduct against the criteria set out in the FPF. This independent report is published annually to coincide with the publication of the Budget Report.

Economic Development Strategy

The Economic Development Strategy (the "**EDS**") aims to outline a clear strategy to enable Guernsey to optimise its potential for economic growth and to make the best use of its available resources. The EDS links directly to the FEP and is intended to provide a clear framework for the delivery of the economic growth objectives set out in the FEP.

The Commerce & Employment Department and Policy Council have produced a Framework for Guernsey's Economic Development, which was published in February 2014 and aims to deliver against the EDS.

The framework sets out the following four objectives for the creation of a dynamic and diversified economy:

- to develop Guernsey's existing economic sectors;
- to support emerging economic sectors;
- to make Guernsey work for businesses and to help businesses get the best from Guernsey; and

- to track the development of Guernsey's economy.

The framework, which contains 27 strategic aims, includes work to support existing sectors (including the finance industry, retail sector, visitor economy, and eGaming) as well as new and emerging sectors, such as the digital and information and communication technologies sectors, and the creative industries. The framework also sets out work directed at improving the conditions for doing business in Guernsey.

The framework was developed following public consultation and industry engagement carried out in 2012 and 2013 following the independent Oxford Economics report "*Towards an Economic Development Strategy for Guernsey*", which was published in early 2012.

PUBLIC FINANCE

Public Finance

Guernsey's public finances can be divided into two distinct streams:

- General Revenue Budget: income from general taxation, duties, fees and charges which funds departmental revenue expenditure and capital investment; and

- Social Security Budget: income from social insurance contributions, along with a grant from General Revenue, which pays for contributory benefits including pensions and secondary healthcare.

The parameters of the FPF only cover General Revenue income and expenditure and do not affect the Social Security budget. However, as non-contributory benefits rates are set in the Social Security Budget but financed from the General Revenue Budget, Social Security expenditure has an impact on the General Revenue balance.

The States considers the planned income and expenditure for General Revenue and Social Security separately through the Annual Budget Report and an Annual Uprating Report respectively. Although these are considered separately, they are now presented at the same meeting of the States of Deliberation and are therefore not considered in isolation.

General Revenue Budget

An Annual Budget Report is presented to the States by the Treasury and Resources Department each October. The Budget Report is compiled within the fiscal policies set by the FEP and FPF. The key fiscal constraints within which the Budget Report is compiled are listed under "*Limits to Fiscal Expenditure*" above.

The Budget Report covers any proposed changes to income tax, other taxes and duties and corporate fees and charges. It also sets cash limits and seeks approval of budgets for each of the States' Departments and Parliamentary Committees.

The Budget Report contains overall estimates for income and expenditure for the coming fiscal year and detailed budgets for all States Departments and Parliamentary Committees. In addition, a three year estimate of all tax receipts is included as well as three year indicative cash limits for States Departments.

The States also has a Capital Investment Portfolio which is prioritised every four years and deals with all significant and strategic capital investment requirements. The Budget Report contains Departmental allocations for routine capital replacement items.

Social Security Budget

The Social Security Department presents an Annual Uprating Report to the States each October. The Uprating Report includes, among other things: an update on the income and expenditure of the Guernsey Insurance Fund; updates on the actual costs in the previous year and the expected costs in the current year of the various benefits, grants and allowances administered by the Social Security Department; updates on the financial sustainability of the Guernsey Insurance Fund, the Health Service Fund and the Long-term Care Fund; and proposed rates of contributory and non-contributory benefits and contribution rates and limits to take effect from the following January.

General Revenue Annual Accounts

The General Revenue accounts are prepared on a modified accruals basis, are externally audited and are signed off with an audit opinion which confirms they have been properly prepared in accordance with the States' Accounting Policies.

In 2012, the States approved the transition towards International Public Sector Accounting Standards ("**IPSAS**"). This will involve considerable change to the format and content of the accounting statements and additional disclosures in certain areas. The main areas of change will be:

- Consolidation: accounts for related entities will be consolidated rather than presented side by side as is currently the case.

- Fixed Assets: the existing accounts do not include fixed assets by way of land, property, plant and equipment on the balance sheet. These are currently expensed in year of purchase either through the income and expenditure account or the capital reserve and are therefore not depreciated.

- Revenue recognition: income taxes are currently accounted on a modified cash basis and IPSAS will require accruals accounting.

- Employee Benefits: any deficit in the Superannuation Fund will need to be brought on balance sheet rather than disclosed as present.

- There will be other changes to disclosure required in relation to finance leases, financial instruments, investment property and provisions, contingent liabilities and assets.

Financial Results

The following table provides an overview of the key financial results of the States for the years 2009 to 2013, with a comparison against Guernsey's nominal GDP:

Description	**2009**	**2010**	**2011**	**2012**	**2013**
	(£ million)	*(£ million)*	*(£ million)*	*(£ million)*	*(£ million)*
General Revenue Income	341	331	346	362	361
Net Revenue Expenditure	(326)	(330)	(333)	(342)	(346)
Other Income and Expenditure[1]	(14)	(17)	(16)	(15)	(3)
Operating surplus / (deficit)	**1.0**	**(16)**	**(3)**	**5**	**13**
Capital Reserve Transfers	(20)	(21)	(21)	(25)	(35)
Strategic Development Fund Transfers	0	-	-	-	(3)
Overall surplus / (deficit)	**(19)**	**(37)**	**(24)**	**(20)**	**(25)**
Surplus / (deficit) as % of GDP	**(1.0%)**	**(1.9%)**	**(1.2%)**[E]	**(0.9%)**[E]	**(1.1%)**[E]

Sources: The States of Guernsey accounts 2011, 2012 and 2013

Notes:

[1] *This item includes Routine Capital Expenditure and Capital Income.*

[E] *–Estimated.*

In 2013, the States generated an operating surplus. However, following transfers to the Capital Reserve and transfers made to establish a Strategic Development Fund, the overall position was in deficit.

Income

While the States generates revenue from a range of sources, the largest element of income received is taxes, duties and investment returns. The following table provides a breakdown of General Revenue Income for 2012 and 2013 (including, for the purposes of the 2013 figures, a comparison against the 2013 budget figures):

Description	**2012 Actual**	**2013 Budget**	**2013 Actual**	**Difference from Budget**
	(£ million)	*(£ million)*	*(£ million)*	*(£ million)*
Individuals Taxes	227.5	233.0	227.1	(5.9)
Companies (including Banks) Taxes	40.3	50.5	44.1	(6.4)
Distributed Profits Taxes	13.2	8.0	10.4	2.4
Income Taxes	**280.9**	**291.5**	**281.6**	**(9.9)**
Excise and Import Duties Taxes	35.1	35.8	35.5	(0.3)
Document Duty Taxes	17.1	18.0	15.5	(2.5)
Company Fees Taxes	9.2	8.5	8.8	0.3
Tax on Real Property	16.0	16.3	16.3	0

Description	2012 Actual	2013 Budget	2013 Actual	Difference from Budget
	(£ million)	*(£ million)*	*(£ million)*	*(£ million)*
Misc. Income	4.0	1.2	3.6	2.4
Net General Revenue Income	**362.3**	**371.3**	**361.3**	**(10.0)**

Source: States of Guernsey Accounts 2013

In 2013, Net General Revenue Income was £361.3 million, which represented a decrease of 0.3 per cent. as compared to 2012. The figure was £10.0 million less than that budgeted and this variance was largely due to lower revenues being generated from income taxes (£9.9 million less than that set out in the 2013 budget) due to a shortfall in income from both individuals' and companies and banks' taxes.

Income from companies and banks' taxes was lower than budgeted due to the shortfall in the expected receipts arising from the extension of the 10 per cent. income tax rate to insurance and fiduciary business.

Document duty receipts were impacted by subdued activity in the property market. This was partially offset by higher revenues being generated from miscellaneous income as a result of improved investment returns.

Income tax revenues in 2013 were only £0.7 million higher than that of 2012, reflecting higher companies and banks' taxes offset by lower taxes on distributed profits. Other tax revenues were £76.1 million in 2013, which was 1.7 per cent. lower than in 2012, reflecting principally the 9.5 per cent. decrease in document duty receipts, which is in line with the 8.9 per cent. decrease in the number of property transactions during the year.

Expenditure

The following table provides a breakdown of General Revenue Expenditure for 2012 and 2013 (including, for the purposes of the 2013 figures, a comparison against the 2013 budget figures):

Description	2012 Actual	2013 Budget	2013 Actual	Difference from Budget
	(£ million)	*(£ million)*	*(£ million)*	*(£ million)*
Pay	198.8	206.9	203.9	3.0
Non-Pay	118.4	118.8	118.8	0.0
Formula-led	56.1	58.3	58.0	0.3
Exceptional expenditure	2.3	0	0	0
Departmental Operating Income	(33.9)	(33.8)	(35.0)	1.2
Net General Revenue Expenditure	**341.7**	**350.2**	**345.7**	**4.5**

Source: States of Guernsey Accounts 2013

In 2013, Net General Revenue Expenditure amounted to £345.7 million, which was 1.2 per cent. higher than 2012. This below-inflation increase was due to the savings delivered as part of the Financial Transformation Programme (the "**FTP**") which totalled £15.7 million during 2013. The FTP was started in 2009 and is aimed at making the States more efficient and assisting the States to eliminate the deficit position. As at July 2014, £28.1 million of annually recurring savings were generated as part of the FTP.

Pay costs form the largest single item of expenditure, amounting to £203.9 million in 2013 which was 2.6 per cent. higher than in 2012.

Balance Sheet

The table below provides an overview of the key items of the States' balance sheet as at 31 December 2012 and 31 December 2013:

Description	2012	2013
	(£ million)	*(£ million)*
Investments:		
Financial investments and long-term deposits	374.3	366.4
Investments in States Trading Entities	124.2	111.8
	498.5	478.2
Net Assets	**582.6**	**560.8**
Represented by:		
General Reserve	97.7	99.9
Capital Reserve	91.7	85.4
Contingency Reserve	218.2	207.6
Notes and Coins Reserve	43.4	44.8
States Trading Entities Reserve	131.6	123.1

Source: States of Guernsey financial statements 2013

As at 31 December 2013, the States had net assets of £560.8 million which was a reduction of £21.8 million as compared to 2012 principally as a result of the policy of funding the temporary deficit through a draw-down from accumulated reserves.

Reserves

The States' Reserves are detailed below:

Fund Name	Overview and Purpose of Reserve
General Reserve	Contains all non-specific reserves of the States including, inter alia, the Corporate Housing Programme Fund and the Fundamental Spending Review Fund. • Corporate Housing Programme Fund (£64.2 million at 31 December 2013) provides an investment pool for the development of affordable housing in Guernsey. • Fundamental Spending Review Fund (£3.4 million at 31 December 2013) was created as a sub-pool of the General Reserve to capture the costs of and to account for savings generated by the FTP.
Capital Reserve	Used to accumulate funds for future capital projects as prioritised by the States during a periodic capital prioritisation exercise. Annual appropriations are made to the reserve from General Revenue and the current policy is to maintain their value in real terms plus any specific additional transfers (for example, property sales).
Contingency Reserve	Provides protection against major emergencies, including significant economic downturns, with an original target of a balance equal to 50 per cent. of annual revenue expenditure. In June 2006, the States resolved that up to half of the reserve (capital and interest) could be used to fund the shortfall in public sector expenditure during the first stage of the implementation of the Economic and Taxation Strategy which equated to £100 million at the time. In December 2009, the States further resolved to establish the Contingency Reserve (Tax Strategy) Fund with the balance available to fund the Economic and Taxation Strategy.
Notes & Coins Reserve	Value of notes and coins in circulation as at 31 December 2013.

The funds contained within these reserves are invested in the States' General Investment Pool, the investment objectives of which are required to balance the need for a return against short and long term reserves and the requirements to draw down for planned expenditure. The Pool invests in a combination of asset classes including cash, bonds, equities and alternatives. Total performance for the Pool over 2013 was a return of 7.40 per cent. which was in excess of the target return of 6.26 per cent.

Investments in States Trading Entities

On behalf of the States, the Treasury and Resources Department holds the entire share capital of the following companies:

- Guernsey Electricity Ltd – the company was incorporated in 2001 for the generation, importation and distribution of electricity and the sale of associated goods and services. It is the sole electricity supplier in Guernsey. Its net assets (after pension liabilities) as at 31 March 2014, were £96.4 million.

- Guernsey Post Ltd – provides postal service for the Bailiwick through a postal network and retail counter operation in accordance with the licence under which it operates. Its net assets (after pension liabilities) as at 31 March 2014, were £11.3 million.

- Cabernet Ltd – a holding company of Aurigny Air Services Ltd (the primary airline operating from Guernsey) and Anglo-Normandy Aero-Engineering Ltd (a key supplier to Aurigny). Provision for accumulated losses held on the States balance sheet as at 31 December 2013 was £11.3 million.

- JamesCo750 Ltd – a holding company for the purchase of two tankships that supply fuel to Guernsey.

In addition to the above strategic investments, Guernsey Housing Association ("**GHA**") is the States' development partner in respect of all new housing. GHA constructs and refurbishes housing which it then manages. The relationship between the States and GHA is set out in a framework agreement which stipulates the regulatory environment under which GHA operates. The association has loans secured against future rent income and underwritten by the States. GHA had a net asset value of £2.7 million as at 31 December 2013.

Cash and Equivalents

As at 31 December 2013, the States held £17.2 million of cash in bank deposit and current accounts, as compared to £14.4 million as at 31 December 2012.

Liabilities

As at 31 December 2013, Guernsey did not have any public debt.

Guarantees and Contingent Liabilities

The States has provided a number of guarantees that it does not recognise on its balance sheet but which are disclosed in its financial statements. These guarantees apply to Cabernet Limited, Guernsey Electricity Limited and GHA.

Contingent liabilities are limited, despite the size of the financial sector, as most of the banks are foreign owned with only minor links to the domestic economy and, as such, the States is unlikely to provide any meaningful support to the banks in stressed situations (see "*Monetary and Financial System – Government Role*" below).

Capital Expenditure

Strategic capital investment is considered through a quadrennial prioritisation exercise. In September 2013, the States considered and approved the latest Capital Investment Portfolio for the period 2014 - 2017.

There are currently 19 projects in the portfolio with an estimated value of £295 million comprising initiatives such as schools, healthcare infrastructure, strategic equipment and core infrastructure.

All projects are required to develop a detailed business case and funding is released at key points following both gateway and value for money reviews to ensure that projects remain of value and deliver required benefits.

Social Security Accounts

The Social Security Department produces consolidated accounts for its statutory contributory funds which are prepared under UK GAAP. These cover the Guernsey Insurance Fund, Guernsey Health Service Fund and the Long Term Care Insurance Fund. The financial results from 2012 and 2013 are summarised in the table below:

Description	**2012**	**2013**
	(£ million)	
Income from Contributions and States Grant:	166.8	169.9
Expenditure on Benefits and Administration	(170.5)	(178.0)
Depreciation	(1.2)	(0.8)
Operating Deficit	**(4.9)**	**(8.9)**
Investing Activities	61.1	66.3
Net Surplus in the Year	**56.2**	**57.4**
Net Assets as at 1 January	**727.2**	**783.4**
Net Assets as at 31 December	**783.4**	**840.8**

Public Sector Employees Pension Scheme

The States operates a defined benefit pension scheme for public sector workers funded by contributions from both employer and employee. The employer rates are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

The assets of the scheme are held separately from other States' assets in the Superannuation Fund which is disclosed on the States' Fiduciary Balance Sheet. The financial statements of the States contain full Financial Reporting Standard 17 disclosure on the Superannuation Fund.

The Superannuation Fund is under the control of the States Treasury and Resources Department which has arranged for it to be invested by professional advisers in a wide range of securities. As at 31 December 2013, the Superannuation Fund had assets valued at £1.08 billion.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Contributions to the scheme were last increased on 1 January 2010 based on the actuarial recommendations of the valuation undertaken as at 31 December 2007.

A full actuarial valuation of the fund as at 31 December 2013 is in the process of being carried out. The results of this valuation, including proposed changes if any, to the rates of employers' contributions, will be reported in early 2015.

The Policy Council is currently undertaking a review of the scheme and expects to make firm recommendations for change in early 2015. Proposals will include a move towards a new defined benefit arrangement based on Career Average Revalued Earnings with a cap for employer contributions at 14 per cent. Provision will also be made to bring the normal pension date into line with the Guernsey State Pension Age which will increase from age 65 to age 67 in stages commencing in 2020. Finally, the Policy Council is seeking to ensure that risk is shared between employer and employee in future.

Taxation Policies and Transparency

Business income tax

Up to and including 2007, companies paid income tax in Guernsey at the rate of 20 per cent. From 2008 onwards, there are three rates for companies, depending upon the source of income. The rates are:

- Company Standard Rate – 0 per cent. (income from businesses, offices and employments and other sources);

- Company Intermediate Rate - 10 per cent. (income from banking business, domestic insurance business, fiduciary business, insurance intermediary business and insurance manager business); and

- Company Higher Rate – 20 per cent. (income from trading activities regulated by the Office of the Director General of Utility Regulation, and income from the ownership of lands and buildings).

This "Zero / Ten" policy complies with the EU rules on the Code of Conduct on Business Taxation and creates a level playing field for both domestically owned and foreign-owned companies. In September 2011, the EU Code of Conduct Group confirmed that there were no harmful elements to the business tax regime (zero / ten tax regime).

Personal income tax

For income tax purposes, Guernsey comprises all the islands in the Bailiwick, (except Sark, Breqhou and Jethou) and individuals resident in Guernsey pay income tax at the rate of 20 per cent. and this is capped at £220,000 (worldwide income).

Guernsey levies no capital gains, inheritance, capital transfer, value added (VAT / TVA) or general withholding taxes.

The Treasury and Resources and Social Security Departments are undertaking a Review of Personal Tax, Pensions and Benefits (the "**Review**") with a view to providing a greater degree of equity within the system, taking into account known pressures including demographic change and an ageing population. The Review is designed to ensure that the tax base is robust and sustainable, particularly with reference to economic changes.

The following set of principles is guiding the design of the system:

- the tax and benefits systems should incentivise people to work and support themselves;

- people should be encouraged to take responsibility for their financial wellbeing in later life;

- the tax and benefits systems should be, as far as is possible, simple and easy to understand;

- the personal tax system needs to be competitive on an international stage;

- the States have a duty to ensure that expenditure is controlled and public money is used efficiently.

The review is expected to result in a report in early 2015 containing a series of measures aimed at changing the tax base; long-term control of government spending; contributory benefits; and universal and welfare benefits which are expected to deliver long-term sustainability of public finances to 2025 and beyond.

Other measures

External agencies such as the IMF[9], OECD[10] and the UK Government's Revenue and Customs[11] agency continually place Guernsey within the very top tier of international finance centres globally. Guernsey

9 *Source: IMF – Guernsey – Financial System Stability Assessment Update, January 2011*

10 *Source: Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews: Guernsey 2013, Phase 2: Implementation of the Standard In Practice*

11 *Source: HMRC Territory categorisation for offshore penalties (2013)*

believes this is because it has sought to build a reputation for being well regulated, co-operative, having a stringent governance structure and being transparent based on:

- enforcing strict financial and non-financial reporting requirements;
- producing annual financial statements for the government that are independently audited; and
- producing a Fiscal Policy Framework, which sets out clear parameters.

EUSD

Guernsey introduced full automatic exchange of information under measures relating to the EUSD in 2011. This means that information relating to accounts held in Guernsey by individuals resident in an EU Member State is now automatically sent to their home jurisdiction each year.

European Commission

In December 2012, the European Commission's Communication to the European Parliament and European Council on Fighting Tax Fraud and Tax Evasion was published where the minimum standards of third country good governance in tax matters were proposed - third countries which effectively implement and apply the international standard for transparency and exchange of information and do not operate tax measures which are considered harmful in the areas of business tax. Guernsey meets both of the standards, and can therefore be considered (in accordance with such published minimum standards) a jurisdiction with good governance in tax matters.

Maintenance of OECD Tier One Status

In 2009, Guernsey was classified as having the OECD's tier one status, which requires a minimum of 12 signed Tax Information Exchange Agreements ("**TIEAs**") with other jurisdictions to be in place. This has remained the case to the present date. As at 30 September 2014, Guernsey had TIEAs signed with 57 jurisdictions and 12 comprehensive Double Taxation Agreements in place.

OECD Peer Reviews

In April 2013, the OECD's Global Forum on Transparency and Exchange of Information found Guernsey's legislative and administrative regime to have in place all of the elements necessary for meeting the international standards on transparency and information exchange, with only minor elements needing improvements.

HMRC's Category 1 Status

In 2011, HM Revenue & Customs ("**HMRC**") categorised territories worldwide according to the ease with which it is able to obtain information from such territory. Where a territory had arrangements with the UK for the automatic sharing of information on savings income, the territory has been placed in Category 1. Guernsey continues to hold HMRC's Category 1 status.

Foreign Account Tax Compliance Act

On 22 October 2013, Guernsey signed a Foreign Account Tax Compliance Act agreement with the UK, which provides for information exchanges on individuals with taxation authorities. A similar agreement was signed with the USA on 13 December 2013.

Guernsey Disclosure Facility (GDF)

Following the signing of a Memorandum of Understanding between HMRC and the States, HMRC has agreed to make available a disclosure facility ("**GDF**") from 6 April 2013 until 30 September 2016. The facility has been introduced by HMRC to help UK taxpayers with investments in Guernsey, and who may have irregularities in respect of their UK tax affairs, to approach HMRC for assistance in reorganising their past and future tax affairs. By approaching HMRC under the GDF, UK taxpayers will be able to take advantage of a number of special terms.

MONETARY AND FINANCIAL SYSTEM

Monetary and Financial System

Guernsey Pound

The currency of Guernsey is the Guernsey Pound and it is pegged 1:1 to the British Pound Sterling. The Guernsey Pound circulates along with British and Jersey currencies in Guernsey. Guernsey prints local notes and coins for use in local physical transactions only and the Guernsey Pound is not legal tender outside Guernsey. The Guernsey Pound is a cash currency only. There are no financial and other electronic transactions conducted in the Guernsey Pound, nor are any financial assets such as bank deposits held in the Guernsey Pound. A Notes and Coins Reserve (the value of which, as at 31 December 2013, was £44.8 million) is held which collateralises the States' liabilities with respect to the Guernsey Pound.

Monetary Integration

Guernsey is fully integrated into the UK monetary system with its monetary policy decided by the Bank of England and it does not operate a currency union. As such, Guernsey has limited monetary policy flexibility. The peg to the British Pound Sterling insulates Guernsey from currency risks and also helps strengthen its economic links with the UK. Guernsey's economic cycle and consumer price inflation pressures have been correlated with that of the UK, making the Bank of England's monetary policy appropriate and well suited for Guernsey.

States' Role

The States does not operate a central bank or equivalent. The States has no obligation, express or implied, to provide wholesale liquidity or access to Sterling for financial institutions. Faltering UK or other overseas bank branches or subsidiaries resident in Guernsey would have to rely upon their parent banks and the Bank of England or equivalent for support.

Reserves

Guernsey does not maintain any international currency or foreign exchange reserves, because it does not have a currency in use for international transactions and has no obligation to provide Sterling to banks, businesses or residents for use in international transactions.

Guernsey Banking Deposit Compensation Scheme

The Guernsey Banking Deposit Compensation Scheme (the "**Scheme**") came into force on 26 November 2008. It covers all "qualifying deposits" (mainly those from personal retail depositors, wherever they live). In the event of the failure of a Guernsey registered bank, it provides compensation of up to £50,000 per qualifying deposit in respect of that bank. The Scheme aims to pay compensation within three months of a bank failure. It is operated by an independent statutory board which is separate from both the GFSC and the States. The maximum total amount of compensation is capped at £100 million in any five year period. If claims exceed this cap, compensation will be reduced *pro rata*. The cap also means that compensation in respect of any one bank cannot exceed £100 million. The scheme is not pre-funded and any compensation is funded by Guernsey registered banks through annual charges and special charges in the event of a bank failure.

Financial System Structure

Guernsey's financial services sector consists of four major sub-sectors: the investment sector, the banking sector, the fiduciary sector and the insurance sector (which is dominated by captives and life insurance).

As part of the investment sector, fund management is a significant component of Guernsey's financial services sector. The table below sets out the number of and value of funds administered from Guernsey as at 31 December in each of the years from 2009 to 2013:

Year	Number of Funds	Total Asset Value
		(£ billion)
2009	1,208	184.1
2010	1,193	257.5
2011	1,162	261.6
2012	1,114	276.8
2013	1,088	265.9

Source: Guernsey Financial Services Commission

Investment activity has increased during the period 2010 – 2013 and the sector also recorded a steady decrease in the number and value of traditional open-ended funds and an increase in closed private equity funds, hedge funds and funds registered in other jurisdictions during the period 2010 -2013.

In the banking sector, although the value of banking deposits has continued on a downward trend since 2008, moderate recovery was recorded through the first half of 2013. The sector also recorded a decline in the number of registered banks falling from 69 to 31 from 2002 to 2013. In its 2013 Q2 Banking Sector Activity Statement, the GFSC noted that since 2008/09, the size of the banking sector in Guernsey, as in the other Crown Dependencies, has materially reduced due primarily to global deleveraging and low interest rates. The GFSC also noted that the latest quarterly figures in Guernsey show no signs that this trend is abating at present.[12]

The following table sets out the number of banks and value of bank deposits in Guernsey as at 31 December in each of the years from 2009 to 2013:

Year	Number of Banks	Total Deposits
		(£ billion)
2009	44	117.4
2010	38	111.0
2011	35	107.5
2012	32	86.7
2013	31	83.7

Source: Guernsey Financial Services Commission

The insurance sector can be broadly divided into international insurance business, which comprises both captive and commercial insurance companies writing non-local insurance risks, and domestic insurance business, which comprises domestic insurance companies writing local insurance risks and insurance intermediaries. The table below sets out the number of international insurers and the value of international insurers' gross assets in Guernsey as at 31 December in each of the years from 2009 to 2013:

Year	Number of International Insurers	International Insurers' Gross Assets
		(£ billion)
2009	678	20.8
2010	675	21.4
2011	687	21.8
2012	737	22.9
2013	758	22.9

Source: Guernsey Financial Services Commission

12 *Source: Second Quarter 2013 Banking Sector Activity, Statement by GFSC*

The number of insurers has increased from 2009 to 2013 and the sector also recorded a steady increase in the value of international insurers' gross assets.

The number of registered fiduciaries has decreased over the last three years and was approximately 830 as at 31 December 2013.

Regulatory Framework

The financial services sector in Guernsey is regulated by the GFSC, whose primary objective is to regulate and supervise financial services in Guernsey, with integrity, proportionality and professional excellence, thereby upholding the international reputation of Guernsey as an international finance centre. In 2011, the IMF published a report on its findings after a review completed in 2010 which confirmed Guernsey's compliance with the Basel Committee's Core Principles for Effective Banking Supervision and affirming "a high standard of prudential regulation and supervision" in Guernsey.[13]

Guernsey has a conservative approach to banking with strict statutory minimum criteria for bank licensing in place. The GFSC imposes higher regulatory requirements than those set out in the Basel II accord for banks incorporated in Guernsey, with a 10 per cent. minimum capital requirement versus the Basel II 8 per cent. minimum requirement. In addition, the GFSC imposes additional capital requirements under its supervisory review process resulting in an average regulatory capital requirement of 11.8 per cent. The GFSC has begun the process of adopting the principles set out in the Basel III accord.

Guernsey incorporated banks continue to operate well above the minimum regulatory capital requirements with a ratio of total capital to total risk weighted assets of 19.6 per cent., measured as at 31 December 2013.

[13] *Source: IMF Country Report No.11/3 (January 2011) – Guernsey: Financial Sector Assessment Program Update – Detailed Assessment of Observance on Basel Core Principles*

TAXATION

Guernsey Taxation

The following summary of the anticipated treatment of the holders of Notes is based on Guernsey taxation law and practice as they are understood to apply at the date of this document and is subject to changes in such taxation law and practice. It does not constitute legal or tax advice and does not address all aspects of Guernsey tax law and practice. Prospective investors in the Notes should consult their professional advisers on the implications of acquiring, buying, selling or otherwise disposing of the Notes under the laws of any jurisdiction in which they may be liable to taxation.

Noteholders who are resident outside of Guernsey (which includes Alderney and Herm) for Guernsey tax purposes will not be subject to any tax in Guernsey on the receipt of payments in respect of their holding of the Notes provided such payments are not to be taken into account in computing the profits of any permanent establishment situated in Guernsey through which such holder carries on a business in Guernsey.

Noteholders who are resident in Guernsey (which includes Alderney and Herm) for Guernsey tax purposes will incur Guernsey income tax at the applicable rate on income arising from their holding of Notes. However, any tax payable in respect of such income will not be collected by way of deduction of withholding from any payments made to them of such income.

Guernsey currently does not levy taxes upon capital inheritances, capital gains, gifts, sales or turnover (unless the varying of investments and the turning of such investments to account is a business or part of a business), nor are there any estate duties (save for registration fees and *ad valorem* duty payable upon an application for a Guernsey Grant of Representation where the deceased dies leaving assets in Guernsey, which require presentation of such a Grant). No duty is chargeable in Guernsey on the issue, transfer or redemption of the Notes.

EU Savings Directive

Under the EUSD, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the EUSD, in particular to include additional types of income payable on securities. The EUSD will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the EUSD.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Although not a Member State of the European Union, Guernsey, in common with certain other jurisdictions, entered into agreements with EU Member States on the taxation of savings income. From 1 July 2011, paying agents in Guernsey must automatically report to the Director of Income Tax in Guernsey any interest payment to individuals resident in the contracting EU Member States which falls within the scope of the EUSD as applied in Guernsey. Based on Guidance Notes issued by the

Commerce and Employment Department of the States of Guernsey on application of the agreements entered into between Guernsey and each EU Member State in support of the EUSD, under the existing regime, any payments made by the Issuer to a paying agent established outside Guernsey will not be subject to reporting obligations.

Guernsey, along with other dependent and associated territories, will consider the effect of the amendments to the EUSD in the context of existing bilateral agreements and domestic law. If changes to the implementation of the EUSD in Guernsey are brought into effect, the treatment of payments by the Issuer in respect of Notes and the position of Noteholders in relation to the EUSD may be different to that set out above.

Pursuant to Condition 7(b) (*Taxation*), if a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Pursuant to Condition 11 (*Paying Agents*), the Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EUSD.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Deutsche Bank AG, London Branch and RBC Europe Limited (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 10 December 2014, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 98.841 per cent. of the principal amount of Notes less a combined management and underwriting commission. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Guernsey

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and each other Joint Lead Manager that:

(a) *Financial Promotion*: any offer or sale of Notes has not been made to any member of the public in the Bailiwick of Guernsey and if made to any other investor it has only been made in or from within the Bailiwick of Guernsey either: (i) by persons licensed to do so under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) (the "**POI Law**"); or (ii) to persons licensed under the POI Law, the Insurance Business (Bailiwick of Guernsey) Law, 2002 (as amended), the Banking Supervision (Bailiwick of Guernsey) Law, 1994 (as amended) or the Regulation of Fiduciaries, Administration Business and Company Directors, etc (Bailiwick of Guernsey) Law, 2000 (as amended), and where such offer has been made in compliance with paragraphs (i) and (ii) the offeror has complied with the applicable requirements of the POI Law and all applicable guidance notes issued by the Guernsey Financial Services Commission; and

(b) *General compliance*: it has complied and will comply with all applicable provisions of the POI Law with respect to anything done by it in relation to the Notes in, from or otherwise involving the Bailiwick of Guernsey.

General

No action has been taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

1. The Issuer has obtained all necessary consents, approvals and authorisations in Guernsey in connection with the issue and performance of the Notes. The issue of the Notes was authorised pursuant to resolutions of the States of Deliberation passed on 31 October 2014.

Listing

2. Application has been made to the Channel Islands Securities Exchange for the Notes to be admitted to the Official List of the Channel Islands Securities Exchange. It is expected that admission of the Notes to the Official List of the Channel Islands Securities Exchange will be granted on or about the Closing Date. Neither the admission of the Notes to the Official List of the Channel Islands Securities Exchange nor the approval of this document pursuant to the listing requirements of the Channel Islands Securities Exchange shall constitute a warranty or representation by the Channel Islands Securities Exchange as to the competence of the service providers to or any other party connected with the Issuer, the adequacy and accuracy of information contained in this document or the suitability of the Issuer for investment or for any other purpose.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1143189576 and the Common Code is 114318957.

   The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

4. There has been no significant change in the financial position and resources and income and expenditure figures of the Issuer since 31 December 2013 and there has been no significant change in the tax and budgetary systems, gross public debt and foreign exchange reserves of the Issuer since 31 December 2013.

Litigation

5. There are no, and have not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position of the Issuer.

Auditors

6. The auditors of the Issuer are Deloitte LLP, Guernsey, who have audited the Issuer's financial statements without qualification in accordance with the applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland), for each of the two financial years ended on 31 December 2013 and 31 December 2012. The Issuers' financial statements are prepared under the States' financial reporting framework as detailed in Note 1 of the respective year-end financial statements. The auditors of the Issuer have no material interest in the Issuer.

U.S. tax

7. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents Available

8. For the period of 12 months following the date of this Offering Circular, copies of the following documents will be available for inspection from the specified office of the Paying Agent for the time being in London:

   (a) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2013 and 31 December 2012 in each case together with the audit reports in connection therewith. The Issuer currently prepares audited accounts on an annual basis;

   (b) the Deed of Covenant;

   (c) the Agency Agreement; and

   (d) this Offering Circular.

Joint Lead Managers transacting with the Issuer

9. Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may provide services to the Issuer and its affiliates in the ordinary course of business.

Yield

10. On the basis of the issue price of the Notes of 98.841 per cent. of their principal amount, the re-offer yield of the Notes is 3.435 per cent. on semi-annual basis.

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The States of Guernsey Accounts for year ended 31 December 2012

The States of Guernsey Accounts for year ended 31 December 2013

INDEPENDENT AUDITOR'S REPORT TO THE TREASURY AND RESOURCES DEPARTMENT

We have audited the accounts (the "accounts") of the States of Guernsey ("the States") for the year ended 31 December 2012 which comprise the Primary Financial Statements and the related notes 1 to 27, the Departmental and Committee Accounts and narrative summaries and the Loan and Fund Accounts. The financial reporting framework that has been applied in their preparation is the accounting policies stated in note 1.

This report is made solely to the States and the Treasury and Resources Department ("the Department") in accordance with the terms of our engagement letter dated 29 January 2013. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor's 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 Department, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Department and auditor

As explained more fully in the Statement of Responsibilities for the preparation of Annual Accounts, the Department are responsible for the preparation of the accounts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements 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 accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the States' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information accompanying the accounts to identify material inconsistencies with the audited accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounts

In our opinion the accounts have been properly prepared in accordance with the accounting policies stated in note 1.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Deloitte LLP
Chartered Accountants
St Peter Port
Guernsey
2 July 2013

INCOME AND EXPENDITURE ACCOUNT

2012 Original Budget £'000s	2012 Total Authorised £'000s	Income and Expenditure by Category	Note	2012 Actual £'000s	2011 Actual £'000s[#]
		Income			
279,100	274,000	Income Taxes	2	280,904	270,046
78,150	77,150	Other Taxes	3	77,443	74,278
1,400	2,900	Miscellaneous Income	4	3,996	2,017
358,650	354,050	*General Revenue Income*		362,343	346,341
31,589	32,409	*Departmental Operating Income*		33,608	30,996
390,239	386,459	**Total Income**		395,951	377,337
		Less **Expenditure**			
196,788	201,430	Pay	5	198,650	191,380
124,646	123,761	Non-Pay	6	118,224	119,744
54,205	55,920	Formula-led	7	56,128	52,730
-	-	Exceptional Expenditure	8	2,318	-
(6,500)	(1,794)	FTP Target		-	-
369,139	379,317	*Revenue Expenditure*		375,320	363,854
1,280	942	Service Developments		-	-
6,620	196	Budget Reserve		-	-
13,200	6,004	**Revenue Surplus**		20,631	13,483
3,500	6,188	*Capital Income*	9	1,193	205
16,350	20,818	*Less Routine Capital Expenditure*	10	16,361	16,681
350	**(8,626)**	**Net Surplus/(Deficit)**		**5,463**	**(2,993)**

INCOME AND EXPENDITURE ACCOUNT

2012 Original Budget £'000s	2012 Total Authorised £'000s	Income and Expenditure by Service Area	2012 Actual £'000s	2011 Actual £'000s#
		Income		
358,650	354,050	*Revenue Income*	362,343	346,341
3,500	6,188	*Capital Income*	1,193	205
362,150	360,238		363,536	346,546
		Expenditure		
		Net Revenue Expenditure by Department / Committee		
9,850	10,073	Policy Council	9,260	8,740
17,750	18,601	Treasury & Resources Department	17,168	17,182
11,425	11,514	Commerce & Employment Department	10,701	11,228
3,650	3,476	Culture & Leisure Department	3,100	3,336
75,750	76,683	Education Department	75,730	75,184
8,275	8,568	Environment Department	7,964	8,114
106,900	111,055	Health & Social Services Department	111,055	107,213
32,875	33,297	Home Department	32,409	32,149
1,625	1,707	Housing Department	1,661	1,446
6,250	6,321	Public Services Department	5,990	7,542
53,080	55,092	Social Security Department	54,854	51,869
405	446	Public Accounts Committee	227	263
230	235	Scrutiny Committee	207	218
235	237	States Assembly and Constitution Committee	178	88
-	25	States Review Committee	16	-
2,695	2,784	Royal Court	2,427	2,308
4,680	4,820	Law Officers	4,483	4,345
1,875	1,974	States of Alderney	1,964	1,633
1,280	942	Service Developments	-	-
6,620	196	Budget Reserve	-	-
-	-	Exceptional Expenditure	2,318	-
345,450	348,046		341,712	332,858
		Routine Capital Expenditure by Department		
1,000	1,460	Treasury & Resources Department	1,058	1,284
100	1,248	Commerce & Employment Department	245	73
850	800	Culture & Leisure Department	672	327
1,000	980	Education Department	670	493
250	280	Environment Department	225	442
2,000	3,150	Health & Social Services Department	1,819	2,670
1,000	1,640	Home Department	947	1,369
8,000	8,070	Housing Department	8,050	8,161
1,950	2,840	Public Services Department	2,620	1,818
100	95	Royal Court	36	44
100	255	Law Officers	19	-
16,350	20,818		16,361	16,681
350	**(8,626)**	**Net Surplus/(Deficit)**	**5,463**	**(2,993)**

BALANCE SHEET

	Note	2012 Actual £'000s	2011 Actual £'000s#
Investments			
Financial investments and long-term deposits	11	374,309	437,512
Investments in States Trading Entities	12	124,158	127,208
		498,467	564,720
Loans Receivable	13	22,234	24,270
Current Assets			
Stocks		3,892	3,689
Debtors and prepayments	14	65,974	59,324
Cash at bank and in hand		14,392	13,003
		84,258	76,016
Current Liabilities			
Creditors and Accruals		(22,330)	(30,134)
		(22,330)	(30,134)
Net Assets		**582,629**	**634,872**
Represented by:			
General Reserve	15	97,725	111,560
Capital Reserve	16	91,701	119,333
Contingency Reserve	17	218,247	230,422
Notes and Coins Reserve	18	43,358	41,959
States Trading Entities Reserve	19	131,598	131,598
Reserves		**582,629**	**634,872**

G A St Pier
Minister, Treasury and Resources Department
2 July 2013

Bethan Haines
States Treasurer
2 July 2013

CASH FLOW STATEMENT

	Note	2012 Actual £'000s	2011 Actual £'000s#
Net cash inflow from operating activities	20	5,974	11,346
Returns on investments and servicing of finance			
Returns on investments and interest received		15,636	(3,276)
Interest paid		-	(2,205)
Net cash inflow/(outflow) from return on investments and servicing of finance		15,636	(5,481)
Investing activities			
Payments to acquire capital assets		(78,076)	(38,799)
Receipts from sale of financial investments		73,615	2,866
Receipts from sales of capital assets and capital repayments		1,193	205
Net cash outflow from investing activities		(3,268)	(35,728)
Net movement in balances on loans and miscellaneous funds etc.		(16,953)	34,937
Increase in cash	21 & 22	**1,389**	**5,074**

BALANCE SHEET (FIDUCIARY)

	Note	2012 Actual £'000s	2011 Actual £'000s
Financial investments		977,358	895,811
Current Assets			
Stocks		13	18
Debtors and prepayments		1,106	3,034
Bank Accounts and Deposits with States Treasury		21,945	27,322
		23,064	30,374
Current Liabilities			
Creditors and Accruals		(4,606)	(4,687)
Net Assets		**995,816**	**921,498**
Represented by:			
Superannuation Fund	23	975,940	896,537
Courts Security for Costs		3,964	14,877
H M Receiver General		13,047	6,819
Various charity, amenity and other Funds		2,865	3,265
		995,816	**921,498**

NOTES

1. States of Guernsey Accounting Policies

i. The accounts of the States of Guernsey comprising those Departments set out on pages 11 to 119 are prepared under the historical cost convention modified in respect of the Consolidated Superannuation Fund accounts, the Contingency Reserve Fund accounts and other financial investments for the revaluation of investments. The Consolidated Superannuation Fund disclosures have been presented as far as practicable in accordance with FRS 17 as detailed in note 23; the actuarial deficit has been calculated in accordance with FRS 17 but has not been included in the Fiduciary Balance Sheet. Further, the pensions costs charged to the General Revenue staffing costs are the contributions paid as agreed as a result of the latest triennial actuarial valuation. Unless detailed otherwise, income and expenditure is accounted for on an accruals basis.

The accounts are produced on a going concern basis. The Treasury and Resources Department monitors and projects the States of Guernsey's income and expenditure and confirms the appropriateness of this basis.

ii. Investments in States Trading Entities in respect of Guernsey Post Limited and Guernsey Electricity Limited reflect the basis of the transfer valuation attributed to the net undertaking transferred from the States Trading Boards to the commercialised entities in accordance with The States Trading Companies (Bailiwick of Guernsey) Law, 2001. There is no ongoing impairment review for these entities.

All other trading entities are accounted for at cost less impairment/provision for losses.

iii. Income tax receipts are accounted for by recognising cash received and the amounts accrued based on assessments due for collection as at 31 January in the following calendar year plus specific provisions for any repayments due and, as detailed in note 2, a provision is made for probable repayments.

iv. Amounts received in advance for services are recognised on an estimated basis according to when the majority of services are provided.

v. Income from the sales of properties is accounted for on a completion basis.

vi. Capital expenditure from General Revenue Account votes is written off in the year in which it is incurred. Depreciation is therefore not provided.

vii. Stock is valued at the lower of cost and net realisable value.

viii. Investments in the Superannuation Fund are included at bid prices ruling at the year end. Other investments including the Contingency Fund are included at mid-market prices ruling at the year end.

For valuation purposes, investments expressed in foreign currencies, if held, have been translated into sterling at the rate of exchange ruling as at 31 December 2012.

For unquoted investments in funds, market value has been derived as the published net asset value (bid) prices for the last valuation date ruling at the year end.

All derivatives are initially recognised at fair value at the date the derivative is entered into and subsequently re-measured at fair value. Fair values of derivative financial instruments are either based on quoted prices, or, if not available, on financial models provided by third party expert advisors.

ix. In the Consolidated Superannuation Fund, realised and unrealised gains and losses on investments are adjusted on the members' capital accounts in proportion to their average balance during the year. Interest and dividends are similarly apportioned. Pages 26 to 33 set out the accounting policies of the Consolidated Superannuation Fund.

x. Investment returns on the General Revenue Account are shown within the Revenue Income accounts. Other investment returns are shown in the respective funds and accounts to which they relate.

xi. 2011 Accounts columns marked with "#" are where figures have been restated for comparative purposes.

NOTES

2. Income Taxes

2012 Original Budget £'000s	2012 Total Authorised £'000s		2012 Actual £'000s	2011 Actual £'000s
222,900	224,000	Individuals	227,463	218,143
43,200	37,000	Companies (including Banks)	40,288	39,269
13,000	13,000	Distributed Profits	13,153	12,061
-	-	Transitional Company Tax	-	573
279,100	**274,000**	**Income Taxes**	**280,904**	**270,046**

A provision for repayment has been made based on 10% (2011: 20%) of the bank income tax receipts for the year of charge. This has had the impact of reducing revenue and net assets by £2.5m (2011: £4.2m). In each year the provisions have been based on management's best estimate of repayable taxation income using the latest data available.

3. Other Taxes

2012 Original Budget £'000s	2012 Total Authorised £'000s		2012 Actual £'000s	2011 Actual £'000s
		Customs & Immigration - Excise and Import Duties		
3,200	2,950	Beer	2,989	3,002
675	700	Cider	706	684
15,600	15,250	Motor Spirit	15,258	13,951
2,850	2,750	Spirits	2,760	2,813
7,950	7,700	Tobacco	7,838	7,649
4,475	4,400	Wine	4,539	4,188
(300)	(300)	Duties Collected for Sark	(267)	(350)
1,300	1,300	Import duties	1,306	1,236
35,750	34,750		35,129	33,173
8,700	8,700	*Company Fees*	9,217	9,088
17,800	17,800	*Document Duty*	17,098	17,068
15,900	15,900	*Tax on Real Property*	15,999	14,949
78,150	**77,150**	**Other Taxes**	**77,443**	**74,278**

NOTES

4. Miscellaneous Income

2012 Original Budget £'000s	2012 Total Authorised £'000s		2012 Actual £'000s	2011 Actual £'000s
-	-	General Revenue Account Net Return from Investments	189	76
-	-	Realised Profit on Foreign Currency	2	(27)
300	300	Court Fines	270	279
-	-	Loans Fund Interest	12	18
-	-	Retention Tax - Net Receipt	-	872
800	1,600	States Trading Companies Dividends	1,589	471
300	1,000	Surplus on Notes and Coins Account	1,594	86
-	-	Other Income	340	242
1,400	**2,900**	**Miscellaneous Income**	**3,996**	**2,017**

5. Pay

2012 Original Budget £'000s	2012 Total Authorised £'000s	**Pay Costs by Pay Group**	2012 Actual £'000s	2011 Actual £'000s
81,948	83,683	Established Staff	78,619	75,487
16,919	17,411	Public Service Employees	16,730	16,174
38,110	38,960	Nurses and Medical Consultants	38,109	35,589
40,799	40,873	Teachers and Teaching Assistants	41,181	40,100
3,419	3,512	Fire Officers	3,569	3,355
9,569	9,756	Police Officers	9,546	9,412
3,249	3,264	Prison Officers	3,154	3,261
1,391	1,422	Crown Officers and Judges	1,415	1,396
1,384	2,549	Other Pay Groups	6,327	6,606
4,700	404	Budget Reserve	-	-
201,488	**201,834**	**Pay Costs by Pay Group**	**198,650**	**191,380**

Staff information by pay group	2012 Average FTE*	2011 Average FTE*	
Established Staff	1,640	1,621	(1,635)
Public Service Employees	584	586	(593)
Nurses and Medical Consultants	942	942	(929)
Teachers and Teaching Assistants	853	858	(896)
Fire Officers	68	68	(68)
Police Officers	174	171	(171)
Prison Officers	77	80	(80)
Crown Officers and Judges	7	8	(8)
Other Pay Groups	46	35	(42)
	4,391	**4,369**	**(4,422)**

The average number of Full Time Equivalents includes all overtime, additional duties and miscellaneous duties paid to all employees (permanent, temporary, casual and agency). An adjustment has been made to Education and Culture & Leisure Departments' comparative figures for 2011. This reflects the recasting of the FTE totals attributable to some part-time roles. A further amendment has been to reflect the long term secondment of two Law Officers to Commerce & Employment. Those totals published in the 2011 accounts have been included in brackets.

*The average number of Full Time Equivalents (permanent, temporary, agency) paid during the year. For example, one member of Established Staff (full time hours 36) working an average of 18 hours a week over six months of the year would be included above as 0.25 FTE.

NOTES

5. Pay (continued)

Senior Employees Gross Cost Analysis	2012 Number of Employees	2011 Number of Employees
£70,000 to £89,999	214	191
£90,000 to £109,999	74	57
£110,000 to £129,999	33	27
£130,000 to £149,999	17	18
£150,000 to £169,999	11	8
£170,000 to £189,999	7	4
£190,000 to £209,999	3	3
£210,000 to £229,999	3	4
£230,000 to £249,999	-	-
£250,000 to £269,999	1	1

Note: Employees are included where their total gross cost, including employer pension and social insurance contributions, exceeds £70,000 in that year.

2011 Actual £'000s	2011 Average FTE*		Pay and staff information by Department or Entity	2012 Actual £'000s	2012 Average FTE*
3,159	51	(51)	Policy Council	3,201	47
9,898	196	(196)	Treasury & Resources Department	10,765	205
4,021	78	(76)	Commerce & Employment Department	4,125	77
4,779	143	(150)	Culture & Leisure Department	4,720	132
50,222	1,162	(1,198)	Education Department	51,692	1,160
3,892	85	(85)	Environment Department	3,924	83
73,242	1,863	(1,863)	Health & Social Services Department	77,050	1,904
25,929	526	(526)	Home Department	26,523	520
2,594	80	(80)	Housing Department	2,739	81
2,298	43	(53)	Public Services Department	2,330	44
1,340	34	(34)	Social Security Department	1,417	35
177	3	(3)	Public Accounts Committee	160	2
214	4	(4)	Scrutiny Committee	192	3
-	-	-	States Review Committee	16	-
3,414	57	(57)	Royal Court	3,415	54
4,237	43	(45)	Law Officers	4,362	43
88	1	(1)	States Assembly and Constitution Committee	90	1
1,876			States of Alderney	1,929	
191,380	4,369	(4,422)	Total for General Revenue	198,650	4,391
295	5	(5)	Financial Transformation Programme	553	7
1,330	38	(38)	Guernsey Dairy	1,394	39
623	13	(13)	Guernsey Registry	567	10
1,469	34	(34)	Corporate Housing Programme	1,494	32
3,342	85	(75)	Guernsey Water	3,570	82
10,114	215	(215)	Ports	10,182	205
8,062	255	(255)	States Works	8,459	259
3,466	92	(92)	Social Security Funds	3,599	94
28,701	737	(727)	Total for Other	29,818	728
220,081	**5,106**	**5,149**		**228,468**	**5,119**

The total pay cost and FTE for the Public Services Department and Guernsey Water have been re-stated for 2011 to reflect the transfer of Waste Water staff to Guernsey Water on 1 January 2012 thus providing comparative totals.

NOTES

6. Non-Pay costs by Expenditure Category

2012 Original Budget £'000s	2012 Total Authorised £'000s		2012 Actual £'000s	2011 Actual £'000s#
		Staff		
4,392	4,321	Recruitment and Training	3,544	3,860
484	501	Other Staff Costs	468	572
213	212	*Audit Fee*	223	185
230	230	*Benefit Payments*	228	235
10,357	10,141	*Communications and IT*	9,246	10,082
1,412	1,912	*Consultants' Fees*	1,812	3,109
27,462	27,050	*Contracted Out Work*	26,087	24,954
30,662	30,569	*Grants and Subsidies*	29,212	29,739
2,287	2,125	*Promotional Activities*	2,085	1,987
		Premises		
930	906	Equipment, Fixtures and Fittings	946	890
1,821	1,809	Rents and Leasing	1,796	1,813
7,519	7,581	Repairs, Maintenance and Servicing	7,048	7,074
7,209	7,062	Utilities	7,181	7,040
2,083	1,909	*Risk Management and Insurance*	1,845	1,825
		Supplies and Services		
1,444	1,491	Plant, Machinery and Vehicles	1,640	1,524
16,888	17,001	Services and Materials	16,127	16,070
3,870	3,896	Other Operational Costs	4,020	3,745
		Administration Expenses		
51	26	Bank Charges and Finance Costs	30	30
3,036	2,777	Incidental and Other costs	2,443	2,828
2,296	2,242	Postage, Stationery and Printing	2,243	2,182
124,646	**123,761**	**Non-Pay Costs by Expenditure Category**	**118,224**	**119,744**

Note: The above excludes formula-led costs (see Note 7).

7. Formula-led costs

2012 Original Budget £'000s	2012 Total Authorised £'000s		2012 Actual £'000s	2011 Actual £'000s
		Policy Council		
2,000	1,792	Legal Aid	2,091	1,637
		Treasury and Resources Department		
1,900	1,850	Payments to States Members	1,843	1,859
		Social Security Department		
3,740	3,715	Attendance and Invalid Care Allowance	3,749	3,388
600	600	Concessionary TV Licences for the Elderly	586	577
9,515	9,570	Family Allowances	9,564	9,308
4,360	4,333	Health Service Grant	4,298	4,173
14,360	14,360	Social Insurance Grant	14,223	13,837
17,730	19,700	Supplementary Benefit	19,774	17,951
50,305	52,278		52,194	49,234
54,205	**55,920**	**Formula-led costs**	**56,128**	**52,730**

Note: The payments to States Members are further detailed in Appendix II

NOTES

8. Exceptional Expenditure

In July 2012, £2.613m was fraudulently obtained from the States of Guernsey. As at 31 December 2012, £295k has been recovered and, as an exceptional item, provision for non-recovery of the balance of £2.318m has been made.

9. Capital Income

2012 Original Budget £'000s	2012 Total Authorised £'000s		2012 Actual £'000s	2011 Actual £'000s
-	-	Cobo Right of Way	-	145
-	1,188	Granville House, Mount Durand, St Peter Port	1,188	-
3,500	-	Other Property Sales	5	60
-	5,000	Guernsey Post Limited - Repurchase of Shares	-	-
3,500	**6,188**	**Capital Income**	**1,193**	**205**

10. Routine Capital Expenditure

2012 Original Budget £'000s	2012 Probable Outturn £'000s		2012 Actual £'000s	2011 Actual £'000s
1,650	400	Construction and Development Projects	435	1,410
10,500	6,665	Miscellaneous Capital Works	3,660	4,245
8,000	8,000	Transfers to Corporate Housing Programme Fund	8,000	8,000
1,390	1,260	IT Projects and Equipment	1,070	999
1,797	2,693	Equipment Machinery and Vehicles	1,436	2,027
-	1,800	Transfer to Guernsey Water	1,760	-
23,337	20,818		16,361	16,681
(6,987)	-	*Use of Accumulated Capital Allocation*	-	-
16,350	**20,818**	**Net Routine Capital Expenditure**	**16,361**	**16,681**

11. Investments and long-term deposits

	2012 Actual £'000s	2011 Actual £'000s
Bonds	110,588	107,380
Equities	117,628	77,580
Other Instruments	110,568	105,472
Cash Deposits	105,447	227,414
Investments and long-term deposits	444,231	517,846
States Entities and Other Third Party Deposits	(69,922)	(80,334)
	374,309	**437,512**

NOTES

11. Investments and long-term deposits (continued)

General Investment Pool	2012 Actual £'000s	2011 Actual £'000s
Transfer at 1 January 2012	517,846	-
Investment management and other fees	(1,887)	-
Interest, dividends and commission	9,211	-
Realised and unrealised profits on revaluation of investments	15,949	-
Net withdrawals during year	(96,888)	-
Balance at 31 December	**444,231**	**-**

The General Investment Pool was approved as part of the 2012 Budget Report (Billet D'Etat XXII, 2011). The General Investment Pool brought together financial assets that were previously managed as part of the Cash Pool or the Contingency Reserve. The intention for creating the Pool was to reduce risk, increase diversification and optimise returns. The Pool was set up at the start of 2012 and therefore, no comparative figures are available for 2011.

12. Investments in States Trading Entities

	2012 Actual £'000s	2011 Actual £'000s
Cabernet Limited - purchase cost	5,060	5,060
Cabernet Limited - provison for accumulated losses	(12,500)	(9,450)
Guernsey Electricity Limited	109,209	109,209
Guernsey Post Limited	22,386	22,386
Alderney Electricity Limited	3	3
	124,158	**127,208**

In addition, the Treasury and Resources Department owns the two ordinary £1 shares of JamesCo 750 Limited.

13. Loans Receivable

	2012 Actual £'000s	2011 Actual £'000s
JamesCo 750 Limited - Purchase of Vessels and Associated Costs	14,297	14,802
Corporate Housing Programme (Home Loans Scheme)	4,513	5,749
Health and Social Services Accommodation Fund	2,289	2,387
Higher Education Loans Fund	429	481
Company Registry	325	405
Farm Loans Fund	202	237
Sports Loans Fund	175	203
Sewers Connection Loans Fund	4	6
	22,234	**24,270**

14. Debtors and Prepayments

	2012 Actual £'000s	2011 Actual £'000s
Debtors	60,302	52,786
Prepayments	5,672	6,538
	65,974	**59,324**

NOTES

15. General Reserve

	2012 Actual £'000s	2011 Actual £'000s#
Balance at 1 January	17,250	18,444
Revenue Surplus	20,631	13,483
Less Routine Capital Expenditure	(16,361)	(16,681)
Capital Income	1,193	205
Operating Surplus/(Deficit)	5,463	(2,993)
Transfer from Contingency Reserve (Tax Strategy)	23,300	24,300
Cabernet Limited increased provision for accumulated losses	(3,050)	(700)
Transfer to Fundamental Spending Review Fund - FTP Measures	(8,816)	(3,942)
Transfer from Fundamental Spending Review Fund - States Strategic Plan Projects	4,567	2,890
Transfer from MRI Scanner Fund	-	303
Adjustment Sewage Treatment Investigations Fund 2010 expenditure	-	248
Transfer from Farm Loans Fund	701	-
Transfer from Sewers Connection Loans Fund	200	-
Appropriations		
Capital Reserve	(25,448)	(21,300)
General Revenue Account Reserve at 31 December	14,167	17,250
Various Capital Accounts		
Corporate Housing Programme	60,022	70,586
Insurance Deductible Fund	8,110	7,406
Fundamental Spending Review Fund	6,482	7,931
Waste Strategy Fund	3,082	1,435
Wilfred Carey Purchase Fund	2,921	2,864
Higher Education Loans Fund	838	825
Health and Social Services Accommodation Fund	792	948
Strategic Property Purchase Fund	750	750
Sports Loans Fund	319	319
Channel Islands Lottery (Guernsey) Fund	242	233
Farm Loans Fund	-	701
Sewers Connection Loans Fund	-	200
Wastewater Investigations Fund	-	112
General Reserve Balance at 31 December	**97,725**	**111,560**

NOTES

16. Capital Reserve

	2012 Actual £'000s	2011 Actual £'000s
Balance at 1 January	119,333	112,889
Appropriations from Revenue Account	23,850	21,300
Transfer from Ports Holding Account	4,124	5,678
Property Sales (vote 13.12.12)	1,598	-
Investment Return	4,511	1,584
Expenditure on votes	(61,715)	(22,118)
Balance at 31 December	**91,701**	**119,333**

17. Contingency Reserve

General

	2012 Actual £'000s	2011 Actual £'000s
Balance at 1 January	126,113	129,424
Investment Return	6,903	-
Interest, dividends and commission	-	1,890
Investment Management Fees	-	(630)
Net depreciation of investments -		
Realised and unrealised losses on investments and foreign exchange contracts	-	(4,571)
Balance at 31 December	**133,016**	**126,113**

Tax Strategy

	2012 Actual £'000s	2011 Actual £'000s
Balance at 1 January	104,309	132,439
Investment Return	4,222	-
Interest, dividends and commission	-	1,485
Investment Management Fees	-	(643)
Net depreciation of investments -		
Realised and unrealised losses on investments and foreign exchange contracts	-	(4,672)
Transfer to General Revenue	(23,300)	(24,300)
Balance at 31 December	**85,231**	**104,309**
Contingency Reserve Balance at 31 December	**218,247**	**230,422**

NOTES

18. Notes and Coins Reserve

	2012 Actual £'000s	2011 Actual £'000s
In circulation at 1 January	47,047	46,213
Issued during the year	115,517	115,848
Withdrawn during the year	(114,007)	(115,014)
In circulation at 31 December	48,557	47,047
Less release from reserve	(5,199)	(5,088)
	43,358	**41,959**

Notes and Coins in circulation

	2012 Actual £'000s	2011 Actual £'000s
Notes and coins in circulation	45,823	44,367
Less face value of precious metal coins	(2,465)	(2,408)
	43,358	**41,959**
Made up of:		
Notes	37,486	36,231
Coins	5,872	5,728

19. States Trading Entities Reserve

	2012 Actual £'000s	2011 Actual £'000s
Alderney Electricity Limited	3	3
Guernsey Electricity Limited	109,209	109,209
Guernsey Post Limited	22,386	22,386
Balance at 31 December	**131,598**	**131,598**

20. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities

	2012 Actual £'000s	2011 Actual £'000s
Operating surplus	20,631	13,483
Investment Return	-	(76)
(Increase) / Decrease in stocks	(203)	237
(Increase) / Decrease in debtors and prepayments	(6,650)	(2,593)
(Decrease) / Increase in creditors	(7,804)	295
	5,974	**11,346**

NOTES

21. Reconciliation of Net Cash Flow to Movement in Net Funds

	2012 Actual £'000s	2011 Actual £'000s
Net funds at 1 January	13,003	7,929
Change in net funds - increase in cash in the year	1,389	5,074
Net funds at 31 December	**14,392**	**13,003**

22. Analysis of changes in Net Funds

	At 1 January 2012 £'000s	Movement in Net Funds 2012 £'000s	At 31 December 2012 £'000s
Cash at banks	12,914	1,404	14,318
Cash in hand	89	(15)	74
Total	**13,003**	**1,389**	**14,392**

23. Superannuation Fund

<u>**Summary analysis of changes in Funds**</u>

	At 1 January 2011 £'000s	Movement in Net Funds 2011 £'000s	At 31 December 2011 £'000s	Movement in Net Funds 2012 £'000s	At 31 December 2012 £'000s
Combined Pool	885,086	(31,274)	853,812	75,635	929,447
Teachers Fund	41,407	(2,093)	39,314	3,576	42,890
States Members Fund	3,486	(75)	3,411	192	3,603
Total	**929,979**	**(33,442)**	**896,537**	**79,403**	**975,940**

NOTES

23. Superannuation Fund (continued)

Combined Pool	**2012 Actual £'000s**	**2011 Actual £'000s**
Employers' contributions	26,193	26,551
Employees' contributions	12,142	11,735
Capital payments	50	-
Refund of contributions repaid	70	48
Transfer values received from members of the Fund	-	437
Transfer values received from non-members of the Fund	657	5,635
	39,112	44,406
Pensions	(32,736)	(30,203)
Lump sum payments	(10,565)	(9,719)
Contributions refunded to employees	(715)	(864)
Transfer values paid to non-members of the fund	(858)	(601)
	(44,874)	(41,387)
Returns on Investments		
Investment management and other fees	(3,884)	(4,014)
Interest, dividends and commission	13,825	15,844
Realised and unrealised profits/(losses) on revaluation of investments	71,456	(46,123)
	81,397	(34,293)
Net increase/(decrease) in Fund for the year	**75,635**	**(31,274)**

Teachers	**2012 Actual £'000s**	**2011 Actual £'000s**
Employers' contributions	750	705
Teachers' contributions	356	336
Transfer values received from non-members of the Fund	6	-
	1,112	1,041
Pensions	(688)	(599)
Lump sum payments	(592)	(322)
Contributions refunded to employees	(4)	-
Transfer values paid to members of the Fund	-	(437)
Transfer values paid to non-members of the Fund	(7)	(186)
	(1,291)	(1,544)
Returns on Investments		
Investment management and other fees	(179)	(186)
Interest, dividends and commission	638	735
Realised and unrealised profits/(losses) on revaluation of investments	3,296	(2,139)
	3,755	(1,590)
Net increase/(decrease) in Fund for the year	**3,576**	**(2,093)**

NOTES

23. Superannuation Fund (continued)

States Members' Pension Fund	2012 Actual £'000s	2011 Actual £'000s
States contributions	55	194
States Members' contributions	15	47
Capital payment	66	35
	136	276
Pensions	(240)	(188)
Contributions refunded to States Members	(14)	(10)
	(254)	(198)
Returns on Investments		
Investment management and other fees	(16)	(32)
Interest, dividends and commission	53	63
Realised and unrealised profits/(losses) on revaluation of investments	273	(184)
	310	(153)
Net increase/(decrease) in Fund for the year	**192**	**(75)**

Consolidated Superannuation Fund	2012 Actual £'000s	2011 Actual £'000s
Employers' contributions	26,998	27,450
Employees' contributions	12,513	12,118
Capital payments	116	35
Refund of contributions repaid	70	48
Transfer values received from non-members of the Fund	663	5,635
	40,360	45,286
Pensions	(33,664)	(30,990)
Lump sum payments	(11,157)	(10,041)
Contributions refunded	(733)	(874)
Transfer values paid to non-members of the Fund	(865)	(787)
	(46,419)	(42,692)
Returns on Investments		
Investment management and other fees	(4,079)	(4,232)
Interest, dividends and commission	14,516	16,642
Realised and unrealised profits/(losses) on revaluation of investments	75,025	(48,446)
	85,462	(36,036)
Net increase/(decrease) in Fund for the year	**79,403**	**(33,442)**

NOTES

23. Superannuation Fund (continued)

Notes

a) The employees of the States of Guernsey are members of the States of Guernsey Superannuation Fund. This is a defined benefit pension scheme funded by contributions from both employer and employee. The employer rates are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

The scheme is a multi-entity arrangement and the States of Guernsey have contracted the fund's qualified independent actuaries to identify the actuarial account of each entity and therefore the value of the pension scheme assets and liabilities attributable to each entity. The assets of the scheme are held separately from the other States assets. The fund is under the control of the States Treasury and Resources Department which has arranged for it to be invested by professional advisors in a wide range of securities.

Contributions to the defined benefit pension scheme are charged to staffing costs so as to spread the cost of pensions over employees' working lives with the States. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. Contributions to the scheme were last increased from 1 January 2010 based on the actuarial recommendations of the valuation undertaken as at 31 December 2007.

A full actuarial valuation of the Fund as at 31 December 2010 was carried out. The results of this valuation were reported to the States in November 2011 (Billet d'État XIX, 2011) and it was agreed that the base employer rate (including teachers) would remain at 14.1% with effect from 1 January 2012.

b) The total contributions payable in respect of 2012 amounting to £26,998,000 have been charged as expenses in the revenue accounts for the current year. FRS 17 has not been adopted in full and the deficit on the Fund is, therefore, not included in the Balance Sheet. However, the following disclosures provide certain information which would be required under FRS 17.

(i) The valuation was updated by the actuary on an FRS 17 basis as at 31 December 2012.

(ii) The major assumptions used by the actuary in this valuation were:

	31 December 2012 % p.a.	31 December 2011 % p.a.
Discount rate	4.00%	4.70%
Expected return on Fund assets at 31 December (for following year)	5.80%	5.70%
Inflation	2.65%	2.85%
Increases to deferred benefits during deferment - Teachers Scheme	1.75%	1.95%
Increases to deferred benefits during deferment - Other Schemes	2.65%	2.85%
Increases to pensions in payment - Teachers Scheme	1.75%	1.95%
Increases to pensions in payment - Other Schemes	2.65%	2.85%
Increases to salaries	3.40%	3.60%

The assumptions used by the actuary have regard to the yield on AA rated corporate bonds and are also driven by other market yields which may not necessarily be borne out in practice.

NOTES

23. Superannuation Fund (continued)

Notes (continued)

b) (ii) **Mortality Assumptions**

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 90 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 92 if female.

Description of the basis used to determine the expected rate of return on the assets

The employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

(iii) **Market Value of Scheme assets**

	Note	At 31 December 2012 £'000s	At 31 December 2011 £'000s	At 31 December 2010 £'000s	At 31 December 2009 £'000s	At 31 December 2008 £'000s
Equities		471,179	401,761	457,565	430,758	492,518
Alternatives		144,060	165,176	135,073	87,530	-
Bonds		190,836	161,657	199,719	235,548	172,088
Property		121,665	94,010	65,150	18,399	-
Cash		48,200	73,933	72,472	56,319	49,756
	b)(v)	975,940	896,537	929,979	828,554	714,362
Present Value of schemes liabilities	b)(v)	(1,479,915)	(1,278,063)	(1,216,473)	(1,130,451)	(856,234)
Deficit	b)(v)	**(503,975)**	**(381,526)**	**(286,494)**	**(301,897)**	**(141,872)**
Experience Gains/(Losses) on Fund assets		35,118	(96,013)	46,585	71,190	(236,862)
Experience Gains/(Losses) on Fund liabilities		(11,113)	24,527	24,631	12,101	8,734
Change in assumptions underlying the Present Value of Fund liabilities		(126,254)	(12,177)	(40,556)	(233,833)	227,128
Actuarial Gain / (Loss)		**(102,249)**	**(83,663)**	**30,660**	**(150,542)**	**(1,000)**

Assumed expected return on assets per annum:

	2012	2011	2010	2009	2008
Equities	6.75%	6.75%	8.25%	8.25%	7.75%
Alternatives	6.75%	6.75%	8.25%	8.25%	N/A
Bonds	N/A	N/A	N/A	N/A	4.20%
Gilts	2.70%	2.80%	4.50%	4.50%	N/A
Corporate Bonds	3.50%	4.20%	5.50%	5.50%	N/A
Property	6.25%	6.25%	8.75%	8.75%	N/A
Cash	0.50%	0.50%	0.50%	0.50%	2.75%

FRS 17 'Retirement Benefits' has been amended to align the standard more closely with International Financial Reporting Standards.

NOTES

23. Superannuation Fund (continued)

Notes (continued)

b) (iii) The asset and liability values on the FRS 17 basis reflect market conditions at the year end and can be expected to vary from year to year without prejudicing the scheme's long term ability to provide the required benefits.

(iv) A valuation of the funds' investments was made at 31 December 2012. The resulting appreciation together with net realised profits and losses for the year was credited to the accounts of the participating groups in proportion to their average daily balance during 2012. Interest, dividends and commission for the period were credited on the same basis.

The net appreciation in investments for the year, including realised and unrealised profits and losses, was equal to 8.368% of the balance of the Fund at 1 January 2012 (2011: depreciation of 5.209%) or 8.403% of the average daily balance of the fund during the year before debiting and crediting such net appreciation or interest, etc. (2011: depreciation of 5.199%)

Interest, dividends and commissions were equal to 1.619% of the balance of the fund at 1 January 2012 (2011: 1.789%) or 1.626% of the average daily balance of the fund during the year before crediting or debiting such interest etc. or net appreciation (2011: 1.786%).

The Superannuation Fund participates in a securities lending programme. Securities lending is where securities are transferred from the State's custodian to a borrower against collateral in the form of cash or securities. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to the securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Fund's balance sheet. Lending fees are recorded daily as interest income on lending. The borrower has the voting rights attached to the securities during the lending period.

The surplus/(deficit) on collateral received is not recorded unless it is reinvested. Realised and unrealised gains and losses on reinvestments are recorded in the Income and Expenditure account at market value.

At the year-end, the value of securities on loan stood at £47,504,210 (2011: £53,481,959) secured by cash and non-cash collateral of £48,153,689 (2011: £54,219,578) being 101.4% (2011: 101.4%) of the value of securities on loan.

NOTES

23. Superannuation Fund (continued)

Notes (continued)

(v) **Analysis of changes in scheme deficit**

	2012 Actual £'000s	2011 Actual £'000s
Movement in the year		
Cost attributable to current service staff	(38,519)	(34,169)
Contributions paid in the year	27,114	27,485
Expected return on pension scheme assets	50,346	59,977
Interest on pension scheme liabilities	(59,141)	(64,662)
Actuarial (Loss) / Gain		
Actual return (loss) less expected return on pension scheme assets	35,118	(96,013)
Experience (losses) / gains arising on scheme liabilities	(11,113)	24,527
Changes in assumptions underlying the present value of the scheme liabilities	(126,254)	(12,177)
Deficit for the year	(122,449)	**(95,032)**
Deficit at 1 January	(381,526)	(286,494)
(Deficit) for the year	(122,449)	(95,032)
Deficit at 31 December	**(503,975)**	**(381,526)**

Analysis of changes in the present value of the defined benefit obligation

	2012 Actual £'000s	2011 Actual £'000s
Service cost	38,519	34,169
Interest cost	59,141	64,662
Contribution by members	12,513	12,118
Actuarial losses / (gains) (including changes in	137,367	(12,350)
Benefits paid	(45,688)	(37,009)
Change in defined benefit obligation	**201,852**	**61,590**
Defined benefit obligation at 1 January	1,278,063	1,216,473
Change in defined benefit obligation	201,852	61,590
Defined benefit obligation at 31 December	**1,479,915**	**1,278,063**

NOTES

23. Superannuation Fund (continued)

Notes (continued)

b) (v) **Analysis of changes in the fair value of Fund assets**

	2012 Actual £'000s	2011 Actual £'000s
Expected return on Fund assets	50,346	59,977
Actuarial gains / (losses)	35,118	(96,013)
Contributions by employer	27,114	27,485
Contributions by members	12,513	12,118
Benefits paid	(45,688)	(37,009)
Change in fair value of Fund assets	79,403	**(33,442)**
Fair value of assets at 1 January	896,537	929,979
Change in fair value of Fund assets	79,403	(33,442)
Fair value of assets at 31 December	**975,940**	**896,537**

The employer expects to contribute £27,126,000 to the Fund from 1 January 2013 to 31 December 2013.

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2012	2011
Equities	48%	45%
Alternatives	15%	18%
Gilts	4%	5%
Corporate Bonds	16%	13%
Property	12%	11%
Other Assets	5%	8%

d) On 27 January 2012 the States agreed that the existing States Members pension scheme be closed for service for current or new States Members with effect from 30 April 2012 and Members and former States Members be provided with the additional option to transfer accrued benefits in respect of all service into alternative pension arrangements on terms to be advised by the actuary.

24. Non-Audit Services

The 2012 revenue expenditure of the Public Accounts Committee includes £35,495 of non-audit services provided by Deloitte LLP (2011: £91,916 for the Treasury and Resources Department).

NOTES

25. States Trading Entities

On 29 June 2005 (Billet d'État IX, 2005), the States authorised the Treasury and Resources Department to facilitate (if necessary by providing guarantees) the borrowings from third parties by Cabernet Limited (the holding company of Aurigny Air Services Limited and Anglo Normandy Engineering Limited). As at 31 December 2012, the Treasury and Resources Department, acting on behalf of the States, is the Guarantor of £7.8m loan facilities that Cabernet Limited has obtained from local financial institutions at normal commercial rates and terms (2011: £7.2m).

On 28 June 2007 (Billet d'État XVI, 2007), the States agreed to authorise the Treasury and Resources Department to facilitate, if necessary by providing guarantees, the Aurigny Group borrowing necessary funds from the private sector to purchase two new ATR72-500 aircraft. As at 31 December 2012, the Treasury and Resources Department, acting on behalf of the States, is the Guarantor of £14.9m loan facilities that the Aurigny Group has obtained from financial institutions at normal commercial rates and terms (2011: £15.8m).

On 19 December 2008, the Treasury and Resources Department agreed to provide a loan to fund the purchase of two fuel tankships (£16.7m) and associated costs via a Guernsey incorporated company wholly owned by the States of Guernsey. At the 31 December 2012 the amount outstanding on the loan was £14.3m (2011: £14.8m), which attracts interest at the States Treasury interest rate and is repayable over a period of 20 years.

26. Related Party Transactions

There were no material Related Party Transactions during the year.

27. Guernsey Housing Association borrowing facilities

Under the terms of the Framework Agreement between the States of Guernsey and the Guernsey Housing Association (GHA), the States have Step In rights for the assets and liabilities of the GHA in the event that the latter was unable to meet its obligations. Accordingly, the States have provided letters of comfort in respect of the GHA's four borrowing facilities with private financial institutions totalling up to £80.5m in 2012 (2011: £50.5m). If it becomes necessary for the States to exercise their Step In rights, then all assets and liabilities of the GHA would revert to the States at that time. The market value of assets as at 31 December 2012 was £118m.

INDEPENDENT AUDITOR'S REPORT TO THE TREASURY AND RESOURCES DEPARTMENT

We have audited the accounts (the "accounts") of the States of Guernsey ("the States") for the year ended 31 December 2013 which comprise the Primary Financial Statements and the related notes 1 to 28, the Departmental and Committee Accounts and narrative summaries and the Loan and Fund Accounts. The financial reporting framework that has been applied in their preparation is the accounting policies stated in note 1.

This report is made solely to the States and the Treasury and Resources Department ("the Department") in accordance with the terms of our engagement letter dated 29 January 2013. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor's 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 Department, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Department and auditor

As explained more fully in the Statement of Responsibilities for the preparation of Annual Accounts, the Department are responsible for the preparation of the accounts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements 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 accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the States' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information accompanying the accounts to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounts

In our opinion the accounts have been properly prepared in accordance with the accounting policies stated in note 1.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Deloitte LLP
Chartered Accountants
St Peter Port
Guernsey
25 June 2014

INCOME AND EXPENDITURE ACCOUNT

2013 Original Budget £'000s	2013 Total Authorised £'000s	Income and Expenditure by Category	Note	2013 Actual £'000s	2012 Actual £'000s
		Income			
291,500	291,500	*Income Taxes*	2	281,597	280,904
78,550	78,550	*Other Taxes*	3	76,096	77,443
1,200	1,200	*Miscellaneous Income*	4	3,564	3,996
371,250	371,250	General Revenue Income		361,257	362,343
32,720	33,842	Departmental Operating Income		35,046	33,943
403,970	405,092	Total Income		396,303	396,286
		Less Expenditure			
201,260	206,939	*Pay*	5	203,935	198,777
121,683	123,273	*Non-Pay*	6	118,811	118,432
-	-	*Exceptional Expenditure*	7	-	2,318
58,070	58,276	*Formula-Led*	8	57,998	56,128
(10,643)	(3,313)	*Financial Transformation Programme Target*		-	-
1,278	753	*Service Developments*		-	-
8,772	(1,897)	*Budget Reserve*		-	-
380,420	**384,031**	General Revenue Expenditure		**380,744**	**375,655**
23,550	**21,061**	**Revenue Surplus**		**15,559**	**20,631**
-	**-**	Capital Income	9	10,539	1,193
13,000	18,217	Less Routine Capital Expenditure	10	13,362	16,361
10,550	**2,844**	**Net Surplus**		**12,736**	**5,463**

INCOME AND EXPENDITURE ACCOUNT

2013 Original Budget £'000s	2013 Total Authorised £'000s	Income and Expenditure by Service Area	2013 Actual £'000s	2012 Actual £'000s
371,250	371,250	Revenue Income	361,257	362,343
-	-	Capital Income	10,539	1,193
371,250	371,250	Total Income	371,796	363,536
		Net Revenue Expenditure		
10,375	11,358	*Policy Council*	10,463	9,260
17,020	20,454	*Treasury & Resources Department*	19,417	17,168
11,075	11,489	*Commerce & Employment Department*	10,886	10,701
3,250	3,341	*Culture & Leisure Department*	2,890	3,100
74,400	76,752	*Education Department*	76,750	75,730
8,075	8,353	*Environment Department*	7,780	7,964
108,170	111,846	*Health & Social Services Department*	112,152	111,055
31,925	33,224	*Home Department*	33,223	32,409
1,600	1,938	*Housing Department*	1,975	1,661
4,500	4,651	*Public Services Department*	4,023	5,990
56,950	57,282	*Social Security Department*	56,687	54,854
325	412	*Public Accounts Committee*	209	227
275	278	*Scrutiny Committee*	184	207
95	96	*States Review Committee*	69	16
2,900	2,962	*Royal Court*	2,443	2,605
4,775	4,909	*Law Officers*	4,559	4,483
1,940	1,988	*States of Alderney*	1,988	1,964
1,278	753	*Service Developments*	-	-
8,772	(1,897)	*Budget Reserve*	-	-
-	-	*Exceptional Expenditure*	-	2,318
347,700	350,189	Net Revenue Expenditure	345,698	341,712
		Routine Capital Expenditure		
-	386	*Policy Council*	132	-
1,200	1,666	*Treasury & Resources Department*	1,318	1,058
100	2,004	*Commerce & Employment Department*	1,794	245
350	554	*Culture & Leisure Department*	441	672
1,000	921	*Education Department*	697	670
50	549	*Environment Department*	468	225
1,500	2,853	*Health & Social Services Department*	1,450	1,819
750	1,122	*Home Department*	477	947
5,550	6,020	*Housing Department*	6,026	8,050
-	1,039	*Public Services Department*	458	2,620
-	96	*Royal Court*	43	36
-	57	*Law Officers*	58	19
2,500	950	*Budget Reserve*	-	-
13,000	18,217	Routine Capital Expenditure	13,362	16,361
360,700	368,406	Total Cash Limits	359,060	358,073
10,550	**2,844**	**Net Surplus**	**12,736**	**5,463**

BALANCE SHEET

	Note	2013 Actual £'000s	2012 Actual £'000s
Investments			
Financial investments and long-term deposits	11	366,435	374,309
Investments in States Trading Entities	12	111,758	124,158
		478,193	498,467
Loans Receivable	13	24,908	22,234
Current Assets			
Stocks		4,068	3,892
Debtors and prepayments	14	66,448	65,974
Cash at bank and in hand		17,250	14,392
		87,766	84,258
Current Liabilities			
Creditors and Accruals		(30,015)	(22,330)
Net Assets		560,852	582,629
Represented by:			
General Reserve	15	99,926	97,725
Capital Reserve	16	85,376	91,701
Contingency Reserve	17	207,635	218,247
Notes and Coins Reserve	18	44,817	43,358
States Trading Entities Reserve	19	123,098	131,598
Reserves		560,852	582,629

G A St Pier
Minister, Treasury and Resources Department
25 June 2014

Bethan Haines
States Treasurer
25 June 2014

CASH FLOW STATEMENT

	Note	2013 Actual £'000s	2012 Actual £'000s
Net cash inflow from operating activities	20	22,594	5,974
Returns on investments and servicing of finance			
Returns on investments and interest received		20,148	15,636
Net cash inflow from return on investments and servicing of finance		20,148	15,636
Investing activities			
Payments to acquire capital assets		(62,500)	(78,076)
Net Receipts from sale and purchase of financial investments		12,851	73,615
Receipts from sales of capital assets and capital repayments		10,539	1,193
Net cash outflow from investing activities		(39,110)	(3,268)
Net movement in balances on loans and miscellaneous funds etc		(774)	(16,953)
Increase in cash	21 & 22	2,858	1,389

BALANCE SHEET (FIDUCIARY)

	Note	2013 Actual £'000s	2012 Actual £'000s
Financial investments		1,087,126	977,358
Current Assets			
Stocks		-	13
Debtors and prepayments		1,954	1,106
Bank Accounts and Deposits with States Treasury		13,208	21,945
		15,162	23,064
Current Liabilities			
Creditors and Accruals		(5,388)	(4,606)
Net Assets		**1,096,900**	**995,816**
Represented by:			
Superannuation Fund	23	1,076,497	975,940
Courts Security for Costs		2,475	3,964
H M Receiver General		13,832	13,047
Various charity, amenity and other Funds		4,096	2,865
		1,096,900	**995,816**

NOTES

1. States of Guernsey Accounting Policies

i. The accounts of the States of Guernsey comprising those Departments set out on pages 12 to 101 are prepared under the historical cost convention modified in respect of the Consolidated Superannuation Fund accounts, the Contingency Reserve accounts and other financial investments for the revaluation of investments. The Consolidated Superannuation Fund disclosures have been presented as far as practicable in accordance with FRS 17 as detailed in note 23; the actuarial deficit has been calculated in accordance with FRS 17 but has not been included in the Fiduciary Balance Sheet. Further, the pensions costs charged to the General Revenue staffing costs are the contributions paid as agreed as a result of the latest triennial actuarial valuation. Unless detailed otherwise, income and expenditure is accounted for on an accruals basis.

The accounts are produced on a going concern basis. The Treasury and Resources Department monitors and projects the States of Guernsey's income and expenditure and confirms the appropriateness of this basis.

ii. Investments in States Trading Entities in respect of Guernsey Post Limited and Guernsey Electricity Limited reflect the basis of the transfer valuation attributed to the net undertaking transferred from the States Trading Boards to the commercialised entities in accordance with The States Trading Companies (Bailiwick of Guernsey) Law, 2001. There is no ongoing impairment review for these entities.

All other trading entities are accounted for at cost less impairment/provision for losses.

iii. Income tax receipts are accounted for by recognising cash received and the amounts accrued based on assessments due for collection as at 31 January in the following calendar year plus specific provisions for any repayments due and, as detailed in note 2, a provision is made for probable repayments.

iv. Amounts received in advance for services are recognised on an estimated basis according to when the majority of services are provided.

v. Bad debts are written off against the related income stream.

vi. Income from the sales of properties is accounted for on a completion basis.

vii. Capital expenditure from General Revenue Account votes is written off in the year in which it is incurred. Depreciation is therefore not provided.

viii. Stock is valued at the lower of cost and net realisable value.

ix. Investments in the Superannuation Fund are included at bid prices ruling at the year end. Other investments including the General Investment Pool are included at mid-market prices ruling at the year end.

For valuation purposes, investments expressed in foreign currencies, if held, have been translated into sterling at the rate of exchange ruling as at the year end.

For unquoted investments in funds, market value has been derived as the published net asset value (bid) prices for the last valuation date ruling at the year end.

All derivatives are initially recognised at fair value at the date the derivative is entered into and subsequently re-measured at fair value. Fair values of derivative financial instruments are either based on quoted prices, or, if not available, on financial models provided by third party expert advisors.

x. In the Consolidated Superannuation Fund, realised and unrealised gains and losses on investments are adjusted on the members' capital accounts in proportion to their average balance during the year. Interest and dividends are similarly apportioned. Pages 28 to 35 set out the accounting policies of the Consolidated Superannuation Fund.

xi. Investment returns on the General Revenue Account are shown within the Revenue Income accounts. Other investment returns are shown in the respective funds and accounts to which they relate.

xii. 2012 Accounts columns marked with "#" are where figures have been restated for comparative purposes.

NOTES

2. Income Taxes

2013 Original Budget £'000s	2013 Total Authorised £'000s		2013 Actual £'000s	2012 Actual £'000s
233,000	233,000	Individuals	227,059	227,463
50,500	50,500	Companies (including Banks)	44,101	40,288
8,000	8,000	Distributed Profits	10,437	13,153
291,500	**291,500**	**Income Taxes**	**281,597**	**280,904**

3. Other Taxes

2013 Original Budget £'000s	2013 Total Authorised £'000s		2013 Actual £'000s	2012 Actual £'000s
		Customs & Immigration -		
		Excise and Import Duties		
3,200	3,200	*Beer*	3,031	2,989
700	700	*Cider*	720	706
15,400	15,400	*Motor Spirit*	15,494	15,258
2,650	2,650	*Spirits*	2,718	2,760
8,250	8,250	*Tobacco*	7,933	7,838
4,550	4,550	*Wine*	4,380	4,539
(300)	(300)	*Duties Collected for Sark*	(210)	(267)
1,300	1,300	*Import duties*	1,436	1,306
35,750	35,750		35,502	35,129
8,500	8,500	Company Fees	8,843	9,217
18,000	18,000	Document Duty	15,468	17,098
16,300	16,300	Tax on Real Property	16,283	15,999
78,550	**78,550**	**Other Taxes**	**76,096**	**77,443**

4. Miscellaneous Income

2013 Original Budget £'000s	2013 Total Authorised £'000s		2013 Actual £'000s	2012 Actual £'000s
50	50	Investment Return	558	189
-	-	Realised Profit on Foreign Currency	-	2
250	250	Court Fines	156	270
-	-	Loans Fund Interest Payable	8	12
-	-	Retention Tax - Net Receipt	30	-
200	200	States Trading Companies' Dividends	139	1,589
700	700	Surplus on Notes and Coins Account	2,353	1,594
-	-	Other Income	320	340
1,200	**1,200**	**Miscellaneous Income**	**3,564**	**3,996**

NOTES

5. Pay

2013 Original Budget £'000s	2013 Total Authorised £'000s	Pay Costs by Pay Group	2013 Actual £'000s	2012 Actual £'000s#
84,519	86,063	Established Staff	83,209	80,564
17,741	17,451	Public Service Employees	16,625	16,733
39,197	40,310	Nurses and Medical Consultants	41,697	40,793
40,068	42,659	Teachers and Teaching Assistants	42,346	41,181
3,534	3,647	Fire Officers	3,614	3,569
9,668	10,057	Police Officers	9,645	9,546
3,340	3,607	Prison Officers	3,653	3,154
1,577	1,610	Crown Officers and Judges	1,609	1,541
1,616	1,528	Other Pay Groups	1,537	1,696
201,260	**206,932**	**Pay Costs by Pay Group**	**203,935**	**198,777**

Staff information by pay group	2013 Average FTE*	2012 Average FTE*
Established Staff	1,638	1,640
Public Service Employees	550	584
Nurses and Medical Consultants	946	942
Teachers and Teaching Assistants	836	853
Fire Officers	66	68
Police Officers	167	174
Prison Officers	77	77
Crown Officers and Judges	7	7
Other Pay Groups	32	46
	4,319	**4,391**

The average number of Full Time Equivalents includes all overtime, additional duties and miscellaneous duties paid to all employees (permanent, temporary, casual and agency). The pay costs also include amounts paid under the Voluntary Severance Scheme.

*The average number of Full Time Equivalents (permanent, temporary, agency) paid during the year. For example, one member of Established Staff (full time hours 36) working an average of 18 hours a week over six months of the year would be included above as 0.25 FTE.

Senior Employees Gross Cost Analysis	2013 Number of Employees	2012 Number of Employees
£70,000 to £89,999	264	205
£90,000 to £109,999	81	71
£110,000 to £129,999	43	31
£130,000 to £149,999	17	15
£150,000 to £169,999	14	11
£170,000 to £189,999	8	7
£190,000 to £209,999	3	3
£210,000 to £229,999	2	3
£230,000 to £249,999	3	-
£250,000 and above	2	1

Note: Employees are included where their total gross cost, including employer pension and social insurance contributions, exceeds £70,000 in that year. The costs associated with the Voluntary Severance Scheme have also been included within the calculations, which has had an impact upon the number of employees whose gross cost exceeds £70,000.

NOTES

5. Pay (Continued)

2012 Actual £'000s	2012 Average FTE*	Pay and staff information by Department or Entity	2013 Actual £'000s	2013 Average FTE*
3,201	47	Policy Council	4,049	65
10,890	205	Treasury & Resources Department**	12,320	240
4,125	77	Commerce & Employment Department	4,289	75
4,720	132	Culture & Leisure Department	4,633	126
51,692	1,160	Education Department	53,063	1,128
3,924	83	Environment Department	3,784	78
77,050	1,904	Health & Social Services Department	77,540	1,845
26,523	520	Home Department	27,271	514
2,739	81	Housing Department	2,939	75
2,330	44	Public Services Department	2,046	37
1,417	35	Social Security Department	1,514	32
160	2	Public Accounts Committee	189	3
192	3	Scrutiny Committee	166	3
16	-	States Review Committee	65	1
3,506	55	Royal Court	3,567	54
4,363	43	Law Officers	4,480	43
1,929	-	States of Alderney	2,020	-
198,777	4,391	Total for General Revenue	203,935	4,319
553	7	Financial Transformation Programme	851	12
1,394	39	Guernsey Dairy	1,448	38
567	10	Guernsey Registry	783	9
1,494	32	Corporate Housing Programme	1,549	32
3,570	82	Guernsey Water	3,653	82
10,182	205	Ports	10,400	208
8,459	259	States Works	8,354	247
3,599	87	* Social Security Funds	3,672	88
29,818	721	Total for Other	30,710	716
228,595	**5,112**		**234,645**	**5,035**

* A re-calculation of the Social Security Funds FTE for 2012 has resulted in restatement from 94 to 87.

** The centralised Shared Transaction Service Centre (The Hub) was launched on 1 January 2013. Although there are additional pay costs and staff in the Treasury and Resources Department, there was an overall saving across the States in expenditure and staff numbers.

NOTES

6. Non-Pay costs by Expenditure Category

2013 Original Budget £'000s	2013 Total Authorised £'000s		2013 Actual £'000s	2012 Actual £'000s#
		Staff Non Pay Costs		
2,119	2,078	*Recruitment*	1,998	1,783
2,203	2,319	*Training*	1,814	1,307
555	553	*Other Staff Costs*	502	539
4,877	4,950		4,314	3,629
		Support Services		
1,989	1,958	*Advertising Marketing and PR*	1,984	2,284
191	279	*Audit Fees*	290	230
117	108	*Bank Charges*	104	115
10,315	10,122	*Communications and IT*	10,029	9,649
2,051	3,181	*Consultants Fees*	2,801	2,003
11,224	10,564	*Contracted Out Work*	10,091	9,688
-	-	*Incidental and Other costs*	85	104
2,148	1,970	*Postage, Stationery and Printing*	2,082	1,993
1,961	1,944	*Risk Management and Insurance*	2,003	1,846
29,996	30,126		29,469	27,912
		Premises		
893	885	*Equipment, Fixtures and Fittings*	690	930
2,153	2,474	*Rents and Leasing*	2,723	2,414
7,764	7,938	*Repairs, Maintenance and Servicing*	8,393	7,724
6,100	5,951	*Utilities*	6,305	5,955
16,910	17,248		18,111	17,023
		Third Party Payments		
298	299	*Benefit Payments*	232	296
28,710	28,948	*Grants and Subsidies*	27,303	28,695
29,008	29,247		27,535	28,991
		Transport		
1,424	1,482	*Vehicles and Vessels*	1,428	1,490
		Supplies and Services		
26,340	26,705	*Services*	25,288	25,648
13,128	13,515	*Supplies*	12,666	13,739
39,468	40,220		37,954	39,387
121,683	**123,273**	**Non-Pay Costs by Expenditure Category**	**118,811**	**118,432**

Note: The above excludes formula-led costs (see Note 8).

NOTES

7. Exceptional Expenditure

In July 2012, £2.613m was fraudulently obtained from the States of Guernsey. A sum of £295k was recovered during 2012 and, as an exceptional item, provision for non-recovery of the balance of £2.318m was made.

8. Formula-led costs

2013 Original Budget £'000s	2013 Total Authorised £'000s		2013 Actual £'000s	2012 Actual £'000s
		Policy Council		
2,050	2,256	*Legal Aid*	2,200	2,091
		Treasury and Resources Department		
1,870	1,870	*Payments to States Members*	1,826	1,843
		Social Security Department		
4,065	4,065	*Attendance and Invalid Care Allowance*	4,120	3,749
620	620	*Concessionary TV Licences for the Elderly*	590	586
9,870	9,870	*Family Allowances*	9,800	9,564
4,495	4,495	*Health Service Grant*	4,386	4,298
14,900	14,900	*Social Insurance Grant*	14,439	14,223
20,200	20,200	*Supplementary Benefit*	20,637	19,774
54,150	54,150		53,972	52,194
58,070	**58,276**	**Formula-led costs**	**57,998**	**56,128**

Note: The payments to States Members are detailed in Appendix II

9. Capital Income

2013 Original Budget £'000s	2013 Total Authorised £'000s		2013 Actual £'000s	2012 Actual £'000s
-	-	Guernsey Post Limited - Re-purchase of Shares	8,500	-
-	-	Granville House, Mount Durand, St Peter Port	-	1,188
-	-	Nelson Place, Smith Street, St Peter Port	1,523	-
-	-	Charmont Chez, Hougue Jehannet, Vale	415	-
-	-	Other Property Sales	101	5
-	**-**	**Capital Income**	**10,539**	**1,193**

NOTES

10. Routine Capital Expenditure

2013 Original Budget £'000s	2013 Probable Outturn £'000s		2013 Actual £'000s	2012 Actual £'000s
-	467	Construction and Development Projects	371	435
5,425	5,723	Miscellaneous Capital Works	4,336	3,621
6,000	6,000	Transfers to Corporate Housing Programme Fund	6,000	8,000
2,050	1,449	IT Projects and Equipment	1,005	1,070
3,205	3,056	Equipment Machinery and Vehicles	1,623	1,436
960	572	Alderney Airport Net Capital Expenditure	27	39
-	-	Transfer to Guernsey Water	-	1,760
2,500	950	Budget Reserve	-	-
20,140	18,217		13,362	16,361
(7,140)	-	*Use of Accumulated Capital Allocation*	-	-
13,000	**18,217**	**Net Routine Capital Expenditure**	**13,362**	**16,361**

11. Investments and long-term deposits

	2013 Actual £'000s	2012 Actual £'000s
Bonds	101,141	110,588
Equities	189,652	117,628
Other Instruments	64,338	110,568
Cash Deposits	76,249	105,447
Investments and long-term deposits	431,380	444,231
Balances held on behalf of States' Entities and other third party deposits	(64,945)	(69,922)
	366,435	**374,309**

General Investment Pool	2013 Actual £'000s	2012 Actual £'000s
Balance at 1 January	444,231	517,846
Investment management and other fees	(715)	(1,887)
Returns on Investments (including realised and unrealised profits on revaluation of investments, interest and dividends)	29,326	25,160
Net withdrawals during year	(41,462)	(96,888)
Balance at 31 December	**431,380**	**444,231**

The General Investment Pool was approved as part of the 2012 Budget Report (Billet D'Etat XXII, 2011). The General Investment Pool brought together financial assets that were previously managed as part of the Cash Pool or the Contingency Reserve. The intention for creating the Pool was to reduce risk, increase diversification and optimise returns.

NOTES

12. Investments in States' Trading Entities

	2013 Actual £'000s	2012 Actual £'000s
Cabernet Limited - purchase cost	5,060	5,060
Cabernet Limited - provision for accumulated losses	(16,400)	(12,500)
Guernsey Electricity Limited	109,209	109,209
Guernsey Post Limited	13,886	22,386
Alderney Electricity Limited	3	3
	111,758	**124,158**

In addition, the Treasury and Resources Department owns the two ordinary £1 shares of JamesCo 750 Limited.

Guernsey Post Limited re-purchased £8.5m of shares during 2013, consequently the balance invested by the States in that trading entity reduced from £22.386m to £13.886m.

13. Loans Receivable

	2013 Actual £'000s	2012 Actual £'000s
JamesCo 750 Limited -		
Purchase of Vessels and Associated Costs	13,820	14,297
Cabernet Limited		
Purchase of Aircraft and Associated Costs	4,315	-
Corporate Housing Programme (Home Loans Scheme)	3,649	4,513
Health and Social Services Accommodation Fund	2,199	2,289
Higher Education Loans Fund	368	429
Company Registry	220	325
Farm Loans Fund	169	202
Sports Loans Fund	164	175
Sewers Connection Loans Fund	4	4
	24,908	**22,234**

14. Debtors and Prepayments

	2013 Actual £'000s	2012 Actual £'000s
Debtors	61,339	60,302
Prepayments	5,109	5,672
	66,448	**65,974**

NOTES

15. General Reserve

	2013 Actual £'000s	2012 Actual £'000s
Balance at 1 January	14,167	17,250
Revenue Surplus	15,559	20,631
Less Routine Capital Expenditure	(13,362)	(16,361)
Capital Income	10,539	1,193
Operating Surplus	26,903	22,713
Transfer from Contingency Reserve (Tax Strategy)	24,800	23,300
Cabernet Limited Increased Provision for Accumulated Losses	(3,900)	(3,050)
Transfer to Fundamental Spending Review Fund - Net Revenue Benefits	(15,720)	(8,816)
Transfer from Fundamental Spending Review Fund - States Strategic Plan Projects and Deficit Reduction	15,720	4,567
Transfer to Strategic Development Fund	(3,000)	-
Transfer from Farm Loans Fund	-	701
Transfer from Sewers Connection Loans Fund	-	200
Appropriations		
Transfer to Capital Reserve	(34,573)	(25,448)
General Revenue Account Reserve at 31 December	10,230	14,167
Various Capital Accounts		
Corporate Housing Programme	64,190	60,022
Insurance Deductible Fund	8,956	8,110
Waste Strategy Fund	4,002	3,082
Fundamental Spending Review Fund	3,451	6,482
Wilfred Carey Purchase Fund	3,053	2,921
Strategic Development Fund	3,000	-
Higher Education Loans Fund	879	838
Health and Social Services Accommodation Fund	781	792
Strategic Property Purchase Fund	750	750
Sports Loans Fund	319	319
Channel Islands Lottery (Guernsey) Fund	315	242
General Reserve Balance at 31 December	**99,926**	**97,725**

16. Capital Reserve

	2013 Actual £'000s	2012 Actual £'000s
Balance at 1 January	91,701	119,333
Appropriations from Revenue Account	24,550	23,850
Transfer from Ports Holding Account	2,280	4,124
Property Sales (2013: Vote 27.11.08, 2012: Vote 13.12.12)	1,523	1,598
Guernsey Post Office Ltd - Re-Purchase of Shares	8,500	-
Investment Return	5,960	4,511
Expenditure on votes	(49,138)	(61,715)
Balance at 31 December	**85,376**	**91,701**

NOTES

17. Contingency Reserve

General

	2013 Actual £'000s	2012 Actual £'000s
Balance at 1 January	133,016	126,113
Investment Return	9,474	6,903
Balance at 31 December	**142,490**	**133,016**

Tax Strategy

	2013 Actual £'000s	2012 Actual £'000s
Balance at 1 January	85,231	104,309
Investment Return	4,714	4,222
Transfer to General Revenue	(24,800)	(23,300)
Balance at 31 December	**65,145**	**85,231**
Contingency Reserve Balance at 31 December	**207,635**	**218,247**

NOTES

18. Notes and Coins Reserve

	2013 Actual £'000s	2012 Actual £'000s
In circulation at 1 January	48,557	47,047
Issued during the year	123,530	115,517
Withdrawn during the year	(121,911)	(114,007)
In circulation at 31 December	50,176	48,557
Less release from reserve	(5,359)	(5,199)
	44,817	**43,358**

Notes and Coins in circulation

	2013 Actual £'000s	2012 Actual £'000s
Notes and coins in circulation	49,176	45,823
Less face value of precious metal coins	(4,359)	(2,465)
	44,817	**43,358**
Made up of:		
Notes	38,719	37,486
Coins	6,098	5,872

19. States Trading Entities Reserve

	2013 Actual £'000s	2012 Actual £'000s
Alderney Electricity Limited	3	3
Guernsey Electricity Limited	109,209	109,209
Guernsey Post Limited	13,886	22,386
Balance at 31 December	**123,098**	**131,598**

20. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities

	2013 Actual £'000s	2012 Actual £'000s
Operating surplus	15,559	20,631
(Increase) in stocks	(176)	(203)
(Increase) in debtors and prepayments	(474)	(6,650)
Increase / (Decrease) in creditors	7,685	(7,804)
	22,594	**5,974**

NOTES

21. Reconciliation of Net Cash Flow to Movement in Net Funds

	2013 Actual £'000s	2012 Actual £'000s
Net funds at 1 January	14,392	13,003
Change in net funds - increase in cash in the year	2,858	1,389
Net funds at 31 December	**17,250**	**14,392**

22. Analysis of changes in Net Funds

	At 1 January 2013 £'000s	Movement in Net Funds 2013 £'000s	At 31 December 2013 £'000s
Cash at banks	14,318	2,886	17,204
Cash in hand	74	(28)	46
Total	**14,392**	**2,858**	**17,250**

23. Superannuation Fund

Summary analysis of changes in Funds

	At 1 January 2012 £'000s	Movement in Net Funds 2012 £'000s	At 31 December 2012 £'000s	Movement in Net Funds 2013 £'000s	At 31 December 2013 £'000s
Combined Pool	853,812	75,635	929,447	96,379	1,025,826
Teachers Fund	39,314	3,576	42,890	3,975	46,865
States Members Fund	3,411	192	3,603	203	3,806
Total	**896,537**	**79,403**	**975,940**	**100,557**	**1,076,497**

NOTES

23. Superannuation Fund (continued)

Combined Pool	2013 Actual £'000s	2012 Actual £'000s
Employers' contributions	26,571	26,193
Employees' contributions	12,570	12,142
Capital payments	-	50
Refund of contributions repaid	38	70
Transfer values received from non-members of the Fund	2,532	657
	41,711	39,112
Pensions	(35,249)	(32,736)
Lump sum payments	(11,874)	(10,565)
Contributions refunded to employees	(763)	(715)
Transfer values paid to non-members of the fund	(881)	(858)
	(48,767)	(44,874)
Returns on Investments		
Investment management and other fees	(3,326)	(3,884)
Interest, dividends and commission	12,617	13,825
Realised and unrealised profits on revaluation of investments	94,144	71,456
	103,435	81,397
Net increase in Fund for the year	**96,379**	**75,635**

Teachers	2013 Actual £'000s	2012 Actual £'000s
Employers' contributions	684	750
Teachers' contributions	321	356
Transfer values received from non-members of the Fund	-	6
	1,005	1,112
Pensions	(933)	(688)
Lump sum payments	(798)	(592)
Contributions refunded to employees	(19)	(4)
Transfer values paid to non-members of the Fund	(6)	(7)
	(1,756)	(1,291)
Returns on Investments		
Investment management and other fees	(152)	(179)
Interest, dividends and commission	576	638
Realised and unrealised profits on revaluation of investments	4,302	3,296
	4,726	3,755
Net increase in Fund for the year	**3,975**	**3,576**

NOTES

23. Superannuation Fund (continued)

States Members' Pension Fund	**2013 Actual £'000s**	**2012 Actual £'000s**
States contributions	-	55
States Members' contributions	-	15
Capital payment	68	66
	68	136
Pensions	(253)	(240)
Contributions refunded to States Members	(2)	(14)
	(255)	(254)
Returns on Investments		
Investment management and other fees	(13)	(16)
Interest, dividends and commission	48	53
Realised and unrealised profits on revaluation of investments	355	273
	390	310
Net increase in Fund for the year	**203**	**192**

Consolidated Superannuation Fund	**2013 Actual £'000s**	**2012 Actual £'000s**
Employers' contributions	27,255	26,998
Employees' contributions	12,891	12,513
Capital payments	68	116
Refund of contributions repaid	38	70
Transfer values received from non-members of the Fund	2,532	663
	42,784	40,360
Pensions	(36,435)	(33,664)
Lump sum payments	(12,672)	(11,157)
Contributions refunded	(784)	(733)
Transfer values paid to non-members of the Fund	(887)	(865)
	(50,778)	(46,419)
Returns on Investments		
Investment management and other fees	(3,491)	(4,079)
Interest, dividends and commission	13,241	14,516
Realised and unrealised profits on revaluation of investments	98,801	75,025
	108,551	85,462
Net increase in Fund for the year	**100,557**	**79,403**

NOTES

23. Superannuation Fund (continued)

Notes

a) The employees of the States of Guernsey are members of the States of Guernsey Superannuation Fund. This is a defined benefit pension scheme funded by contributions from both employer and employee. The employer rates are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

The scheme is a multi-entity arrangement and the States of Guernsey have contracted the fund's qualified independent actuaries to identify the actuarial account of each entity and therefore the value of the pension scheme assets and liabilities attributable to each entity. The assets of the scheme are held separately from other States assets. The fund is under the control of the States Treasury and Resources Department which has arranged for it to be invested by professional advisers in a wide range of securities.

Contributions to the defined benefit pension scheme are charged to staffing costs so as to spread the cost of pensions over employees' working lives with the States. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. Contributions to the scheme were last increased from 1 January 2010 based on the actuarial recommendations of the valuation undertaken as at 31 December 2007.

A full actuarial valuation of the Fund as at 31 December 2010 was carried out. The results of this valuation were reported to the States in November 2011 (Billet d'État XIX, 2011) and it was agreed that the base employer rate (including teachers) would remain at 14.1% with effect from 1 January 2012.

A full actuarial valuation of the Fund as at 31 December 2013 is in the process of being carried out. The results of this valuation, including proposed changes if any, to the rates of employers' contributions, will be reported to the States in Autumn 2014.

b) The total contributions payable in respect of 2013 amounting to £27,255,000 have been charged as expenses in the revenue accounts for the current year. FRS 17 has not been adopted in full and the deficit on the Fund is, therefore, not included in the Balance Sheet. However, the following disclosures provide certain information which would be required under FRS 17.

(i) The valuation was updated by the actuary on an FRS 17 basis as at 31 December 2013.

(ii) The major assumptions used by the actuary in this valuation were:

	31 December 2013 % p.a.	**31 December 2012 % p.a.**
Discount rate	4.40%	4.00%
Expected return on Fund assets at 31 December (for following year)	6.70%	5.80%
Inflation	3.35%	2.65%
Increases to deferred benefits during deferment - Teachers Scheme	2.45%	1.75%
Increases to deferred benefits during deferment - Other Schemes	3.35%	2.65%
Increases to pensions in payment - Teachers Scheme	2.45%	1.75%
Increases to pensions in payment - Other Schemes	3.35%	2.65%
Increases to salaries	4.10%	3.40%

The assumptions used by the actuary have regard to the yield on AA rated corporate bonds and are also driven by other market yields which may not necessarily be borne out in practice.

NOTES

23. Superannuation Fund (continued)

Notes (continued)

b) (ii) **Mortality Assumptions**

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 89 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 91 if female.

Description of the basis used to determine the expected rate of return on the assets

The employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

(iii) **Market Value of Scheme assets**

	Note	At 31 December 2013 £'000s	At 31 December 2012 £'000s	At 31 December 2011 £'000s	At 31 December 2010 £'000s	At 31 December 2009 £'000s
Equities		590,483	471,179	401,761	457,565	430,758
Alternatives		191,603	144,060	165,176	135,073	87,530
Gilts and Bonds		167,673	190,836	161,657	199,719	235,548
Property		97,933	121,665	94,010	65,150	18,399
Cash		28,805	48,200	73,933	72,472	56,319
	b)(v)	1,076,497	975,940	896,537	929,979	828,554
Present Value of schemes liabilities	b)(v)	(1,600,562)	(1,479,915)	(1,278,063)	(1,216,473)	(1,130,451)
	b)(v)	**(524,065)**	**(503,975)**	**(381,526)**	**(286,494)**	**(301,897)**
Experience Gains/(Losses) on Fund assets		52,856	35,118	(96,013)	46,585	71,190
Experience Gains/(Losses) on Fund liabilities		19,421	(11,113)	24,527	24,631	12,101
Change in assumptions underlying the Present Value of Fund liabilities		(70,715)	(126,254)	(12,177)	(40,556)	(233,833)
Actuarial Gain / (Loss)		**1,562**	**(102,249)**	**(83,663)**	**30,660**	**(150,542)**

Assumed expected return on assets per annum:

	2013	2012	2011	2010	2009
Equities	7.50%	6.75%	6.75%	8.25%	8.25%
Alternatives	7.50%	6.75%	6.75%	8.25%	8.25%
Gilts and Bonds	3.60%	2.70%	2.80%	4.50%	4.50%
Corporate Bonds	3.90%	3.50%	4.20%	5.50%	5.50%
Property	7.00%	6.25%	6.25%	8.75%	8.75%
Cash	0.50%	0.50%	0.50%	0.50%	0.50%

FRS 17 'Retirement Benefits' has been amended to align the standard more closely with International Financial Reporting Standards.

NOTES

23. Superannuation Fund (continued)

Notes (continued)

b) (iii) The asset and liability values on the FRS 17 basis reflect market conditions at the year end and can be expected to vary from year to year without prejudicing the scheme's long term ability to provide the required benefits.

(iv) A valuation of the funds' investments was made at 31 December 2013. The resulting appreciation together with net realised profits and losses for the year was credited to the accounts of the participating groups in proportion to their average daily balance during 2013. Interest, dividends and commission for the period were credited on the same basis.

The net appreciation in investments for the year, including realised and unrealised profits and losses, was equal to 10.124% of the balance of the Fund at 1 January 2013 (2012: appreciation of 8.368%) or 10.192% of the average daily balance of the fund during the year before debiting and crediting such net appreciation or interest, etc. (2012: appreciation of 8.403%)

Interest, dividends and commissions were equal to 1.357% of the balance of the fund at 1 January 2013 (2012: 1.619%) or 1.366% of the average daily balance of the fund during the year before crediting or debiting such interest etc. or net appreciation (2012: 1.626%).

The Superannuation Fund participates in a securities lending programme. Securities lending is where securities are transferred from the State's custodian to a borrower against collateral in the form of cash or securities. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to the securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Fund's balance sheet. Lending fees are recorded daily as interest income on lending. The borrower has the voting rights attached to the securities during the lending period.

The surplus/(deficit) on collateral received is not recorded unless it is reinvested. Realised and unrealised gains and losses on reinvestments are recorded in the Income and Expenditure account at market value.

At the year-end, the value of securities on loan stood at £41,094,242.80 (2012: £47,504,210) secured by cash and non-cash collateral of £43,218,106.55 (2012: £48,153,689) being 100.5% (2012: 101.4%) of the value of securities on loan.

NOTES

23. Superannuation Fund (continued)

Notes (continued)

(v) **Analysis of changes in scheme deficit**

	2013 Actual £'000s	2012 Actual £'000s
Movement in the year		
Cost attributable to current service staff	(46,359)	(38,519)
Contributions paid in the year	27,323	27,114
Expected return on pension scheme assets	55,695	50,346
Interest on pension scheme liabilities	(58,311)	(59,141)
Actuarial Gain		
Actual return less expected return on pension scheme assets	52,856	35,118
Experience gains/(losses) arising on scheme liabilities	19,421	(11,113)
Changes in assumptions underlying the present value of the scheme liabilities	(70,715)	(126,254)
Deficit for the year	**(20,090)**	**(122,449)**
Deficit at 1 January	(503,975)	(381,526)
(Deficit) for the year	(20,090)	(122,449)
Deficit at 31 December	**(524,065)**	**(503,975)**

Analysis of changes in the present value of the defined benefit obligation

	2013 Actual £'000s	2012 Actual £'000s
Service cost	46,359	38,519
Interest cost	58,311	59,141
Contribution by members	12,891	12,513
Actuarial losses (including changes in assumptions)	51,294	137,367
Benefits Paid	(48,208)	(45,688)
Change in defined benefit obligation	**120,647**	**201,852**
Defined benefit obligation at 1 January	1,479,915	1,278,063
Change in defined benefit obligation	120,647	201,852
Defined benefit obligation at 31 December	**1,600,562**	**1,479,915**

NOTES

23. Superannuation Fund (continued)

Notes (continued)

b) (v) **Analysis of changes in the fair value of Fund assets**

	2013 Actual £'000s	**2012 Actual £'000s**
Expected return on Fund assets	55,695	50,346
Actuarial gains	52,856	35,118
Contributions by employer	27,323	27,114
Contributions by members	12,891	12,513
Benefits paid	(48,208)	(45,688)
Change in fair value of Fund assets	**100,557**	**79,403**
Fair value of assets at 1 January	975,940	896,537
Change in fair value of Fund assets	100,557	79,403
Fair value of assets at 31 December	**1,076,497**	**975,940**

The employer expects to contribute £27,425,000 to the Fund from 1 January 2014 to 31 December 2014.

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2013	**2012**
Equities	55%	48%
Alternatives	17%	15%
Gilts	3%	4%
Corporate Bonds	13%	16%
Property	9%	12%
Other Assets	3%	5%

c) On 27 January 2012 the States agreed that the existing States Members pension scheme be closed for service for current or new States Members with effect from 30 April 2012 and Members and former States Members be provided with the additional option to transfer accrued benefits in respect of all service into alternative pension arrangements on terms to be advised by the actuary.

24. Non-Audit Services

Deloitte LLP did not provide any non-audit services during 2013 (2012: £35,495 for the Treasury and Resources Department).

NOTES

25. States Trading Entities

On 29 June 2005 (Billet d'État IX, 2005), the States authorised the Treasury and Resources Department to facilitate, if necessary by providing guarantees, the borrowings from third parties by Cabernet Limited (the holding company of Aurigny Air Services Limited and Anglo Normandy Engineering Limited). As at 31 December 2013, the Treasury and Resources Department, acting on behalf of the States, is the Guarantor of £9.0m loan facilities that Cabernet Limited has obtained from local financial institutions at normal commercial rates and terms (2012: £7.8m).

On 28 June 2007 (Billet d'État XVI, 2007), the States agreed to authorise the Treasury and Resources Department to facilitate, if necessary by providing guarantees, the Aurigny Group borrowing necessary funds from the private sector to purchase two new ATR72-500 aircraft. As at 31 December 2013, the Treasury and Resources Department, acting on behalf of the States, is the Guarantor of £14.0m loan facilities that the Aurigny Group has obtained from financial institutions at normal commercial rates and terms (2012: £14.9m).

On 19 December 2008, the Treasury and Resources Department agreed to provide a loan to fund the purchase of two fuel tankships (£16.7m) and associated costs via a Guernsey incorporated company wholly owned by the States of Guernsey. At the 31 December 2013 the amount outstanding on the loan was £13.8m (2012: £14.3m), which attracts interest at the States Treasury interest rate and is repayable over a period of 20 years.

Guernsey Post Limited reviewed its asset portfolio and capital requirements in the context of the Company's future funding requirements. It concluded that it was appropriate to return £8.5m to the States through share purchase agreements. The first agreement was approved by the States on 13 December 2012 (Billet d'État XXVI, 2012), for the re-purchase of £5m of shares. The second was approved by the States on 29 October 2013 (Billet d'État XXI, 2013), for the re-purchase of £3.5m of shares. The agreements were finalised on 8 January 2013 and 20 December 2013 respectively. Therefore, the total value of shares held by the States reduced from £22.386m to £13.886m in 2013.

26. Related Party Transactions

There were no material Related Party Transactions during the year.

27. Guernsey Housing Association Borrowing Facilities

Under the terms of the Framework Agreement between the States of Guernsey and the Guernsey Housing Association (GHA), the States have Step-In rights for the assets and liabilities of the GHA in the event that the latter was unable to meet its obligations. Accordingly, the States have provided letters of comfort in respect of the GHA’s four borrowing facilities with private financial institutions totalling up to £80.5m in 2013 (2012: £80.5m). If it becomes necessary for the States to exercise their Step-In rights, then all assets and liabilities of the GHA would revert to the States at that time. The market value of assets as at 31 December 2013 was £141m (2012: £118m).

28. Alderney Housing Association Borrowing Facilities

Under the terms of the Framework Agreement between the States of Alderney and the Alderney Housing Association (AHA), the States of Alderney have Step-In rights for the assets and liabilities of the AHA in the event that the latter was unable to meet its obligations. Accordingly, the States of Alderney have provided a letter of comfort in respect of the AHA’s overdraft facility of £5m with a private financial institution. If it becomes necessary for the States of Alderney to exercise their Step-In rights, then all assets and liabilities of the AHA would revert to the States of Alderney at that time. The market value of assets as at 31 December 2013 was £6.675m (2012: £7.580m). The States of Guernsey have agreed to 'step-in' if the States of Alderney were unable to service the facility or repay any amounts due.

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