Bank of England

Prudential Regulation Authority

FINAL NOTICE

To: **Iain Mark Hunter (IRN IXH01093)** ("**Mr Hunter**")

Date: **10 January 2024**

1. Action

1.1 For the reasons set out in this Notice, the PRA imposes, pursuant to section 66 of the Financial Services and Markets Act 2000 (the "**Act**" or "**FSMA**"), a financial penalty on Mr Hunter of £118,808. In addition, as a result of Mr Hunter's breaches described in this Notice (which he has acknowledged), and as part of the settlement the PRA reached with Mr Hunter, Mr Hunter has undertaken to the PRA that he will not apply for or perform any function in relation to any regulated activity carried on by any authorised person, exempt person or exempt professional firm.

1.2 The PRA has taken the actions set out in paragraph 1.1 because, for the reasons set out below, it considers that, in carrying out his roles at Wyelands Bank Plc (the "**Firm**" or "**Wyelands**") between 7 March 2016 and 28 May 2020 (the "**Relevant Period**"), Mr Hunter breached:

a. Individual Conduct Rule 2: You must act with due skill, care and diligence;
b. Senior Manager Conduct Rule 1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively; and

c. Senior Manager Conduct Rule 2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.

These rules and requirements are set out fully at **Appendix 2**.

2. Summary of reasons for the PRA's action

Background

2.1 The PRA has taken this action as a result of Mr Hunter's conduct whilst:

a. the SMF1 Chief Executive Officer ("**CEO**") of the Firm (a role he held throughout the Relevant Period),
b. the SMF4 Chief Risk Officer ("**CRO**") (responsibilities for which he held for part of the Relevant Period), and
c. he assumed the reporting responsibilities of the SMF2 Chief Financial Officer ("**CFO**") of the Firm to the PRA for part of the Relevant Period.

2.2 During the Relevant Period, the Firm was a Category 4 UK deposit-taker authorised and regulated by the PRA and regulated by the FCA. In December 2016 a new shareholder (the "**Shareholder**"), the owner (together with a family member) of the Gupta Family Group alliance of global businesses ("**GFG**" or the "**GFG Alliance**"), purchased Tungsten Bank (at that stage operating in a limited capacity) and renamed it Wyelands Bank. The Firm's regulatory business plan presented to the PRA in 2016 as part of the change in control approval process (its "**Regulatory Business Plan**") said that it would offer short-term trade, receivable and supply chain financing options to small and medium-sized businesses with a focus on UK and global trade.

2.3 Under its Regulatory Business Plan, Wyelands' business would initially originate from entities introduced by GFG (but would not include financing for GFG entities themselves), with a view to developing an independent origination function to expand into third party business. However, in practice, Wyelands' business was heavily reliant on GFG and entities originally introduced by GFG throughout the Relevant Period. As envisaged in its Regulatory Business Plan, Wyelands was also reliant on

its Shareholder or members of the GFG Alliance for the supply of capital, and capital injections were often provided in response to specific transactions introduced by GFG.

Structured Transactions

2.4 The large exposures ("**Large Exposures**" or "**LE**") regime under the Capital Requirements Regulation (No 575/2013) ("**CRR**") seeks to avoid risks to a firm's financial stability by preventing concentration of a firm's exposures to an individual party or group of connected parties. As part of the regime, firms are required to monitor and control their Large Exposures and report such exposures to the PRA. The regime also requires firms to avoid having a total exposure to a group, third party or connected parties equal to or greater than 25% of their capital.

2.5 Between May 2017 and December 2018, the Firm entered into four sets of structured finance transactions, aspects of which were complex and more details of which are set out in Annex A (each a "**Structured Transaction**", and together, the "**Structured Transactions**"). The value of each set of Structured Transactions represented a material portion of the Firm's loan book and a significant proportion of the Firm's capital, and also material exposures to counterparties who were connected to GFG (but which the Firm did not identify as such). The Structured Transactions were entered into at an early stage in the Firm's development and were unusual, in terms of their nature and scale, for a bank of the Firm's size and experience. The Firm did not have appropriate resources or sufficient experience and expertise to ensure the proper identification and management of transaction counterparty risks (including connected parties and related parties risks) in relation to them. As a result of deficiencies in its policies and procedures in relation to the identification of connected parties, the Firm did not identify that the Structured Transactions were significantly in excess of the Firm's regulatory LE limits, which resulted in an unacceptable concentration of risk to GFG or counterparties connected to GFG. Mr Hunter held the SMF4 CRO role when the Firm entered into the first two sets of the Structured Transactions, and had SMF1 CEO oversight responsibility in respect of the Firm when it entered into and then managed all four sets of the Structured Transactions.

Relationship with the GFG Alliance

2.6 Wyelands introduced a policy on 25 April 2017 to manage potential risks of conflicts of interest between the Firm and the wider GFG business (the "**Engagement Policy**"). The Engagement Policy was the only policy adopted by the Board which specifically addressed interactions between the Firm and GFG members and executives until November 2019, when the Firm entered into a shareholder relationship agreement with the Shareholder. The Engagement Policy required requests by GFG for the Firm to enter into new business to go to the Board, along with an outline of the rationale for the proposed transaction, so that the Firm could assess its merits. It also required the Firm to satisfy itself that it had the necessary skills, expertise and time to undertake the relevant transaction. However, Mr Hunter failed to comply with the Engagement Policy during the Relevant Period, in that he did not forward most GFG requests to the Board.

Solvent wind down; PRA investigation into the Firm

2.7 In April 2019, the PRA informed Mr Hunter (as the SMF1 holder) that it had added Wyelands to the PRA's 'Watchlist' (the "**Watchlist**"), as the PRA had concluded there were several issues of potentially material concern at Wyelands which could present a risk to the PRA's objectives and required prompt remedial action; and that this would come with greater oversight and senior management attention. In early June 2019, the PRA informed the Firm that it would remain on the Watchlist until the PRA had received sufficient evidence of significant progress made against all of the key risks the PRA had identified (which included a sufficiently robust risk management and control function).

2.8 On 13 December 2019 the PRA appointed investigators under section 167(1)(a) of FSMA to conduct a general investigation into the Firm (the "**s. 167 investigation**"). On 24 June 2020 the PRA appointed investigators under section 168(5) of FSMA to conduct an investigation into suspected breaches of certain regulatory requirements by the Firm (together with the s. 167 investigation, the "**Firm Investigations**").

2.9 In March 2020 the Board resolved that the Firm should commence a solvent wind down of its business with a view to repaying all amounts owing to its depositors, which repayment the Firm has successfully completed. A number of the Firm's

counterparties which had originally been introduced by GFG failed to make payment to the Firm of the amounts owing by them within the projected timescales. This led the Shareholder to provide subordinated funding to the Firm to maintain the viability of the wind down process. On 17 March 2021, Wyelands closed its deposit accounts and repaid nearly all of its depositors. The Firm subsequently established an independent trust for the benefit of the few remaining depositors not connected to GFG which it had not repaid (because either (i) it was unable to trace them or (ii) their accounts were subject to probate). As at 31 December 2022, the Firm's gross loan book was £190.9m, which the Firm had fully provided for. The Firm received no cash from asset collections in its financial year ended 30 April 2022, or thereafter prior to signing of the annual accounts for that financial year on 31 January 2023. The Firm is now in an 'inactive bank' phase and is not generating any new business.

2.10 At the conclusion of the Firm Investigations on 4 April 2023 the PRA censured the Firm for a number of regulatory failings, including that the Firm:

a. breached the 25% Large Exposures limit in relation to at least three of the four sets of Structured Transactions it entered into, inaccurately reported to the PRA its Large Exposures in relation to those three sets of Structured Transactions, and did not have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying, managing, monitoring, reporting and recording all its Large Exposures;
b. did not demonstrate sound judgement and exercise sufficient caution or take due account of all risks and possible consequences before entering into the Structured Transactions, and did not ensure that it had appropriate resources to identify, monitor, measure and take action to remove or appropriately reduce risks in relation to the Structured Transactions and to value its assets and liabilities;
c. did not put in place adequate risk management strategies and systems to identify, assess and manage the risks presented by its business model, in particular connected parties and related parties risks in relation to Large Exposures;
d. did not take sufficient care to ensure that the Engagement Policy, which had been introduced to mitigate the risks of conflicts of interest arising from the Firm's membership of GFG and GFG's business interests, was complied with; and
e. as a result of failing to ensure that its systems and controls supporting its capital were designed, implemented and operating effectively, failed to identify that two amounts it had received as capital had been indirectly funded by the Firm and

consequently did not qualify as Common Equity Tier 1 capital.

Record Keeping failures

2.11 During the Relevant Period the Firm did not adopt or implement any policies and procedures in relation to the retention of business related correspondence and records. It consequently had no formal record keeping policies or procedures in place to manage or retain electronic messages such as WhatsApp messages or iMessages.

3. Breaches and failings

3.1 For the reasons detailed below and in Annex B to this Notice, the PRA considers that Mr Hunter breached:

a. Individual Conduct Rule 2; and
b. Senior Manager Conduct Rules 1 and 2.

Individual Conduct Rule 2

3.2 During the Relevant Period, Mr Hunter breached PRA Individual Conduct Rule 2 because he failed to act with due skill, care and diligence in performing his roles at the Firm in a significant number of material respects:

a. he failed to ensure that all requests to the Firm received from GFG after the Engagement Policy was adopted by the Board on 25 April 2017 were referred to the Board for its consideration in accordance with the Engagement Policy;
b. he failed to ensure that the acquisition of three subsidiaries of the Firm in September 2018, and their subsequent disposal in July 2019, were considered and approved by the Board in accordance with the Board's terms of reference; and
c. he failed to take appropriate steps to verify the accuracy of statements he made to the PRA in:
    i. his letter to the PRA of 27 April 2018 concerning the proportion of the Firm's business which had comprised "external lending", or business not introduced by GFG, during the first year of the Firm's operations; and

ii. his letter to the PRA of 7 January 2019 (1) concerning the extent of the Firm's systems and controls for identifying connected parties for the purpose of complying with the LE regime and (2) as to the capacity in which an external regulatory compliance adviser with whom he was in contact was acting.

Senior Manager Conduct Rule 1

3.3 During the Relevant Period, Mr Hunter breached PRA Senior Manager Conduct Rule 1 because he failed to take reasonable steps to ensure that the management and conduct of the Firm's business was controlled effectively, by failing to ensure that responsibility for conducting analysis of the Firm's connected parties was clearly apportioned in the period prior to March 2019. During that period the Firm entered into all the Structured Transactions.

Senior Manager Conduct Rule 2

3.4 During the Relevant Period, Mr Hunter breached PRA Senior Manager Conduct Rule 2 because because he failed to take reasonable steps to ensure that the Firm (a) had adequate systems and controls (including an appropriate connected parties policy) to identify, assess and manage connected parties risks in relation to Large Exposures and related parties risks, (b) submitted Large Exposures returns to the PRA which aggregated its exposures in respect of the GFG A Co receivables transactions, the Generator Loans and the Commodities Loans with its GFG exposures, and (c) had a formal and appropriate document retention policy in accordance with the Record Keeping obligations set out in the PRA Rulebook. As a result, the Firm breached a number of relevant requirements and standards of the regulatory system (in particular, under the Large Exposures regime and under the Record Keeping and Related Party Transaction Risk parts of the PRA Rulebook).

3.5 The PRA rule breaches are set out in more detail in Annex B of this Notice.

4. Reasons why the PRA has taken action

4.1 The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's role is to promote the safety and soundness of those firms. This requires the

responsible senior management of each firm to take reasonable steps to ensure that its control framework is commensurate with the nature, scale and complexity of its business and strategy. If a smaller deposit-taker seeks to enter into complex transactions, then the strength of its financial and operational controls and risk management environment will need to be increased commensurately, to account for the greater sophistication and checks and balances required to analyse and manage those transactions and the firm's overall risk profile. Competent, experienced and appropriately independent control functions should oversee these frameworks. The PRA expects a firm's responsible senior management to take reasonable steps to ensure that the firm has adequate skills and expertise, commensurate with the complexity of the transactions it is entering into, to apply sufficient scrutiny and to ensure that these risks are appropriately managed.

4.2 The PRA is particularly concerned that, where a firm's business plan is highly dependent on introduced transactions, the firm's responsible senior management take reasonable steps to identify, evaluate and manage potential or actual conflicts of interest which might threaten the safety and soundness of the firm and Large Exposures to individual counterparties or groups of connected counterparties. This includes responsible senior management taking reasonable steps to ensure the nature of these risks are widely and fully understood by the firm's risk, governance and oversight functions and other relevant areas of the business and are reflected in the firm's compliance policies. It is particularly important that responsible senior management of a firm which is part of a wider group, and which has a significant proportion of its business introduced by that wider group, take reasonable steps to ensure that the firm has adequate connected parties controls, policies and procedures in respect of transactions, so that it is able to identify, evaluate and manage potential or actual connected party and related party risks in relation to those transactions.

4.3 The weaknesses in Wyelands' controls resulted in it incurring a number of material exposures to GFG entities or counterparties that were connected to GFG. These exposures were significantly in excess of the Firm's regulatory limits on Large Exposures, constituted a material portion of the Firm's loan book and resulted in an unacceptable concentration of risk to those counterparties.

4.4 Mr Hunter was the SMF1 CEO of the Firm throughout the Relevant Period. In addition, he was the SMF4 CRO and the holder of SMF4 CRO and SMF2 CFO responsibilities for certain periods of time during the Relevant Period. In each of these roles, the PRA expected Mr Hunter to act reasonably, and to take reasonable steps, in managing and overseeing the conduct of the Firm's business, and in particular to ensure the effective operation of the Firm's risk management framework and risk controls such that the Firm complied with relevant regulatory requirements.

4.5 Mr Hunter's conduct fell below that which would be reasonable in the circumstances for a person in his positions in an authorised firm. His breaches and failings were wide ranging, began soon after the Firm was acquired in December 2016 and continued for the remainder of the Relevant Period, including after the PRA had written to him in July 2018 identifying weaknesses in the Firm's risk management framework. The PRA would have expected Mr Hunter to have taken particular care after the date of that letter in assessing the ability of the Firm to competently undertake and manage the Structured Transactions.

4.6 The PRA places great reliance on regulated individuals complying with the Individual Conduct Rules and Senior Manager Conduct Rules. If senior individuals fail to so comply, it undermines the trust in financial institutions and the financial system itself. Mr Hunter's breaches and failings set out in this Notice created prudential risks for the Firm, threatened its safety and soundness and contributed to the Firm's breaches of a number of PRA rules and regulations. The CEO has a crucial role to play in ensuring their firm meets the standards expected of it and requires the relevant individual to exercise sound judgement. The standard required of Mr Hunter as SMF1 CEO was consequently more exacting than for the Firm's other SMFs and employees.

4.7 The PRA relies on firms and their senior representatives providing it with accurate, complete and timely information. Mr Hunter made statements to the PRA about the Firm without a sufficient basis to make them and without having taken adequate care to establish that they were accurate.

4.8 Inadequate record keeping hinders a firm‘s ability to prudently manage risk, and also hinders the PRA's ability to investigate that firm.

4.9 In making the above findings against Mr Hunter, the PRA accepts:

a. When Mr Hunter joined the Firm in late 2015, it was acting in a limited capacity and he took steps to develop and embed the Firm's risk management framework with the assistance of external professional advisers.
b. Following the PRA raising queries regarding the Firm's approach to connected party analysis and compliance with the LE regime in December 2018, he took steps to oversee the remediation of the Firm's systems and controls. This included ensuring that the Firm took specialist external legal advice, putting in place a formal connected parties policy and training staff on the relevant requirements.
c. Following the Board resolution in March 2020 that the Firm should commence a solvent wind down of its business with a view to repaying all amounts owing to its depositors, Mr Hunter was actively engaged in the process. In particular, he was involved in the discussions with the Shareholder to provide subordinated funding to the Firm to maintain the viability of the wind down process so that depositors could be repaid in full.

Notwithstanding these matters, the PRA considers that Mr Hunter's conduct was not sufficient to discharge his regulatory obligations.

5. Sanctions

5.1 The imposition of a financial penalty on Mr Hunter supports the PRA's general objective of promoting the safety and soundness of the firms which it regulates. The action which the PRA has taken emphasises the importance of ensuring that senior individuals in a firm take reasonable steps to ensure that their firm complies with the relevant regulatory requirements and standards, in compliance with the Individual Conduct Rules and Senior Manager Conduct Rules.

5.2 Taking into account the facts and matters in Annex A and the relevant factors set out in the PRA Penalty Policy, the PRA considers that Mr Hunter's breaches of PRA Individual Conduct Rule 2 and Senior Manager Conduct Rules 1 and 2 justify the imposition of a financial penalty of £118,808.

5.3 As part of the settlement the PRA reached with Mr Hunter, Mr Hunter has undertaken to the PRA that he will not apply for or perform any function in relation to any regulated activity carried on by any authorised person, exempt person or exempt professional firm. In accepting Mr Hunter's undertaking, the PRA has considered the following exceptional factors as particularly relevant: (i) Mr Hunter's residence outside the United Kingdom; and (ii) Mr Hunter's acceptance of the failings set out in this Notice and agreement to pay the financial penalty.

6. Annexes/appendices and procedural matters

6.1 The full particulars of the facts and matters relied on by the PRA in its decision-making process regarding Mr Hunter can be found in **Annex A**. Mr Hunter's breaches and failings are detailed in **Annex B** and the basis for the sanction the PRA is imposing is set out in **Annex C**. Relevant procedural matters are set out in **Annex D**. The definitions used in this Notice are set out in **Appendix 1** and the relevant statutory, regulatory and policy provisions are set out in **Appendix 2**.

Oliver Dearie
Head of Legal, Enforcement and Litigation Division
for and on behalf of the PRA

Annex A – Facts And Matters Relied Upon

1. BACKGROUND

Wyelands Bank

1.1 During the period from 7 March 2016 to 28 May 2020 (the "**Relevant Period**"), Wyelands was a Category 4 UK bank (meaning it has very little capacity individually to cause disruption to the UK financial system if it were to fail), engaged in the business of banking and related financial services.

1.2 The Firm's Regulatory Business Plan presented to the PRA in 2016 as part of the change in control approval process included that it would source and support low risk lending opportunities introduced by GFG in the early years, but that over time the proportion of GFG-introduced transactions would reduce as the percentage of new third party transactions expanded. The Regulatory Business Plan said that the Firm did not intend to provide financing for GFG itself.

Overview

1.3 During the Relevant Period, the Firm provided a range of products, including trade finance, receivables finance, asset finance and inventory finance, largely to companies originally introduced by GFG and also to members of the GFG Alliance themselves.

1.4 The Firm's transactions were assessed and analysed by the Firm's Origination, Credit and Risk teams. These teams were responsible for conducting due diligence on new financing opportunities and preparing credit proposals in respect of potential transactions involving the Firm. The Origination team was responsible for submitting credit proposals, but they were often prepared by members of the Credit or Risk teams, with input from the Origination team.

1.5 Between May 2017 and December 2018, the Firm entered into four sets of structured finance transactions, (each a "**Structured Transaction**", and together the "**Structured Transactions**"). Mr Hunter held the SMF4 Chief Risk Officer ("**CRO**") role, in addition

to his SMF1 Chief Executive Officer ("**CEO**") role, when the Firm entered into the first two sets of Structured Transactions, and had SMF1 CEO oversight responsibility in respect of the last two sets of Structured Transactions. Each set of Structured Transactions had aspects which were complex and a value representing a significant proportion of the Firm's capital, as follows:

a. From May 2017 onwards the Firm purchased receivables from a GFG entity ("**GFG A Co**"). The facility limit was increased a number of times and was frequently significantly in excess of the Firm's capital as reported to the PRA, but the Firm determined that its credit risk was upon the debtors of the receivables and 'looked through' GFG A Co to those debtors. Consequently it did not aggregate its exposures in respect of the facility with its GFG exposures for LE purposes.

b. From June 2017 onwards the Firm made, and subsequently increased, a set of separate loans to five companies in connection with their acquisition of generators from a GFG entity ("**GFG B Co**"). The aggregate amount of the loans significantly exceeded 25% of the Firm's capital as reported to the PRA. The Firm did not identify that the borrowers were connected to GFG and consequently did not aggregate its exposures in respect of the loans with its GFG exposures for LE purposes.

c. In September 2018 the Firm made a set of separate loans to 12 companies which owned or operated power plants, in connection with their acquisition from (indirectly) GFG B Co. The aggregate amount of the loans exceeded the Firm's capital as reported to the PRA. The Firm did not identify that the borrowers could be connected to GFG and did not aggregate its exposures in respect of the loans with its GFG exposures for LE purposes.

d. In December 2018, the Firm made loans to two companies to finance their purchases of commodities from a GFG entity ("**GFG D Co**"). The Firm was aware that the proceeds of the loans would ultimately be used to assist in financing the acquisition of a company which operated an aluminium smelter ("**GFG C Co**") by another GFG entity. The aggregate amount of the loans represented nearly 25% of the Firm's capital as reported to the PRA. The Firm

did not identify that the borrowers were connected to GFG and consequently did not aggregate its exposures in respect of the loans with its GFG exposures for LE purposes.

Mr Hunter's Roles and Responsibilities

1.6 Mr Hunter had over 25 years' experience of working in banks and financial services companies at the start of the Relevant Period, including having recently been CRO of a bank for over four years and then CEO of that bank for over three years.

1.7 The CEO is the most senior executive director on the board, and therefore has a crucial role to play in ensuring their firm meets the standards expected of it. The role requires the relevant individual to exercise sound judgement. The expectations upon the CEO are consequently more exacting than for other employees of their firm.

1.8 Mr Hunter held the SMF1 CEO function in respect of the Firm throughout the Relevant Period, with responsibility for carrying out the management of the conduct of the whole of the Firm's business. His responsibilities (as set out in his job description, and referenced in his Statement of Responsibilities) as SMF1 CEO included:

a. overseeing the Firm's Compliance function to ensure compliance with all relevant UK and EU rules and to ensure full compliance with regulatory and statutory filings;
b. apportioning responsibility for and maintaining oversight of a suitable risk management framework and taking all required mitigating actions;
c. providing general oversight of all the Firm's activities and managing its day-to-day operations; and
d. complying with regulatory and capital requirements.

1.9 Mr Hunter also held the SMF4 CRO function in respect of the Firm during the period from 7 March 2016 to 6 July 2017. As such, he had responsibility for the overall management of the risk controls of the Firm, including the setting and managing of its risk exposures, and reporting directly to the Board in relation to its risk management arrangements. He also had Prescribed Responsibilities for implementation and management of the Firm's risk management policies and, together with the Firm's SMF2 Chief Financial Officer ("**CFO**"), managing the systems and controls of the Firm

(in particular risk systems and risk management, although where a firm allocates a Prescribed Responsibility to more than one person each of those individuals will be deemed fully accountable for that responsibility, since PRA Prescribed Responsibilities can be shared but not split). His responsibilities as SMF4 CRO also included advising on and managing the Firm's Compliance function with regulatory and capital requirements.

1.10 During the period from 7 July 2017 to 5 November 2017 no-one at the Firm held the SMF4 CRO function. The Firm's Compliance function confirmed to the PRA in July 2017 that Mr Hunter would still be responsible for the SMF4 CRO function until an alternative person had been approved in his place.

1.11 Following the resignation of the Firm's SMF2 CFO on 24 July 2019, Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns.

1.12 The PRA requires (and, throughout the Relevant Period, required) a person perfoming a SMF to act reasonably in carrying out their role and responsibilities. Under the Senior Manager Conduct Rules, the PRA also required Mr Hunter, as a senior manager, to take reasonable steps to ensure that the business of the Firm for which he was responsible complied with relevant regulatory requirements and standards. As set out in SS28/15 (Strengthening individual accountability in banking), the PRA expects persons performing an SMF to take reasonable steps to ensure that the business has operating procedures and systems which include well-defined steps for such compliance and for ensuring that the business is run prudently. This required Mr Hunter to take reasonable steps in relation to the identification and mitigation of risks relating to the Firm's business.

The Firm's Governance

1.13 During the Relevant Period, the Wyelands Board, of which Mr Hunter was a member, set and oversaw the Firm's business strategy, governance, systems and controls, capital structure and risk management. Wyelands' executive leadership committees were responsible for implementing the strategy set by the Board, consistent with its risk appetite, and for carrying out the management of the conduct of the whole of the Firm's business.

1.14 The following committees and governance fora had responsibilities for executing the Firm's business plan, and managing risk:

a. **The Board**: The Board delegated authority to Mr Hunter and other members of the Firm's executive management to enter into transactions on behalf of the Firm up to certain capital and transaction size limits. These limits were increased over time. Before February 2018 the Board delegated authority to enter into transactions on behalf of the Firm to Mr Hunter and another senior Wyelands executive. From February 2018 onwards the Credit Sanctioning Committee operated for this purpose, although certain individuals had delegated authority to commit limited amounts.

b. **The Audit Committee** (a Board committee): The Audit Committee monitored the financial reporting process, the effectiveness of the firm's internal control and risk management systems and internal audit, and areas of key financial and regulatory reporting with respect to capital, liquidity and other regulatory financial ratios. Mr Hunter was not a member of the Audit Committee, but he attended its meetings.

c. **The Risk Committee** (a Board committee): The Risk Committee was established in May 2018 and was responsible for the Firm's risk management framework, reviewing the risk profile of the Firm, setting a standard for the accurate and timely monitoring of Large Exposures and other critical financial, regulatory and operational risks; and overseeing areas of major financial risk and financial regulatory reporting with respect to capital, liquidity and other regulatory financial ratios. Mr Hunter was not a member of the Risk Committee, but he attended its meetings.

d. **The Credit Sanctioning Committee** ("**CSC**") (an executive committee): The CSC was established in February 2018 and was responsible for overseeing credit and counterparty risks arising from the Firm's potential and actual transactions. Credit risk reviews, oversights and inputs were key to maintaining credit and counterparty risk exposure within the parameters of the Firm's risk appetite. In particular, the CSC's main responsibility was to scrutinise and (if, within the limits of its delegated authority) approve the creditworthiness of each

counterparty that the Firm transacted with, including the credit analysis performed. Mr Hunter was a member of the CSC.

1.15 These committees were supported by a number of other executive management fora, including the Executive Committee, the Assets and Liabilities Committee and the Risk and Operations Committee. Mr Hunter was either the chair of, or a member of, all of these executive committees.

Risk management

1.16 Wyelands operated a three lines of defence model for risk management:

a. The first line of defence ("**First Line**") was responsible for owning and managing risks, and executing transactions. The First Line set and recommended the detailed risk appetite to the Board for approval, and translated the Firm's risk appetite, risk policies and controls into day to day operational processes, and developed risk policies and operational procedures. The First Line consisted of Mr Hunter (as the CEO), another senior Wyelands executive, the Origination team and, at the executive committee level (from February 2018), the CSC.

b. The second line of defence ("**Second Line**") was responsible for the design and ongoing improvement of the risk management framework, continuous monitoring and reporting on risks (including maintaining a detailed risk register), providing challenge and oversight to the First Line's implementation of the risk management framework, and developing risk policies and operational procedures. The Second Line consisted of the Risk function and the Compliance function. At the executive committee level, the Executive Committee, Assets and Liabilities Committee and Risk and Operations Committee all sat within the Second Line.

c. The third line of defence ("**Third Line**") was responsible for providing the Board with independent assurance of the effectiveness of the risk management framework and processes, and regularly conducting an independent review and assessment of all aspects of the work of the First Line and Second Line. It reported directly to the Board. The Third Line consisted of the Internal Audit

function and external auditors and reviewers. At the Board committee level, the Audit Committee sat within the Third Line.

1.17 In practice, however, and in part due to the small size of the Firm at the time at which the Structured Transactions were entered into, there was a lack of appropriate independence between the First Line and the Second Line, particularly given the complexity of aspects of the Structured Transactions and the significant proportion of the Firm's capital each set of Structured Transactions represented. In July 2018 the PRA wrote to Mr Hunter identifying a lack of clarity regarding whether certain roles sat within the First Line or the Second Line (because, due to the Firm's size, certain members of staff had dual reporting lines to different managers with First Line and Second Line responsibility). Mr Hunter was also aware that there were a limited number of the Firm's staff who he considered had sufficient expertise to undertake the Structured Transactions, and he should have appreciated that the Structured Transactions required the Firm to have a strong risk management environment with sophisticated checks and balances to enable it to adequately analyse and manage them.

Systems and controls for exposures and connected parties

Large Exposures

1.18 Under the Capital Requirements Regulation (No 575/2013) ("**CRR**") and in accordance with the PRA Rulebook, firms are required to submit periodic information to the PRA, including the requirement that each firm appropriately assesses the Large Exposures it is subject to and reports them to the PRA. Article 392 of Part IV of the CRR defines a Large Exposure as a firm's exposure to a client or group of connected clients where the value of the exposure is equal to or exceeds 10% of the firm's eligible capital. Identifying Large Exposures is crucial in ensuring that a firm is adequately capitalised and complies with relevant rules and regulations.

1.19 Under Article 395(1) of Part IV of the CRR, the Firm was required to ensure that its Large Exposures to one party, or a group of connected parties, did not exceed 25% of its eligible capital. The applicable definition of 'connected parties' is contained in

Article 4(1)(39) of the CRR, which provides that a connected party means any of the following:

a. two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others (the "**Control Test**"); and/or

b. two or more natural or legal persons between whom there is no relationship of control as described in point (a) but who are to be regarded as constituting a single risk because they are so interconnected that if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would also be likely to encounter funding of repayment difficulties (the "**Economic Test**").

1.20 Article 393 of Part IV of the CRR required the Firm to have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying, managing, monitoring, reporting and recording all Large Exposures and subsequent changes to them. Under Article 394 of Part IV of the CRR, the Firm was required to report information to the PRA in relation to its Large Exposures, including information on the client or group of connected clients, the exposure value and the type of credit protection. Articles 393 and 394 are now incorporated into the Large Exposures section of the PRA Rulebook.

1.21 In addition, guidelines issued by the European Banking Authority (and its predecessor body), with which the Firm was expected to comply:

a. required the Firm's Board and senior management to ensure that adequate processes for the identification of connections among clients were documented and implemented, both before making credit available and when monitoring the debtor thereafter; and
b. required the Firm to increase the intensity of its investigation of possible economic connections where an individual exposure exceeded a specified (small) proportion of the Firm's capital.

Risk controls for exposures

1.22 Mr Hunter held the SMF4 CRO role until July 2017 and, in the absence of the Firm having an approved SMF4 CRO between July and November 2017, had SMF4 CRO responsibilities during that period. He described his role when he joined Wyelands, which was then operating in a limited capacity, as to build a risk management framework at the Firm. He therefore was familiar with the extent of the systems and controls within the Firm's Risk function. For the same reasons, and also because he had recently been CRO of another bank for over four years, he also was, or should have been, familiar with the Large Exposures regime, including the Economic Test. Until Mr Hunter ceased to hold SMF4 CRO responsibilities in November 2017 the Firm's Compliance function reported directly to him, and after that point he had responsibility as the SMF1 CEO for overseeing the Compliance function. Therefore at the times when the Firm entered into the Structured Transactions he also knew that the Compliance function was not involved in conducting connected parties assessments.

1.23 When Mr Hunter had SMF4 CRO responsibilities (i.e., during the period the first two sets of Structured Transactions referred to in paragraph 1.5 above and described later in this Notice were entered into) he did not:

a. take reasonable steps to ensure that the Firm had adequate systems and controls in place for assessing whether clients or potential clients of the Firm were connected with each other for the purposes of Article 4(1)(39) of CRR, despite the issue being pointed out to him in writing by another officer of the Firm in September 2017; or
b. explicitly allocate responsibilities for conducting and overseeing connected parties assessments within the Firm.

1.24 Prior to March 2019, i.e., during the period all the Structured Transactions referred to in paragraph 1.5 above and described later in this Notice were entered into, the Firm did not have adequate systems, controls, policies or procedures for assessing whether clients or potential clients of the Firm were connected with each other for the purposes of Article 4(1)(39) of CRR. Mr Hunter did not explicitly allocate responsibilities for conducting and overseeing connected parties assessments within the Firm until March 2019.

1.25 In practice, before March 2019 the Firm's Credit, Risk and Origination teams assessed whether clients or potential clients were connected by reason of the Control Test through the Firm's AML/KYC assessments and its credit due diligence work. Whilst the credit due diligence processes may have revealed whether clients were economically connected for the purposes of the Economic Test, the Firm did not have any formal systems or procedures in place to assess, by reference to the Economic Test, whether clients or potential clients were connected parties. Neither, before March 2019, did the Firm have any systems, controls, policies or procedures for assessing whether developments which occurred after the Firm's entry into a transaction caused clients which had previously not been connected parties to have become connected parties.

1.26 Following the PRA raising queries with the Firm in December 2018 concerning possible connections between GFG and the respective borrowers in a certain set of Structured Transactions which the Firm had undertaken in September 2018, Mr Hunter commissioned an external law firm to review the Firm's policies, procedures and practices pertaining to the assessment of connected parties. Mr Hunter received that review at the end of February 2019 and the Firm sought to implement its recommendations. In March 2019 Mr Hunter took steps to put in place formal connected party policies and procedures, to involve the Firm's Compliance function in connected parties assessments and to strengthen the Compliance function. It also subsequently provided training to staff in relation to the connected party requirements. The Firm also conducted connected parties reviews across its loan book in April 2019. However, as a result of weaknesses in the Firm's non-financial resources, the connected party tests it undertook in April 2019 did not identify all the connections between the various parties to the Structured Transactions.

1.27 The Firm's Finance function had responsibility for submitting regulatory returns, including the Firm's Large Exposures, to the PRA. Although the Finance function was represented on the CSC, it was not directly involved in making the connected parties assessments themselves. Rather, the regulatory returns were prepared by Finance based on the credit due diligence work undertaken by the Credit, Risk and Origination teams (and therefore, during the period up to November 2017 when Mr Hunter had SMF4 CRO responsibilities, the work for which Mr Hunter was directly responsible).

1.28 Despite the Firm's Regulatory Business Plan and dependence on GFG or GFG-introduced business, the Firm did not commission detailed and forensic internal audit reports into its Large Exposures processes and controls at any point during the Relevant Period. This limited its ability to assess whether it had adequate and effective systems, controls and procedures to mitigate risk in relation to Large Exposures. A January 2019 internal audit report into the Firm's June 2018 returns to the PRA referred to the governance, process and controls for regulatory reporting not being formally documented and that the key policy decisions in relation to the interpretation and application of the regulatory reporting requirements, including key judgements and assumptions made, were not documented and formally reviewed. After Mr Hunter assumed responsibility for preparing and submitting accurate regulatory returns following the resignation of the Firm's SMF2 CFO on 24 July 2019, he oversaw a process whereby the Finance function prepared the returns and then verified them with an external professional firm (before they were signed off internally, ultimately by Mr Hunter). However, the external professional firm relied on the Firm's own Large Exposures review file's groupings of connected parties, which it was not asked to separately validate. As a result, the Firm continued to submit Large Exposures returns to the PRA which did not aggregate its exposures in respect of the GFG A Co receivables transactions, the Generator Loans and the Commodities Loans with its GFG exposures.

Governance and oversight of exposures

1.29 The Firm's Risk function prepared a report for each Board meeting (or, after the Risk Committee was formed, Risk Committee meeting) setting out the Firm's risk portfolio. The reports initially included an overview of the Firm's transaction portfolio (including breakdowns by country, country rating and industry). These reports expanded over time to include breakdowns by transaction type, funding currency and sellers of receivables and information regarding the Firm's largest exposures and its overdue exposures. In addition, from at least December 2018 onwards, the Risk function sent a watchlist to Mr Hunter and the other Board members each week (subject to a few exceptions) which set out all of the Firm's debtors who were overdue in making payments to the Firm. From May 2019, each watchlist included a separate tab containing a 'special scrutiny' list of the Firm's exposures that its executive management were particularly focussed on.

1.30 From February 2018 onwards, the Risk function reported the level of the Firm's direct exposures to members of the GFG Alliance to the Firm's Board or Risk Committee in advance of each of their meetings. According to those reports, the Firm's direct GFG exposures in aggregate had a value of between 14% and 20.4% of the Firm's capital during the periods the reports covered. On that basis, the Firm's 'headroom' before it breached the 25% Large Exposures limit in respect of its exposures to, and exposures which were connected to, members of the GFG Alliance was therefore between 11% and 4.6% of its capital during those periods. The effectiveness of the Firm's systems and controls in respect of identifying, analysing and monitoring connected party (and related party) issues in respect of the Structured Transactions referred to in paragraph 1.5 above was therefore particularly important, given its limited scope for error before it would breach the LE limit.

1.31 Nevertheless, during the Relevant Period the Firm entered into the Structured Transactions from GFG referrals with entities which it later determined were connected with GFG for LE purposes (but which the Firm had not identified as connected at the time due to deficiencies in its connected party policies and procedures). Each set of the Structured Transactions had a value equal to a significant proportion of the Firm's capital. Although, through the Firm's AML/KYC assessments and credit due diligence work, some steps were taken to assess whether clients or potential clients were connected, as a result of deficiencies in the Firm's policies and procedures relating to connected parties, the counterparties were not identified as connected for the purposes of the Large Exposures regime.

2. STRUCTURED TRANSACTIONS

The GFG A CO receivables purchase transactions

A. The receivables purchase facility

2.1 In May 2017 GFG purchased a steel business from an unrelated third party. The sale was effected by the business being transferred to a newly-incorporated English company ("**GFG A Co**"), which was then transferred to GFG.

2.2 The Firm entered into a receivables purchase agreement ("**RPA**") with GFG A Co the day after the acquisition was completed. The RPA established a structure for the Firm to purchase, at a discount to their face values, receivables from GFG A Co owing by a wide range of GFG A Co's trade debtors (referred to within the Firm as "**block buyers**").

2.3 Under the RPA the receivables sales by GFG A Co to the Firm were expressed to be on a non-recourse basis, except that the Firm would have recourse back to GFG A Co in certain specified limited *"Recourse Events"*, which included if GFG A Co cancelled an invoice it had sold to the Firm, or if GFG A Co failed to deliver the stock which was the subject of an invoice, or if the sales contract, and therefore the invoice, was unenforceable against the buyer.

2.4 The transaction was introduced to the Firm by GFG. The RPA was entered into under time pressure and financing was provided very shortly after GFG's acquisition of GFG A Co. Mr Hunter was aware that the reason for the transaction was to support working capital of GFG A Co and was closely involved in establishing the RPA and in a number of drawings under the facility:

2.5 The facility provided working capital financing for GFG A Co, following its acquisition by GFG, in increasing amounts. Mr Hunter was aware that the Firm was trying to structure the financing in such a way that this objective was achieved, while at the same time the Firm's exposures under the facility would comply with the LE limit applicable to its aggregate exposure to GFG Alliance companies.

2.6 Within a month the facility to GFG A Co was expanded to include a concept of "Retained Title Buyers" ("**RTBs**"), in respect of which a sub-limit was set within the overall facility limit. A key difference between the block buyers and the RTBs was that, in the transactions with the RTBs, title to the stock which was the subject of the invoice was stated to be transferred only when the invoice had been paid in full. In comparison, in the transactions with the block buyers title to the stock the subject of the invoice was transferred at the point of sale (rather than when the invoice was settled).

2.7 The RTBs, and the amounts made available in respect of them, subsequently increased:

a. from three RTBs and an overall exposure limit to them of £10m on 22 May 2017;
b. to nine RTBs and an overall exposure limit of £43.6m on 27 March 2018 (reduced to £32.87m on 19 September 2018).

2.8 The facility limit under the RPA was initially set at £25m, but was increased several times (sometimes within days of the previous increase) up to £90.6m on 27 March 2018. It was later reduced to £72.87m on 19 September 2018. The amendments to the facility amended the facility limit, increased the percentage of receivables owing by the block buyers which the Firm would finance, extended the lists of buyers whose invoices GFG A Co could sell to the Firm, introduced the RTB concept and set sub-limits for individual RTBs. The initial RPA was replaced by a new RPA between the Firm and GFG A Co in December 2018. The overall size of the facility and the sub-limit applicable to the RTBs were both always significantly in excess of the LE limit, and until September 2018 the overall facility limit was more than (often significantly more than) 100% of the Firm's capital reported by it to the PRA at the time of the increase.

2.9 The initial facility and most amendments thereto were approved by Mr Hunter and another senior Wyelands executive or, from February 2018, the Firm's CSC pursuant to their Board delegated authorities. Mr Hunter personally approved the initial credit proposals for each of the RTBs. He also spoke and voted in favour of the facility at the

CSC meetings he attended, during which he demonstrated his knowledge of and involvement in the facility, and he signed most of the agreements or amendment letters which documented the facility.

2.10 As noted in paragraph 1.19 above, the 25% Large Exposures limit in the CRR applies to exposures to the same person or to a group of connected persons. For LE purposes GFG A Co was connected to other members of the GFG Alliance because financial difficulties elsewhere in the GFG Alliance were likely to have an adverse effect on GFG A Co. As a result of the Firm's direct exposures to members of the GFG Alliance (referred to in paragraph 1.30 above) having already utilised most of the LE limit, if the Firm's exposures under the facility were to GFG A Co itself (rather than to the block buyers and the RTBs) the LE limit did not permit the Firm to purchase a significant value of receivables under the facility.

2.11 For the same reasons, if the RTBs constituted a group of connected clients with GFG A Co, the Firm would be required to aggregate its exposures to the RTBs with its exposures to members of the GFG Alliance, in which case the Firm would be unable to purchase a significant value of receivables owing by the RTBs. This would be the case if the RTBs were so interconnected with GFG A Co that if GFG A Co was to experience financial problems, in particular funding or repayment difficulties, the RTBs would be likely to do so.

2.12 As a result of deficiencies in the Firm's policies and procedures in relation to connected parties (for which Mr Hunter was directly responsible until he ceased to hold SMF4 CRO responsibilities in November 2017, after which he continued to have an SMF1 CEO oversight responsibility), the Firm (a) regarded its exposure as to the block buyers and the RTBs, rather than to GFG A Co itself (i.e., it 'looked through' GFG A Co to the underlying block buyers and RTBs) and (b) did not treat the RTBs as constituting a group of connected clients with GFG A Co. Consequently, it did not report its exposures under the facility as exposures to, or to entities who were connected parties of, GFG A Co in any of its LE submissions to the PRA during the Relevant Period (including in the period from July 2019 onwards when Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns).

2.13 Between October and December 2020 the Firm received four payments totalling £24.2m from GFG on behalf of GFG A Co. As at 31 December 2022, the block buyer element of the facility had been fully repaid and the Firm had fully provided for the amount owing to it in respect of the retained title element of the facility.

B. Mr Hunter's involvement in the negotiation of, entry into and increase in the facility up to July 2017

2.14 Mr Hunter held both the SMF1 CEO and the SMF4 CRO functions in respect of the Firm until 6 July 2017. During this period the facility was entered into and then increased three times, and the RTB element of it was established.

2.15 Each individual exposure to a block buyer or RTB was below the limit on authority delegated by the Board. Therefore, because the Firm regarded its exposures as separate exposures on each of the block buyers and RTBs, rather than on GFG A Co, and did not regard the block buyers or RTBs as economically dependent on GFG A Co, Board approval was not sought for any of the exposures.

2.16 The LE analysis the Firm did before entering into the transaction, for which Mr Hunter as the SMF4 CRO was directly responsible, was flawed. Consequently its application of the look-through treatment to the facility was incorrect from the outset (and would have been incorrect even if the facility had operated as the Firm had intended).

C. Mr Hunter's involvement in the facility from July 2017 up to May 2019; opportunities for Mr Hunter to reconsider the look-through treatment before May 2019

2.17 In the absence of an approved SMF4 CRO of the Firm between July and November 2017, Mr Hunter held SMF4 CRO responsibilities when the facility was twice increased during that period. In addition, throughout the Relevant Period Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk

management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements. Mr Hunter, in addition to being familiar with the facility from his involvement in it and his previous SMF4 CRO responsibilities, was familiar with the extent of the systems and controls within the Firm's Risk function and was, or should have been, familiar with the Economic Test.

2.18 Mr Hunter continued to be involved in developments relating to the facility during this period. Between August 2017 and the end of April 2019 there were a number of occasions when Mr Hunter, given his responsibilities referred to in the previous paragraph and his detailed knowledge of, and ongoing involvement in, the facility, should have considered whether the look-through treatment the Firm was applying to the facility was appropriate and correct, or whether the Firm had an exposure to GFG A Co (which should be aggregated with its other GFG exposures). However, he did not do so. Consequently the Firm continued to provide (and increased the size of) the facility and to apply the look-through treatment, i.e., it did not report its exposures under the facility as exposures to, or to entities who were connected parties of, GFG A Co in its LE submissions to the PRA.

D. Mr Hunter's involvement in the facility from May 2019 onwards

2.19 While the Firm had an SMF4 CRO after November 2017, Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements. In addition to being familiar with the facility from his involvement in it and his previous SMF4 CRO responsibilities, he was familiar with the extent of the systems and controls within the Firm's Risk function and was, or should have been, familiar with the Economic Test. In the period from July 2019 onwards Mr Hunter also assumed responsibility to the PRA for preparing and submitting accurate regulatory returns.

2.20 In April 2019 GFG A Co executed a security agreement (the "**TPFP Security Agreement**") in favour of a third party finance provider ("**TPFP**") to GFG A Co. This secured all present and future monies owing to the TPFP and created security over all

of GFG A Co's assets and undertakings, with the exception of certain assets which GFG A Co had already charged to certain other creditors (not including the Firm). Mr Hunter became aware of the TPFP Security Agreement on 1 May 2019 and immediately understood that GFG A Co's execution of the TPFP Security Agreement had serious implications for the Firm's exposure under the facility.

2.21 On 30 April 2019 GFG A Co cancelled all the invoices it had issued to the RTBs. It did not issue any further invoices to the RTBs until October 2019. At least between May and September 2019 the Firm's only claim in respect of the retained title element of the facility was therefore on GFG A Co (for cancelling the April 2019 invoices).

2.22 The TPFP Security Agreement effectively prevented GFG A Co selling further receivables to the Firm under the RPA. However, GFG A Co's grant of security to the TPFP, and its cancellation of the April 2019 invoices owing by the RTBs without the Firm purchasing new invoices owing by the RTBs, did not cause Mr Hunter to reconsider whether the look-through analysis the Firm was applying in respect of its exposures under the facility was correct, or to reconsider whether the Firm's LE submissions to the PRA should record its exposure under the facility as to GFG A Co rather than to the block buyers or the RTBs. Consequently the Firm continued to apply the look-through treatment, i.e., it did not report its exposures under the facility as exposures to, or to entities who were connected parties of, GFG A Co in its LE submissions to the PRA (including in the period from July 2019 onwards when Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns).

2.23 By late May 2019 Mr Hunter was aware that GFG A Co had received funds from the block buyers (at that time £2m, but by 23 October 2019 £7m), which GFG A Co was failing to pass on to the Firm. Although the Firm took steps to request payment of these funds, those steps were not successful.

2.24 In June 2019 a meeting of the Firm's Risk and Operations Committee (an executive committee) which was attended by Mr Hunter concluded that amounts GFG A Co had received from block buyers and was overdue in forwarding to the Firm would need to be aggregated with the Firm's GFG exposures, although the Committee did not consider whether this treatment should also be applied to amounts which were not yet

overdue (on the basis that GFG A Co was presumably also likely to fail to forward those amounts). In fact, the overdue amounts were not included in the Firm's LE submissions to the PRA (including in the period from July 2019 onwards when Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns).

2.25 Mr Hunter was familiar with the facility and had significant involvement in discussions and other communications concerning it, both within the Firm and with GFG representatives. By the end of May 2019 it should have been clear to him that:

a. significant payment defaults were outstanding in respect of both the block buyer book (through GFG A Co's failure to turn over to the Firm amounts it had collected from the block buyers) and the RTB book (through GFG A Co's cancellation of invoices without the Firm purchasing new invoices);
b. there was a material risk that GFG A Co would fail to turn over to the Firm future amounts, when the block buyers paid them to GFG A Co;
c. the Firm's security position in respect of the RTB book was materially and adversely impacted by GFG A Co's execution of the TPFP security agreement;
d. even though the Firm had not identified that the RTBs constituted a group of connected clients with GFG A Co for LE purposes, in practice if the Firm made a loss in respect of one of the RTBs, it was likely that it would make a similar loss in respect of each of the others; and
e. the aggregate outstanding amount of the Firm's exposure under the facility exceeded 38% of the Firm's capital.

2.26 Given the scale of the Firm's exposure in respect of the facility and Mr Hunter's awareness of the problems which had arisen in relation to it by the end of May 2019, Mr Hunter should have discussed with the Firm's Risk function whether the Firm's application of the look-through treatment to its exposures under the facility was correct, and whether the Firm's LE submissions to the PRA should record its exposures under the GFG A Co facility as GFG exposures, or connected to GFG exposures.

The Generator Loans

A. The loans

2.27 In June and July 2017 the Firm made five separate loans (the "**Generator Loans**") which together totalled £17.2m to five companies ("**Generator SPVs**"). The loans were originally structured as 12 month bridge loans and each loan was secured over the share capital, assets, property and undertaking of the corresponding Generator SPV borrower.

2.28 The purpose of the Generator Loans was the financing of the Generator SPVs' purchase of 13 biodiesel-fuel generators ("**Generators**") from a GFG entity ("**GFG B Co**"), payment of fees and costs in connection with the facilities and the provision of general corporate and working capital facilities for the Generator SPVs whilst they sought to enter into long term offtake contracts.

2.29 In late 2017 and April 2018 the Firm twice increased the Generator Loans (so that, following those increases, the loans aggregated £39.9m) and in April 2018 it also extended their maturities to the end of July 2019.

2.30 The aggregate amount of the Generator Loans at the time of their initial advance or, as applicable, increase exceeded 40% of the Firm's capital.

2.31 As noted in paragraph 1.19 above, the 25% Large Exposures limit in the CRR applies to exposures to the same person or to a group of connected persons. Therefore if the Generator SPVs and GFG B Co were a group of connected persons, the LE limit did not permit the Firm to make the Generator Loans. Because of the Firm's direct exposures to members of the GFG Alliance referred to in paragraph 1.30 above, if even some of the Generator SPVs were 'connected' to GFG B Co, then the Firm could have been in breach of the LE limit.

2.32 As a result of deficiencies in the Firm's policies and procedures in relation to connected parties (for which Mr Hunter was directly responsible until he ceased to hold SMF4 CRO responsibilities in November 2017, after which he continued to have an

SMF1 CEO oversight responsibility), the Firm did not identify that any of the Generator SPVs constituted a group of connected clients with GFG B Co, or with each other, during the Relevant Period. Consequently, it did not report its exposures to any of the Generator SPVs as connected to the GFG Alliance, or to any of the other Generator SPVs, in any of its LE submissions to the PRA in the Relevant Period (including in the period from July 2019 onwards when Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns).

2.33 On 7 October 2019 the Firm requested each Generator SPV to repay its Generator Loan by 28 February 2020. The Generator Loans were still outstanding as at 31 December 2022 and the Firm had fully provided for the amounts owing to it in respect of them.

B. Mr Hunter's involvement in the negotiation of and entry into the Generator Loans in June/July 2017

2.34 Mr Hunter held both the SMF1 CEO and the SMF4 CRO functions in respect of the Firm when the first three Generator Loans were approved and drawn and, in the absence of an approved SMF4 CRO of the Firm between July and November 2017, held SMF4 CRO responsibilities when the remaining two Generator Loans were approved and drawn. In addition, throughout the Relevant Period Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements.

2.35 The Generator SPVs had separate owners ("**Generator UBOs**") and were apparently independent of each other and of GFG B Co. However, from the outset the Firm was aware of a number of connections or commonalities between the Generator SPVs, the Generator UBOs and GFG B Co: As the Firm's SMF4 CRO, Mr Hunter should have been aware of them and was also aware that there was time pressure to provide the financing and was closely involved in settling the terms of the Generator Loans and their initial funding.

2.36 The LE analysis the Firm did before entering into the Generator Loans, for which Mr Hunter as the SMF4 CRO was directly responsible, was flawed. Consequently, its decision not to aggregate its exposures in respect of the Generator Loans with its GFG exposures was incorrect from the outset (and would have been incorrect even if the Generator Loans had operated as the Firm had intended).

2.37 The initial Generator Loans were approved by Mr Hunter and another senior Wyelands executive pursuant to their Board delegated authorities. Mr Hunter informed the Board by email of the first two Generator Loans before they were entered into. Mr Hunter's email and its attachments showed his detailed awareness of the terms and structure of the initial Generator Loans.

C. Mr Hunter's involvement in the first increases in the Generator Loans in October-December 2017

2.38 In the absence of an approved SMF4 CRO of the Firm between July and November 2017, Mr Hunter held SMF4 CRO responsibilities when the first increases in the five Generator Loans were approved in July and August 2017, and when the first increases in four of the five Generator Loans were drawn in October 2017 (the first increase in the fifth Generator Loan was drawn in December 2017, with Mr Hunter confirming his approval of funding that drawing). In addition, throughout the Relevant Period Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements.

2.39 In early August 2017 Mr Hunter discussed increasing the Generator Loans with a senior GFG executive. The first increases in the Generator Loans were approved by Mr Hunter and another senior Wyelands executive pursuant to their Board delegated authorities.

2.40 The first increases in the Generator Loans meant that the increased amount of each Generator Loan was approximately 1.4x the value of the Generators owned by the applicable Generator SPV borrower (without offtake contracts). The Firm did this

based on the cash flows it projected to flow once the Generators were deployed under long term offtake contracts, despite no such contracts having been entered into by the Generator SPVs.

2.41 Shortly before the first increase in each Generator Loan (and after Mr Hunter had approved the first increases in the Generator Loans), the Generator UBO of each Generator SPV wrote to Mr Hunter in substantially identical terms. The letters made Mr Hunter aware that each Generator SPV owed deferred consideration to GFG B Co in respect of the Generators which would be financed from the proceeds of the first increase in the Generator Loans.

2.42 The Firm did not consider whether the existence of GFG B Co as another creditor of the Generator SPVs in respect of the deferred consideration had any implications for the Firm's LE analysis of the Generator Loans. Mr Hunter was directly responsible for the Firm's LE analysis until he ceased to hold SMF4 CRO responsibilities in November 2017.

D. Mr Hunter's involvement in the second increases in the Generator Loans in April 2018

2.43 The Firm had an SMF4 CRO when the second increases in the five Generator Loans were approved and drawn. However, throughout the Relevant Period Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements. In addition, Mr Hunter had held SMF4 CRO responsibilities until November 2017 so, in addition to being familiar with the Generator Loans from his involvement in them and his previous SMF4 CRO responsibilities, he was familiar with the extent of the systems and controls within the Firm's Risk function and was, or should have been, familiar with the Economic Test.

2.44 In February 2018 GFG requested Mr Hunter to increase the size of the Generator Loans; Mr Hunter replied the same day that he would tell GFG how much the Firm

could consider. The second increases in the Generator Loans were approved by a meeting of the Firm's CSC which Mr Hunter attended and both spoke and voted in favour of the increases. At that meeting he also answered a number of detailed questions regarding the Generator Loans raised by other Wyelands executives. The Firm advanced the second increase of each of the Generator Loans in April 2018.

2.45 The second increases meant that the increased amount of each Generator Loan was approximately twice the value of the Generators owned by the applicable Generator SPV borrower (without offtake contracts). No long term offtake contracts had been entered into by the Generator SPVs, but the Firm approved the increases based on a proposal by GFG B Co to deploy the Generators (as agent of the Generator SPVs) on shorter term offtake contracts, whilst long term offtake contracts were negotiated.

E. Mr Hunter's involvement in the Firm's management and operation of the facility after April 2018

2.46 At a 24 July 2019 CSC meeting, the CSC considered a further maturity extension for the Generator Loans. Mr Hunter did not attend the meeting, but was subsequently sent the minutes of it, which described a number of key risks relating to the Generator Loans and recorded a committee member querying the extent of the Generator SPVs' economic dependence on GFG B Co to deploy, manage and operate the Generators.

2.47 Mr Hunter became aware in September 2019 that at least three of the Generator SPVs were, or had been, trading commodities. Despite the size of the Firm's exposures to the Generator SPVs (both in absolute terms and as a percentage of its capital), there is no record that at the time (or later) Mr Hunter discussed with the Firm's Risk function why three apparently independent companies all commenced trading commodities at about the same time. Shortly after, the Firm extended the maturities of the Generator Loans to October 2019.

2.48 Mr Hunter was familiar with the Generator Loans. By September 2019 it should have been clear to him that:

a. the risks associated with the Firm's exposures in respect of the Generator Loans were very similar, in that all the Generator SPVs were dependent upon the

Generators they respectively owned to generate sufficient funds to enable them to service and repay the Generator Loans;

b. as a result of issues affecting some of the key assumptions in the business model underlying the Generator Loans, the long-term revenue streams projected by the Firm had not materialised;
c. payment defaults had occurred in respect of the Generator Loans;
d. at least three of the, apparently unconnected, Generator SPVs were acting in a similar way, commencing trading commodities at or around the same time;
e. even though the Firm had not identified that the Generator SPVs constituted a group of connected clients with GFG B Co, or with each other, for LE purposes, in practice if the Firm made a loss in respect of one of the Generator Loans, it was likely that it would make a similar loss in respect of each of the others; and
f. the aggregate outstanding amount of the Generator Loans exceeded 32% of the Firm's capital.

2.49 Given the scale of the Firm's exposure to the Generator SPVs and Mr Hunter's awareness of the problems which had arisen in relation to the Generator Loans, Mr Hunter should have discussed with the Firm's Risk function whether its LE analysis in respect of the Generator Loans was correct, and whether the Firm's LE submissions to the PRA should record its exposures under the Generator Loans as GFG exposures, or connected to GFG exposures.

The Power Plant Loans

A. The loans

2.50 In September 2018, the Firm made 12 separate loans ("**Power Plant Loans**") totalling approximately £104m to 12 companies ("**Power Plant SPVs**"). Eleven of the Power Plant SPVs owned power plants ("**Power Plants**"). The twelfth company ("**OpCo**") provided operation and maintenance ("**O&M**") services in respect of the Power Plants on behalf of the other eleven. Mr Hunter signed each of the facility agreements in respect of the Power Plant Loans on behalf of the Firm.

2.51 Before the transactions the Power Plant SPVs were all ultimately owned by GFG B Co (which had acquired them from an unconnected third party in March 2018), were within a consolidated group, had common sources of intercompany funding and a number of

common directors. The Firm understood that although the Power Plant SPVs operated as a consolidated group, they were always individual vehicles with differing characteristics and separate cash flows.

2.52 Each Power Plant SPV used the proceeds of the Power Plant Loan made to it to finance the fees and costs payable by it in respect of that loan, to make an intercompany loan to the company acquiring it (a "**New Parent**", and the owner of each New Parent a "**Power Plant UBO**"), to enable that New Parent to fund the purchase price payable for that Power Plant SPV, and (other than OpCo) to repay amounts drawn under an existing facility agreement owing to a third party lender. Each Power Plant SPV was owned by a separate New Parent. The Power Plant UBOs did not make any investment in the New Parents in connection with the transactions.

2.53 In connection with the transactions, the Firm itself also acquired the shares in three other SPVs ("**Firm SPVs**") which were in the process of constructing Power Plants. The Firm also provided loan facilities to two of the Firm SPVs to finance the construction costs of the Power Plants (or for such other purposes as the Firm may have agreed). The Firm lent £250,000 to the Firm SPVs when it purchased them, and subsequently (in 2019) lent them a further £2.34m ("**Firm Loans**"). Mr Hunter also signed the facility agreement in respect of the Firm Loans on behalf of the Firm.

2.54 At completion in September 2018 all the existing directors of each Power Plant SPV and Firm SPV were replaced, with the Power Plant UBO of the relevant New Parent appointed as sole director or, in the case of the Firm SPVs, Mr Hunter and another senior Wyelands executive appointed as directors.

2.55 As noted in paragraph 1.19 above, the 25% Large Exposures limit in the CRR applies to exposures to the same person or to a group of connected persons. Financial difficulties elsewhere in the GFG Alliance would be likely to involve contagion to GFG B Co, and therefore for LE purposes GFG B Co was connected to other members of the GFG Alliance.

2.56 Consequently, if the Power Plant SPVs constituted a group of connected clients with GFG B Co, the Firm would be required to aggregate its Power Plant Loan exposures with its exposures to members of the GFG Alliance. This would be the case if the

Power Plant SPVs were so interconnected with GFG B Co that if GFG B Co was to experience financial problems, in particular funding or repayment difficulties, the Power Plant SPVs would be likely to do so. The Firm's direct exposures to members of the GFG Alliance referred to in paragraph 1.30 above already utilised most of the LE limit. If the Power Plant SPVs constituted a group of connected clients with GFG B Co the Firm would therefore have been unable to make the Power Plant Loans or to maintain those exposures.

2.57 In order to provide the Power Plant Loans, Wyelands received a £10m capital injection, which increased the capital of the Firm reported by it to the PRA to £101.72m. The Power Plant Loans together had a value equal to c.102% of the Firm's capital reported by it to the PRA and 29% of the Firm's entire loan book in September 2018. Therefore, if the Power Plant SPVs constituted a group of connected clients with each other, the Firm would have been unable to make the Power Plant Loans or to maintain those exposures. The Power Plant SPVs would constitute a group of connected clients with each other if they were so interconnected that if one of them was to experience financial problems, in particular funding or repayment difficulties, the others would be likely to do so.

2.58 Mr Hunter was aware of the aggregate amount of the Power Plant Loans and of the potential LE issue and that, if the Power Plant SPVs constituted a group of connected clients, the Firm would have been unable to make the Power Plant Loans. The Firm consequently sought to structure the Power Plant Loans in such a way that they would not be (as described in correspondence between members of the Board at the time to which Mr Hunter was party) "*aggregated*" for the purposes of the LE regime. The Firm did not treat the Power Plant SPVs as constituting a group of connected clients with GFG or with each other during the Relevant Period. Consequently it did not report any of its exposures in respect of the Power Plant SPVs as connected to the GFG Alliance or to the other Power Plant SPVs in any of its LE submissions to the PRA in the Relevant Period.

B. Mr Hunter's involvement in the negotiation of and entry into the Power Plant Loans in June-September 2018

2.59 The Firm had an SMF4 CRO when the Power Plant Loans were approved and drawn. However, throughout the Relevant Period, Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements. In addition, Mr Hunter had held SMF4 CRO responsibilities until November 2017 so, in addition to being familiar with the Power Plant Loans, he was familiar with the extent of the systems and controls within the Firm's Risk function and was, or should have been, familiar with the Economic Test.

2.60 The Power Plant UBOs were apparently independent of each other and of GFG B Co. However, Mr Hunter was aware at the time of a number of significant connections or commonalities between the Power Plant UBOs, the New Parents, the Power Plant SPVs and the GFG Alliance. These connections or commonalities did not cause him to make further enquiries of GFG or the Firm's Risk function at the time with a view to establishing whether the relationships between Power Plant UBOs, the New Parents, the Power Plant SPVs and GFG were such as to result in any of them being connected to each other for LE purposes.

2.61 Before the Firm entered into the Power Plant Loans, Mr Hunter, in discussion with other members of the Firm's management, concluded that the Power Plant Loans complied with the Large Exposures regime. However, although Mr Hunter identified OpCo as critical to the transaction, he did not take any steps to check whether the Firm's Risk function had assessed whether the other Power Plant SPVs were economically dependent on it, or vice versa.

2.62 The Firm's CSC approved each of the Power Plant Loans. The amount of one of the Power Plant Loans was above the limit on authority delegated by the Board and so Board approval for that loan was sought by an email the Firm's Risk function sent to directors. Mr Hunter did not attend (or vote at) the CSC meeting, but emailed the

Board an hour after the Risk function making clear his approval and support of the transaction and referring to tight deadlines.

2.63 Mr Hunter's involvement in, and knowledge of, the Power Plant Loan transactions went significantly beyond approving them at the Board.

2.64 As noted in paragraph 2.53 above, as part of the transactions the Firm itself purchased the shares in the Firm SPVs and also provided the Firm Loans to two of the Firm SPVs to finance construction of the plants or for such other purposes as the Firm may have agreed. Mr Hunter became a director of each Firm SPV upon the Firm acquiring it (and remained a director of the Firm SPVs for so long as the Firm owned them). The terms of reference of the Firm's Board of Directors required the Board to approve the acquisition of the Firm SPVs, but Board approval of their acquisition was not obtained (and there is no record that the Firm's independent non-executive directors became aware of the Firm's acquisition of the Firm SPVs until March 2019).

2.65 The transactions of which the Power Plant Loans formed part required the Firm to undertake a thorough and detailed LE analysis before entering into the Power Plant Loans in order for it to be assured that the Power Plant SPVs were not connected to each other or to GFG for LE purposes. Mr Hunter's SMF1 CEO responsibility did not extend to close oversight of that LE analysis; however, it did extend to a requirement for him to consider whether the Firm had adequate systems and controls (including an appropriate connected parties policy) to identify, assess and manage connected parties risks in relation to Large Exposures and related parties risks in relation to the Power Plant Loans. There is no evidence that he did this.

C. Repayment of the Power Plant Loans in July 2019

2.66 In July 2019 each New Parent sold the Power Plant SPV it owned back to GFG B Co, and the Firm sold the Firm SPVs back to GFG B Co, enabling GFG B Co to reconstitute all the Power Plant SPVs and the Firm SPVs into a single consolidated group (Mr Hunter resigned as a director of the Firm SPVs at completion of the sales). Board approval of the sale of the Firm SPVs to GFG B Co was not obtained, despite being required by the Board's terms of reference.

2.67 The sale price each New Parent and the Firm received was £2,000 more than the purchase price it had paid in September 2018. Immediately after, GFG B Co sold the Power Plant SPVs and the Firm SPVs to a third party for c.£30m more than it had originally paid for them in March 2018. The sales to GFG B Co triggered change of control early repayment provisions in the facility agreements and the Power Plant Loans and the Firm Loans were refinanced in full through funds provided by the buyer and new borrowings from third party lenders.

2.68 Mr Hunter was aware of the sale of the Power Plant SPVs and Firm SPVs back to GFG B Co. However, there is no record that at the time of the sale he considered why the Power Plant UBOs had all sold their respective Power Plant SPVs back to GFG B Co at the same time and for the same nominal uplift in the prices they respectively paid, or why the sale prices were substantially less than the amount GFG B Co received when it sold them straight afterwards (and neither has Mr Hunter subsequently been able to cast further light on these matters). Nor is there any record that the circumstances of the repurchase and immediate resale of the Power Plant SPVs by GFG B Co caused Mr Hunter to reconsider whether the Firm's understanding of the transactions which took place in September 2018 had been correct, and had been correctly reported to the PRA. Mr Hunter has since accepted that he did not consider these issues at the time.

D. PRA questions to Mr Hunter regarding the Firm's Large Exposures assessment

2.69 Following its receipt and review of the Firm's regulatory return for Q3 2018, in December 2018 the PRA raised queries with the Firm, including Mr Hunter, regarding whether the Firm's exposures to the Power Plant SPVs were connected for LE purposes.

2.70 Following email exchanges and calls between the PRA and the Firm, on 7 January 2019 Mr Hunter formally responded to the PRA's queries by letter ("**the CEO's January 2019 Letter**"). In the CEO's January 2019 Letter Mr Hunter said that since its inception the Firm had sought to implement systems and controls within its transaction approval processes to allow it to consider whether its counterparties were connected

parties, and set out why the Firm had concluded that the Power Plant SPVs were not a group of connected parties for LE purposes (referring to both the Control Test and the Economic Test); and that consequently the Firm was not in breach of its LE limit. Mr Hunter referred to meetings with one of the Firm's regulatory compliance advisers, but did not mention that the regulatory compliance adviser referred to was in fact engaged and paid by GFG rather than the Firm. When in January 2019 the PRA followed up and asked Mr Hunter to provide minutes of those meetings, he responded that there were no minutes of the key meeting, but that he had discussed his recollection of it with the majority of the attendees to ensure that the CEO's January 2019 Letter had captured it accurately; and he again referred to "an external regulatory adviser". There is also no record of any written advice or opinion provided by the regulatory compliance adviser.

The loans to Aluminium SPV and Alumina SPV

A. The loans

2.71 In December 2018 a member of GFG completed the acquisition of a company which operated an aluminium smelter ("**GFG C Co**") from an unrelated third party. The acquisition was financed by a senior secured loan provided by a syndicate of third party lenders and subordinated shareholder funding and equity provided by GFG.

2.72 US$50m of the subordinated shareholder funding and equity provided by GFG was in fact indirectly funded from the proceeds of a distribution by GFG C Co which formed part of the closing mechanics for the acquisition. GFG C Co funded the distribution by selling alumina and aluminium (together "**Commodities**") to another GFG entity ("**GFG D Co**") immediately before closing.

2.73 GFG D Co in turn immediately on-sold the Commodities it purchased from GFG C Co to two companies which were apparently unconnected to GFG, one of which ("**Aluminium SPV**") purchased the aluminium, and the other of which ("**Alumina SPV**' and, together with Aluminium SPV, the "**Commodities SPVs**") purchased the alumina.

2.74 Each Commodities SPV funded its purchase of Commodities from GFG D Co in part by a secured loan from the Firm (US$16.4m to Aluminium SPV (the "**Aluminium SPV Loan**") and US$19.2m to Alumina SPV (the "**Alumina SPV Loan**" and, together with

the Aluminium SPV Loan, the "**Commodities Loans**") and in part by deferred consideration which remained outstanding to GFG D Co on an unsecured, but unsubordinated, basis. Each Commodities purchase was therefore entirely debt funded; neither Commodities SPV provided any funding for the purchase from its own resources.

2.75 As noted in paragraph 1.19 above, the 25% Large Exposures limit in the CRR applies to exposures to the same person or to a group of connected persons. Financial difficulties elsewhere in the GFG Alliance would be likely to involve contagion to GFG C Co and GFG D Co, and therefore for LE purposes GFG C Co and GFG D Co were connected to other members of the GFG Alliance.

2.76 Consequently, if Aluminium SPV and Alumina SPV constituted a group of connected clients with GFG C Co or GFG D Co, the Firm would be required to aggregate such exposures with its exposures to members of the GFG Alliance. This would be the case if Aluminium SPV and Alumina SPV were so interconnected with GFG C Co or GFG D Co that if GFG C Co or GFG D Co was to experience financial problems, in particular funding or repayment difficulties, Aluminium SPV and Alumina SPV would be likely to do so as well.

2.77 In order to provide the Commodities Loans, Wyelands received a £5m capital injection, which increased the capital of the Firm reported by it to the PRA to £114.33m. The US$16.4m (£13.0m) loan to Aluminium SPV and US$19.2m (£15.2m) loan to Alumina SPV together represented c.24.7% of the Firm's capital reported by it to the PRA. The Firm's direct exposures to members of the GFG Alliance referred to in paragraph 1.30 above already utilised most of the LE limit. If Aluminium SPV and Alumina SPV constituted a group of connected clients with GFG C Co or GFG D Co the Firm would therefore have been unable to make the Commodities Loans or to maintain those exposures. Mr Hunter was aware of the amounts of the Commodities Loans.

2.78 As a result of deficiencies in its policies and procedures in relation to connected parties, the Firm did not treat either of the Commodities SPVs as constituting a group of connected clients with GFG C Co or GFG D Co during the Relevant Period. Consequently, it did not report its exposures in respect of the Commodities Loans as connected to the GFG Alliance in any of its LE submissions to the PRA in the Relevant

Period (including in the period from July 2019 onwards when Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns).

2.79 Both Commodities Loans fell due for repayment on 13 December 2019. GFG C Co agreed to purchase the alumina inventory from Alumina SPV and consequently in May 2020 Alumina SPV repaid the Alumina SPV Loan in full. The Firm subsequently received repayment of the Aluminium SPV Loan in full in June 2020, representing the proceeds of purchases by GFG C Co of the aluminium held by Aluminium SPV.

B. Mr Hunter's involvement in the negotiation and entry into the Commodities Loans in September-December 2018

2.80 The Firm had an SMF4 CRO when the Commodities Loans were approved and drawn. However, throughout the Relevant Period Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements. In addition, Mr Hunter had held SMF4 CRO responsibilities until November 2017 so, in addition to being familiar with the Commodities Loans (described below), he was familiar with the extent of the systems and controls within the Firm's Risk function and was, or should have been, familiar with the Economic Test.

2.81 Mr Hunter was aware that:

a. The transactions and each Commodities SPV were introduced to the Firm by GFG.
b. At the time the Firm approved the Alumina SPV Loan, the Firm did not know the identity of Alumina SPV. He was therefore aware that the CSC and the Board were approving the Alumina SPV Loan without meeting the management or owners of Alumina SPV or assessing their commercial rationale for taking part in the transaction.

c. The Commodities Loans were conditional upon GFG's acquisition of GFG C Co occurring.
d. The net proceeds of the Commodities Loans the Firm advanced to the Commodities SPVs moved from them to GFG D Co and then on to GFG C Co, and were ultimately reinjected into the capital structure as subordinated shareholder funding to enable GFG to acquire GFG C Co.
e. Credit approvals for both the Commodities Loans were obtained under time pressure, and that the Aluminium SPV Loan was drawn down four days after credit approval for it was obtained.
f. Although segregation of the aluminium owned by Aluminium SPV from that retained by GFG C Co (i.e., that the specific aluminium, rather than just a generic amount of aluminium, owned by Aluminium SPV was identifiable) had been identified as an important security feature in the credit proposal for the Aluminium SPV Loan, the CSC which approved the Aluminium SPV Loan did so without having had any survey of GFG C Co's site to assess any stock monitoring or segregation issues in relation to the aluminium.

2.82 Mr Hunter was involved in the negotiation of the Commodities Loans, including in settling their terms with GFG representatives. Each of the Commodities Loans was approved by the Firm's CSC. Mr Hunter spoke and voted in favour of the Firm advancing each Commodities Loan at each CSC meeting, and had a detailed knowledge of the transactions.

2.83 The amount of the Aluminium SPV Loan was below the limit on authority delegated by the Board. However, the amount of the Alumina SPV Loan was above the limit on Board delegated authority and so Board approval of that loan was sought by email. Mr Hunter wrote a detailed email to the Board in support of the transaction. Shortly before closing he was sent drafts, and at closing he was sent final versions, of the closing memoranda relating to the Commodities Loans. At closing he authorised funding of both Commodities Loans.

2.84 The structure and terms of the transactions of which the Commodities Loans formed part were complicated, and required the Firm to undertake a thorough and detailed LE analysis before entering into them in order for it to be assured that the Commodities SPVs were not connected to each other or to GFG for LE purposes. Mr Hunter's

SMF1 CEO responsibility did not extend to close oversight of that LE analysis; however, it did extend to a requirement for him to consider whether the Firm had adequate systems and controls (including an appropriate connected parties policy) to identify, assess and manage connected parties risks in relation to Large Exposures and related parties risks in relation to the Commodities Loans. There is no evidence that he did this.

C. Mr Hunter's involvement in developments after closing

2.85 The Commodities Loans, and particularly the security and aluminium segregation arrangements in respect of them, did not operate as the Firm had anticipated. Mr Hunter was aware of these issues (and chaired internal meetings at which they were discussed). There were a number of occasions when Mr Hunter, given his responsibilities and his knowledge of the Commodities Loans, should have considered whether the issues which had occurred in relation to the Commodities Loans should cause the Firm to reassess whether the Commodities SPVs were connected to each other or to GFG for LE purposes, and whether the Firm's LE submissions to the PRA should record its exposures under the Commodities Loans as GFG exposures, or connected to GFG exposures. However, he did not do so (including in the period from July 2019 onwards when Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns).

2.86 Mr Hunter was familiar with the Commodities Loans. By September 2019 it should have been clear to him that:

a. the Firm had concluded that the Commodities SPVs did not constitute a group of connected clients with GFG D Co or GFG C Co, or with each other, for LE purposes in reliance to a substantial extent on the security over the Commodities the Firm thought it had for the Commodities Loans, but because of issues relating to that security the Firm would not be able to rely on recovering the full amounts of the Commodities Loans through enforcing that security, and consequently the Firm was exposed to GFG; and
b. the aggregate outstanding amount of the Commodities Loans was almost 24% of the Firm's capital.

2.87 Given the scale of the Firm's exposure to the Commodities SPVs and Mr Hunter's awareness of the problems which had arisen in relation to the Commodities Loans, Mr Hunter should have discussed with the Firm's Risk function whether its LE analysis in respect of the Commodities Loans was correct, and whether the Firm's LE submissions to the PRA should record its exposures under the Commodities Loans as GFG exposures, or connected to GFG exposures.

3. RELATIONSHIP WITH THE GFG ALLIANCE

3.1 On 7 April 2017 Mr Hunter sent the other members of the Board a draft engagement policy (the "**Engagement Policy**") to govern interaction between the Firm and the Shareholder. Mr Hunter was the author of the Engagement Policy. The Board adopted the Engagement Policy in its 25 April 2017 meeting.

3.2 The Engagement Policy acknowledged the potential for conflicts of interest between the Firm and GFG and GFG's business interests, the requirement for a robust policy and provided that:

a. Mr Hunter was one of two employees of the Firm with responsibility for receiving and considering specific Shareholder requests and reporting on the same monthly at Board meetings.
b. The Board would be made aware of each request by the Shareholder and whether it was approved or not.
c. Any request from the Shareholder had to be in writing, to be addressed to Mr Hunter (and the other Wyelands employee referred to above) and to outline the rationale for such request from the Shareholder's perspective.
d. The Firm would consider each request on its own merits and when considering a transaction the Firm would assess the merits against: 1) the interests of depositors; 2) regulatory observance and prudent corporate governance; 3) the Firm's risk appetite; 4) the strategic development of the Firm; and 5) the strategic interests of GFG.
e. Although the Firm would consider the broader interests of the GFG Alliance, at no point would that be an overriding reason to undertake any transaction.

f. The Firm would satisfy itself that it had the necessary skills, expertise and time to undertake the relevant transaction.

g. The Firm would give consideration as to whether the PRA or FCA needed to be notified of any particular transaction. The Engagement Policy noted that the PRA were keen on ensuring the Board were aware of such transactions.

3.3 Mr Hunter sent a copy of the Engagement Policy to the PRA for information immediately after the Board adopted it and drew the PRA's attention to it in one of the Firm's regular update meetings with the PRA held later in April 2017. The Engagement Policy was the only policy the Board adopted which provided any specific guidance or contained any specific requirements regarding interactions between the Firm and members of the GFG Alliance until November 2019, when the Firm entered into a shareholder relationship agreement with the Shareholder.

3.4 Mr Hunter did not comply with the Engagement Policy. Throughout the Relevant Period, Mr Hunter did not forward most requests received from GFG to the Board. For most of 2017 Mr Hunter communicated weekly or twice weekly with GFG regarding the Firm's transactions or potential transactions. The PRA has identified a significant number of separate email chains (the "**CEO/GFG Emails**") that Mr Hunter and GFG representatives exchanged between May 2017 and October 2018 in which they discussed in some detail transactions or potential transactions between the Firm and specified counterparties. Some of those counterparties were members of the GFG Alliance, and others were business associates of GFG which GFG had introduced to the Firm. Mr Hunter's disclosures in the CEO/GFG Emails appear to have been made for the purposes of (either or both of) (i) keeping GFG updated regarding transactions the Firm had entered into or was proposing to enter into, and/or (ii) justifying requests by the Firm for additional capital contributions in order to enable it to enter into those transactions. Mr Hunter did not copy or forward the CEO/GFG Emails to the Board.

The split of GFG and non-GFG business

3.5 The Firm's 2018 internal capital adequacy assessment sent to the PRA said that the existing split of GFG to non-GFG business was 75:25, with the aim of moving to 65:35 in 2019 and a more even split after that, and in his 27 April 2018 letter to the PRA Mr Hunter said that in the first year of the Firm's operations the level of "external lending",

or business not introduced by GFG, had been between 20 and 25% of the Firm's business. However, the Firm did not implement a clear categorisation of transactions that were GFG introduced or comprised third-party business, with the result that the Firm did not have a clear record of how much third party business it was conducting. The Firm has since told the PRA that nearly all of its transactions involved either GFG entities or entities originally introduced by GFG; that transactions being categorised as 'third party' or 'non-related' during the Relevant Period did not mean that one of the parties had not been originally introduced by GFG; and that it had not been able to reference the criteria for categorising transactions as 'GFG introduced' or 'third party' transactions in materials provided to the Board or the PRA during the Relevant Period. The PRA has only identified two credit transactions the Firm entered into during the Relevant Period which did not involve either GFG entities or entities originally introduced by GFG. Mr Hunter was aware that nearly all the Firm's business was with, or originally introduced by, GFG. In part because Mr Hunter did not comply with the Engagement Policy, the level of GFG related or introduced business which the Firm was undertaking was less well documented, and therefore less clear, than would have been the case if the Engagement Policy had been adhered to. Compliance by Mr Hunter with the Engagement Policy, with the resulting Board focus on GFG requests, would also be more likely to have resulted in clear criteria for 'third party' and 'non-related' business being developed.

4. RECORD KEEPING FAILURES

4.1 The Firm was required to comply with Record Keeping Rule 2.1 of the PRA Rulebook, which required it to keep orderly records of its business and internal organisation, including all transactions undertaken by it, sufficient to enable the PRA to supervise and, where appropriate, investigate it. Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business and complying with regulatory and capital requirements therefore required him to take reasonable steps to oversee compliance with this rule, such that adequate systems, controls and policies were in place at the Firm for record keeping and the retention and filing of all relevant correspondence and documents, including client and transaction files. However, during the Relevant Period the Firm did not have any policies and

procedures regarding the retention of business-related correspondence and records, including those held on instant messaging applications.

Annex B – Breaches and Failings

1. Breaches

1.1 During the Relevant Period, as a result of the facts and matters set out at Annex A to the Notice, Mr Hunter breached:

a. Individual Conduct Rule 2: You must act with due skill, care and diligence;

b. Senior Manager Conduct Rule 1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively; and

c. Senior Manager Conduct Rule 2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.

1.2 These rules are included at **Appendix 2.**

2. Failings

2.1 The PRA has taken this action as a result of Mr Hunter's conduct whilst (a) the SMF1 CEO of the Firm throughout the Relevant Period, (b) the SMF4 CRO, or whilst he held SMF4 CRO responsibilities in respect of the Firm, for part of the Relevant Period and (c) he assumed the reporting responsibilities of the SMF2 CFO of the Firm to the PRA for part of the Relevant Period. The PRA has considered whether Mr Hunter performed those functions to the standard to be expected of a person in his position and with his responsibilities and knowledge, and therefore has taken into account:

a. Mr Hunter's own particular skills and experience, including that he was an experienced financial services professional who had recently held CRO and CEO roles in another bank, and that after he ceased to have SMF4 CRO responsibilities in respect of the Firm he was familiar with the extent of the systems and controls within the Firm's Risk function and was, or should have been, familiar with the Economic Test from previously holding those responsibilities; and

b. Mr Hunter's personal knowledge of and involvement in each of the Structured Transactions, and that he held the SMF4 CRO role when the Firm entered into the first two sets of the Structured Transactions and had SMF1 CEO oversight responsibility when the Firm entered into and then managed all of the Structured Transactions.

Individual Conduct Rule 2: You must act with due skill, care and diligence

2.2 During the Relevant Period, Mr Hunter breached PRA Individual Conduct Rule 2 because he failed to act with due skill, care and diligence in performing his roles at the Firm in a significant number of material respects:

a. He failed to ensure that all requests to the Firm received from GFG after the Board adopted the Engagement Policy on 25 April 2017 were referred to the Board for its consideration in accordance with the Engagement Policy.

b. In relation to the Power Plant Loans, he permitted the Firm to acquire in September 2018, and subsequently to dispose of in July 2019, the Firm SPVs without Board approval, each of which was required by the terms of reference of the Board. This failing is made more serious by the fact that Mr Hunter also became a director of the Firm SPVs, so had personal involvement with them. Before becoming a director he should have established that the Firm had obtained the required internal approvals to acquire the Firm SPVs.

c. He failed adequately to verify the accuracy of statements he made about the Firm:

i. in his letter to the PRA of 27 April 2018 concerning the proportion of the Firm's business which had comprised "external lending", or business not introduced by GFG, during the first year of the Firm's operations, when the Firm did not implement any clear categorisation of transactions that were GFG introduced or comprised third-party business. The PRA has subsequently identified only two credit transactions the Firm entered into between 21 December 2016 and 28 May 2020 which did not involve either GFG entities or entities originally introduced by GFG; and

ii. in his letter to the PRA of 7 January 2019 (1) concerning the extent of the Firm's systems and controls for identifying connected parties for the purpose of complying with the Large Exposures regime, when at the time the Firm did not have any formal systems or procedures in place to assess, by reference to the Economic Test, whether clients or potential clients were connected parties, and (2) as to the capacity in which an external regulatory compliance adviser with whom he was in contact was acting, when the adviser was in fact retained and paid by GFG rather than the Firm.

Senior Manager Conduct Rule 1: You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively

2.3 During the Relevant Period, Mr Hunter breached PRA Senior Manager Conduct Rule 1 because he failed to take reasonable steps to ensure that the management and conduct of the Firm's business was controlled effectively, by failing to ensure that responsibility for conducting analysis of the Firm's connected parties was clearly apportioned in the period prior to March 2019. During that period the Firm entered into all the Structured Transactions.

2.4 The Structured Transactions were entered into at an early stage in the Firm's development and were unusual, in terms of their nature and scale, for a bank of the Firm's size and experience. The Firm did not have appropriate resources or sufficient experience and expertise to ensure the proper identification and management of transaction counterparty risks (including connected parties and related parties risks) in relation to them. Mr Hunter was involved in both the negotiation and operation of the Structured Transactions, but failed to adequately consider whether the Firm had appropriate resources to competently undertake an LE analysis in relation to them. Not only was this both an SMF1 CEO and an SMF4 CRO responsibility, it was also a matter which was required by the Engagement Policy (which, as noted above, Mr Hunter failed to comply with). Mr Hunter's failing in this respect is exacerbated by the facts that in July 2018 (i.e., before the Firm had entered into the Power Plant Loans or the Commodities Loans) the PRA had pointed out to the Firm weaknesses in its risk management framework, and that he was aware of the limited number of the Firm's

staff who he considered had sufficient expertise to undertake the Structured Transactions. Given the complexity of aspects of the Structured Transactions and the significant proportion of the Firm's capital each set of Structured Transactions represented, the PRA would have expected Mr Hunter to have taken particular care after the date of that letter in assessing the ability of the Firm to competently undertake an LE analysis in respect of each set of the Structured Transactions.

2.5 Further, the Firm's overall strategy of reliance on GFG and GFG-introduced business required Mr Hunter to closely oversee (as the SMF1 CEO for the Relevant Period) or manage (as the SMF4 CRO, or holder of SMF4 CRO responsibilities, for part of the Relevant Period) how in practice the Large Exposures risks inherent in that business model were being appropriately identified, mitigated and controlled. Mr Hunter applied insufficient focus to this. After Mr Hunter ceased to be the SMF4 CRO, or to hold SMF4 CRO responsibilities, this required him to continually and actively challenge the Firm's Risk and Finance functions regarding whether they had adequate systems and controls in place and whether those systems and controls were operating effectively. There is no record that Mr Hunter was ever more than reactive to the problems that arose.

2.6 In particular:

a. While Mr Hunter was either the SMF4 CRO (up to July 2017) or held SMF4 CRO responsibilities (between July and November 2017), he failed to:

i. take reasonable steps to ensure that the Firm carried out an adequate LE analysis before entering into the GFG A Co facility and the Generator Loans; and

ii. consider whether developments which he was aware had occurred in relation to the GFG A Co facility and the Generator Loans after the Firm's entry into them should cause the Firm to revisit that LE analysis, and whether the Firm's LE submissions to the PRA should record its exposures under the GFG A Co facility and the Generator Loans as GFG exposures, or connected to GFG exposures.

These failings are particularly serious, given Mr Hunter's involvement in those transactions and the size of each set of those transactions in relation to the capital of the Firm.

b. Throughout the Relevant Period his SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework, provide general oversight of all the Firm's activities and manage its day-to-day operations. His familiarity with the extent of the systems and controls within the Firm's Risk function from his previous SMF4 CRO role and his knowledge of the Structured Transactions should have informed the level and intensity of oversight he was required to undertake in the relation to the Structured Transactions. However:

    i. between November 2017 and the end of May 2019, there were number of occasions when Mr Hunter should have considered and discussed with the Firm's Risk function whether developments which he was aware had occurred in relation to GFG A Co facility should cause the Firm to reconsider whether the look-through treatment the Firm was applying to the facility was appropriate and correct, and whether the Firm's LE submissions to the PRA should record its exposures under the GFG A Co facility as GFG exposures, or connected to GFG exposures. He did not do so;

    ii. by September 2019 Mr Hunter should have considered and discussed with the Firm's Risk function whether the issues which he was aware had occurred in relation to the Generator Loans should cause the Firm to reconsider its LE analysis of the Generator Loans, and whether the Firm's LE submissions to the PRA should record its exposures under the Generator Loans as GFG exposures, or connected to GFG exposures. He did not do so;

    iii. Mr Hunter should have reconsidered whether the Firm's LE analysis in September 2018 of the Power Plant Loan transactions had been correct, and had been correctly reported to the PRA, in light of the circumstances relating to the repayment of the loans in July 2019. There is no record that he did so; and

iv. by September 2019 Mr Hunter should have considered and discussed with the Firm's Risk function whether the issues which he was aware had occurred in relation to the Commodities Loans should cause the Firm to reconsider its LE analysis of the Commodities Loans, and whether the Firm's LE submissions to the PRA should record its exposures under the Commodities Loans as GFG exposures, or connected to GFG exposures. He did not do so.

Senior Manager Conduct Rule 2: You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system

2.7 During the Relevant Period, Mr Hunter breached PRA Senior Manager Conduct Rule 2 because he failed to take reasonable steps to ensure that the Firm was complying with relevant requirements and standards of the regulatory system (in particular, under the Large Exposures regime and under the Record Keeping and Related Party Transaction Risk parts of the PRA Rulebook).

2.8 During the Relevant Period, and across each of his roles and responsibilities at the Firm, Mr Hunter:

i. was familiar with each set of Structured Transactions;
ii. was, or should have been, aware of the size of each set of Structured Transactions in relation to the Firm's capital; and
iii. was aware of the size of the Firm's direct exposures to members of the GFG Alliance, and that therefore the Firm had very limited 'headroom' before it breached the 25% Large Exposures limit in respect of exposures to, or connected to, GFG.

The effectiveness of the Firm's systems and controls in respect of identifying, analysing and monitoring connected party (and related party) issues in respect of the Structured Transactions was therefore particularly important, given its limited scope for error before it would breach the LE limit. Mr Hunter was also, or should have been,

aware of the weaknesses in the Firm's regulatory reporting processes and controls pointed out in the January 2019 internal audit report into the Firm's June 2018 PRA returns referred to in paragraph 1.28 of Annex A above.

2.9 While he was the SMF4 CRO or held SMF4 CRO responsibilities, Mr Hunter failed to take reasonable steps to ensure that the Firm had adequate systems and controls (including an appropriate connected parties policy) to identify, assess and manage connected parties risks in relation to Large Exposures and related parties risks, as a result of which the Firm breached the 25% Large Exposures limit under Article 395 of Part IV of the CRR in respect of the GFG A Co receivables transactions and the Generator Loans, failed to identify those breaches as required by Article 393 of Part IV of the CRR and failed to report them to the PRA as required by Article 394 of Part IV of the CRR.

2.10 During the period that Mr Hunter assumed responsibility to the PRA for preparing and submitting accurate regulatory returns following the resignation of the Firm's SMF2 CFO in July 2019, he failed to take reasonable steps to ensure that the Firm submitted Large Exposures returns to the PRA which aggregated its exposures in respect of the GFG A Co receivables transactions, the Generator Loans and the Commodities Loans with its GFG exposures.

2.11 Throughout the Relevant Period Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business required him to maintain appropriate oversight of a suitable risk management framework and take reasonable steps to ensure the Firm's compliance with regulatory filings and regulatory and capital requirements. However, in his oversight of the Firm's Risk and Finance functions he failed to take reasonable steps to ensure that the Firm had adequate systems and controls to identify, assess, manage and report to the PRA connected parties risks in relation to Large Exposures and related parties risks until March 2019, following the PRA raising queries with the Firm in December 2018 concerning possible connections between GFG and the respective Power Plant Loan borrowers. As a result, the Firm breached the 25% Large Exposures limit under Article 395 of Part IV of the CRR in respect of the GFG A Co receivables transactions, the Generator Loans and the Commodities Loans, failed to identify those breaches as required by Article 393 of Part IV of the CRR and failed to report them to the PRA as required by Article

394 of Part IV of the CRR. The Firm may also have breached the 25% Large Exposures limit (and failed to identify and report the breach) in respect of the Power Plant Loans (the Firm's due diligence, monitoring and record keeping failures were such that the Firm was unable, and the PRA is unable, to definitively conclude whether or not the Firm was in compliance with the limit in relation to the Power Plant Loans). This failing is particularly serious, since the issue was pointed out to Mr Hunter in writing by another officer of the Firm in September 2017.

2.12 During the Relevant Period Mr Hunter's SMF1 CEO responsibility for carrying out the management of the conduct of the whole of the Firm's business and complying with regulatory and capital requirements required him to take reasonable steps to oversee the Firm's compliance with Record Keeping Rule 2.1 of the PRA Rulebook, such that adequate systems, controls and policies were in place at the Firm for record keeping and the retention and filing of all relevant correspondence and documents, including client and transaction files. However, there is no record during the Relevant Period of Mr Hunter taking any steps to consider or oversee the introduction of a formal and appropriate document retention policy.

Annex C: Penalty analysis

1. FINANCIAL PENALTY

1.1 The PRA's policy for imposing a financial penalty is set out in '*The PRA's approach to enforcement: statutory statements of policy and procedure'* (September 2021), in particular the '*Statement of the PRA's policy on the imposition and amount of financial penalties under the Act'* (the "**PRA Penalty Policy**").

1.2 Pursuant to paragraphs 12 to 36 of the PRA Penalty Policy, the PRA applies a five-step framework to determine the appropriate level of financial penalty.

Step 1: Disgorgement

1.3 Pursuant to paragraph 17 of the PRA Penalty Policy, at Step 1 the PRA seeks to deprive a person of any economic benefits derived from or attributable to the breach of its regulatory requirements, where it is practicable to ascertain and quantify them. There is no evidence to suggest that Mr Hunter derived any economic benefit from the breaches, including profit made or loss avoided.

1.4 The Step 1 figure is therefore **£0**.

Step 2: The seriousness of the breach

1.5 Pursuant to paragraph 18 of the PRA Penalty Policy, at Step 2 the PRA determines a starting point figure for a financial penalty having regard to the seriousness of the breach by the relevant individual – including any threat it posed or continues to pose to the advancement of the PRA's statutory objectives. Pursuant to paragraph 20 of the PRA Penalty Policy, the PRA will ordinarily determine a figure at Step 2 based on the individual's annual income. "**Annual income**" means the gross amount of all benefits, including any deferred benefits received by the individual from the employment in connection with which the breach of the PRA's requirements occurred. The PRA ordinarily calculates an individual's annual income during the tax year preceding the date when the breach ended ("**relevant income**").

1.6 In this instance, Mr Hunter's breaches continued until 28 May 2020. Therefore, the tax year preceding this date was from 6 April 2019 to 5 April 2020 (the "**2019-20 tax year**"). The PRA considers Mr Hunter's relevant income to be **£432,032**.

1.7 Therefore, the starting point for the penalty is **£432,032**.

1.8 Pursuant to paragraph 20(d) of the PRA Penalty Policy, the PRA applies an appropriate percentage rate (the "**Seriousness Percentage**") to the individual's relevant income figure to produce a figure that properly reflects the nature, extent, scale and gravity of the breaches. In determining the Seriousness Percentage, the factors to which the PRA may have regard include, as appropriate, the factors set out at paragraph 21 of the PRA Penalty Policy.

1.9 The PRA considers the Seriousness Percentage applied to Mr Hunter's relevant income should be 25% for the following reasons:

a. Mr Hunter was an experienced financial services professional who had recently held CRO and CEO roles in another bank. As CEO of the Firm for all of the Relevant Period, Mr Hunter held the SMF1 function, with responsibility for carrying out the management of the conduct of the whole of the Firm's business. He was also the Firm's SMF4 CRO for part of the Relevant Period, with responsibility for the overall management of the risk controls of the Firm and Prescribed Responsibilities for implementing and management of the Firm's risk management policies and procedures and controls and managing the systems and controls of the Firm. He also assumed the reporting responsibilities of the SMF2 CFO of the Firm to the PRA for part of the Relevant Period.

b. Mr Hunter's conduct created a risk to the safety and soundness of the Firm. In particular, he failed to act with due skill, care and diligence in performing his roles at the Firm in a significant number of material respects. The Firm's failure to conduct itself in a prudent and competent manner, and to implement a risk and control framework that was commensurate with the nature, scale and complexity of its business and strategy, undermined the safety and soundness of the Firm. As a result, the Firm failed to comply with relevant regulatory requirements and

its own internal policies and procedures. Mr Hunter was directly involved in, or had had direct oversight, over a large number of these failures.

c. In both of his CEO and CRO roles, Mr Hunter failed to take reasonable steps to ensure that the Firm complied with its regulatory requirements. The Firm breached the 25% Large Exposures limit under Article 395 of Part IV of the CRR in respect of three of the four sets of Structured Transactions, and failed to identify these breaches as required by Article 393 of Part IV of the CRR and report them to the PRA as required by Article 394 of Part IV of the CRR. Ensuring that risks arising from Large Exposures to individual clients or groups of connected clients are kept to an acceptable level is a key part of the PRA's approach to prudential supervision, as a failure in one entity or group of connected entities can result in the firm incurring disproportionately large losses, undermining its safety and soundness. The PRA considers that Mr Hunter should have been well aware of the risks and potential implications of the Firm's reliance on GFG and GFG-introduced business, and should have taken reasonable steps to implement, or oversee the implementation of, more effective due diligence, governance and oversight, and systems and controls and policies and processes such that the Firm could properly identify and manage its Large Exposures.

d. Mr Hunter also failed to take reasonable steps to ensure that the Firm had adequate systems and processes in place to comply with the PRA's Record Keeping Rule 2.1. As a result, the Firm being unable to provide documents (particularly electronic messages) that were potentially relevant to the PRA's investigation. This hindered the PRA's ability to conduct its investigation into both the Firm and Mr Hunter.

e. Mr Hunter's breaches and failings persisted for several years, from soon after the Firm was acquired in December 2016 throughout remainder of the Relevant Period. A number of them occurred within a short period after the PRA had written to him in July 2018 identifying weaknesses in the Firm's risk management framework. The PRA would have expected Mr Hunter to have taken particular care after the date of that letter in assessing the ability of the Firm to competently undertake an LE analysis in respect of each set of the Structured Transactions.

1.10 The Step 2 figure is therefore **£108,008**.

Step 3: Adjustment for any mitigating, aggravating or other relevant factors

1.11 Pursuant to paragraph 24 of the PRA Penalty Policy, the PRA may increase or decrease the Step 2 figure to take account of any factors which may aggravate or mitigate the breaches. The factors that may aggravate or mitigate the breach include those set out at paragraphs 25 and 26 of the PRA Penalty Policy. Any such adjustment will normally be made by way of a percentage adjustment to the figure determined at Step 2.

1.12 In deciding whether any adjustment for aggravating or mitigating factors is warranted, the PRA has considered the following factors:

a. Mr Hunter cooperated with the PRA investigation team's information and interview requests and the PRA understands that he flew from Dubai to London to attend an interview in person with the PRA.

b. Mr Hunter has no previous disciplinary or compliance record with the PRA. However, his breaches persisted for several years, from soon after the Firm was acquired in December 2016 throughout the remainder of the Relevant Period.

1.13 The PRA considers that these factors do not justify an adjustment to the Step 2 figure.

1.14 The Step 3 figure is therefore **£108,008**.

Step 4: Adjustment for deterrence

1.15 Pursuant to paragraph 27 of the PRA Penalty Policy, if the PRA considers the figure arrived at after Step 3 is insufficient to effectively deter the individual that committed the breach, or others, from committing further or similar breaches, then the PRA may increase the penalty at Step 4 by making an appropriate adjustment to it.

1.16 The PRA considers that the Step 3 figure should be increased in order to achieve an effective deterrent to senior managers of firms and to the regulated community more widely as to the high standards of regulatory behaviour required. Therefore the PRA considers that it is appropriate to increase the Step 3 figure by 10%.

1.17 The Step 4 figure is therefore **£118,808**.

Step 5: Application of any applicable reductions for early settlement or serious financial hardship

1.18 Pursuant to paragraph 29 of the PRA Penalty Policy, if the PRA and the individual upon whom a financial penalty is to be imposed agree the amount of the financial penalty and any other appropriate settlement terms, the PRA Penalty Policy provides that the amount of the penalty which would otherwise have been payable may, subject to the stage at which a binding settlement agreement is reached, be reduced.

1.19 Although the PRA and Mr Hunter reached an agreement to settle, that settlement was not reached during the Discount Stage (i.e., the period of the PRA's investigation during which, as provided for in the PRA Penalty Policy and PRA Settlement Policy, the subject of the investigation will qualify for a 30% discount to the proposed financial penalty if they enter into a settlement agreement with the PRA), therefore no discount applies to the Step 4 figure.

1.20 The Step 5 figure is therefore **£118,808**.

Conclusion

1.21 The PRA is therefore imposing on Mr Hunter a financial penalty of **£118,808**.

Annex D – Procedural Matters

Decision maker

1. The settlement decision makers made the decision which gave rise to the obligation to give this Notice.

2. This Notice is given under and in accordance with section 390 of the Act.

Manner and time for payment

3. Mr Hunter must pay the financial penalty in full to the PRA by no later than the date falling two months after the date of this Notice. If all or any of the financial penalty is outstanding at close of business in London on that date, the PRA may recover the outstanding amount as a debt owed by Mr Hunter and due to the PRA.

Publicity

4. Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the PRA must publish such information about the matter to which this Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such publication would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to the safety and soundness of PRA-authorised persons or prejudicial to securing an appropriate degree of protection to policyholders.

PRA contacts

5. For more information concerning this matter generally, contact Press Office (press@bankofengland.co.uk).

Appendix 1: Definitions

The definitions below are used in this Notice:

1. the "Act" or "FSMA" means the Financial Services and Markets Act 2000 (as amended);

2. "Alumina SPV" means, in relation to the Commodities Loans, the company which purchased alumina from the GFG D Co;

3. "Alumina SPV Loan" means the US$19.2m loan from the Firm to Alumina SPV;

4. "Aluminium SPV" means, in relation to the Commodities Loans, the company which purchased aluminium from GFG D Co;

5. "Aluminium SPV Loan" means the US$16.4m loan from the Firm to Aluminium SPV;

6. "authorised person" has the meaning given to that term in section 31(2) of the Act;

7. "block buyers" means, in relation to the GFG A Co receivables purchase transactions described in this Notice, a wide range of GFG A Co's trade debtors;

8. "Board" means the Board of Directors of the Firm;

9. "CEO" means Chief Executive Officer;

10. "CEO/GFG Emails" means the email chains exchanged between Mr Hunter and GFG representatives between May 2017 and October 2018 in which they discussed transactions or potential transactions between the Firm and specified counterparties;

11. the "CEO's January 2019 Letter" means the letter sent by Mr Hunter to the PRA on 7 January 2019 in response to certain queries by the PRA;

12. "CFO" means Chief Financial Officer;

13. "Commodities" means, in relation to the Commodities Loans, the alumina and aluminium that were sold by GFG C Co to GFG D Co (and then on-sold to the Commodities SPVs), the proceeds of which were indirectly used to fund the acquisition of GFG C Co from an

unrelated third party;

14. “Commodities Loans” means (together) the Alumina SPV Loan and the Aluminium SPV Loan;

15. “Commodities SPVs” means Alumina SPV and Aluminium SPV;

16. “Control Test” is defined in Article 4(1)(39) of the CRR, which provides that a connected party means two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other/others;

17. “CRO” means Chief Risk Officer;

18. “CRR” means the EU Capital Requirements Regulation (No 575/2013);

19. “CSC” means the Firm’s Credit Sanctioning Committee, an executive committee established in February 2018 and responsible for overseeing credit and counterparty risks arising from potential and/or actual transactions;

20. “Economic Test” is defined in Article 4(1)(39) of the CRR, which provides that a connected party means two or more natural or legal persons between whom there is no relationship of control (Control Test) but who are to be regarded as constituting a single risk because they are so interconnected that if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would also be likely to encounter funding of repayment difficulties;

21. “Engagement Policy” means the policy that was introduced by the Firm on 25 April 2017 to manage potential risks of conflicts of interest between the Firm and the wider GFG business;

22. “exempt person” has the meaning given to that term in section 417(1) of the Act;

23. “exempt professional firm” has the meaning given to that term in the FCA Handbook;

24. “Firm Loans” means, in relation to the Power Plant Loans, the £250,000 loans that the Firm made to the Firm SPVs when it purchased them and the further £2.34m it lent them

in 2019;

25. “Firm SPVs” mean the three companies which were in the process of constructing Power Plants and that were acquired by the Firm in September 2018;

26. “First Line” means the first line of defence in the Firm’s risk management framework, responsible for owning and managing risks, and executing transactions;

27. “Generators” means the 13 biodiesel-fuel generators purchased from GFG B Co;

28. “Generator Loans” mean the five separate loans the Firm made to the Generator SPVs, initially in June and July 2017, and increased in late 2017 and April 2018 so that they totalled £39.9m, in connection with the Generator SPVs’ respective purchases of the Generators;

29. “Generator SPVs” mean the five companies that acquired the Generators from GFG B Co using the proceeds of the Generator Loans from the Firm;

30. “Generator UBOs” means the separate owners of the Generator SPVs;

31. “GFG” or “GFG Alliance” means the Gupta Family Group alliance of global businesses;

32. “GFG A Co” means the newly incorporated GFG entity with which the Firm entered into the receivables purchase transactions described in this Notice;

33. “GFG B Co” means the GFG entity that, among other things, sold the Generators to the Generator SPVs and (indirectly) the Power Plant SPVs to the New Parents;

34. “GFG C Co” means, in relation to the Commodities Loans, the GFG entity which operated an aluminium smelter and that was acquired from an unrelated third party;

35. “GFG D Co” means, in relation to the Commodities Loans, the GFG entity that bought the Commodities from GFG C Co and then sold them on to the Commodities SPVs;

36. “Large Exposures” or “LE” means a firm’s exposure to a client or group of connected clients where the value of the exposure is equal to or exceeds 10% of the firm’s eligible capital, as defined in Article 392 of Part IV of the CRR;

37. “New Parent” means, in relation to each Power Plant Loan, the company that received an

intercompany loan from the Power Plant SPV which it was acquiring in order to finance its acquisition of that Power Plant SPV;

38. “Notice” means this Notice and its appendices;

39. “O&M” means operation and maintenance;

40. “OpCo” means, in relation to the Power Plant Loans, the twelfth Power Plant SPV, which provided O&M services in respect of the Power Plants to the other eleven Power Plant SPVs;

41. “Power Plants” means, in relation to the Power Plant Loans, the power plants owned by eleven out of twelve Power Plant SPVs;

42. “Power Plant Loans” means the twelve separate loans made by the Firm in September 2018, totalling £104m, to the Power Plant SPVs;

43. “Power Plant SPVs” means the twelve companies which were (indirectly) purchased from GFG B Co in September 2018 and either owned the Power Plants or, in the case of the twelfth company, provided O&M services to the other eleven companies;

44. “Power Plant UBO” means, in relation to each Power Plant Loan, the owner of the relevant New Parent;

45. "PRA" means the Prudential Regulation Authority;

46. “PRA Penalty Policy” means the PRA’s approach to enforcement: statutory statements of policy and procedure September 2021 – Appendix 2 – Statement of the PRA’s policy on the imposition and amount of financial penalties under the Act;

47. "PRA Settlement Policy" means the PRA's approach to enforcement: statutory statements of policy and procedure September 2021 - Appendix 4 - Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases;

48. “Regulatory Business Plan” means the Firm’s regulatory business plan presented to the PRA in 2016 as part of the change in control approval process;

49. “Relevant Period” is the period between 7 March 2016 and 28 May 2020;

50. “RPA” means, in relation to the GFG A Co receivables purchase transactions described in this Notice, the receivables purchase agreement between GFG A Co and the Firm;

51. “RTBs” means, in relation to the GFG A Co receivables purchase transactions described in this Notice, buyers of stock from GFG A Co who only acquired title to that stock upon payment in full of the purchase price for that stock;

52. “Second Line” means the second line of defence in the Firm’s risk management framework, responsible for the design and ongoing improvement of the risk management framework, continuous monitoring and reporting on risks (including maintaining a detailed risk register), providing challenge and oversight to the First Line’s implementation of the risk management framework, and developing risk policies and operational procedures;

53. “Shareholder” means the shareholder of the Firm;

54. “Structured Transactions” means the GFG A Co receivables purchase transactions described in this Notice, the Generator Loans, the Power Plant Loans and the Commodities Loans;

55. “Third Line” means the third line of defence in the Firm’s risk management framework, responsible for providing the Board with independent assurance of the effectiveness of the risk management framework and processes, and regularly conducting an independent review and assessment of all aspects of the work of the First Line and Second Line;

56. “TPFP” means, in relation to the GFG A Co receivables purchase transactions described in this Notice, the third party finance provider to GFG A Co;

57. “TPFP Security Agreement” means the security agreement executed by GFG A Co in April 2019 in favour of the TPFP;

58. “Watchlist” means the PRA’s Watchlist, a central list of firms which the PRA is most concerned about from the perspective of its statutory objectives; and

59. “Wyelands” or the “Firm” means Wyelands Bank Plc.

Appendix 2: Relevant Statutory and Regulatory Provisions

1. Relevant Statutory Provisions

1.1 The PRA has a general objective, set out in section 2B of the Act, to promote the safety and soundness of PRA-authorised persons. The PRA seeks to advance this objective by seeking to ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system.

1.2 Section 66 of the Act provides that the PRA may take action against a person, including imposing a penalty on them of such amount as the PRA considers appropriate, if it appears to the PRA that they are guilty of misconduct and the PRA is satisfied that it is appropriate in all the circumstances to take action against them. The conditions under which a person is guilty of misconduct for the purposes of PRA action are set out in section 66B of the Act.

2. Relevant Regulatory Provisions

2.1 The PRA has two sets of conduct rules for individuals falling within the Senior Managers and Certification Regime:

2.1.1. Individual Conduct Rules apply to all individuals performing senior management functions or certification functions; and

2.1.2. Senior Manager Conduct Rules apply only to individuals performing senior management functions.

2.2 Individual Conduct Rule 2 states that 'You must act with due skill, care and diligence'.

2.3 Senior Manager Conduct Rule 1 states that 'You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively'.

2.4 Senior Manager Conduct Rule 2 states that 'You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system'.

3. Relevant Statutory Policy

Approach to enforcement

3.1 *The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure*, *April 2013* (as updated in September 2021) sets out the PRA's approach to exercising its main enforcement powers under the Act.

3.2 In particular, The PRA's approach to the imposition of penalties is outlined at Annex 2 *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*; and the PRA's approach to settlement is outlined at Annex 4 - *Statement of* the *PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*.