

# Bank of England

## Prudential Regulation Authority

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### FINAL NOTICE

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To: **George Jay Hambro (IRN GJH01089) (“Mr Hambro”)**

Date: **2 April 2025**

## 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 Hambro of £72,000.
- 1.2. The PRA has taken the action set out in paragraph 1.1 because, for the reasons set out below, it considers that, in carrying out his role at Wyelands Bank Plc (the “**Firm**” or “**Wyelands**”) between 3 July 2017 and 19 February 2020 (the “**Relevant Period**”), Mr Hambro breached Individual Conduct Rule 2 (You must act with due skill, care and diligence) in relation to the three matters set out in this Notice.
- 1.3. In taking this action, the PRA has had regard to representations submitted on behalf of Mr Hambro. Mr Hambro had not held any PRA-approved or FSA-approved roles since 2003 or been a notified non-executive director (a “**Notified NED**”) before his appointment as a director of the Firm. He has not held any PRA-approved roles or been a Notified NED since resigning as a director of the Firm in July 2021. Mr Hambro has reflected carefully on his conduct and has accepted his failings set out in this Notice and expressed his regret for those failings.

## 2. Summary of reasons for the PRA's action

### Background

- 2.1. The PRA has taken this action as a result of Mr Hambro's conduct whilst a Notified NED of the Firm (a role he held throughout the Relevant Period). As a Notified NED, Mr Hambro was subject to some (but not all) of the Conduct Rules, including Individual Conduct Rule 2.
- 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) via a trust he established and renamed it Wyelands Bank.
- 2.3. 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. 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.
- 2.4. 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.
- 2.5. Mr Hambro joined the Firm's Board as a Notified NED in December 2016, immediately upon completion of the change in control of the Firm. Notified NEDs became subject to the PRA's rules for the first time from 3 July 2017, following a change to the PRA Rulebook.

- 2.6. Mr Hambro also held a number of senior appointments and roles with various members of the GFG Alliance during the Relevant Period. He joined the Firm's Board to represent the Shareholder's interests and to support the introduction of business from GFG and facilitate the management of the relationship between the Firm and the Shareholder. The Firm's Regulatory Business Plan said Mr Hambro could be precluded from Firm decisions where there was deemed to be a perceived conflict of interest, acknowledging that his dual role as a Notified NED of the Firm and a senior executive within GFG created the potential for conflicts of interest.

## PRA investigation into the Firm

- 2.7. 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**").
- 2.8. 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) failed to identify that certain amounts it had received as capital had been indirectly funded by the Firm and consequently did not qualify as Common Equity Tier 1 ("**CET1**") capital;
  - b) breached the 25% Large Exposures limit in relation to a number of the structured finance transactions (the "**Structured Transactions**") it entered into, inaccurately reported to the PRA its Large Exposures in relation to those 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;
  - c) 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; in particular, it 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;

- d) 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; and
- e) did not take sufficient care to ensure that the Firm's 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.

## PRA investigation into Mr Hambro

- 2.9. On 21 May 2021 the PRA opened an investigation into Mr Hambro under section 168(5) of FSMA. During the course of its investigation, the PRA issued several information requirements to Mr Hambro, and Mr Hambro attended an interview with the PRA on 30 and 31 March 2022.

## Recognition of capital

- 2.10. During the Relevant Period, Mr Hambro's conduct contributed to the receipt by the Firm of a £10m capital injection indirectly from the proceeds of a loan the Firm had made to a third party. In September 2018 the Firm received £10m as capital which it had indirectly funded, and which therefore did not qualify as capital for regulatory purposes, but which the Firm nevertheless reported to the PRA as CET1 capital. The Firm received that amount at or around the time of a new loan by the Firm to a third party, the proceeds of which the Firm had paid to GFG entities or executives. Wyelands required the additional capital in order to be able to provide further financing under one of the sets of Structured Transactions. Accordingly, the Firm was effectively funding its own capital requirements from a loan it made to a third party, where the loan exposure presented the very risk that called for the fresh capital injection.
- 2.11. Mr Hambro was aware that the proceeds of the loan were paid to GFG entities or executives. He was involved in a number of communications with GFG and Wyelands executives regarding the funding of the capital injection into the Firm and the mechanism for doing so. Immediately before that capital injection, Mr Hambro was informed of the steps by which the Firm would fund £10m of its own capital. Mr Hambro

has told the PRA he was not aware (as he should have been) that the funding mechanism meant that the Firm did not receive genuinely fresh capital, or that it resulted in the capital raised being ineligible to qualify as CET1 capital under the Capital Requirements Regulation (No 575/2013) (“**CRR**”). However, he did not make inquiry (as he should have done) as to the appropriateness of the funding mechanism.

## Large Exposures assessments

- 2.12. The large exposures (“**Large Exposures**” or “**LE**”) regime under the 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 greater than 25% of their capital.
- 2.13. Following the completion in September 2018 of one of the sets of Structured Transactions, in or by January 2019 Mr Hambro and others within GFG became aware that the ultimate owner of one of the borrowers under that set of Structured Transactions (“**GFG Executive One**”), who was also the sole director of both that borrower and of the holding company of that borrower, was also listed as a director of a GFG entity (“**GFG B Co**”). In February 2019 Mr Hambro gave instructions to a GFG executive (“**GFG Executive Two**”) to record the date of GFG Executive One’s resignation from the GFG B Co board as 31 August 2018 (or in any event pre-September 2018), a date before the Firm had entered into the relevant set of Structured Transactions. This instruction was carried out. Mr Hambro has provided the PRA with evidence of discussions he had in the context of his employment with GFG regarding resolution of this issue. He has also told the PRA that subsequently he was passing on oral rather than written instructions he had received in that context and that he took comfort from the involvement of the GFG legal department (although he did not receive formal advice from the GFG legal department as to the resignation date). However, he did not make sufficient inquiries as to the date of GFG Executive One’s resignation as a director of GFG B Co before he gave instructions to GFG Executive Two.

## Relationship with the GFG Alliance

- 2.14. Wyelands introduced a policy in 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 full Board, along with an outline of the rationale for the proposed transaction, so that the Firm could assess its merits against certain criteria specified in the policy. It also required the Firm to satisfy itself that it had the necessary skills, expertise and time to undertake the relevant transaction.
- 2.15. Between July 2017 and December 2018 the Firm entered into, or increased its exposure under, three sets of Structured Transactions. Each set had a value representing a significant proportion of the Firm’s capital. Mr Hambro was involved with other GFG executives in proposing each set of the Structured Transactions, or increases in the Firm’s exposure under them, to the Firm’s executives. Under each set of Structured Transactions, Wyelands provided credit to counterparties which were not members of the GFG Alliance, but part or all of the cash proceeds of the credits were received, directly or indirectly, by a GFG member.
- 2.16. The Engagement Policy applied to Mr Hambro as a Notified NED. However, the Structured Transactions which Mr Hambro was involved in proposing to executives at the Firm in 2017 and 2018 either did not come to the attention of the full Board at all or, in respect of those which did come to the full Board’s attention, the full Board was not informed that GFG had requested the Firm to enter into them and the requirements set out in the Engagement Policy were not adhered to.
- 2.17. Through his membership of the Board, Mr Hambro should have appreciated that the Engagement Policy was not being complied with in relation to those proposals. He failed to take steps to ensure that the Engagement Policy was complied with. Mr Hambro’s conduct contributed to the Firm being exposed to increased risks of conflicts of interest with GFG companies which the Engagement Policy had sought to mitigate, and to the full Board not having adequate oversight of how certain transactions or

potential transactions were being introduced to the Firm or their rationale and volume, whether they satisfied the criteria set out in the Engagement Policy, whether the Firm had the necessary skills, expertise and time to undertake them, or why the Firm made certain requests for capital injections.

### **3. Breaches and failings**

For the reasons detailed below and in Annex B to this Notice, the PRA considers that Mr Hambro breached Individual Conduct Rule 2 in relation to the three matters set out in this Notice.

#### **Recognition of capital**

- 3.1. During the Relevant Period, Mr Hambro's conduct contributed to the receipt by the Firm of a £10m capital injection indirectly from the proceeds of a loan the Firm had made to a third party. Mr Hambro was aware of the relevant facts concerning the funding mechanism for the £10m September 2018 capital injection into the Firm. Mr Hambro has told the PRA he was not aware (as he should have been) that the funding mechanism meant that the Firm did not receive genuinely fresh capital, or that it resulted in the capital raised being ineligible to qualify as CET1 capital under the CRR. However, he should have made inquiry as to the appropriateness of the funding mechanism. His conduct in this respect demonstrated a serious lack of due skill, care and diligence, and therefore a breach of Individual Conduct Rule 2. His failure in this respect contributed to the Firm reporting the capital as compliant with the CRR requirements for CET1 capital when it was not.

#### **Large Exposures assessments**

- 3.2. Mr Hambro understood the date of GFG Executive One's resignation was relevant to the Firm's and the PRA's assessments of whether the Firm was in breach of the Large Exposures limit applicable to it. Mr Hambro has provided the PRA with evidence of discussions he had in the context of his employment with GFG regarding resolution of this issue. He has also told the PRA that subsequently he was passing on oral rather than written instructions he had received in that context and that he took comfort from the involvement of the GFG legal department (although he did not receive formal advice from the GFG legal department as to the resignation date). However, his conduct in

this respect demonstrated a serious lack of due skill, care and diligence, and therefore a breach of Individual Conduct Rule 2, because he should have made sufficient inquiries as to the date of GFG Executive One's resignation as a director of GFG B Co before he gave instructions to GFG Executive Two to record the date of GFG Executive One's resignation, an instruction which was carried out. As a Notified NED, it was unreasonable for Mr Hambro to rely upon the instructions he has told the PRA he received without taking further steps to confirm that those instructions were correct before he gave instructions to GFG Executive Two. This adversely affected the ability of the Firm and the PRA to assess whether the Firm was in breach of the Large Exposures limit applicable to it.

## **Relationship with the GFG Alliance**

- 3.3. During the Relevant Period, Mr Hambro breached Individual Conduct Rule 2 because he failed to act with due skill, care and diligence in that he failed to take steps to ensure that the Firm's Engagement Policy was complied with when he was involved in proposing to the Firm's executives transactions or potential transactions between the Firm and members of the GFG Alliance or business associates of GFG which GFG had introduced to the Firm.
- 3.4. The breaches of Individual Conduct Rule 2 in relation to the three matters set out in this Notice are set out in more detail in Annex B to 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.
- 4.2 Mr Hambro was a Notified NED of the Firm during the Relevant Period. In this role, the PRA expected Mr Hambro to exercise sound judgement, to comply with the Firm's policies and procedures, and to take reasonable steps, in overseeing the conduct of the Firm's business and holding the Firm's executive management to account effectively. As board members, Notified NEDs share in the wider board duty to promote the success of the firm for which they are responsible and to ensure that the

firm continues to meet the Threshold Conditions in schedule 6 to FSMA. The PRA considers it vital that boards as a whole understand the Threshold Conditions in FSMA, the Fundamental Rules and other detailed underlying rules in the PRA Rulebook.

- 4.3 The PRA expects firms to ensure that capital injected into the firm, which it reports to the PRA as meeting relevant regulatory requirements, does in fact do so and is treated as such. In particular, the PRA considers that self-funded shares pose prudential risk, because they are not equity in any proper sense. Rather, they are recycled debt that offers no loss absorbing capacity and create the misleading appearance of the share issuer having a lower debt/equity ratio than is in reality the case. Mr Hambro's conduct contributed to the Firm indirectly funding its own capital in September 2018. He was aware of the relevant facts concerning the funding mechanism for the £10m September 2018 capital injection into the Firm. He should have made inquiry as to the appropriateness of the funding mechanism. His failure in this respect contributed to the Firm reporting the capital as compliant with the CRR requirements for CET1 capital when it was not, and demonstrated a serious lack of due skill, care and diligence.
- 4.4 The PRA relies on senior representatives of each firm taking reasonable steps to ensure information which is relevant to the PRA's supervision of that firm is accurately recorded. Mr Hambro understood the date of GFG Executive One's resignation was relevant to the Firm's and the PRA's assessments of whether the Firm was in breach of the Large Exposures limit applicable to it. He should have made sufficient inquiries as to the date of GFG Executive One's resignation as a director of GFG B Co before he gave instructions to GFG Executive Two to record the date of GFG Executive One's resignation, an instruction which was carried out. The effect of his instruction was to adversely affect the ability of the Firm and the PRA to assess whether the Firm was in breach of the Large Exposures limit applicable to it, which in turn had the potential to hinder the PRA's ability to effectively supervise the Firm. His conduct in this respect demonstrated a serious lack of due skill, care and diligence.
- 4.5 Mr Hambro's conduct fell below the standards expected of a person in his position in an authorised firm and demonstrated a serious lack of due skill, care and diligence. His breaches began in July 2017 and continued until February 2020. The PRA places

great reliance on regulated individuals complying with the Conduct Rules to which they are subject. If senior individuals fail to so comply, it undermines the trust in financial institutions and the UK financial system itself. Mr Hambro's breaches and failings set out in this Notice contributed to creating prudential risks for the Firm which threatened its safety and soundness.

## 5. Sanction

- 5.1. The imposition of a financial penalty on Mr Hambro 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 Conduct Rules to which they are subject.
- 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 Hambro's breaches of Individual Conduct Rule 2 in relation to the three matters set out in this Notice justify the imposition of a financial penalty of £72,000.

## 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 Hambro can be found in **Annex A**. Mr Hambro'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**.

**David Chaplin**

**Head of Legal**

**Enforcement and Litigation Division**

for and on behalf of the PRA

## Annex A – Facts And Matters Relied Upon

### 1. BACKGROUND

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#### Wyelands Bank

- 1.1. During the period from 3 July 2017 to 19 February 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 and authorised and regulated by the PRA and regulated by the FCA.
- 1.2. 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**”) 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.
- 1.3. In practice, Wyelands’ business was heavily reliant on GFG and entities originally introduced by GFG throughout 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.
- 1.4. The Firm sought to finance its transactions through growing its retail and wholesale deposit base. During the Relevant Period, Wyelands also required continued capital injections in order to expand its loan book. Capital injections were often provided in response to specific transactions introduced by GFG.
- 1.5. 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.

1.6. Between July 2017 and December 2018, the Firm entered into, or increased its exposure under, three sets of structured finance transactions (the “**Structured Transactions**”). Mr Hambro was a Notified NED (defined in paragraph 1.9 below) of the Firm when it entered into, or increased its exposure under, the Structured Transactions and was involved with other GFG executives in proposing each set of the Structured Transactions, or increases in the Firm’s exposure under them, to the Firm’s executives. Each set had a value representing a significant proportion of the Firm’s capital, as follows:

- a. 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.
- b. In September 2018 the Firm made a set of 12 separate loans (“**Power Plant Loans**”) to 12 companies (“**Power Plant SPVs**”) which owned or operated power plants (“**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.
- c. In December 2018, the Firm made loans to two companies to finance their purchases of commodities from a GFG entity. 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 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.

1.7. Under each Structured Transaction, Wyelands provided credit to a counterparty which was not a member of the GFG Alliance, but part or all of the cash proceeds of the credit were received, directly or indirectly, by a GFG member.

## Mr Hambro's Role and Responsibilities

1.8. Mr Hambro is an experienced company director, having held a number of both executive and non-executive positions since 2003. He also has had a number of years of investment banking experience.

1.9. Mr Hambro became a non-executive director of the Firm on 21 December 2016, immediately upon completion of the change in control of the Firm. Throughout the Relevant Period he was a non-executive director who was not approved by the PRA or FCA to perform a controlled function at the Firm (a "**Notified NED**"). Notified NEDs became subject to the PRA's rules for the first time from 3 July 2017, following a change to the PRA Rulebook. Mr Hambro had not held any PRA-approved or FSA-approved roles since 2003 or been a Notified NED before his appointment as a director of the Firm.

1.10. During the Relevant Period Mr Hambro also held a number of senior appointments and roles with various members of the GFG Alliance. He joined the Firm's Board to represent the Shareholder's interests and to support the introduction of business from GFG and facilitate the management of the relationship between the Firm and the Shareholder. The Firm's Regulatory Business Plan said Mr Hambro could be precluded from Firm decisions where there was deemed to be a perceived conflict of interest, acknowledging that his dual role as a Notified NED of the Firm and a senior executive within GFG created the potential for conflicts of interest.

1.11. Mr Hambro's job description as a Notified NED at the Firm, as provided to the PRA, included within his responsibilities and duties:

- a. meeting the statutory obligations for his role as a company director;
- b. overseeing a corporate governance structure in-line with best practice and relevant regulations and the UK Combined Code (now the UK Corporate Governance Code);

- c. overseeing a compliance monitoring function to ensure compliance with all relevant UK and EU rules and to ensure full compliance with regulatory and statutory filings;
- d. apportioning responsibility and maintaining oversight of a suitable risk management framework and taking all required mitigating actions, and satisfying himself that financial controls and systems of risk management were robust and defensible;
- e. providing effective oversight and challenge; and
- f. keeping informed of developments in the regulatory banking environment.

1.12. Mr Hambro's director service agreement with the Firm said that he was expected to devote a certain number of days per month to his duties as a Wyelands director. Under his service agreement his responsibilities as Notified NED also included:

- a. to bring an objectivity and independence of view to the Board's discussions, to constructively challenge and help provide the Board with effective leadership in relation to the Firm's strategy, performance, risk and people management, as well as ensuring high standards of financial probity and corporate governance;
- b. to be familiar with and comply with Firm policies and procedures that the Firm may issue from time to time and to exercise his powers as a director in accordance with the Firm's policies and procedures;
- c. to immediately report to the chairman of the Board any actual or proposed wrongdoing of any employee or director of which he became aware; and
- d. to advise on papers submitted to Board meetings and to use his best endeavours to promote and advance the interests of the Firm.

1.13. While Mr Hambro represented the interests of the Shareholder on the Board, as a Notified NED he was subject to some (but not all) of the Conduct Rules, including Individual Conduct Rule 2. As required by the PRA Rulebook, this was also reflected in his service agreement with the Firm, under which he undertook to comply at all times with all relevant provisions of FSMA and the PRA's Conduct Rules to which he was subject. His director service agreement also made clear that non-executive directors of the Firm had the same general legal responsibilities to the Firm as any other director, and that he was expected to be familiar with the general legal duties of directors set out in the

Companies Act 2006 and at all times to perform his services in accordance with those duties and any other duties arising at law.

- 1.14. Mr Hambro resigned from his position as a Notified NED of the Firm on 3 July 2021, after the end of the Relevant Period.

## The Firm's Governance

- 1.15. During the Relevant Period, the Wyelands Board, of which Mr Hambro 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. At no point was Mr Hambro a member of any Wyelands executive leadership committees.

## Large Exposures and connected parties

- 1.16. 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.
- 1.17. 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 or repayment difficulties (the “**Economic Test**”).

1.18. Guidelines issued by the European Banking Authority (and its predecessor body) (the “**EBA Guidelines**”), with which the Firm was expected to comply, provided that for the purposes of the Control Test firms should deem to be control relationships those between any natural or legal person and an undertaking that are similar to a parent undertaking/subsidiary relationship. The EBA Guidelines continued that, when conducting this assessment, firms should deem any of the following criteria to constitute a control relationship:

- i. holding the majority of the shareholders’ or members’ voting rights in another entity;
- ii. right or ability to appoint or remove a majority of the members of the administrative, management or supervisory body of another entity;
- iii. right or ability to exercise a dominant influence over another entity pursuant to a contract, or provisions in memoranda or articles of association.

The EBA Guidelines went on to say that other possible indicators of control that firms should consider in their assessment include the following:

- iv. power to decide on the strategy or direct the activities of an entity;
- v. power to decide on crucial transactions, such as the transfer of profit or loss;
- vi. right or ability to coordinate the management of an entity with that of other entities in pursuit of a common objective (e.g. where the same natural persons are involved in the management or board of two or more entities);
- vii. holding more than 50% of the shares of capital of another entity.

1.19. 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 (CRR) Part of the PRA Rulebook.

1.20. In addition, the EBA Guidelines:

- 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.

1.21. According to reports prepared by the Firm's Risk function for the Firm's Board or Risk Committee in advance of each of their meetings, 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 Firm therefore had limited scope for error before it would breach the LE limit.

## Receipt of capital by the Firm

1.22. During the Relevant Period the Firm received 11 capital injections. The Firm's capitalisation was conducted via a trust established by the Shareholder (the "**Wyelands Trust**"), the trustee of which was an independent professional trustee company ("**Trust Co**"), and two intermediate holding companies.

1.23. Chapter 2 of Part 2 (Own Funds) of the CRR sets out the eligibility requirements for CET1 capital for capital purposes. In essence, the CRR defines certain characteristics or qualities which capital must have (or not have) to be eligible CET1 capital (i.e., with good loss-absorbing properties). For the Firm's CET1 capital, Article 28(1)(b) of the CRR, as in force at the relevant times, stated that "Capital instruments shall qualify as Common

Equity Tier 1 instruments only if all the following conditions are met ... (b) the instruments are paid up *and their purchase is not funded directly or indirectly by the institution*".

1.24. The Firm did not have its own systems or processes for conducting due diligence on the amounts it received as capital, nor any capital management policy. While the Firm provided Trust Co with some information about how the proceeds of each capital injection would be used, it had no formal arrangement with Trust Co, and Trust Co was not responsible for verifying whether the amounts it received would qualify as CET1 capital when downstreamed to the Firm.

## 2. RECOGNITION OF CAPITAL; LARGE EXPOSURES ASSESSMENTS

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### A. Background : The Power Plant Loans

2.1. In September 2018 the Firm made the 12 separate Power Plant Loans totalling approximately £104m to the 12 Power Plant SPVs, in connection with their acquisition from (indirectly) GFG B Co. Eleven of the Power Plant SPVs owned 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.

2.2. Mr Hambro was involved with other GFG executives in proposing the Power Plant Loans to the Firm. He had a number of communications with GFG and Wyelands executives regarding the transactions before the Firm entered into them.

2.3. Before the transactions the Power Plant SPVs were all ultimately owned by GFG B Co, 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.

2.4. The Firm's Credit Sanctioning Committee ("**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 Mr Hambro and the Firm's other directors. Mr Hambro was

not a member of the CSC, and did not attend the CSC meeting, but emailed the Board an hour after the Risk function making clear his support of the transaction.

2.5. 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 were apparently independent of each other and of GFG B Co.

## ***B. Recognition of capital***

2.6. In order to be able to provide the Power Plant Loans, Wyelands required a £10m increase in its capital, a fact Mr Hambro was aware of. CET1 capital was referred to a number of times in the Regulatory Business Plan. Mr Hambro should have been aware that, to be eligible for regulatory purposes, capital had to meet certain substantive requirements.

2.7. The £15m Power Plant Loan to OpCo was drawn down first, on 18 September 2018. This loan could be made before the others because OpCo was the only Power Plant SPV whose assets were not already charged to the third party lender referred to in paragraph 2.9 below. At OpCo’s instruction, the Firm transferred £10m of that drawdown directly to a third party bank account. The following day, in connection with the Power Plant Loans, it was transferred to the Wyelands Trust’s account with the Firm and then downstreamed to the Firm as purported CET1 capital.

2.8. The £10m capital injection was therefore indirectly funded by the Firm and consequently did not qualify under the CRR as CET1 capital. However, the Firm provided the PRA with a Pre Issuance Notification (“**PIN**”) form confirming that the £10m capital injection met the criteria for inclusion in the Firm’s CET1 capital. The Firm also subsequently included the £10m injection as CET1 capital in its quarterly returns to the PRA. It also included the £10m injection as CET1 capital for the purposes of expressing its CET1 capital ratio in its statutory accounts for the financial year ended 30 April 2019.

2.9. The loans to the remaining 11 Power Plant SPVs were made on 24 September 2018, after the Firm had reported to the PRA that its capital had been increased. The Firm transferred most of the proceeds of those Power Plant Loans directly to an existing third party lender to those Power Plant SPVs, to discharge in full the amounts they owed it, and transferred the balance to accounts of two of the Power Plant SPVs. Mr Hambro was aware that the balance was ultimately received by GFG.

2.10. Mr Hambro was involved in a number of communications with GFG and Wyelands executives from late August 2018 until 19 September 2018 regarding the funding of the £10m capital injection into the Firm and the mechanism for doing so. In particular, in late August 2018 he set out calculations which netted off the Firm's estimated additional capital requirement against the drawn amount of the Power Plant Loans, and in the evening of 17 September 2018 (the day before the £15m first Power Plant Loan was made) he was informed of the steps by which the Firm would fund £10m of its own capital.

2.11. Mr Hambro was therefore aware that the £10m being used to fund the Firm's capital was coming from the Firm itself. He did not make inquiry as to the appropriateness of the funding mechanism. Mr Hambro has told the PRA he was not aware that the funding mechanism meant that the Firm did not receive genuinely fresh capital, or that it resulted in the capital raised being ineligible to qualify as CET1 capital under the CRR.

## **C. Large Exposures assessments**

2.12. As noted in paragraph 1.17 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.

2.13. 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 1.21 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.

2.14. 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.

2.15. Mr Hambro 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 comply with the LE regime by structuring 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 Hambro was party) "*aggregated*". The Firm did not treat the Power Plant SPVs as constituting a group of connected clients with GFG B Co 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.

2.16. In or by January 2019 Mr Hambro and others within GFG became aware that an individual ("**GFG Executive One**") who was a Power Plant UBO and the sole director of both the New Parent of which he was the Power Plant UBO (the "**Relevant New Parent**", and the Power Plant SPV owned by the Relevant New Parent the "**Relevant Power Plant SPV**") and of the Relevant Power Plant SPV, was also listed as a director of GFG B Co.

2.17. GFG Executive One being a director of GFG B Co and also the Power Plant UBO of the Relevant New Parent, and the sole director of the Relevant New Parent and the Relevant Power Plant SPV, had obvious implications under the EBA Guidelines (see paragraph 1.18 above) regarding whether the Relevant Power Plant SPV, to which the Firm had advanced £8.39m, could be regarded as a third party or whether it should be treated as an exposure connected to GFG. If it should be treated as an exposure connected to GFG, it would be required to be aggregated with the Firm's direct GFG exposures for LE purposes. Mr Hambro was aware of this as an issue.

2.18. In February 2019 Mr Hambro gave instructions to a GFG executive ("**GFG Executive Two**") to record the date of GFG Executive One's resignation from the GFG B Co board as 31 August 2018 (or in any event pre-September 2018), a date before the Firm had entered into the Power Plant Loans (in September 2018). This instruction was carried out and the relevant companies registry received a director's resignation form in respect of GFG Executive One which referred to 31 August 2018 as the date of GFG Executive One's resignation. In addition, in February 2020 Mr Hambro sent two internal GFG emails confirming that GFG Executive One resigned as a GFG B Co director in August 2018.

2.19. Mr Hambro has provided the PRA with evidence of discussions he had in the context of his employment with GFG regarding resolution of this issue. He has also told the PRA that subsequently he was passing on oral rather than written instructions he had received in that context regarding GFG Executive One ceasing to be a director of GFG B Co and that he took comfort from the involvement of the GFG legal department (although he did not receive formal advice from the GFG legal department as to the resignation date). Mr Hambro did not take further steps to confirm that the instructions he has told the PRA he received were correct before he gave instructions to GFG Executive Two.

2.20. Mr Hambro's actions adversely affected the ability of the Firm and the PRA to assess whether the Firm was in breach of the Large Exposures limit applicable to it. The Firm undertook a connected parties review in respect of the Relevant Power Plant SPV in April 2019, but by that time the relevant companies registry recorded that GFG Executive One had resigned from GFG B Co on 31 August 2018, a date before the Firm made a Power Plant Loan to the Relevant Power Plant SPV. That connected parties

assessment did not find any connections between GFG B Co and the Relevant Power Plant SPV.

### 3. RELATIONSHIP WITH THE GFG ALLIANCE

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- 3.1. On 7 April 2017 Mr Hambro and the other members of the Board were sent a draft engagement policy (the “**Engagement Policy**”) to govern interaction between the Firm and the Shareholder. The Board adopted the Engagement Policy in its 25 April 2017 meeting. Mr Hambro was not present at that meeting when the Engagement Policy was approved, but he was aware of the policy: he was sent a copy of the minutes of the meeting which confirmed that it had been approved, and he told the PRA that he thought it was prudent that the Board put the policy in place, that it was a sensible thing to do at the time, that he remembered supporting it and helping with it, and that what it said and how it should be implemented was fairly obvious. The Firm sent a copy of the Engagement Policy to the PRA for information immediately after adopting 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.
- 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. Two specific Board members (neither of whom was Mr Hambro) had responsibility for receiving and considering specific Shareholder requests and reporting on the same monthly at Board meetings.
  - b. The full 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 the two Board members 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 full Board were aware of such transactions.

3.3. Between July 2017 and December 2018, the Firm entered into, or increased its exposure under, the three sets of Structured Transactions referred to in paragraph 1.6 above (one of which was the Power Plant Loans). Mr Hambro was a Notified NED of the Firm when it entered into, or increased its exposure under, the Structured Transactions and was involved with other GFG executives in proposing each set of the Structured Transactions, or increases in the Firm's exposure under them, to the Firm's executives. Each set had a value representing a significant proportion of the Firm's capital. Under each set of Structured Transactions, Wyelands provided credit to counterparties which were not members of the GFG Alliance, but part or all of the cash proceeds of the credits were received, directly or indirectly, by a GFG member. In each case, the Firm did not identify that the borrowers were or could be connected to GFG and did not aggregate its exposures in respect of the loans with its GFG exposures for LE purposes.

3.4. The Engagement Policy applied to Mr Hambro as a Notified NED. It 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. As a Notified NED, when Mr Hambro was involved in proposing transactions to the Firm's executives which fell within the scope of the Engagement Policy, he was obliged to take reasonable steps to ensure that the Engagement Policy was complied with.

3.5. Mr Hambro was a Board member, and therefore an addressee of communications to the Board. He should have appreciated that the Engagement Policy was not being complied with in relation to the Structured Transactions he was proposing to the Firm's executives, either because they were not being notified to the full Board at all (in breach of the provisions of the Engagement Policy referred to in paragraphs 3.2(a) and (b) above) or, in respect of those which did come to the full Board's attention, the full Board was not

informed that GFG had requested the Firm to enter into the transactions and the notifications which were made did not adhere to the requirements set out in the Engagement Policy (in breach of the provisions of the Engagement Policy referred to in paragraph 3.2(c) above). When the provisions of the Engagement Policy referred to in paragraphs 3.2(a) and (b) above were not complied with in relation to a proposal, the full Board did not consider the proposal at all; and when the provisions of the Engagement Policy referred to in paragraph 3.2(c) above were not complied with in relation to a proposal, the full Board would not have appreciated that it was obliged to consider the matters referred to in paragraphs 3.2(d) - (g) above. Mr Hambro did not take steps to ensure that the Engagement Policy was complied with.

- 3.6. In part because the Engagement Policy was not complied with when Mr Hambro was involved in proposing transactions to the Firm's executives, 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 requirements set out in the Engagement Policy had been adhered to. Mr Hambro's conduct also contributed to the Firm being exposed to increased risks of conflicts of interest with GFG companies which the Engagement Policy had sought to mitigate, and to the full Board not having adequate oversight of how certain transactions or potential transactions were being introduced to the Firm or their rationale and volume, whether they satisfied the criteria set out in the Engagement Policy, whether the Firm had the necessary skills, expertise and time to undertake them, or why the Firm made certain requests for capital injections.

## 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 this Notice, Mr Hambro breached Individual Conduct Rule 2 (You must act with due skill, care and diligence) in relation to the three matters set out in this Notice.
- 1.2 This rule is included at **Appendix 2**.

### 2. Failings

- 2.1 The PRA has taken this action as a result of Mr Hambro's conduct whilst a Notified NED of the Firm throughout the Relevant Period. The PRA has considered whether Mr Hambro performed this function to the standard to be expected of a person in his position and with his responsibilities and knowledge, and therefore has taken into account Mr Hambro's own particular skills and experience, including that he was an experienced company director, having held a number of executive and non-executive board positions, and also had a number of years of investment banking experience.

### Recognition of capital

- 2.2 During the Relevant Period, Mr Hambro's conduct contributed to the receipt by the Firm of a £10m capital injection indirectly from the proceeds of a loan the Firm had made to a third party. Mr Hambro was aware that the Firm required the additional capital in order to make further loans, part of the proceeds of which would ultimately be received by GFG. He was involved in a number of communications with GFG and Wyelands executives regarding the funding of the capital injection into the Firm and the mechanism for doing so. Immediately before that capital injection, he was informed of the steps by which the Firm would fund its own capital. He was therefore aware of the relevant facts concerning the indirect funding of the Firm's capital. Mr Hambro breached Individual Conduct Rule 2 because, while he has told the PRA he was not aware (as he should have been) that the funding mechanism meant that the Firm did not receive genuinely fresh capital, or that it resulted in the capital raised being ineligible to qualify as CET1 capital under the CRR, he should have made inquiry as to the appropriateness of the funding mechanism. His failure in this respect contributed to the Firm reporting the capital as compliant with the CRR requirements for CET1 capital when it was not.

## Large Exposures assessments

2.3 Mr Hambro should have made sufficient inquiries as to the date of GFG Executive One's resignation as a director of GFG B Co before he gave instructions to GFG Executive Two to record the date of GFG Executive One's resignation, an instruction which was carried out. Mr Hambro has provided the PRA with evidence of discussions he had in the context of his employment with GFG regarding resolution of this issue. He has also told the PRA that subsequently he was passing on oral rather than written instructions he had received in that context and that he took comfort from the involvement of the GFG legal department (although he did not receive formal advice from the GFG legal department as to the resignation date). However, since he understood the date was relevant to the Firm's and the PRA's assessments of whether the Firm was in breach of the Large Exposures limit applicable to it, he breached Individual Conduct Rule 2 during the Relevant Period because as a Notified NED it was unreasonable for him to rely upon the instructions he has told the PRA he received without taking further steps to confirm that those instructions were correct before he gave instructions to GFG Executive Two. This adversely affected the ability of the Firm and the PRA to assess whether the Firm was in breach of the Large Exposures limit applicable to it, which in turn had the potential to hinder the PRA's ability to effectively supervise the Firm.

## Relationship with the GFG Alliance

2.4 During the Relevant Period, Mr Hambro breached Individual Conduct Rule 2 because he failed to act with due skill, care and diligence in that he failed to take steps to ensure that the Firm's Engagement Policy was complied with when, on a number of occasions during the Relevant Period, he was involved in proposing to the Firm's executives transactions between the Firm and members of the GFG Alliance or business associates of GFG which GFG had introduced to the Firm.

## Annex C: Penalty analysis

### 1. FINANCIAL PENALTY

- 1.1. On 12 November 2024, the Bank of England published an updated approach to enforcement, *The Bank of England's approach to enforcement: statements of policy and procedure*. However, when setting a penalty, the PRA is required under paragraph 4.40 of Annex 1 to that policy to apply the relevant penalty policy that was in place at the time of the breach. The PRA's policy during the period of Mr Hambro's breaches for imposing a financial penalty was set out in '*The PRA's approach to enforcement: statutory statements of policy and procedure*' (versions dated January 2016 to October 2019, in which the penalty calculations were not amended), 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 Hambro 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. Mr Hambro joined the Board to represent the Shareholder's interests and to support the introduction of business from GFG and facilitate the management of the relationship between the Firm and the Shareholder. His service agreement with the Firm said that he was expected to devote a certain number of days per month to his duties as a director of Wyelands, but provided for no remuneration for that role.

- 1.6. The PRA ordinarily calculates an individual's annual income during the tax year preceding the date when the breach ended ("**relevant income**"). Given the unremunerated nature of Mr Hambro's role at Wyelands such calculations are not strictly appropriate. However, in this instance, the PRA considers Mr Hambro's arrangements with Wyelands were agreed on the basis that Mr Hambro's GFG remuneration was adequate consideration for the duties he was required to perform at Wyelands. Mr Hambro's breaches continued until February 2020. Therefore, the tax year preceding this date was from 6 April 2018 to 5 April 2019. The PRA has therefore taken a proportion of Mr Hambro's GFG remuneration for that tax year based on evidence provided by him. The PRA therefore considers Mr Hambro's relevant income to be **£90,000**.
- 1.7. Therefore, the starting point for the penalty is **£90,000**.
- 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 Hambro's relevant income should be 20% for the following reasons:
  - a) Mr Hambro was an experienced company director, having held a number of executive and non-executive board positions, and also had a number of years of investment banking experience.

b) Mr Hambro's conduct created a risk to the safety and soundness of the Firm. He failed:

- i. to make inquiry as to the appropriateness of the funding mechanism in relation to the £10m September 2018 capital injection into the Firm. His failure in this respect contributed to the Firm reporting the capital as compliant with the CRR requirements for CET1 capital when it was not;
- ii. to make sufficient inquiries as to the date of GFG Executive One's resignation as a director of GFG B Co before he gave instructions to GFG Executive Two to record the date of GFG Executive One's resignation. This adversely affected the ability of the Firm and the PRA to assess whether the Firm was in breach of the Large Exposures limit applicable to it; and
- iii. to take steps to ensure that the Firm's Engagement Policy was complied with when he was involved in proposing transactions to the Firm's executives.

His failures demonstrated a serious lack of due skill, care and diligence in overseeing the conduct of the Firm's business.

c) Mr Hambro's breaches persisted for several years, from July 2017 until February 2020.

1.10. The Step 2 figure is therefore **£18,000**.

### **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 Hambro cooperated with the PRA's investigation.
- b) Mr Hambro has no previous disciplinary or compliance record with the PRA. However, his breaches persisted for several years, from July 2017 until February 2020.

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 **£18,000**.

## **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 of £18,000 is insufficient to effectively deter others from committing similar breaches and should be increased in order to achieve an effective deterrent to directors 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 300%.

1.17. The Step 4 figure is therefore **£72,000**.

## **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 Hambro 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 **£72,000**.

## Conclusion

1.21. The PRA is therefore imposing on Mr Hambro a financial penalty of **£72,000**.

## **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.

### **Payment**

3. Mr Hambro must pay the financial penalty in full to the PRA. If all or any part of the financial penalty is outstanding at close of business in London on its due date, the PRA may recover the outstanding amount as a debt owed by Mr Hambro 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-authorized 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](mailto: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. “authorised person” has the meaning given to that term in section 31(2) of the Act;
3. “Board” means the Board of Directors of the Firm;
4. “CET1 capital” means Common Equity Tier 1 capital;
5. the “Conduct Rules” to which Mr Hambro was subject are set out in Appendix 2;
6. “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;
7. “CRR” means the EU Capital Requirements Regulation (No 575/2013);
8. “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;
9. “EBA Guidelines” means the 2017 Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 issued by the European Banking Authority (EBA/GL/2017/15 14/11/17);
10. “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 or repayment difficulties;

11. "Engagement Policy" means the policy that was introduced by the Firm in April 2017 to manage potential risks of conflicts of interest between the Firm and the wider GFG business;
12. "FSA" means the Financial Services Authority, the immediate predecessor of the PRA;
13. "GFG" or "GFG Alliance" means the Gupta Family Group alliance of global businesses;
14. "GFG B Co" means the GFG entity that, among other things, (indirectly) sold the Power Plant SPVs to the New Parents;
15. "GFG Executive One" means the individual who was a Power Plant UBO and the sole director of the Relevant New Parent and the Relevant Power Plant SPV, and was also listed as a director of GFG B Co;
16. "GFG Executive Two" means the individual to whom Mr Hambro gave instructions regarding GFG Executive One;
17. "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;
18. "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;
19. "Notice" means this Notice and its appendices;
20. "Notified NED" means, in relation to a firm, a non-executive director of that firm who is not approved by the PRA or FCA to perform a controlled function at that firm;
21. "O&M" means operation and maintenance;
22. "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;

23. "Power Plants" means, in relation to the Power Plant Loans, the power plants owned by eleven out of twelve Power Plant SPVs;
24. "Power Plant Loans" means the twelve separate loans made by the Firm in September 2018, totalling £104m, to the Power Plant SPVs;
25. "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;
26. "Power Plant UBO" means, in relation to each Power Plant Loan, the owner of the relevant New Parent;
27. "PRA" means the Prudential Regulation Authority;
28. "PRA Penalty Policy" means *The PRA's approach to enforcement: statutory statements of policy and procedure* (versions dated January 2016 to October 2019) – Annex 2 – *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*;
29. "PRA Settlement Policy" means *The PRA's approach to enforcement: statements of policy and procedure – Chapter 10 - Statement of the PRA's policy on enforcement statutory notices and the allocation of decision-making in uncontested cases, and settlement decision-making procedure and policy* (in Annex 1 to *The Bank of England's approach to enforcement: statements of policy and procedure November 2024*);
30. "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;
31. "Relevant New Parent" means, in relation to GFG Executive One, the New Parent of which he was the Power Plant UBO;
32. "Relevant Period" is the period between 3 July 2017 and 19 February 2020;
33. "Relevant Power Plant SPV" means the Power Plant SPV owned by the Relevant New Parent;

34. "Shareholder" means the shareholder of the Firm;
35. "Structured Transactions" means the three sets of structured finance transactions Mr Hambro, acting on behalf of GFG, was involved with other GFG executives in proposing to executives at the Firm;
36. "Trust Co" means the independent professional trustee company which was the trustee of the Wyelands Trust;
37. "Wyelands" or the "Firm" means Wyelands Bank Plc; and
38. the "Wyelands Trust" means the trust which was the ultimate holding entity of the Firm.

## 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-authorized persons. The PRA seeks to advance this objective by seeking to ensure that the business of PRA-authorized 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 Individual Conduct Rules and Senior Manager Conduct Rule 4 apply to all Notified NEDs.
- 2.2. Individual Conduct Rule 1 states that 'You must act with integrity'.
- 2.3. Individual Conduct Rule 2 states that 'You must act with due skill, care and diligence'.
- 2.4. Individual Conduct Rule 3 states that 'You must be open and co-operative with the FCA, the PRA and other regulators'.
- 2.5. Senior Manager Conduct Rule 4 states that 'You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice'.

### 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* (versions dated January 2016 to October 2019) was in effect during the period of Mr Hambro's breaches and set out the PRA's approach to exercising its main enforcement powers under the Act. This policy has been subsequently updated, see *The PRA's approach to enforcement: statements of policy and procedure, November 2024* (forming Annex 1 to *The Bank of England's approach to enforcement: statements of policy and procedure November 2024*). In particular:
- 3.1.1. the PRA's approach during the period of Mr Hambro's breaches to the imposition of penalties is outlined at Annex 2 to *The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure, April 2013* (versions dated January 2016 to October 2019): *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*, and
  - 3.1.2. the PRA's approach to settlement is now outlined at *Chapter 10 - Statement of the PRA's policy on enforcement statutory notices and the allocation of decision-making in uncontested cases, and settlement decision-making procedure and policy* (in Annex 1 to *The Bank of England's approach to enforcement: statements of policy and procedure* dated November 2024).