

Independent auditor's report in respect of the transfer of business currently conducted in SG Kleinwort Hambros Bank (CI) Ltd ("the Transferor") to SG Kleinwort Hambros Bank Limited - Jersey Branch ("the Transferee") ("the Scheme") pursuant to Article 48D of and the Schedule to the Banking Business (Jersey) Law, 1991 ("the Banking Business Law")

Opinion

We have acted as independent auditor in relation to the Scheme as required by Article 48D and the Schedule to the Banking Business Law.

In our opinion:

- i. The submitted and Proforma prudential returns have been properly extracted from the underlying accounting records, and prepared on a basis that is consistent with the current reporting instructions issued by the Jersey Financial Services Commission ("JFSC") and the management assumptions as set out in Appendix B to this report; and
- ii. Based solely on the work performed in (i) above and our reading of the Scheme and supporting documents described below, nothing has come to our attention that causes us to believe that:
 - the proposed transfer of business would have a materially adverse effect on the financial position, liquidity or capital adequacy of the Transferor or Transferee, or that would indicate that the Transferor or the Transferee would not have the ability to meet their liabilities after the proposed transfer of business between the Transferor and Transferee in accordance with the terms of the Scheme;
 - the proposed transfer of business in accordance with the terms of the Scheme would disadvantage the transferring and non-transferring customers and creditors of the Transferor and the customers and creditors of the Transferee; and
 - the proposed Depositor Compensation Scheme ("DCS") arrangements and creditor hierarchy considerations would have any material adverse effect on customers upon the Scheme taking effect.

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This conclusion is to be read in the context of what we say in the remainder of our report.

Scope of work

Our responsibility is to express a reasonable assurance opinion on the proper preparation of the submitted and Proforma prudential returns based on the underlying accounting records; and limited assurance on the other matters covered by our opinion.

Our work was performed in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

We have examined:

- the Transferor's submitted prudential return for the quarter ended 31 December 2021, prepared on a pre-transfer basis;
- the Transferee's Proforma prudential return for the quarter ended 31 December 2021, prepared on a post-transfer basis (together with the above, the "Returns");
- the Scheme's effect on the financial position, liquidity and capital adequacy ratios of the Transferor and Transferee (within the context of its position as a branch of SG Kleinwort Hambros Bank Limited) as at 31 December 2021; and
- the DCS arrangements and creditor hierarchy considerations.

We planned and performed our work in order to consider the risk of material misstatement of the Returns and the information in the Circular as to the likely effects of the Scheme. In doing so, we read the Scheme documents and considered their effect on the financial position, liquidity and capital adequacy of the Transferor and Transferee, following the proposed transfer in accordance with the Scheme, by reference to the Returns and other supporting financial information.

In order to give our reasonable assurance opinion on the proper preparation of the Proforma and submitted returns, we agreed the numbers contained in the Returns (on a sample basis) to underlying accounting records and checked the basis on which they had been calculated. We did not perform any detailed testing of those underlying accounting records.

In order to form our limited assurance opinion on the impact of the Scheme, we read the Scheme document setting out the terms of the Scheme, key management's affidavits in support of the application for the directions (the "Affidavits"), the summary statement of the Scheme (the "Scheme Summary"), the Representation of the Transferee and Transferor (the "Representation"), the Draft Order and the Gazette Notice (together the "Scheme documents") in conjunction with the pre-transfer and Proforma post-transfer returns. Our limited assurance work is narrower in nature and timing from our reasonable assurance work, and for that reason the level of assurance obtained is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

More details of the work we performed are set out in Appendix A to this report.

Inherent limitations of our report

This report only sets out the impact of the Scheme on customers and creditors of the Transferor and Transferee as a whole, focussing on the impact on financial position, liquidity and capital adequacy, and not any other operational matters, nor have we been engaged to or undertaken any work to provide an opinion on the effects of the proposed Scheme as it relates to any specific customer. This is because each customer will have unique, undetermined requirements. However, we believe that the customers and creditors of the Transferor and the Transferee would have a common interest in the financial position, liquidity and capital adequacy of both entities after the proposed transfer has taken place.

Our Independence and Quality Control

We have complied with the FRC Ethical Standard and the Institute of Chartered Accountants in England and Wales ("ICAEW") Code of Ethics, which includes the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. The ICAEW Code of Ethics contains independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

We apply International Standard on Quality Control (UK) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Directors' and Branch Managers' responsibilities

The Directors of the Transferor and the Branch Managers of the Transferee are responsible for:

- Preparing the submitted pre-transfer and Proforma post-transfer returns of the Transferor and Transferee respectively, ensuring that they:
 - have been completely and accurately extracted from the accounting and other records;
 - follow the prescribed formats and requirements for prudential returns in accordance with current rules and guidance issued by the JFSC;
 - use the same accounting policies as those applied in the most recent statutory financial statements of the Transferor; and
 - are properly prepared.
- Ensuring that the assessment of the Scheme's effect on the financial position, liquidity and capital adequacy ratios of the Transferor and Transferee:
 - has been prepared using the Transferor's submitted pre-transfer return and management assumptions; and
 - has been presented:
 - in accordance with the applicable current reporting instructions and guidance issued by the JFSC and the Prudential Regulation Authority ("PRA"); and

- in a manner that is consistent with the terms of the Scheme documents.
- Producing the Circular and the Scheme Documents which are to be filed with the application to the Royal Court of Jersey, which will deal with the likely effects of the Scheme and will provide a balanced reflection of the likely effects of the Scheme, including any relevant information subsequent to the date of the underlying data.
- Submitting the Scheme application to the Royal Court.
- Retaining sufficient, appropriate evidence to support the reported data and assertions.

Use of this report

This report is made solely to the Transferor and Transferee in accordance with Article 48D of, and the Schedule to, the Business Banking (Jersey) Law 1991. Our work has been undertaken so that we might state to the Transferor and Transferee those matters we are required to state to them in an independent auditor's report in order to meet the requirements of the Banking Business (Jersey) Law 1991 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Transferor and Transferee, for our work, for this report, or for the conclusions we have formed.

A handwritten signature in blue ink that reads "Deloitte LLP". The word "Deloitte" is written in a cursive style, and "LLP" is written in a simpler, blocky font.

Deloitte LLP

16th May 2022

Saint Helier, Jersey

Schedule 1— Definition of terms

With respect to the schedule, the following definitions are applicable:

<i>Branch managers:</i>	The management of the SG Kleinwort Hambros Bank Limited – Jersey Branch.
<i>Circular:</i>	This is the communications pack which will be sent to customers, as described in the Scheme documents. The Circular will include a summary of the likely effects of the Scheme, including any relevant information subsequent to the date of the underlying data.
<i>Creditor hierarchy:</i>	An explanation and comparison of the creditor hierarchy that would be applied to the Transferor and Transferee.
<i>Depositors Compensation Scheme:</i>	This is the Jersey scheme which will provide depositors with compensation in the event that a Jersey registered bank should fail.
<i>Directors:</i>	The directors of the SG Kleinwort Hambros Bank (CI) Ltd.
<i>KH Group:</i>	SG Kleinwort Hambros Bank Limited and its subsidiaries.
<i>Proforma prudential return:</i>	The Transferee unaudited proforma post-transfer prudential return prepared on a condensed basis.
<i>Scheme documents:</i>	All those documents that the Transferor and Transferee intend to submit with their Scheme application to the Royal Court, as set out at Appendix A.

Appendix A: Work done

This Appendix provides more detail of the work performed in order to give the opinion set out above, and forms part of that opinion. It does not give separate assurance on any of the specific matters described below.

Shown below is a summary of the work undertaken which enabled us to provide the above opinion.

The Scheme documents

We read the Scheme documents listed below to understand their effect and to ensure that the submitted pre-transfer and Proforma post-transfer Returns have been prepared on a basis consistent with the workings of the Scheme:

- the Scheme document setting out the terms of the Scheme;
- the Scheme Summary;
- the Representation;
- the Affidavits and associated exhibits;
- the Draft Order; and
- the Gazette Notice.

The Returns

The following areas specific to the production of the Returns have been used as the basis of our examination:

- a) the sources of data for the Returns;
- b) the application of consistent assumptions to carve out workings, based on those management assumptions set out in Appendix B;
- c) reconciliations between the pre-transfer return and the post-transfer return; and
- d) checks on the classification of items.

We have performed the following tests of key procedures specific to the production of the Returns:

- understood the process by which management have produced the Returns, and identified any assumptions that management have used in their application of the Scheme arrangements;
- checked that the assumptions described by management, as set out in Appendix B, have been accurately applied in their preparation of the Proforma Returns;
- reviewed the submitted Returns for reasonableness and consistency by reference to:
 - a) the latest audited financial statements of the Transferor; and
 - b) the classification of items reported by reference to the Guidance Notes adopted by the Jersey Financial Services Commission;
- reviewed the Proforma Returns for reasonableness and consistency by reference to:
 - a) the submitted Returns as at 31 December 2021; and
 - b) the classification of items reported by reference to the Guidance Notes adopted by the Jersey Financial Services Commission;
- agreed the Returns to the underlying accounting reports and other records including manually prepared information and excel spreadsheets based on system generated data, on a sample basis;
- checked that off-balance sheet instruments, commitments, and contingent liabilities, including large exposures, have been properly included in the Returns; and

- By discussion with management, established whether any new or unusual transactions are included in the Proforma Returns and considered whether the treatment adopted for any such transactions is appropriate.

Appendix B: Assumptions from management

To assess the financial impact of the Scheme, the Transferor has prepared workings and the Transferor, and the Transferee have prepared Proforma pre-transfer and post-transfer Prudential Returns, as adjusted for the assumptions listed below, had the proposed transfer taken place as at 31 December 2021.

1. The principles of the scheme are that it transfers all the assets and liabilities, other than those which are specifically excluded. Currently there are 4 categories of Excluded assets:
 - i. the assets and liabilities of the existing Guernsey branch to be transferred under the Guernsey transfer scheme;
 - ii. the shares in the subsidiaries (which will be transferred by distribution in specie to SG Kleinwort Hambros Bank (SGKH) on 14 October 2022);
 - iii. tax balances, which will remain in the old entity and will be settled with the Tax Authorities, and
 - iv. Bonds, excess capital and IRS's and FX swaps which will be transferred (outside of the Scheme) into the name of SGKH at the point of the Transfer Scheme being implemented (00.01 on 1/10/22). Other items which don't transfer under the Scheme e.g., intercompany balances will be cleared down and settled prior to the Transfer to leave just one balance between the old entity and SGKH.
2. The new Jersey branch balance sheet (template 2.1 BS Assets and 2.3 BS liabilities) has been calculated based on the consolidation balance sheet as reported in Figaro accounting system as at 31 December 2021 less amounts specifically excluded. See tab called 'Forecast data' for the detailed calculation.
3. The breakdown of client loans and client deposits in template 2.1 BS Assets and 2.3 BS liabilities is based on the actual transactional information held in the regulatory system Agile Reporter.
4. The new Jersey branch balance sheet includes a loan to SGKH of £467,428k, which represents the deposits which would have been up streamed to SGKH had the new Jersey branch been in place as at the end of Dec21. This has been calculated manually.
5. Template 2.4 Off balance sheet has been populated based on the new Jersey branch balances held in Olympic (Core Banking system) or in Sun JNL2 (Accounting general ledger).
6. Template 2.5 P&L has been populated based on the expected new Jersey branch P&L.

Appendix C: Management's financial summary

Background

The board of SG Kleinwort Hambros Bank Limited (SGKH) approved project Leo on 9 March 2021. The strategic transformation initiative approved by SGKH Board to simplify the legal structure proposes that SGKH aims to establish three new branches: the new Gibraltar branch, the new Guernsey branch, and the new Jersey branch (Transferee). The SGKH offshore banking business is restructured such that the business undertaken by the Gibraltar subsidiary, the Jersey subsidiary and the existing Guernsey branch is transferred to the New Branches respectively, with the intention to complete the legal transfer by the 1st October 2022. The transfers are conditional on the new branches being created and updated in the respective registers in each location. All subsidiaries of the Transferor, including those of the Trust business will be transferred to SGKH on 14th October by distribution in specie. Appendix 1 shows the current corporate structure pre-Leo and Appendix 2 shows the revised corporate structure post-Leo. In assessing the effect of the transfer on the customers and creditors of the transferor, we have considered a point in time effect of the changes to the capital and funding position of the transferor and transferee as at 31 December 2021.

Capital

Subsidiary (Transferor)

The transferor is required to hold capital, which not only meets minimum regulatory capital requirements but also a cushion of loss absorbing capacity (LAC) to absorb losses of any kind. The capital held by the transferor is today governed by the requirements of the JFSC Codes of Practice (CoP) for deposit taking business as follows:

[Deposit-taking Business Code of Practice — Jersey Financial Services Commission \(jerseyfsc.org\)](https://www.jerseyfsc.org/Deposit-taking-Business-Code-of-Practice)

As per section of 5 of the CoP the transferor must maintain, and be able to demonstrate the existence of, adequate financial resources. The transferor must maintain a level of capital commensurate with the nature and scale of its business and full risk profile. Notwithstanding this, the following conditions as per article 11 of the law apply to the transferor:

1. Common Equity Tier 1 ratio: 11% of risk weighted assets;
2. Tier 1 ratio: 11% of risk weighted assets;
3. Total capital ratio: 11% of risk weighted assets; and
4. The transferor deducts £25million from CET1 when calculating its CET1 ratio, its Tier 1 capital ratio and its Total capital ratio¹.

¹ The minimum capital requirement under section 5 of the JFSC Banking CoP is £5m, which is after deduction of the £25m from CET1 capital. Consequently, the Bank needs to hold £30m of capital as a minimum post transfer of the business to the new branches.

As at 31st December 2021, the regulatory capital (Adjusted Capital Base) and capital ratios of the transferor were as follows (all figures are in £):

	Dec-21
Adjusted Capital Base	180m
Surplus Capital (M) 11%	73.5m
Common Equity Tier1 (% of RWA)	18.50%
Common Equity Tier1 (% of RWA)	18.50%
Total Capital Ratio (% of RWA)	18.50%

The table above confirms that the transferor is well capitalised.

The assumption in the Legal steps plan is that no clients object to the Jersey transfer scheme. The expectation is that the only assets/liabilities remaining in the transferor on 1st October 2022 would relate to the subsidiaries identified in Appendix 2, which are not being transferred to SGKH as part of project Leo and are in the process of being liquidated.

This is necessary to allow the transferor to be de-licenced, which is likely to happen by the end of November 2022. Management do not expect that the retention of up to £30m in the transferor to be prohibitive.

Branch (Transferee)

The capital strength of a branch is determined on a firm wide basis. Although there is no regulatory requirement in Jersey to hold capital at the branch level the clients of the transferor are being transferred to a well capitalised bank.

At the 31 December 2021 SGKH's CET1 regulatory capital was £237.8m and its risk-weighted-assets were £1,016m, giving the bank a capital ratio of 23.4%. The bank holds surplus capital of £96.1m above the PRA requirement of £141.7m (13.94%).

As the transfer of business is within the KH Group headed by SGKH, Management expects that the capital of SGKH on 1 October 2022 will approximate to the capital of the KH Group as at the end of 2021. The firm wide data of KH Group as at 31 December 2021 is shown in the table below:

Item	Description	Amount 1
WB. 1	Net Operating Income	141,125
WB. 2	Operating expenses	(124,011)
WB. 3	Provisions charge	(8,349)
WB. 4	Profit before tax	8,762
WB. 5	Extraordinary costs	-
WB. 6	Tax	(1,061)
WB. 7	Total BS Assets	5,411,167
WB. 8	Customer Loans	2,347,560
WB. 9	Customer Deposits	4,708,546
WB. 10	Non-performing Loans	152,951
WB. 11	Credit Provisions	(20,210)
WB. 12	Risk weighted assets (RWAs)	1,951,543
WB. 13	Common Equity	461,392
WB. 14	Core T1	461,392
WB. 15	Tier 1	461,392
WB. 16	Tier 2	-
WB. 17	Capital	461,392
WB. 18	Capital / RWAs %	23.64%
WB. 19	Tier 1 / RWAs %	23.64%
WB. 20	Common Equity / RWAs %	23.64%

Prior to the transfer of the remaining capital in the transferor, Management expects that SGKH will hold regulatory capital and risk-weighted assets of approx. £30m below the levels shown in the table opposite. Consequently, on completion of the transfer schemes on 1 October 2022 (until the licence of the transferor is revoked and remaining capital returned) the transferee will hold regulatory capital of approx. £431m and its risk-weighted assets are expected to increase to approx. £1,920m. This would give the bank a capital ratio of 22.4% and the bank would hold surplus capital of approx. £166m above the PRA requirement of £264m (13.94%).

In conclusion, clients and creditors of the transferor will not be disadvantaged by the transfer of business from the transferor to the transferee because the latter is better capitalised and has a higher capital ratio.

Liquidity

Liquidity is essential to meet customer withdrawals and compensate for balance sheet fluctuations. Liquidity is a bank's ability to fund its assets and meet its financial obligations. In Jersey, Banks are required to hold high quality liquid assets ('HQLAs') to meet potential stressed liquidity requirements over the short term and this is measured by the Liquidity Coverage Ratio ('LCR').

Subsidiary (Transferor)

The transferor is required to meet minimum liquidity coverage ratio (LCR) requirements. The Jersey Financial Services Commission ('JFSC') sets the minimum LCR ratio for banks in Jersey, which has been set at 100%. Internally the transferor has agreed a soft limit of 130%, which provides a buffer of 30% above the minimum regulatory limit. On the 31 December 2021, the transferor's LCR ratio was 151.8% and the level of unencumbered HQLA holdings were £1,058,905k.

Funding represents a bank's liabilities, including deposits and other borrowings, which are used to finance customer loans, banking-related services and operations. If the transferor cannot generate or maintain an appropriate level of funding, it may not be able to finance its products and services. A key factor in considering the transferor's funding position is the stability of its funding, in terms of the maturity of these funds being matched to the bank's assets. This is measured by the Net Stable Funding Ratio ('NSFR'). Stable funding is a reliable source of funds over a one-year time horizon under conditions of extended stress and is especially important for private Banks such as the transferor. The JFSC has not established a minimum level for the NSFR or other longer-term metrics, however, the Bank for International Settlements has confirmed that the ratio should be equal to at least 100% on an ongoing basis. On the 31 December 2021, the transferor's NSFR ratio was 181%.

On the 1st October 2022, the liquidity requirements of the transferor are expected to be negligible. Any excess cash would be invested in HQLA & short-term bank placements to meet the LCR liquidity requirements of the transferor.

Branch (Transferee)

Section 5 of the Banking CoP does not apply to branches with the exception of section 5.3.4 which applies to an overseas incorporated branch (OIB) that operates through a managed Jersey Branch. This exception does not apply to the transferee. Consequently, the transferee is not required to meet minimum liquidity coverage ratio requirements. The JFSC has separately confirmed that there are no other minimum requirements for liquidity or liquidity monitoring in respect of branches. However, there are reporting requirements via the quarterly prudential returns as per 6.5.3 of the Deposit-taking Code. The JFSC collects liquidity data via template '11.1 Liquidity – Cashflows' to understand contractual flows of the Jersey branch and the top 10 largest bank and other deposits via template '11.2 Liquidity - Large Deposits'. Separately the JFSC collects data about the whole Bank via template 11.3 Whole-bank Liquidity Data.

As the transfer of business is within the KH Group headed by SGKH, Management expects that the liquidity of the SGKH post project Leo will approximate to the liquidity of the KH Group today. Post Project Leo the Bank is expected to have one liquidity pool in the UK and Jersey deposits will be up streamed over night to the UK parent using the same upstreaming model used today between the Guernsey branch and Jersey subsidiary.

The CI regulatory manager has populated template '11.3 Whole-bank Liquidity Data' within the JFSC branch return based on KH Group data as at 31 December 2021. The liquidity coverage ratio of the KH Group is 297.96% which is significantly above the LCR ratio of the transferor. The KH Group and transferor NSFR ratio are matching at approx. 180%. Consequently, management have concluded that the Jersey transfer scheme will not result in an adverse effect on the customers or creditors of Transferor.

Version 1			
Item	Description	Approach used	Amount 1
LCR.1	LCR	LCR: N	
LCR.2	Level 1 Assets		2,286,475
LCR.3	Level 2A Assets		8,324
LCR.4	Level 2B Assets		24,559
LCR.5	Total HQLA		2,319,358
LCR.6	Outflows		1,079,986
LCR.7	Inflows		301,570
LCR.8	Net Outflows		778,416
LCR.9	LCR Ratio		297.96%
LCR.10	LCR minimum		100.00%
NSFR.1	NSFR	NSFR: N	
NSFR.2	ASF		3,792,308
NSFR.3	RSF		2,108,413
NSFR.4	NSFR Ratio		179.87%
NSFR.5	NSFR Minimum		100.00%

DCS arrangements

The Banking Business (Depositors Compensation) (Jersey) Regulations 2009 (the DCS Regulations), established the Jersey Bank Depositors Compensation Scheme (the DCS). In the unlikely event of a Jersey bank failure, the DCS will pay compensation to eligible depositors. The Jersey Bank Depositors Compensation Scheme (DCS) was approved by the States Assembly on Friday 6 November 2009. The DCS Regulations are contained in the 'Banking Business (Depositors Compensation) (Jersey) Regulations 2009', which can be accessed here:

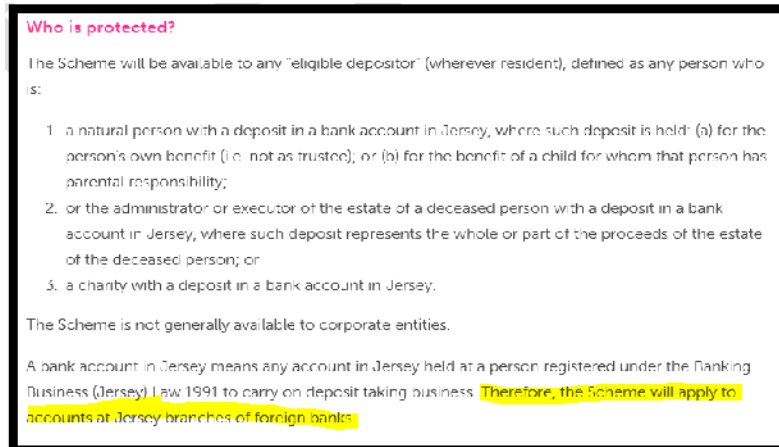
https://www.jerseylaw.je/laws/revised/Pages/13.075.30.aspx#_Toc529369366.

The Jersey Bank Depositors Compensation Board administers the Jersey Bank Depositors Compensation Scheme (DCS) in accordance with the DCS regulations. The link to the DCS Board's website can be accessed here: <http://www.jerseydcs.je/aboutthescheme.html>. The DCS Board confirms details about:

- What are the key features of the DCS?
- How will the DCS be funded?
- Who runs the DCS?
- What is the maximum amount protected by the DCS?
- Which deposits / depositors are protected?
- How will joint accounts be treated?
- Will deposits with Community Savings & Credit Limited be protected?
- If I had more than £50,000 in an account, does that mean I would lose money?
- Why is there a limit on the amount of compensation that can be claimed?
- What would happen if I owed money to a bank that failed?
- How would I claim compensation?
- How long would it take to process my claim?

The following website link: <https://www.gov.je/Industry/Finance/DepositProtection/Pages/Banks.aspx> confirms that the Transferor is covered by the Jersey Depositors Compensation Scheme. The Bank's Compliance department has confirmed that the CI branches are going to remain in scope of the local DCS schemes. This is also independently confirmed by Collas Crill on the following link

<https://www.collascrill.com/knowledge-documents/guides/the-jersey-depositors-compensation-scheme/>, where they confirm.



In conclusion a Jersey client of the Transferor and the Transferee will be covered by the Jersey Compensation scheme in the same way, consequently a client of the Transferor will not be disadvantaged by the proposed transfer to the Transferee.

Creditor Hierarchy

A defined hierarchy of creditors exists when a company enters insolvency. Outlined below are the current insolvency rules under Jersey Law, which are applicable to the transferor in the event of its insolvency. The UK insolvency rules are outlined thereafter, which are applicable to the transferee.

In assessing the position on the Creditors Hierarchy, SGKH management obtained advice letters from A&O on the UK set up and from Mourant on the CI set up and set out below are the considerations which SGKH management took into account in undertaking this assessment:

- The Jersey and UK insolvency rules are not directly comparable, so no direct assessment of relative protections afforded to unsecured creditors, secured creditors or preferred creditors under one regime as compared to the other is possible and has not been attempted; however, the UK insolvency regime is well-respected, sophisticated and has been applied extensively in practice; it is also expected that the position of unsecured creditors would be similar under each regime;
- The bank resolution regime in Jersey, which came into force in January 2022, is not identical to, but is based on that which applies in the UK, so one would expect the resolution authority in each jurisdiction to have similar tools available to rescue the bank and protect unsecured creditors in a similar manner; however, it is also noted that the UK bank resolution regime has been in operation for a number of years, whereas the Jersey regime and Jersey resolution authority is new and untested;

- To the extent applicable, the UK compensation scheme provides protection to a wider class of 'eligible depositors' and provides compensation for a significantly larger and uncapped sum; but the Jersey compensation scheme will still be available to customers of the Transferee in any event.

Having reviewed both sets of advice provided by external counsel, having discussed this internally and taking into account the parameters outlined above, SGKH management have concluded that there was nothing which caused them to believe that the proposed transfer would have a “material adverse effect” on customers or creditors arising from the differing creditor hierarchies.

Jersey Insolvency and Resolution Considerations

The creditor hierarchy currently applicable to the Transferor would be determined by reference to the Bank (Recovery and Resolution) (Jersey) Law 2017 (the **BRRJL**), following its commencement in January 2022, with some depositors being protected under the Depositor Compensation Scheme up to the applicable limits.

Subject as noted below, the Transferee would also be potentially subject to insolvency proceedings under BRRJL and the same depositors would be protected under the Depositor Compensation Scheme up to the same applicable limits.

- (a) Should the Royal Court of Jersey grant an application for a bank winding up order in respect of the Transferor or Transferee, they would be subject to the provisions of the BRRJL. This sets out that the following ranking will apply in the event of a bank winding up order being granted:
 - (i) Hypothecary creditors in the order of the date of creation of their judicial or conventional hypothecs (subject to payment of costs of a liquidator);
 - (ii) Proceeds of sale of property subject to a security interest under the Security Interests (Jersey) Law 1983 or the Security Interests (Jersey) Law 2012 will be applied in the manner provided by those laws;
 - (iii) Unsecured debts shall be in the following order:
 - (1) Costs, charges and expenses incurred in the winding up, including remuneration of the liquidator;
 - (2) Costs charges and expenses of the Jersey Resolution Authority, JFSC, Minister or Viscount;
 - (3) The total amount owing to the Jersey Bank Depositors Compensation Board or bank depositors compensation scheme, not exceeding £50,000 per depositor;
 - (4) Ranking equally between themselves, (i) sums owing to an employee; (ii) sums owing to a commercial or trade creditor from the provision of goods or services; and (iii) sums owing by the bank to tax and social security services in Jersey or parochial rates to any parish in Jersey for a period not exceeding 2 years;

- (5) That part of a covered deposit that is not vested in the Jersey Bank Depositors Compensation Board or is not vested in a depositors compensation scheme outside Jersey or is re-vested back to the depositor by the Jersey Depositors Compensation Board or a depositors compensation scheme outside Jersey;
 - (6) That part of an eligible deposit that exceeds the total amount given priority under (3) or (5) above, or a deposit held in a bank account in a branch of a bank incorporated in Jersey that would otherwise be an eligible deposit were it held in a bank account in Jersey that exceeds to total amount given priority under (3) or (5) above;
 - (7) Any other debt excluded from being written down or converted under article 65(7) or (8) of the BRRJL; and
 - (8) All other unsecured debts proved in a bank winding up which shall rank equally between themselves.
- (b) Investment business customers of the Transferor are protected by the use of an external custodian to hold their assets, except for the cash elements of their portfolio which are held by the Transferor as banker.
- (c) The BRRJL permits use of a 'bail-in tool', which may result in liabilities to customers and creditors being reduced or written off in an insolvency scenario. However certain liabilities, including amongst others, covered deposits (those deposits covered by the Banking Business (Depositors Compensation) (Jersey) Regulations 2009 or similar legislation under the laws of the bank's home jurisdiction), certain secured liabilities, and liabilities arising by virtue of holding client assets or fiduciary relationships, are protected from the application of bail-in.
- (d) The BRRJL also gives the Jersey Resolution Authority the power to write down or convert relevant capital instruments or other liabilities of a bank in resolution into shares of the bank, including the power to reduce eligible liabilities, cancel debt instruments except secured liabilities, to reduce the nominal amount of shares or to require new shares to be issued.
- (e) However, the applicability of the BRRJL is potentially more limited in relation to the Transferee. The BRRJL notes that where a bank is a branch of a foreign bank, the provisions of the law of the bank's home jurisdiction with respect to the ranking provided for the claims of ordinary unsecured creditors may, where notice is given by the Jersey Resolution Authority of its consent, apply to the resolution of that bank. As such, UK creditor hierarchy rules may apply instead of those set out at 2(c). The BRRJL also contains provisions for the recognition (or refusal) of foreign resolution actions.

Jersey Depositor Compensation Scheme

- (a) As noted above, some depositors of the Transferor and Transferee will also be protected under the Depositor Compensation Scheme. This is set out in the Banking Business (Depositors Compensation) (Jersey) Regulations 2009, which provides for eligible deposits to be protected up to the value of £50,000. 'Eligible deposits' are deposits held by the bank in an account in Jersey in respect of an 'eligible depositor', which includes depositors with a deposit in a bank account in Jersey if the depositor:

- (i) is a natural person and the deposit is for the person's own benefit other than as a partner in a partnership;
 - (ii) is a natural person and the deposit is for the benefit of a child of the person or a child for whom the person has parental responsibility;
 - (iii) is the administrator or executor of the estate of a deceased person and the deposit represents the whole or part of the proceeds of the estate of the person; or
 - (iv) is a charity.
- (b) A 'bank' for these purposes is defined as a person registered under the Banking Business (Jersey) Law, which includes the Transferor, and it is intended that by the time of the Scheme, will also include the Transferee, and as such, the same depositors would be protected to the same applicable limits. The maximum amount of compensation is up to £50,000 per eligible depositor, per Jersey banking group. Deposits in joint accounts are eligible deposits to the same extent that each eligible depositor held an interest in the account.
- (c) The maximum amount of compensation under the Depositor Compensation Scheme may be reduced by an amount equal to any payments the depositor has received in respect of the eligible deposit, which would include any payments received from a bank depositor compensation scheme operating in another jurisdiction.

Applicable English insolvency procedures

1. SGKH has permissions to accept deposits but also to hold client assets and money so that it would be treated as a "hybrid" deposit-taking bank and investment bank for the purposes of the special insolvency proceedings referred to below. This means that the following UK resolution and insolvency proceedings would be available in respect of SGKH:
 - a. the stabilisation options under the BA09 being a transfer to a private purchaser; the transfer to a bridge bank, the transfer to an asset management vehicle; bail-in; and transfer to temporary public ownership (plus mandatory write-down of capital, where applicable) under the BA09;
 - b. bank administration under the BA09 (which is a modified version of administration under the IA68, to be used in respect of the residual bank where there has been a partial transfer);
 - c. bank insolvency under the BA09 (which is a modified version of liquidation under the IA86, intended to be used where there are eligible depositors);
 - d. special administration (bank administration) under the IBSAR (which is used in conjunction with the process described in b. above where there are also client assets or client money);
 - e. special administration (bank insolvency) under the IBSAR (which is used in conjunction with the process described in c. above where there are also client assets or client money);

- f. in theory, liquidation or administration under the IA86 although in practice the proceedings described in b. to e. above are more likely;
 - g. a scheme of arrangement or restructuring plan under the CA06.
2. The creditor hierarchy referred to below would apply in a liquidation, a bank insolvency or a special administration (bank insolvency) where the liquidator is making distributions to creditors. It would also apply in an administration, a bank administration or a special administration (bank administration) if the administrator were to obtain the permission of the court to make distributions to creditors. It is also an important backdrop to a scheme of arrangement or a restructuring plan; although the UK Bank is not obliged in such procedures to make distributions in the order of priority set out below, in assessing whether the scheme or plan is fair (or whether the classes have been properly constituted), the court will often compare recoveries through the scheme or plan with those which the creditors would have recovered through a liquidation and so it is unusual for the order of priority in a scheme or plan to vary significantly from the list set out below.
 3. Furthermore, although there is scope in the context of a bank resolution for the UK Authorities to depart from the order of priority set out below, the creditors will be protected by the so-called “no creditor worse off” principle whereby compensation may be available if the creditors recover less than they would have done in an insolvency process and so the creditor hierarchy set out below is an important backdrop to such a resolution as well.

Creditor hierarchy overview

4. Set out below is an overview of the creditor hierarchy that would apply in the English insolvency proceedings described above in relation to the UK Bank. Within each row in the table, creditors will rank equally among themselves.

	Creditor class	Notes
1.	Fixed charge holders	This may include (depending on control): <ul style="list-style-type: none"> • capital market transactions (e.g., covered bonds); • trading book creditors (e.g., collateralised positions). These creditors are excluded from bail-in, up to the value of the security.
2.	Costs of insolvency process (e.g. remuneration and expenses of liquidator or administrator and certain post-liquidation or administration tax liabilities)	See section 176ZA of IA86. This is clearly not relevant in a resolution.
3.	Preferential creditors (ordinary): <ul style="list-style-type: none"> • sums owed to occupational pension schemes (being unpaid employer contributions and not the deficit on any defined benefit pension scheme); 	<ul style="list-style-type: none"> • These are all categories of “ordinary preferential debt”, per the 1st Priorities Order. • The priority for eligible depositors includes individuals, micro, small, medium and large

	<ul style="list-style-type: none"> • certain employee claims; • certain “collected” taxes such as PAYE and VAT; • eligible depositors up to the Financial Services Compensation Scheme (FSCS) protected limit of £85,000 per depositor • sums owed to the scheme manager of the FSCS under Section 215(2A) of FSMA 2000 	<p>sized enterprises up to the FSCS protected limit; such debts are excluded from bail-in.</p> <ul style="list-style-type: none"> • Eligible depositors are defined in PRA rules by exclusion of various types of depositor, such as financial institutions, funds and certain public authorities. Critically, a large corporate (which is not excluded by virtue of being, for example, a financial institution) is an eligible depositor. • The final bullet point in practice relates to the FSCS taking the place of all eligible depositors in the event they have been paid by the FSCS.
4.	<p>Preferential creditors (secondary):</p> <ul style="list-style-type: none"> • eligible depositors who are individuals, micro, small and medium sized enterprises for amounts in excess of the FSCS protected limit £85,000 	<ul style="list-style-type: none"> • This is a category of “secondary preferential debt” per the 1st Priorities Order. • This applies to all eligible protected depositors excluding large sized enterprises.
5.	<p>Prescribed part for unsecured senior creditors</p>	<ul style="list-style-type: none"> • See section 176A of IA86 and Article 3(2) of the Prescribed Part Order. • An amount up to £800,000 out of the floating charge realisations which is distributed to unsecured senior creditors. • Only of relevance if the UK Bank has granted floating charges.
6.	<p>Floating charge holders</p>	<p>This will only be of relevance to the UK Bank if it has granted any floating charges (or if any fixed charges are recharacterised as floating charges.</p>
7.	<p>Unsecured senior creditors in respect of provable debts</p>	<ul style="list-style-type: none"> • This is a category of “ordinary non-preferential debt” per the 2nd Priorities Order. • This includes all deposits of depositors who are not eligible depositors and deposits of large sized enterprises for amounts in excess of the FSCS protected limit. • Senior preferred notes, which are not actually preferential debts for insolvency purposes, will most likely fall into this category. • It will also include ordinary trading debts such as derivative positions, loans etc.
8.	<p>Interest incurred post-commencement of insolvency proceedings</p>	<ul style="list-style-type: none"> • This is a category of “ordinary non-preferential debt” per the 2nd Priorities Order. • See section 189 of IA86. This is clearly not relevant in a resolution.

9.	Non-provable debts	<ul style="list-style-type: none"> • See Rule 14.2 of the Rules. • This applies to a limited category of debts that are not provable in a liquidation or administration but which are not payable as an expense of those proceedings. • The case law has made clear that the categories of non-provable debts are limited and there are unlikely to be significant sums that fall into this category. • For example, obligations under court orders made under the Proceeds of Crime Act 2002 are non-provable.
10.	Senior non-preferred	<ul style="list-style-type: none"> • This is the category of “secondary non preferential debts” added by the 2nd Priorities Order. • Includes non- preferential debts issued under an instrument where: <ul style="list-style-type: none"> o the original contractual maturity of the instrument is of at least one year, o the instrument is not a derivative and contains no embedded derivative, and o the instruments etc explains the priority of the debts under IA86. • Designed to allow for MREL debt instruments (which are not capital).
11.	Tier 2 capital	<ul style="list-style-type: none"> • This is a category of “tertiary non-preferential debts” per the 2nd Priorities Order. • Capable of pre-resolution write down and conversion, and can be bailed-in.
12.	<u>Other</u> Tier 1 capital	<ul style="list-style-type: none"> • Includes Additional Tier 1 instruments (AT1) which are unsecured perpetual debt instruments that can be converted into equity. • This is a category of “tertiary non-preferential debts” per the 2nd Priorities Order. • Capable of pre-resolution write down and conversion.
13.	Common Equity Tier 1 capital	<ul style="list-style-type: none"> • This is a category of “tertiary non-preferential debts” per the 2nd Priorities Order • Capable of pre-resolution write down and conversion

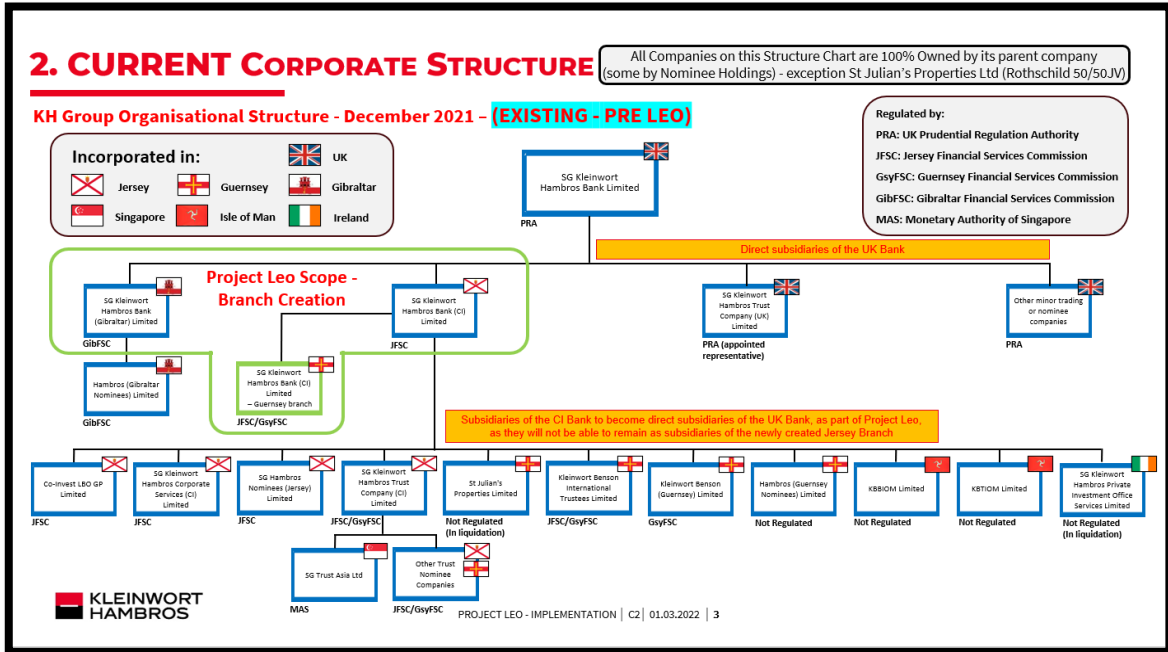
Schedule

Sources of applicable English law

Sources of English law

1. Insolvency Act 1986 (**IA86**), as amended by:
 - a) the Financial Services (Banking Reform) Act 2013 (the **FSBRA**), section 13 – relevant amendments came in to force on 31 December 2014:
 - b) the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the **1st Priorities Order**) – relevant amendments came in to force on 1 January 2015:
 - c) the Deposit Guarantee Scheme Regulations 2015 (the **DGSR**) – relevant amendments to the IA86 in force from 26 March 2015: and
 - d) the Banks and Building Societies (Priorities on Insolvency) Order 2018 (the **2nd Priorities Order**) - relevant amendments to the IA86 in force from 19 December 2019.
2. Insolvency Act 1986 (Prescribed Part) Order 2003 (the **Prescribed Part Order**).
3. Insolvency (England and Wales) Rules 2016 (the **Rules**).
4. The Investment Bank Special Administration Regulations 2011 (**IBSAR**).
5. Banking Act 2009, as amended (**BA09**).
6. Companies Act 2006 (**CA06**)
7. Financial Services and Markets Act 2000 (**FMSA**).

Appendix 1



Appendix 2

