IN WESTMINSTER MAGISTRATES' COURT

BETWEEN -

REGINA

(THE FINANCIAL CONDUCT AUTHORITY)

v

NATIONAL WESTMINSTER BANK PLC

AGREED STATEMENT OF FACTS

This document has been drafted in accordance with the Attorney General's Guidelines for prosecutors on plea discussions in cases of serious or complex fraud, which require that a statement of facts be reduced to writing and signed by both parties along with a declaration, signed by the defendant, that it accepts the stated facts and admits it is guilty of the agreed charges.

The Court will be provided with all documents which have passed between the Crown and the defence including the case summary served in advance of the plea discussions. In addition to the agreed documents required under the Attorney General's Guidelines, a full opening note for sentence will be provided in advance of the sentencing hearing, which will be consistent with this statement of facts.

Introduction

1. This is a Statement of Facts, agreed between the Financial Conduct Authority ("FCA") and National Westminster Bank Plc ("NatWest", "the Bank") about the commission by NatWest of offences of failing to comply with the Money Laundering Regulations 2007 ("MLR 2007"). It relates to the draft indictment accompanying it.

2. During the period 8 November 2012 to 23 June 2016 (the "Indictment Period"), NatWest was a 'credit institution' under the MLR 2007. As such, the Bank was a 'relevant person' required to adhere to certain requirements designed to prevent it from being used for money laundering purposes. The MLR 2007 included requirements to carry out ongoing monitoring of business relationships (Regulation 8(1)), to do so on a risk-sensitive basis (Regulation 8(3)) and to carry out enhanced monitoring in high-risk cases (Regulation 14). Failing to comply with each of those requirements constituted a criminal offence by virtue of Regulation 45(1). Whether or not a relevant person has committed an offence is to be considered in light of their compliance with relevant approved guidance, namely that issued by the Joint Money Laundering Steering Group (the "JMLSG").

3. During the Indictment Period, Fowler Oldfield was a commercial customer of NatWest. Its relationship with the Bank ran for five years, from take-on in 2011 to 2016. When Fowler Oldfield was taken on by the Bank, the relationship manager responsible (the "Relationship Manager") described its business model at that time as follows:

    a. It was a buyer and seller of gold, with plans to purchase assay equipment;

    b. It bought gold for cash obtained from Travelex (the foreign exchange company) that day;

    c. Fowler Oldfield sold this gold the same day by pre-agreement, receiving payment by electronic transfer;

    d. The Bank would not handle any cash for the business; and

    e. Future sales were predicted to be £15m per annum.

4. In fact, during the five-year period of Fowler Oldfield's relationship with NatWest, it deposited a total of approximately £365m with the Bank, of which approximately £264m was in cash. Almost all of this cash was deposited after a significant change in Fowler Oldfield's business model which commenced in November 2013, with approximately £201m in cash being deposited between November 2013 and June 2016. At the height of the activity on the account, Fowler Oldfield was depositing up to £1.8m in cash per day with NatWest. During the Indictment Period between 8

November 2012 to 23 June 2016, approximately £287m was deposited into the Fowler Oldfield accounts.

5. In 2016 a West Yorkshire Police ("WYP") investigation uncovered what it suspects was a large-scale money laundering operation run out of Fowler Oldfield from January 2014 (the "Fowler Oldfield Operation") and notified NatWest of this in June 2016. The Bank was in communication with WYP and agreed to cooperate with their investigation from 23 June 2016. NatWest subsequently exited the customer and the Bank notified the FCA that it had discovered "*concerns*" in the management of this customer relationship.

6. As at today's date, 11 individuals have pleaded guilty of money laundering offences relating to cash being delivered to Fowler Oldfield's premises between 17 August 2016 and 8 September 2016. These convictions relate to individuals who couriered cash to Fowler Oldfield from across the United Kingdom (the "UK"), including from Scotland. During this period, £23.3m was collected by cash courier companies and taken to the Group's cash centres, where it was credited to Fowler Oldfield's NatWest account.

7. A further 13 suspects have been charged in relation to their involvement with the Fowler Oldfield Operation - this includes the Fowler Oldfield directors Individual 1 and Individual 2, and Individual 3 the director of Stunt Metals, a business which would later purportedly establish a joint venture with Fowler Oldfield. A trial has been listed for April 2022.

8. Throughout the Indictment Period, NatWest sought to discharge its monitoring obligations under the MLR 2007 in the following ways:

   a. Manual monitoring of transactions by staff (also known as staff vigilance):

      i. Monitoring by members of the relationship management team ("Relationship Management Team") in the Business and Commercial Banking section of the Corporate Banking Division ("CBD") (and later, after the restructuring, Commercial and Private Banking ("CPB");

      ii. General staff vigilance (e.g. cash centre staff); and

      iii. Reviews of customer accounts on either a periodic basis ("Periodic Reviews" or "PRs") or as triggered by a predetermined set of events ("Event Driven Reviews" or "EDRs").

   b. Automated monitoring of transactions by software systems; and

   c. Investigation of activity identified as unusual/suspicious by automated/manual monitoring.

9. There were a number of weaknesses in the monitoring of the Fowler Oldfield account, the effect of which was that NatWest failed to comply with Regulations 8(3) and 14 between 8 November 2012 and 23 June 2016, by failing to conduct its ongoing monitoring of Fowler Oldfield on a risk-sensitive basis (Regulation 8(3)), and by failing to conduct enhanced ongoing monitoring of Fowler Oldfield (Regulation 14) (Counts 2 and 3).

10. NatWest further accepts that, between 7 November 2013 and 23 June 2016, the effect of the monitoring weaknesses was that the Bank failed to comply with Regulation 8(1) by failing to conduct adequate ongoing monitoring of the Fowler Oldfield business relationship (Count 1).

11. Some of those deficiencies would have affected business relationships with customers other than Fowler Oldfield.

The Draft Indictment

12. The summary below in relation to each count reflects the evidence set out in this Statement of Facts.

Count 1: Regulation 8(1): Ongoing monitoring

13. Regulation 8(1) of MLR 2007 required NatWest to conduct ongoing monitoring of all relevant business relationships. This requirement was made up of two obligations:

    a. To scrutinise transactions to ensure they were consistent with expected business activity (Regulation 8(2)(a)); and

    b. To keep documents, data or information obtained for the purposes of customer due diligence up to date (Regulation 8(2)(b)).

First Element of Regulation 8(1) - Scrutinising transactions

14. There were a number of weaknesses in the monitoring of the Fowler Oldfield account, the effect of which was that NatWest failed to comply with Regulation 8(1) between 7 November 2013 and 23 June 2016 by failing adequately to scrutinise transactions on the Fowler Oldfield account to ensure they were consistent with expected business activity. The weaknesses in monitoring included:

    a. The Relationship Management Team, despite regular contact with the customer and adequate training by the Bank, failed adequately to:

i. Corroborate, scrutinise or critically assess the customer's explanation for the change in activity on the account to large cash deposits, said to be the result of a change in its business model;

ii. Sufficiently scrutinise and critically assess and/or corroborate the customer's explanations for unusual activity on the account thereafter;

iii. Initiate reviews of the customer relationship following trigger events such as changes in transaction patterns or directorships; and

iv. Ensure Fowler Oldfield was subject to the correct risk rating.

b. NatWest's automated transaction monitoring system failed in that:

i. Throughout the Indictment Period, cash deposits made directly through Bank cash centres were erroneously interpreted by the system as cheque deposits. Although they were subject to the Security Blanket (as defined below), those cash deposits were not subjected to cash-specific monitoring rules. Instead they were subjected to less stringent rules applicable to cheque deposits (when such rules existed);

ii. For most of NatWest's relationship with Fowler Oldfield, there were no cheque-specific monitoring rules in place. Those deposits by Fowler Oldfield made through Bank cash centres amounted to millions of pounds in cash that were neither monitored as cash nor subjected to rules specifically targeting cheque deposits;

iii. For part of the Indictment Period (June 2014 to September 2015) the rules in place did not include cash-specific rules; and

iv. A system-wide rule, known as the 'Security Blanket', (the "Security Blanket"), which compared ongoing account activity to a picture of historical transactional activity taken from every account on the system, to determine whether it deviated from the norm, was impaired by the system's failure to correctly recognise cash deposits and the absence of review/tuning between 2008 and 2016.

c. Cash centre staff, branch staff, and Fowler Oldfield's assistant relationship manager ("Assistant Relationship Manager") raised 11 internal money laundering suspicion alerts ("IMLSRs") and the Bank's automated transaction monitoring system alerted 10 times in relation to Fowler Oldfield account activity ("TM alert"). The Bank's investigations of these alerts between 7 November 2013 and 23 June 2016 were inadequate due to a number of failings by those investigating, including:

i. Overreliance on and/or failure to sufficiently challenge explanations provided by the Relationship Manager;

ii. In certain instances, failure to seek further information from internal and open sources about Fowler Oldfield;

iii. Failure to identify that the customer was erroneously rated by NatWest as 'low' or 'medium' risk for most of the relationship;

iv. Failure to adequately identify, and respond to a series of money laundering 'red flags' including a change in Fowler Oldfield's business model from transfers in/cash out to cash in/transfers out;

v. Failure to adequately analyse Fowler Oldfield's account behaviour against information provided at the account opening and following EDRs; and

vi. Failure to consider the cumulative implications of prior investigations when determining each new IMLSR / TM alert.

d. NatWest failed to conduct any adequate independent review of activity on the account. Fowler Oldfield was not subject to any Periodic Reviews during the almost five year relationship period which, if performed correctly, would have involved the scrutiny of transactions. Two EDRs involving input from 'Know Your Customer' ("KYC") / Know Your Business ("KYB") teams and the review of KYB information were conducted (in November 2013 and March 2016) but were inadequate and failed to identify significant differences between actual transactions on Fowler Oldfield's accounts and the type of account activity expected by the Bank based on the information it held about the customer. In addition, when multiple events which should, under NatWest's policy, have triggered further reviews occurred, the Bank failed to conduct additional EDRs.

<u>Second Element of Regulation 8(1) - Keeping documents, data or information up to date</u>

15. NatWest also failed to comply with Regulation 8(1) between 7 November 2013 to 23 June 2016 by failing to keep documents, data or information obtained for the purposes of customer due diligence up to date. In particular, NatWest failed to conduct sufficient formal reviews of activity on the account during the Indictment Period, in line with its own policies. PRs and EDRs should have been the primary means of keeping documents, data and the recording of information up to date but were either not conducted or not conducted as frequently as they should have been, and were not completed timeously. In addition, following the investigation of alerts on the Fowler Oldfield account, Bank guidance required consideration of follow up actions which could include updating Fowler Oldfield's customer due diligence

information and / or risk rating. Despite alert investigations into matters that were relevant to Fowler Oldfield's recorded customer due diligence taking place at fairly regular intervals from 2014 onwards, no such updates were made.

Count 2: Regulation 8(3): Risk-sensitive ongoing monitoring

16. Regulation 8(3) required NatWest to:

    a. Conduct ongoing monitoring on a risk-sensitive basis (as set out at Regulation 7(3)(a)); and

    b. Be able to demonstrate to the FCA (as its supervisory authority) that the extent of its measures were appropriate in view of the risks (as set out at Regulation 7(3)(b)).

First Element of Regulation 8(3) – Conduct risk-sensitive ongoing monitoring

17. The effect of the weaknesses in the monitoring arrangements for Fowler Oldfield meant that NatWest failed to comply with Regulation 8(3) between 8 November 2012 and 23 June 2016, in that it failed to conduct ongoing monitoring of Fowler Oldfield on the basis that it was a high risk customer. The relevant weaknesses were:

    a. A failure to treat Fowler Oldfield as a high risk customer for a period of over two years. The customer was erroneously downgraded to low risk in December 2013 before being manually increased to medium risk by the Relationship Manager in April 2014. On 3 March 2016, it was returned to high by the Relationship Manager;

    b. A lack of any differentiated automated transaction monitoring of high-risk customers (including Fowler Oldfield) until April 2016;

    c. A lack of automated transaction monitoring rules that specifically targeted cash deposits made via a Bank product used extensively by Fowler Oldfield called Business Quick Deposit (by which business customers and third parties could deposit cash straight into the branch network without interacting with branch staff);

    d. A failure to conduct IMLSR and TM alert investigations in a manner that reflected Fowler Oldfield's high risk;

    e. A failure to conduct any PRs (high risk customers ought to have had annual PRs);

    f. A failure to conduct a sufficient number of EDRs; and

g. A failure to conduct the EDRs that took place on the relationship in a suitably risk-sensitive manner.

<u>Second Element of Regulation 8(3) – Demonstrate to the FCA that the extent of ongoing monitoring was appropriate to the risks</u>

18. Because it did not conduct ongoing monitoring of Fowler Oldfield on a risk-sensitive basis, NatWest was unable to demonstrate to the FCA that the extent of its ongoing monitoring was appropriate in view of the risks. That was a further failure to comply with Regulation 8(3).

Count 3: Regulation 14(1): Enhanced ongoing monitoring

19. Regulation 14 required NatWest, where there was a situation which, by its nature, could present a higher risk of money laundering (Regulation 14(1)(b)), to apply enhanced customer due diligence and enhanced ongoing monitoring on a risk-sensitive basis (Regulation 14(2)).

20. The effect of the weaknesses in the monitoring arrangements for Fowler Oldfield meant that NatWest failed to comply with Regulation 14 between 8 November 2012 and 23 June 2016 in relation to its relationship with Fowler Oldfield. NatWest accepts that Fowler Oldfield was, throughout that period, a high risk customer. Despite that higher risk, NatWest failed to:

    a. Rate Fowler Oldfield as a high risk customer or subject the relationship to enhanced scrutiny sufficient to identify its erroneous risk-rating as detailed above for over two years;

    b. Apply any differentiated automated transaction monitoring of high-risk customers (including Fowler Oldfield) until April 2016;

    c. Conduct IMLSR and TM alert investigations in a manner that reflected Fowler Oldfield's high risk; or

    d. Conduct any PRs or sufficient EDRs each time a trigger event occurred under Bank policy.

<u>NatWest and NatWest Group plc</u>

21. NatWest is a subsidiary of NatWest Group plc ("the Group"), a British bank holding company whose customer-facing subsidiaries (which it refers to as 'Brands', ("Brands")) offer a variety of banking services, including retail and commercial

banking. Within the UK the main Brands are: The Royal Bank of Scotland, Ulster Bank, Coutts & Co, Lombard and NatWest.

22. When first onboarded in 2011, Fowler Oldfield was a customer of CBD's Business and Commercial Banking business unit. The Business and Commercial Banking business unit had approximately 70,000 clients which included business customers with an annual turnover of between £1m and £25m, and was organised into five UK regions across various Brands. Fowler Oldfield was a client of the northern region of Business and Commercial Banking, covering Yorkshire and the North of England.

23. In 2014, the Group restructured its internal divisions into three main customer-facing "franchises". Following the restructuring, Fowler Oldfield became a customer of CPB.

24. AML functions within the Bank were carried out at both a divisional / franchise level, and also at a Group level. NatWest retained responsibility for adhering to the requirements of the MLR 2007 in its relationship with Fowler Oldfield.

<u>AML structure within the Bank</u>

25. Consistent with industry standards, NatWest utilised a 'Three Lines of Defence' model regarding compliance with AML obligations (which included its obligations under the MLR 2007 to: conduct and record ongoing monitoring; conduct risk-based monitoring; and conduct enhanced monitoring).

26. Within the 'First Line of Defence' CBD / CPB, in addition to the AML roles performed by frontline staff (including branch staff, branch managers and the account's Relationship Management Team), there were various specific financial crime teams who carried out AML functions, notably:

    a. The Central Exceptions Unit ("CEU"), later replaced by the High Risk Customer Controls team ("HRCC"), which dealt with referrals for customers in certain high risk sectors on account opening or exit. When Fowler Oldfield was onboarded in 2011, the CEU's responsibilities included providing enhanced monitoring (in the form of oversight at the point of onboarding and during Periodic Reviews) for the Bank's high risk customers. The CEU / HRCC also provided advice and guidance during the customer relationship within those certain high risk sectors where required, and certain high risk escalations during Periodic or Event Driven Reviews.

    b. Financial intelligence teams, which carried out certain investigations into clients, shared intelligence with similar teams within the Group, and (among other teams) monitored the work of the Nominated Office Function (described below). These teams would also provide quality assurance of investigations and advice on AML typologies, ongoing risks on customer accounts and disclosure to the authorities; and

c. Customer Due Diligence ("CDD") Controls, which was responsible for monitoring and maintaining the customer due diligence framework across the CPB franchise.

27. CBD / CPB also delegated certain AML First Line of Defence functions to a Group-wide "Services" function. Services were required to undertake, *inter alia*, various functions related to NatWest's monitoring obligations including customer identification and ongoing due diligence, transaction monitoring, investigating and reporting suspicious activity reports ("SARs"), sanctions reviews, periodic file reviews for CBD customers, and certain Event Driven Reviews when necessary. For example, Services included AML Operations which encompassed various teams with an AML focus including a team of analysts based in Poland who were tasked with assisting with the review and completion of KYC reports for the purposes of Periodic or Event Driven Reviews. AML Operations also included the Nominated Office Function discussed further below.

28. 'Second Line of Defence' oversight of the divisions was provided principally at Group level. From 2013, this was provided by the Conduct & Regulatory Affairs function ("C&RA"), which included the Financial Crime Intelligence and Investigations Unit ("FCIIU").

29. The 'Third Line of Defence' was provided by the Group's internal audit function.

MLRO and Nominated Officer

30. In accordance with Part 7 of the Proceeds of Crime Act 2002 ("POCA") and Regulation 20 of the MLR 2007, NatWest was required to have a nominated officer ("Nominated Officer"), responsible for, amongst other things, receipt of internal reports of suspected money laundering and consideration of external reports to the relevant authority (from 2013, the National Crime Agency ("NCA")). In addition, and pursuant to FCA requirements, the Bank was required to have a money laundering reporting officer ("MLRO"), responsible for oversight of the Bank's compliance with its AML obligations, and acting as a focal point for its AML activity. The Group designated a Group MLRO, and also designated individual MLROs for each of the Group's divisions / franchises at certain points during the relationship with Fowler Oldfield. This included a specific MLRO for CBD and later, the Commercial business of CPB.

Nominated Office Function

31. The Nominated Office Function acted with authority delegated by the Nominated Officer to discharge the Bank's legal duties and responsibilities under sections 330 – 338 of POCA. In furtherance of these duties, together with those imposed on the Bank by the MLR 2007 in respect of ongoing, risk sensitive and enhanced monitoring, the Nominated Office Function was required to receive, investigate and, where appropriate, disclose suspicions of money laundering or terrorist financing to the relevant authorities (from 2013, the NCA). The Nominated Office Function served all of the Group's UK Brands. All of the IMLSRs filed by staff and TM alerts raised in relation to Fowler Oldfield were investigated by the Nominated Office Function.

32. The teams within the Nominated Office Function, as restructured in 2014, included a 'Work Reception' team, responsible for triaging all IMLSRs and TM alerts raised within the Bank, 'Investigations', responsible for the detailed investigation of disclosed accounts, and 'Borehamwood', named after its location. The Borehamwood team was, from 2013, responsible for the investigation of TM alerts and IMLSRs of non-retail customers. It was this team that dealt with all but one of the IMLSRs and five of the ten TM alerts raised in relation to the Fowler Oldfield accounts before August 2016. The remaining six IMLSR/TM alerts were dealt with by the investigations team based in Edinburgh.

AML policies, procedures and guidance

33. NatWest had policies and procedures in place to address the ongoing monitoring of its customers.

34. Since the summer of 2011, a Group policy was the main AML policy across the Group. This Group policy was supplemented by appendices, which provided more granular detail to franchises about how to comply with policy requirements. In August 2015, the Group introduced 'AML Mandatory Procedures', referenced throughout the Group policy from 2015 onwards. In addition to the policy framework, employees had access to AML guidance on the Bank's intranet portal. A limited amount of guidance on Periodic or Event Driven Reviews was available on the Bank's intranet until 2014 when additional guidance was introduced.

35. The overarching design of the Bank's ongoing monitoring systems, and the policies and procedures in relation to ongoing monitoring, were in line with the industry guidance. However:

    a. The Group's policies and procedures did not address the need for staff to guard against overreliance being placed on relationship managers when considering suspicious activity on a customer account. The Financial Crime Guide published by the FCA, a guidance document banks were encouraged to consider and follow, specifically highlighted this risk; and

b. The Group policy stated that differential monitoring in automated systems was only required "*where the capability to do so exists*". This would not in itself fulfil JMLSG guidance that required firms to monitor customer transactions to ensure they were consistent with their risk profile.

Risk rating

36. Between 2011 and 2016, the Bank followed a risk-based approach to AML, meaning that each of its customers was assigned a risk rating following a customer risk assessment. CBD's AML policy, in force between 2011 and summer 2012 (whereupon it was superseded by Group policy in 2012), stressed the importance of relationship managers being alive to issues that might affect a customer's risk rating. From the summer of 2012 onwards, the Group policy placed this responsibility on the division.

37. When Fowler Oldfield was onboarded in 2011, the Group policy included certain indicative factors that a customer might be high risk. One of the high risk indicators highlighted in the Group policy was "*High cash turnover businesses (eg 'cash for gold' operations*)". Between 2012 and 2016, the Group policy also identified businesses involved in the extraction, manufacture and wholesale buying / selling of jewellery as high risk.

38. Customers deemed to be high risk required a more rigorous onboarding process and, in certain high risk sectors, approval from the CEU and were required to be subject to closer scrutiny throughout the course of their relationship with the Bank. At times the CEU would add additional onboarding conditions or requirements where high risk relationships were taken on, such as 'desktop reviews' after 6 months. An increase to a risk rating would trigger the requirement for a review by a separate KYC team. Guidance throughout the Indictment Period stated that the customer risk assessment should be reviewed, updated and recalculated both at onboarding, during Periodic Reviews and, in certain cases, during Event Driven Reviews. A relationship manager was able to change a risk rating without approval, but only to increase it, for example if a customer began a high risk trading activity or its activity changed resulting in increased risks.

39. In 2013, the Group underwent a Group-wide exercise to review the risk ratings of customers, entitled the "Accelerated Data Review" ("ADR"). The process was intended to re-rate the entire CBD customer portfolio, based on a new risk

assessment methodology, enabling effective prioritisation of 'Know Your Business' ("KYB") and CBD reviews from early 2014. The ADR considered factors such as industry classification of the customer, trading activities and jurisdiction, most of which it gleaned from the Group's systems, in order to generate a revised risk rating for each customer. Industry information was taken from information which had itself been amended following a 2013 exercise entitled the SIC Remediation Programme – designed to provide a more granular categorisation for customer industry and trading activity.

Periodic and Event Driven Reviews

40. The Bank's policies and procedures included mandatory requirements to ensure the divisions / franchises met their legal and regulatory responsibilities. They required the ongoing review of customer information to ensure that it was up to date, that it accurately reflected certain categories of customer information, and that the risk rating was appropriate. Both the Group and the 2011 CBD AML Policy required staff to conduct Periodic and Event Driven Reviews for this purpose.

41. According to the 2011 CBD AML Policy, Periodic Reviews had to seek to identify and remediate any incomplete customer due diligence information, identify changes in customer structure or particulars, verify new information as appropriate, and confirm that the risk rating for the customer was appropriate. The frequency of Periodic Reviews was to be determined by the customer's risk rating. For high risk customers, Periodic Reviews were to take place at least annually.

42. Event Driven Reviews were to be triggered by events relating to a customer's structure, ownership or behaviour, or other events which might directly impact on the customer's risk rating. The CBD divisional policy provided that Event Driven Reviews had to seek to fully understand the nature of the events giving rise to reviews; determine whether any additional customer due diligence should be undertaken (including as appropriate the verification of such information); and determine whether, when taking account of the events and any new information obtained during the review, the customer risk rating should be amended.

43. All Periodic Reviews were required to conclude with a re-assessment of the customer risk rating. The Bank's Group and 2011 CBD AML policies required those conducting the reviews (including AML Operations in Poland, and the Relationship Management Team) to document the reviews, and for the documentation to be retained for six years. The CDB AML Policy was superseded by Group policy in 2012. Additional divisional guidance on EDRs and PRs was available from 2014 onwards.

44. Before the 2014 publication of PR and EDR guidance, a limited amount of guidance in relation to Periodic and Event Driven Reviews was available on the Bank's intranet. Guidance for particular teams was also available and stored, for example, on shared drives. Templates were provided to the Relationship Management Team and CDD analysts, to assist with the completion of KYB if required in the course of the reviews. Specific KYB guidance on cash-generating businesses was also provided. CBD guidance provided details on the processes and procedures to be followed when carrying out a Periodic Review and updating KYB. The guidance stressed the importance of understanding a customer relationship and that comprehensive KYB was fundamental to AML risk management.

45. The guidance was aimed at the different departments within the Bank with a role in Periodic Reviews. AML Operations in Poland was required to complete KYC information, and guidance was available for the CEU, which was responsible for overseeing certain high risk customers and reviewing customer KYB information at onboarding or exit.

46. When completing KYB information during enhanced due diligence checks, Group policy required employees to consider the plausibility of information provided by customers, and to consider and record their findings with respect to:

    a. The nature and purpose of the relationship, including how the customer received / deposited funds, and whether this was in line with expectations for the business size and sector;

    b. Source of wealth;

    c. Source of funds;

    d. Expected account activity over the coming 12 months; and

    e. A transactional analysis for the period under review.

47. If information was missing or implausible, the Relationship Management Team and CDD analysts were required to identify further explanatory and supporting information, and record it.

48. Between 2011 and 2013 pursuant to Group policy, an EDR was required whenever a "*trigger event*" occurred – defined as:

    > *"any material change in the Customer's or the group of Customers' circumstances that could potentially change their risk-profile and where it is necessary for the Division to check whether the Division still has sufficient insight into the Customer and their risk profile to ensure that their assigned Risk Rating remains appropriate."*

49. Subsequent policies continued to require EDRs where there was "*any material change in the Customer's* […] *circumstances that could potentially change their risk-profile*".

50. Other specific triggers for an Event Driven Review were set out in divisional guidance and varied throughout the relationship with Fowler Oldfield.

51. A 2011 KPMG review identified a number of gaps with the Event Driven Review framework. This resulted in a new suite of triggers introduced in August 2014, and set out in guidance available on the CBD intranet. Triggers for Event Driven Reviews included an increase in AML risk rating to high risk, a change in customer trading activity, a change in trading footprint, the use of high risk products, or requests by law enforcement agencies for information about a customer. The Relationship Management Team was given additional guidance about the requirement for a review where there was a change in customer transaction patterns, whether or not they were suspicious. The nature and content of the review required as part of an EDR was dependent on the trigger for that EDR.

52. Existing Bank processes were also changed in 2014, to ensure that the results of SARs and IMLSRs were noted and reviewed. Staff were to be informed of the outcomes of any IMLSRs they had submitted, which had not previously been the case. The customer file was to be updated in the event that a SAR was submitted to the authorities, to ensure that appropriate enhanced due diligence could be maintained if the relationship continued.

Staff vigilance and the role of the Relationship Management Team

53. Staff vigilance formed part of the Bank's transaction monitoring strategy, and the Bank's employees were required to report suspected suspicious activity immediately. Employees' obligations, including the reporting process to be followed, were set out within the Bank's policies and guidance documents. Employees were required to report any indicators of potential money laundering internally, through what became known in 2014 as IMLSRs.

54. AML awareness training was delivered and updated annually, and sought to ensure that all staff, including relationship managers and cash centre and branch staff, were alert to the need to monitor transactions on accounts by reviewing, scrutinising and considering transaction activity as it arose. Prior to 2014, AML training was prepared by the second line Group Compliance team. From 2014, a Group-level technical training team was established within C&RA which oversaw the provision of financial crime training centrally, including AML training.

55. Specific training on money laundering issues was provided to relationship managers as well as other individuals who were in a position to identify possible suspicious activity on the accounts in question (such as branch staff, cash handlers, etc.). This included red flags of potentially suspicious transactions, the process for escalating concerns, and an explanation of the personal responsibilities of staff members. For a relationship manager, it also included relevant examples of money laundering typologies and illustrative case studies of potential suspicious activity, reflecting those contained in the JMLSG guidance. This training was adequate in terms of its content and in accordance with the requirements set out in the JMLSG guidance.

56. 'Ownership' of the customer relationship, including KYC and KYB, was the responsibility of the relationship manager within CBD. Each relationship manager was responsible for a portfolio of commercial customers. The Bank's role profile for a relationship manager within CBD required that the skills, knowledge and experience needed to perform the role included having customer relationship skills, proven risk assessment, monitoring and control skills in a broad range of customer situations, in-depth knowledge of products and funding solutions, in-depth knowledge of credit processes and policy, and an appreciation of macro-economic and financial outlook, with a strong understanding of commercial sector activity.

57. Relationship managers were involved in ensuring that information and documentation was adequate, accurate and current for the purposes of conducting Periodic Reviews on their customers. Guidance on customer due diligence was available to relationship managers throughout the Bank's relationship with Fowler Oldfield, including guidance on required considerations at onboarding. Between 2012 and 2013 there was a limited amount of guidance on Periodic and Event Driven Reviews, which included a need to maintain an understanding of the nature of the customer's business and whether transactions were in line with expectations. From 2014, guidance on Periodic and Event Driven Reviews became more detailed and included details and instructions on each stage of the process within the intranet guidance, and the requirement to record the provenance and reason for any injections of funds. Relationship managers were required to send completed KYB forms to CDD analysts who would then review and update the document. Where necessary, the CDD analyst was required to raise additional questions to support the understanding of the customer and assess the content of the KYB against customer’s recorded KYC and risk assessment.

58. Where a relationship manager was dealing with a high risk customer in certain sectors, authorisation from the CEU (later HRCC) was sometimes required. The CEU / HRCC was responsible for confirming to the Relationship Management Team

whether the customer was "*signed off or declined*" and was required to update a "*Periodic Review (High Risk) Spread Sheet*" with its decision.

59. Documents containing guidance on areas such as customer onboarding, employee obligations relating to AML, risk assessment and ongoing monitoring requirements were also available to relationship managers on the Bank's CBD intranet. Relationship managers were required to ensure that any risks associated with customers were proactively managed and brought to the attention of CDD analysts for the purposes of their review of KYB and KYC. If relationship managers were not alerted to changes in transactional activity through their day to day work on customer accounts (such as during authorising payments or conducting lending reviews), they may have been approached as part of the investigation of a TM alert or IMLSR.

IMLSRs

60. The Group AML policy dealt with the reporting of suspicious activity, the responsibilities of its Nominated Officers, and the need for systems that facilitated the confidential and timely handling of IMLSRs. Employees were required to report internally any activity suspected to be connected to the proceeds of crime.

61. Employee guidance provided examples of money laundering red flags. A 2014 guidance document listing money laundering red flags included the following examples:

- *"Large quantities of £100 or £50 notes paid in by a customer when their pay-ins usually consist of £20s and £10s only"*;
- *"Large quantities of Scottish or English notes being paid into the incorrect part of the country";*
- *"Unusually large deposits made by a company whose business activities would normally be generated by cheques*";
- *"Substantial increases in cash deposits of any individual or business without apparent cause*"; and
- "*Large cash deposits, using facilities which avoid direct contact with bank staff*".

62. Prior to May 2014, suspicious activity could be reported by employees over the telephone, by email or in writing to the Nominated Office Function. Thereafter, the Bank introduced an online process, designed to encourage greater consistency in reports. The process required that staff submitted an IMLSR via an online portal if they identified any discrepancies between the customer's activity and expectations. Staff were required to populate a proforma form, which included details such as the

name of the person raising the report, contact details, division and a description of the suspicion being escalated.

63. IMLSRs were recorded on a database called Goalkeeper 3 ("GK") and were allocated a GK reference and an Untoward Incident Database number. GK contained customer information and, when recorded properly by employees, adverse data accumulated against a customer including money laundering suspicions, disclosures made to the authorities, production orders, and open source information. Guidance was available to analysts on how to use the system. GK was accessible to employees of the Nominated Office Function and certain other teams within the Bank which required access for their role, such as FCIIU investigators. It was on this system that the suspicions of individual members of staff (from Bank cash centres, branches, Nominated Office Function and the Relationship Management Team) about Fowler Oldfield as set out in IMLSRs were recorded, along with details of the investigation and the responses provided by the Relationship Manager when queries were raised with him.

Automated Transaction Monitoring System

64. Following industry guidance, the Bank’s ongoing monitoring strategy also included an automated transaction monitoring system. For large firms, such as NatWest, while independent manual review and investigation comprises a crucial component of this monitoring, an automated transaction monitoring system is the only feasible approach to scrutinise the entirety of the (sometimes) billions of transactions that cross their books every year. Automated transaction monitoring system solutions analyse input transactions and automatically generate an alert if certain pre-set conditions are satisfied or if activity is out of line with previous account activity or account activity for accounts in similar sectors. During the Indictment Period, the Bank's automated transaction monitoring system, ("Monitor 5.5"), provided by an external provider, was used by the Bank to generate TM alerts on unusual transactional activity. Guidance was available to staff on how to use the Monitor 5.5 system. The system deployed two methods to identify unusual transactional activity:

a. Bespoke rules designed to target specific activity, such as particularly large transactions (known as targeted rules); and

b. 'Security Blanket', which sought to detect unusual behaviour, either as against an account's own historical behaviour, or that of the account's segment or peer group.

65. The rules were designed to be 'tuned' by the Financial Crime Transaction Monitoring & Screening team in the Group's Services function. 'Tuning' involved reviewing the rules to ensure their efficacy and efficiency. As discussed further below, the Security Blanket was not tuned between 2008 and 2016. From 2013, any suggested changes to the rules needed to be formally approved by a newly created transaction monitoring specific forum, the Transaction Monitoring Systems Committee.

66. Monitor 5.5 took a feed of data in the form of files containing account, customer, transactions, balances and wire transaction information from various Group systems. For CBD / CPB customers, this included a system called UK Bank Management Information System ("UKBMIS"). UKBMIS was owned by the Services function and was the central store of customer, account and business unit level information. Data stored in UKBMIS itself came from various sources within the Bank.

Suspicious activity investigation – internal alerts processes and review

67. TM alerts and IMLSRs submitted by employees were investigated by the Nominated Office Function. This was in accordance with industry guidance, which treated the investigation of alerts for the determination of whether there should be a SAR as one of the ways in which relevant persons were expected to discharge their ongoing monitoring obligations under the MLR 2007. Investigators within the Nominated Office Function had to be internally accredited before they were permitted to submit SARs to the authorities. Accreditation involved completing the relevant training and having sufficient processing experience and consistently meeting the minimum quality standards to gain accreditation status. Once accredited, staff were required to undertake ongoing accreditation on an annual basis.

68. Following the raising of either IMLSRs or TM alerts, investigators in the Nominated Office Function were required to assess them. Any investigations undertaken by unaccredited analysts were required to be checked, by accredited analysts.

69. Processes, guidance and training documents were in place for investigators reviewing IMLSRs and TM alerts. Those documents specified or contained guidance on the investigative steps that should be followed (for example, reviewing customer due diligence, transactions and account activity and considering customer risk rating and expected business activity) and detailed sources of information to be utilised when carrying out an investigation, including stakeholders within the Bank and internal and external systems. Investigators had certain bank systems available to them (including the Back Office system, and Voucher Enquiry System ("VES"), in addition

to publicly available information, and when dealing with a business customer were advised to contact the relationship manager if unable to discount all unusual activity.

70. However, for a significant part of the relevant period investigators did not have access to Relationship Manager Desktop ("RMD"). This was an electronic customer management database used within the Commercial franchise (amongst other Group franchises). It supported the functionality for producing account opening forms, monitoring workflow for KYC and KYB process and maintaining contact and address information. Customer risk ratings, KYC reports and KYB forms were only retained on and accessible from the RMD system. Before access to the RMD system was granted in February 2015, investigators were unable to access this key monitoring information and were only able to view customer information on the Bank's Image and Workflow tool, which included the original account opening form but that held no details of expected transactions, nature of business or risk rating.

71. Between 8 November 2012 and 11 February 2015, five IMLSRs and four TM alerts were investigated by analysts, all without access to RMD. In the same period, over £76m was deposited to Fowler Oldfield accounts, more than £33m of which was in cash. When granted access in February 2015 investigators were told that RMD would "*furnish you with much more information on customers that we can see using Image and Workflow*". Investigators may also have had access to the Relationship Management Platform ("RMP") at some stage after April 2015 however the evidence for this is limited (see paragraph 100 below).

72. For TM alerts, during the majority of the period between 2013 to 2016, investigations could involve review by Level 1 ("L1") and Level 2 ("L2") investigators. L2 investigators were expected to repeat the L1 check, applying further scrutiny.

73. The investigation of a TM alert could be closed for any of the following reasons:

    a. "*Closed – Worthy*" – where the activity was worthy of investigation, but the investigator has been able to discount the cause of the alert as non-suspicious;

    b. "*Closed – Reported*" – where the cause of the alert has been deemed suspicious, and a SAR made to the authorities; and

    c. "*Closed – Already reported*" – where the cause of the alert has already been the subject of a previous SAR to the authorities, and a further disclosure is not required or, prior to early 2015, when there was an IMLSR received or reported within 3 months for the same alert activity, and there was no significant change seen, "*even if the SAR is open*".

74. From 2014, the Group's 2014 "Global Investigations Standards" applied. While not wholly new in content, this guidance was created by Promontory, a third-party compliance expert, instructed to review and improve the Nominated Office Function's SAR processes. The wording was incorporated into several of the Bank's process documents from 2014 onwards:

> *"It is essential with any investigation to obtain and consider all relevant CDD information. Where deficiencies are identified in due diligence documentation or information that are considered material to the investigation, the relevant relationship manager / account officer or branch (who has primary responsibility for CDD), should be asked to obtain the required information before any firm conclusions are drawn….Some questions that may be useful when reviewing CDD information include:*
>
> *Does the activity "make sense" in relation to the customer's profile and type; the nature and purpose of the business relationship; and the levels of actual and expected business activity?*
>
> *Has the customer's existing risk classification been considered and whether it is higher risk. If so, does the case need to be escalated in line with the local operating procedures and how does the risk classification impact the investigation?*
>
> *Higher risk – For higher risk relationships, such as those for PEPs, embassies or other high profile individuals; money service businesses; correspondent banks; businesses involved in the extraction of oil and gas; internet gaming businesses etc, the due diligence should reflect a deeper understanding of the customer and their activity and any significant deficiencies that are material to the investigation will need to be corrected…*
>
> *Has there been any material adverse change to the customer's risk profile /classification. If so, how significant is this change?*
>
> *Risk profile / classification changes could occur as a result of events such as increased activity; utilisation of a new product or service; or the conducting of transactions with, or involving a high risk jurisdiction…"*

75. Quality assurance was conducted on the work of the Nominated Office Function by independent teams examining, on a weekly basis, a selection of alerts. The

Nominated Officer also undertook regular sample checks. Alongside the formal processes, quality assurance was also undertaken within the Nominated Office Function teams at Edinburgh and Borehamwood. All cases completed by non-accredited analysts were required to be subject to 100% quality checking, by either accredited analysts or QA&T associates. After the events on the Fowler Oldfield account came to light, the Bank's Nominated Officer concluded that quality assurance within the Nominated Office Function was "*not fit for purpose*," and took steps to remediate this.

The Fowler Oldfield Relationship

Fowler Oldfield onboarding

76. Fowler Oldfield was initially onboarded as GEF Trading, a customer of NatWest within CBD, with an allocated relationship manager responsible for the overall business relationship. When GEF Trading first applied for an account in 2011, it was jointly owned by Individual 1 (51%) and his wife Individual 4 (49%). Individual 1 was the sole director.

77. The Relationship Manager for Fowler Oldfield looked after approximately 50 customers. He had worked at NatWest for 29 years. He was supported in the role by other members of the relationship team in the Business and Commercial Banking section of CBD (and later, after the restructuring, CPB). He was dismissed from the Bank as a result of his conduct on the Fowler Oldfield customer relationship, as discussed further below at paragraph 139.

78. During the onboarding process, the Relationship Manager completed a 'KYB Information Schedule', in which he provided the background information about the business and how it came to be making an application to be banked by NatWest. It included the information that the customer was being advised by an existing and highly regarded corporate customer, who himself had several business interests banked with NatWest, was a qualified accountant who had previously worked for "*Rothschilds*" and had been known to the Bank for over 25 years. GEF Trading's move from HSBC to NatWest had been on his recommendation.

79. The application was initially declined by the CEU, on the basis that the Bank took a highly cautious approach to the industry in which the company operated, but it was left open to the Relationship Manager to pursue the application so long as full details of the company's KYC and AML procedures were obtained, along with confirmation from the regional director that he was happy to bank the business.

80. The Relationship Manager did pursue the application, reassuring his colleagues and noting the cash requirements of the business but stating that "*We will not handle any cash for this business*" – it is unclear from the evidence whether this related to the depositing of cash, withdrawing of cash or both. The Relationship Manager also emphasised the credentials of the parties involved, including that Individual 1 possessed a Money Laundering Registration Certificate (12374798). Such certificates are granted by HM Revenue & Customs ("HMRC") to high value dealers ("HVDs"). Under the Bank's onboarding guidance, the Relationship Manager was required to obtain a copy of the certificate. Had he followed the relevant guidance, it is reasonable to expect that the Relationship Management Team would have discovered that the certificate numbered 12374798 had expired on 16 December 2010, the company having failed to reply to letters and pay the annual renewal fee. Fowler Oldfield registered again as a HVD on 1 December 2011, but a copy of the certificate was not provided to the Bank nor is there any evidence that one was requested by the Relationship Management Team.

81. The Relationship Manager himself noted the need for the Bank to maintain its due diligence on the customer, and stated that he would personally conduct an annual review of KYC procedures (something that was required by policy in any event). He completed a document entitled "*High Risk Non-Standard Referral for GEF Trading Limited*", with the sub-heading "*Additional background paper for the above mentioned KYB*". The document said that the business was operating at that point from Individual 1's father's jewellery store in Bradford. It described the trading model as involving a 'full working capital cycle' every 24 hours, whereby Fowler Oldfield (then called GEF Trading) obtained cash from Travelex, purchased gold from customers, and then sold the gold to large purchasing companies by the end of the day. The money received in exchange for the gold was paid via bank transfer.

82. The High Risk Non-Standard referral document anticipated future sales for the combined business at approximately £15m p.a., and provided details which purported to support the legitimacy of GEF Trading's business:

> *"Totally UK based, operate very efficiently with clear audit trail of all transactions. I have had sight of several receipt books confirming the accuracy and detail of the transactions and I understand from the principal that they have an excellent relationship with the VAT who now refer any complex issues in their field to GEF – effectively they are acting as a consultant for the VAT given their expertise."*

83. As discussed further below, in reality, Fowler Oldfield's relationship with HMRC was not as recorded by the Relationship Manager. For example, the statement regarding "*the VAT*" was not true and it did not refer "*complex issues*" to Fowler Oldfield.

84. Various documents were obtained from GEF Trading during the onboarding and KYC process. They included the latest Companies House annual return, a year's worth of bank statements from its previous bank, and a draft directors' report and financial statements. The Bank also obtained documents about GEF Trading and its directors from other sources, including Equifax and Experian reports.

85. Documents in addition to the non-standard referral form were also completed internally by Bank employees during the onboarding process. They included a record of information about the directors and owners, several versions of a 'KYC report', which recorded that the business activity was high risk, a 'KYB information schedule' in which the Relationship Manager recorded information about the structure of the customer's business, and the nature of its operations, and a check list of completed investigations relevant to high risk customers.

86. The application was approved on 8 November 2011 by the CEU, on the condition that the Relationship Manager remain close to the account to ensure that transactions were as expected and undertake a desktop review after 6 months to ensure that the account was operating as anticipated. There is no documentary evidence that establishes whether or not the Relationship Manager conducted the 'Desktop review'. However, 'Desktop reviews' were undertaken by relationship managers and whilst no documentary evidence exists on the requirements of such reviews, it may be that they were completed without forms or templates and were to confirm that the account activity was in line with the relationship manager's expectations at that time. If that was the case, and any issues were to arise from such a review, it is assumed that the Relationship Manager would escalate them for consideration as necessary.

Account opening and 2012/2013 activity

87. The account was opened on 11 November 2011, with a risk rating of 'high'. On the same day, Fowler Oldfield was registered on the Bank's Back Office Records system for the Business Quick Deposit ("BQD") product which allowed customers to deposit cash into their accounts, potentially via an automated drop-box and without necessarily engaging with a NatWest branch employee (discussed further below at paragraph 102.a). There was no reference to Fowler Oldfield depositing cash or requiring the use of such a service in account opening and Fowler Oldfield did not in

fact use the BQD service for two years. GEF Trading changed its name to Fowler Oldfield on 22 November 2011.

88. By 7 December 2011, Fowler Oldfield ceased to use Travelex for its cash withdrawals and engaged G4S instead. To facilitate this, Fowler Oldfield was added to the NatWest Bulk Cash Scheme (a service offered by the Bank whereby cash would be transferred directly to a customer's premises, either from a cash centre via a cash courier service or direct from a cash courier and debited to the customer's account – see further detail at paragraph 102.b below) and soon the business withdrew cash from NatWest on a regular basis. That, broadly, was the nature of the account activity during the first 22 months of its relationship with the Bank.

89. On 9 December 2011 a new director (an existing NatWest customer) was appointed. A further director would be appointed in July 2012.

90. On 21 December 2011, a credit facility was agreed for Fowler Oldfield with Lombard, a Group Brand, to provide funding for equipment to be used to analyse and refine gold.

91. On 27 August 2013, during a short term deferment of overdraft facilities, the Relationship Manager updated the Relationship Management Platform ("RMP") to include:

> *"While day to day account operation looks far from ideal, we are all comfortable with the reasons for this, which amount to timing issues iro payment from NTL* [sic] *and Cooksons* [two large precious metal trading companies] *Increased facilities will alleviate as well as offering opportunity for significant margin enhancement (e.g. Cooksons pay 0.25% more for the gold but take 2 days to pay whereas NTR pay on the day)."*

92. On 11 October 2013, the Relationship Manager completed a KYB form (the "October 2013 KYB form"). The October 2013 KYB form:

    a. Described the customer's trading activity as "*Buying, selling, melting, assaying and manufacturing of precious metals – predominantly gold*";

    b. Noted that, in relation to the customers of Fowler Oldfield: "*In this business suppliers are also their customers. Large number of jewellery business across the UK. Fowler Oldfield have operational hubs in London and Bradford and operate across the UK. No single jewellers supplies more than 5% of their precious metals*";

c. Noted that the typical account activity expected for the customer was "*significant cash utilisation as more than 90% of purchases are made in cash. Gold then assayed, melted or manufactured and sold on to NTR – one of the largest gold brokers in the world, or Cooksons one of UK's largest gold brokers. Payments received back from these brokers daily via faster payments./CHAPS payments. Alternatively processed gold sold back to jewellery business in the form of jewellery (manufactured) or gold grain which is used by the Asian community as cash*"; and

d. Stated that, in response to a question regarding the predicted turnover in the next 12 months, and what proportion of this was expected to be cash: "*Actual turnover anticipated to be £30M. True 'sales' are the gold sales to the broker of which none is in cash. However, much of their purchases are done in cash, and cash transactions through the account over the last 12m total £18M*".

93. This was the first mention within the Bank's KYB forms that the Bank was catering for the customer's cash requirements and appears, on its face, to relate to cash withdrawals only. This is supported by the transactional activity on the account, which at this time showed that there had been £13m in cash transactions on the account in the 12 month period (rather than the £18m quoted by the Relationship Manager), of which all but £164k related to cash withdrawals. Although some further details were provided by the Relationship Manager on the nature of the Fowler Oldfield business, the form did not record specific details on the current or expected value of cash deposits into the account.

94. A draft KYB form dated 17 April 2014, started by the Relationship Manager but incomplete, unsigned and potentially not recorded on the Bank's RMD repository at this time, repeated the statements made in the October 2013 KYB form about predicted turnover and gold being sold by Fowler Oldfield either to large gold brokers, or *"Alternatively processed gold sold back to jewellery businesses in the form of jewellery (manufactured) or gold grain".*

95. Between January 2012 and 6 November 2013, the transactions on the account predominantly consisted of electronic payments into the account (over £36m) and cash withdrawals (over £25m) out of the account. In addition, Fowler Oldfield made over £170k of cash deposits, and over £78k in international payments which were mostly made to companies related to precious metals. Given the ambiguous comments from the Relationship Manager, during onboarding (see paragraph 80 above), that the Bank would "*not handle any cash for this business*", it is unclear what the Bank's expectations were, in terms of cash deposits into, and cash

withdrawals from Fowler Oldfield's accounts. Therefore, it is unclear whether the above activity was consistent with the Bank's expectations.

96. By December 2013, Fowler Oldfield had opened a further five accounts with NatWest including a US dollar account. There is no record that the CDD held on the customer was considered when those accounts were opened.

Change of Fowler Oldfield's business model

97. There was a notable change in the business model of Fowler Oldfield in November 2013, when the customer started for the first time to deposit cash in significant amounts. This represented the way in which the account was used for the rest of its relationship with the Bank: significant cash deposits, and electronic transfers out of the account to major suppliers of precious metals (in particular, gold). This was a significant change in the activity visible to the Bank and is explained further below. The following cash deposits were made into the account in the period November 2013 to June 2014:

   a. November 2013: £148,760

   b. December 2013: £395,500

   c. January 2014: £700,868

   d. February 2014: £1,219,264

   e. March 2014: £936,969

   f. April 2014: £1,872,644

   g. May 2014: £2,168,068

   h. June 2014: £2,353,156

98. There was no adequate identification of or explanation for this shift in the customer's activities recorded across any of the Bank's record repositories during this period. However, in addition to the description of gold / gold grain sales to jewellery businesses briefly described in the October 2013 KYB from and draft unsigned April 2014 KYB form, the Relationship Manager did make the following comments about the business on email to AML investigators when responding to queries about suspicious activity on the account:

   a. On 28 April 2014, in response to TM alert A raised under the "High Volume Cash OTC Deposits Rule" on 9 March 2014, and in response to queries within IMLSR 2 about high cash volumes and the suspiciously high volume of Scottish notes being deposited into the account in Bradford, the Relationship Manager stated in an email that:

> *"In terms of the client they were fully assessed at take on 2 years ago and the business activity has pretty much been consistent throughout. They are precious metal manufacturers/ traders who deal predominantly with Cooksons (one of the largest gold brokers in the world). The recent number of Scottish notes is because they have jewellery clients based in England but who have Scottish stores including Chacha Jewellers & Rashid Jewellers both of whom manufacture gold and who often require gold grain which my client manufactures. In addition there is increasing activity in Scotland as in the build up to the Independence vote many more people are buying gold as protection over this period of uncertainty.*
>
> *Cash volumes are very much in line with our expectations for this type of business and we are confident our customer continues to carry out necessary due diligence checks as per agreement when we won this switcher two years ago".*

The investigator did not challenge the inaccurate assertion that the business activity had remained "*pretty much consistent throughout*". No evidence was provided for the suggestion that "*cash volumes are very much in line with our expectations for this type of business*". As set out at paragraph 97 above, cash deposits had risen from £148,760 in November 2013 to £1,872,644 in April 2014*;* and

b. On 13 May 2014, in response to IMLSR 2 raised on 22 April 2014 in relation to volumes of cash deposits received, the unusual use of the BQD service and a preponderance of Scottish notes identified as "*unusual and not in line with any of our other BQD customers*", the Relationship Manager repeated in an email the explanation provided in response to TM alert A (as set out above). He also stated that the customer's "*stringent AML systems*" were reviewed regularly as "*per the original onboarding brief given the – as anticipated – high cash volumes*". There is no evidence that as of 13 May 2014 the Relationship Manager had reviewed the customer's AML systems. "*Anticipated high cash volumes*" in the form of cash deposit were not recorded anywhere within the customer's onboarding documentation or KYB forms.

99. On 30 June 2014, the Relationship Manager recorded Fowler Oldfield's business model on RMP as:

"More recently the direction of the business has changed significantly from the original model above. Individual 1 saw the shrinking of the gold market ahead of prices reducing (and to some extent the economic cycle) and whilst they still made a margin irrespective of gold prices, the subsequent reduction in gold volumes would have scuppered their plans to grow the business.

This "scrap" element - originally the core of the business - is now only a small part of the overall operation and they are now operating at c£160K p.w. purchases against a peak of £250K p.w. - mainly down to gold prices…

[…]

[Bar and grain trading] Started in Nov 2013 and already trading at 100KG pcm (currently c£2.4M), following canvassing to existing clients and leaflet drop in Feb / Mar."

100. The investigators examining TM alert A and IMLSR 2 did not have access to nor did they request the customer's KYB forms, the KYC report completed on Fowler Oldfield in November 2013 or the customer's risk rating - which had been raised from low to medium in April 2014. The information contained on RMP was not accessible to investigators in the Nominated Office at this time. Access to RMP was requested by the Nominated Office in April 2015, but there is no documentary evidence that confirms if or when access to the system was granted to investigators after April 2015.

101. Furthermore, the 30 June 2014 RMP update did not result in an EDR or the updating of the customer's KYB form.

Fowler Oldfield's deposits of cash

102. Business customers of NatWest were able to deposit cash using various different products. Three were relevant to Fowler Oldfield: BQD, Direct Cash, and the Bulk Cash Scheme.

    a. BQD: This service allowed business customers to deposit cash into their accounts by depositing wallets directly into units within the banking halls of NatWest branches or (where the dedicated units were not available) to a cashier at a counter. The customer would indicate the amount of the deposit on the wallet, and its account was credited with the value of the deposit immediately, before the wallet was counted and checked by staff in the Bank's cash centres (whereupon adjustments would be made as required following reconciliation). "Bank quick drop" services had been highlighted as a source of concern in the UK Government's 2015 national risk assessment of money laundering and terrorist financing: the report suggested that such services were susceptible to exploitation by criminals looking to launder cash proceeds of crime through retail banks. Despite the Bank having considered this report, throughout the relevant period the Bank rated the BQD service as low risk when considering it as one of the factors in its customer risk rating assessment and at no stage implemented any rules targeting cash deposits via BQD in its automated transaction monitoring system (although BQD deposits would have been monitored by more general cash-based rules, when such rules were in place during the relevant period).

b. Direct Cash and the Bulk Cash Schemes: both of these schemes reduced the risk of transporting large amounts of cash to a NatWest branch. Both services involved cash transported by courier from a customer's premises to a cash centre. These services were available to customers who required services involving a larger amount of cash. For cash deposits, formal receipt of the cash by the Bank (and therefore crediting to the customer account) would usually occur when the Bank had processed the cash at the cash centre.

103. The cash paid into Fowler Oldfield's primary account over the course of the relationship period, as well as cash withdrawals, is shown in the diagram at Appendix 1.

104. Fowler Oldfield withdrew and deposited cash throughout the Indictment Period at 50 NatWest branches across England (including London, Yorkshire, Manchester, the South East, and the Midlands).

105. From late 2013, numerous branches started to receive millions in Fowler Oldfield cash via the BQD service and over the counter. Staff in a number of branches flagged concerns about the activity or submitted IMLSRs (as described below); however, staff in some other branches did not do so, for example:

a. Between November 2013 and June 2016, £12m was deposited over the counter and via BQD at the Bank's Bradford Broadway branch. There is no documentary evidence that concerns were identified or that IMLSRs were submitted by the staff in the Bradford Broadway branch.

b. Between July 2014 and September 2016, the Park Royal branch in London received approximately £14m in largely BQD deposits. There is no documentary evidence that concerns were identified or that IMLSRs were submitted by staff in the Park Royal branch; and

c. Between January 2015 and March 2016, the Bank's Southall branch in London received £42m in cash which was deposited via BQD and over the counter. This represented almost half of all BQD deposits into Fowler Oldfield's account throughout the indictment period. No IMLSR was submitted by staff in the Southall Branch. Staff at the cash centre receiving those BQD deposits raised concerns, on the basis of which questions were asked of the Relationship Manager and an explanation received, but no IMLSR was submitted;

106. In addition, cash deposited via the Direct Cash In and through BQD services was processed at five cash centres: Basingstoke (Hampshire), Manchester, Tamworth (Staffordshire), Washington (Tyne and Wear) and Maidstone (Kent).

107. Staff in a number of cash centres also flagged concerns about the activity or submitted IMLSRs (as described below), however staff in some other cash centres did not, for example over a ten-month period between 2015 and 2016 approximately £43m in cash was delivered via the Direct Cash service to the Maidstone Cash Centre. No concerns were identified or IMLSRs were raised by staff. Tamworth Cash Centre also processed cash deposits from Fowler Oldfield delivered to a number of branches in the Midlands, including the BQD deposits received by the Walsall branch. Other than raising a query about whether the customer could start utilising the Direct Cash service (as it was doing for other regions) no concerns were identified or IMLSRs raised by Tamworth staff.

108. The high volume of cash brought to the Bank's branches and sent to its cash centres by Fowler Oldfield repeatedly caused practical difficulties for Bank staff, many of whom flagged concerns about the activity or submitted IMLSRs, as set out below:

<u>Washington Cash Centre</u>

109. Washington Cash Centre was the first cash centre to receive Fowler Oldfield deposits and raised an IMLSR about the cash activity in April 2014 (IMLSR 2). In addition to being suspicious about the customer's cash activity, the centre struggled to process the particularly unusual, high volumes of Scottish notes coming in from the customer.

110. Following the submission of its IMLSR, the centre continued to be suspicious about the Fowler Oldfield account activity. Over the summer of 2014 Washington staff repeatedly raised concerns about Fowler Oldfield's cash deposits over the phone and via email with the Nominated Office Function's Edinburgh Work Reception team and the Borehamwood office. The centre, which would ultimately raise three IMLSRs on

the customer during the relevant period, was troubled by the high volumes of cash coming in for the customer, the high volumes of Scottish notes and that the cash would at times carry a prominent, musty smell. Staff at the centre were sufficiently concerned about the activity they set up a dedicated team to monitor the cash deposits received in from Fowler Oldfield and had conducted their own enquires including: contacting the Relationship Management Team to discuss the Scottish note activity, reviewing the customer's transactional activity and conducting open source searches into the customer's location and nature of its business. Like some of the Group's other cash centres that would later receive Fowler Oldfield deposits, the centre was also struggling to process the high quantities of Scottish notes as their automated cash counting machines were programmed to count Bank of England notes only. Staff had to count the Scottish notes manually. The centre contacted the Bank's Scottish Note Team to discuss their concerns around the volumes of Scottish notes for the customer. The Scottish Note Team agreed that this activity was out of ordinary.

111. In the summer of 2014, the Bank was approached by and began assisting the NCA with a strategic assessment of the repatriation of Scottish bank notes to Scotland from the rest of the UK, given the Bank's position as a point of receipt for Scottish banknotes. At a meeting in July 2014 comprising part of this arrangement, a member of the Bank's Scottish Note Team brought Fowler Oldfield, on a no-names basis given confidentiality concerns, to the attention of the NCA as an example of a customer who made large deposits of Scottish bank notes. At the time, the Bank erroneously described Fowler Oldfield as a pawnbroker.

112. In response, the NCA made an informal request for any further information about the customer, in addition the NCA officer stated

> *"you may wish to consider speaking to your AML team in light of our conversation and consider a suspicious activity report to NCA via the normal channels (while still sharing information with me at the same time) this would ensure the RBS is covered under POCA. My view is that RBS have made a reasonable decision based on the available information, it is only my view that the transaction is suspicious."*

113. In order to enable lawful sharing of this information, the NCA then submitted a formal information request to the Bank on 21 July 2014 under section 7 of the Crime and Courts Act 2013. The NCA requested further information about the customer and stated that it was:

"Further to our recent discussion regarding the pawnbroker in Bradford who attempted to deposit a large amount of Scottish banknotes in a branch of the Royal Bank of Scotland, it is our assessment that this money may have been related to the trade in controlled drugs."

114. The NCA was interested in the use of Scottish notes in England. Law enforcement officers held the belief that the seizure or discovery of large amounts of Scottish banknotes in England was an indicator of criminal activity, particularly in connection with the illicit drugs market.

115. In August 2014, the Operations Managers for the Edinburgh Work Reception Team and Borehamwood had sight of this section 7 request. The document was not recorded on Fowler Oldfield's GK file (there was no internal policy requirement to do so) and no IMLSR was raised. Following repeated contact from Washington Cash Centre staff, who were chasing whether they could share information on Fowler Oldfield with the NCA, the Operations Manager for Borehamwood sought specialist advice from CPB's FIU.

116. In September 2014, a FIU manager advised that a further IMLSR covering the concerns recently raised should be submitted by the cash centre (which ultimately led to IMLSR 4). In her analysis of the customer activity she stated that she was "*uncomfortable that the non disclosure of this client appears to have been mainly decided based on the RM feedback*." The FIU manager queried the customer's trading activity, the high volumes of cash, the use of expensive deposit channels, the customer's relationship with a purported food wholesaler, the explanations provided by the Relationship Manager which filled her with "*grave concern*" and the rapid increase in turnover during 2014. She concluded her analysis by stating "*In this case I feel that there would be enough suspicion, given the IMLSRs that have been received (prior to the NCA approach), to disclose this client*." This analysis was not recorded on GK and no SAR was submitted. The analyst for IMLSR 4 was not made aware of the FIU manager's concerns. She decided not to make a disclosure to the authorities following explanations received from the Relationship Manager that he was comfortable with the relationship. IMLSR 4 is discussed further at Appendix 2.

117. With respect to the voluntary section 7 request, the Group considered the request and decided not to respond to it. Consideration of whether to provide details to the NCA included the inappropriateness of providing confidential customer information in circumstances where the Bank had decided not to submit a SAR. The NCA withdrew the request shortly after.

118. The request did not trigger an Event Driven Review.

Tooting Branch

119. Between May and September 2014, over £2m was paid in over the counter and via the branch's BQD drop box. By October 2014, a member of the Tooting branch staff reported to her local branch CEO and the Relationship Management Team that the volume of cash paid in by Fowler Oldfield was having an effect on the day to day running of the branch. There were insufficient cash collections from the branch to cope with the additional volume (described as £50k - £100k on a weekly basis). As a result, the branch was having to hold on to bags of cash in their safe (described as over £200k on a weekly basis) for longer than normal. The branch member reported shortly afterward that Fowler Oldfield had deposited £100k in a single day and would continue to make further deposits that week. She stated that the amount of cash deposited was having a huge impact on branch cash forecasting and ability to remit.

Basingstoke Cash Centre

120. On 29 July 2015, the Risks and Controls Manager in the Basingstoke Cash Centre contacted a Financial Crime Manager in CPB Business Controls, raising concerns about Fowler Oldfield's BQD activity, describing it as "*highly unusual*" and "*potentially AML related*". He was an experienced employee and had become very concerned about Fowler Oldfield's cash activity. He later told FCA investigators that he had decided to break with convention and contact the Financial Crime Manager directly, rather than submit an IMLSR, for two reasons: first, because it was the most suspicious potential money laundering he had seen in his career and he wanted it dealt with urgently and secondly, as he was to retire within days and did not want to leave the matter for someone else. He drew attention to 38 BQD deposits, each for round amounts, made at Southall branch on 22 July 2015, and observed that immediate payments of up to £400k had been authorised to a third party against the credits. He said that "*The BQD scheme is typically used by customers who do not meet the criteria for Direct cash products and the volume of deposits is not something we ever see from a single customer.*" By the time these concerns were raised, Fowler Oldfield had been using the Direct Cash product for just over a year and had deposited over £19m via this product. The Risks and Controls Manager followed up the following day, observing that a further £500k had been deposited via 40 BQD envelopes at three different branches. Enquiries were made by the CPB Business Controls Financial Crime Manager of the Relationship Manager, who responded:

> *"We have a close relationship with this customer and are fully aware of the recent spike in cash amounts. They have had a significant*

increase in volumes over the last 2 weeks or so due to the drop in gold prices.

I'm aware the ability to locate scrap gold in the UK at present is incredibly difficult because it is being traded in large volumes by investors due to the low price….I'm aware of the position with the London amounts (they of course will be paying in round amounts as they are using BQD) as they have trade counters for their clients in other locations. They are also having c.£300k per day picked up from their main HQ in Bradford by G4S. I can confirm we are fully aware of the position and I am entirely comfortable that this is in the normal course of their business at this time. I should also point out that they are not pawnbrokers or jewellers but precious metal dealers with full manufacturing capability to convert scrap gold into grain, or gold bars. These in turn are either sold back into the market or through Cooksons – one of the largest precious metal brokers in the UK. Fowler Oldfield have a full due diligence process handled by an independent firm of solicitors for all their clients and enjoy a close relationship with Sheffield Assay Office – testers and hallmarkers of precious metal in the UK

Happy to discuss in more detail if required or if you need any further information. I should also mention that we appear to have this issue raised on a fairly regular basis and despite confirming we are fully aware of the position it continues to be raised. I don't have a particular issue with this but issues such as round amount credits – given they can only bank a limited amount in each BQD bag – does strike me as self explanatory!"

121. The CPB Business Controls Financial Crime Manager responded to the Risks and Controls Manager in the Basingstoke Cash Centre that if he was suspicious, he should raise an IMLSR, but that he himself was satisfied with the explanation from the Relationship Manager. The Basingstoke Risks and Controls Manager was not in fact satisfied. He said that the figures involved were *"extraordinary"* and that *"the sheer volume of BQD cash entries"* was larger than anything he had seen *"from a single customer and the fact that the entries are broken down into smaller round amounts is highly suspicious".* He was critical of the CPB Business Controls Financial Crime Manager for "*just passing the buck to the RM*". He also shared his concerns with the centre manager of the Washington Cash Centre at the time, indicating that he had

completed an IMLSR. No record of an IMLSR being raised has been found by the Bank.

122. Other members of the Basingstoke Cash Centre also raised concerns about Fowler Oldfield: IMLSRs 6 and 7 referred to the large volume of cash seen by the centre, including the high level of Scottish notes, and a deposit of £25k made entirely in £50 notes. Both of these IMLSRs were closed by the same Borehamwood based analyst without contacting the Relationship Manager, apparently on the basis of reasons provided by him in relation to previous IMLSR / TM alert closures. In September 2015, a member of the Carrier Management Team raised concerns about the centre's ability to process the volume of cash deposits expected from Southall calculating 35 hours would be needed to process the 200 BQD bags due to be deposited.

Walsall Branch

123. Between September and October 2015, staff at the Walsall branch contacted the Relationship Manager, suggesting that Fowler Oldfield should arrange cash collections, given its excessive use of BQD bags, which the branch could not sustain. For example, on 14 September 2015, the branch reported that Fowler Oldfield had deposited £700k in BQD deposits in a single day. The volume was unprecedented, according to some of the staff. At times thousands of pounds in cash was brought into the branch uncounted in big black bin liners. A member of staff later told FCA investigators that they often found that the weight of the cash was too great for the bin liners which would then break. Staff would have to move the cash into stronger hessian sacks to prevent cash falling out. The cash filled the branch's two floor-to-ceiling safes. Excess cash and other items had to be stored behind grilles in the vault – this was less secure, and in breach of the Bank's policy on cash controls.

124. The deposits into the Walsall branch continued via BQD. The issue caused difficulties for the branch staff, and concerns about the security of the physical bags of cash. The Relationship Management Team indicated that it would be a short-lived problem. Staff at the branch intended to raise an IMLSR, but no record of one has been found by the Bank.

125. The deposits were still ongoing at Walsall in 2016, with the final deposit occurring in May 2016. A total of £6.6m was deposited at the branch.

Halifax Branch

126. Also in September 2015, staff at NatWest's Halifax branch emailed a member of the Relationship Management Team complaining about Fowler Oldfield's use of the BQD

facility: £750k had been deposited within three days, such that the branch was at its limit for sending cash to the cash centre. A total of £1.1m was deposited at the branch via its BQD drop box. No IMLSR was raised by Halifax branch staff in relation to these concerns.

Piccadilly and New Bond Street Branch

127. Several million was also deposited via BQD at the Piccadilly and New Bond Street branch. In June and July 2016, staff at the branch raised concerns with the Relationship Management Team that the high volume of BQD deposits from Fowler Oldfield was taking up the majority of their capacity for remitting cash to cash centres. They said that this meant they were storing too much cash in their safe. No IMLSR was raised by the Piccadilly and New Bond Street Branch.

Management of the account by the Relationship Management Team

128. In addition to emails and individual documents and shared drives, there were two main bank systems used by Relationship Managers and in which information available to and obtained by the Fowler Oldfield Relationship Management Team was stored. That information was used to manage the customer relationship and also formed part of the Bank's records on the customer:

a. RMP: an electronic credit workflow and credit risk management system. During the period when Fowler Oldfield was a customer of NatWest, RMP was used by relationship managers as a customer database and a credit workflow tool, and allowed them to create credit applications on behalf of their customers and then submit such applications to the appropriate credit unit for approval and processing. The system was used to create a risk rating for each customer – although no financial crime (including AML) factors were taken into account in producing this rating. It was therefore a separate form of risk rating to that first referred to at paragraph 36 above. Information stored in RMP included customer contact information, copies of the customer's management accounts and audited accounts, credit applications, client valuation reports, excess history and security information; and

b. RMD: (as described at paragraph 70 above) an electronic customer management database. It produced account opening forms, monitored workflow for KYC and KYB processes, recorded the customer risk rating, and maintained contact and address information.

129. RMD and RMP were both used by the Relationship Management Team and support departments, such as those dealing with KYC and KYB. However, as noted above, those investigating suspicious activity throughout the relevant period only received access to RMD in February 2015 and may (or may not) have been granted access to RMP at some stage from April 2015.

130. A number of visits were made to Fowler Oldfield's premises during the course of its relationship with the Bank which were attended by the Relationship Manager, his assistant and at times other members of the Business and Commercial Banking Bradford office. These visits were not minuted, although discussions during those visits were at times recorded on email or RMP. In relation to anti-money laundering, the Relationship Manager noted on RMP under a heading 'Regulatory / reputational' "*significant money laundering implications and we "advised" on our requirements iro new clients from this perspective*." Other entries make reference to Fowler Oldfield having engaged a firm of solicitors to conduct customer due diligence checks which included the following statements:

   a. An entry dated 8 September 2015 read:

      "Since advised now using Lewis Hymans Small a large Manchester solicitors to carry out all their due diligence and provide an audit trail on every client. They confirm they (too) regularly have visits from the revenue (7 in 7m) and have had a clean bill of health every time."

   b. An entry dated 2 March 2016 read:

      "Client base - well spread - very little reliance on one client/ area. This is also key from an AML perspective - the agents consolidate daily orders from a large number of individuals - no large player. In turn they also use a firm of solicitors to do new KYB & KYC type take on and continue to take this area very seriously"

131. Whilst no firm of the name quoted above appears to exist, 'Lewis Hymanson Small Solicitors' were acting for Fowler Oldfield in 2013. The firm changed its name to 'LHS Solicitors' in 2015. The firm has confirmed that whilst Fowler Oldfield was a client between 19 July 2013 and 13 September 2016, there is no record of it having been instructed to undertake due diligence on Fowler Oldfield's customers.

132. The statement made in relation to the seven visits from "*the revenue*" appears to have been misleading in that the claims in relation to the "*clean bill of health*" or that Fowler Oldfield had received seven visits from HMRC in seven months were not correct. At the date of this entry Fowler Oldfield was yet to receive a visit from the

HMRC AML team and had only been visited by HMRC MTIC fraud officers on one occasion.

133. Other than these entries on RMP there is no other documentary evidence that during these visits, money laundering or source of funds were discussed or that checks were completed by the Bank. Those meetings did however involve updates on the business' trading activity and strategy. The visits focused on improving customer relations and discussing the credit services that could be provided to the customer.

134. There were also visits in February and April 2016 from the Transaction Services Team which, in an effort to encourage Fowler Oldfield to reduce its use of the BQD service and increase its use of the Direct Cash service, negotiated a 30% reduction in Direct Cash fees for the customer. Notes were produced for these meetings and the cash levels were noted. For example, after the 4 April 2016 visit to Fowler Oldfield, the member of staff from Transaction Services recorded the extensive dealings in scrap gold, and the sale of gold grain to the Asian community. Under the heading "*Cash*", he recorded that "*whilst gold is the trading commodity, cash is king in their world*", and that the communities to which they were selling operated in cash. In light of the cash volumes involved the member of staff raised the customer and its cash volumes with his manager. He was advised to ensure the necessary business risk checks had been completed - Fowler Oldfield's Relationship Manager assured him they had been.

135. As mentioned above, the Relationship Management Team's visits to Fowler Oldfield, and their understanding of the account, were recorded on RMP and, to a lesser extent, RMD. The Commercial director for the Relationship Management Team was involved in approving the credit facilities on the account. Other members of staff were on occasion also involved in NatWest's relationship with the customer. These interactions are summarised in Appendix 3.

136. RMP records also indicate that directors' reports and financial statements were provided by Fowler Oldfield to the Relationship Management Team in July 2013 (for year ending 31 December 2012) and September 2015 (for year ending 31 December 2014). Management accounts were provided in March 2015 and December 2015.

137. A non-standard process had been implemented which permitted Fowler Oldfield to make payments out to suppliers against cash deposits, once the cash to be deposited had left Fowler Oldfield in a G4S van, but before it had reached the cash centres or been credited to Fowler Oldfield's primary trading account. The note of the 4 April 2016 visit to Fowler Oldfield, referenced at paragraph 134, also included details of this arrangement for the handling of Fowler Oldfield's cash deposits.

138. This arrangement, known internally as a "Non-Standard Agreement", entailed Fowler Oldfield employees emailing the Relationship Management Team with information or receipts for the collections in order to prove that cash was on its way to the cash centre. From September 2015, this process was recorded on and monitored by way of a spreadsheet, updated daily. By summer 2016, the spreadsheet recorded that Fowler Oldfield was depositing over £1.5m in cash daily and yet was regularly overdrawn.

139. The Relationship Manager was dismissed by NatWest on 19 June 2018, because of his conduct on the Fowler Oldfield account: the "Non-Standard Agreement" was found to be "*misconduct*," whilst the fact that the Relationship Manager provided Fowler Oldfield with details of the Bank's "*early warning indicators*" (for credit issues) was treated as "*gross misconduct*" justifying dismissal. The Relationship Manager appealed the decision but on 18 October 2018 was notified that the decision to dismiss had been upheld.

140. Throughout the course of the relationship, only one IMLSR was raised from within the Relationship Management Team: IMLSR 9, raised by the Assistant Relationship Manager in September 2015 and discussed further in Appendix 2.

TM alerts and IMLSRs in relation to Fowler Oldfield

141. A number of IMLSRs and TM alerts were raised on the Fowler Oldfield accounts, all but one of which arose in the period after January 2014. The IMLSRs and TM alerts are individually summarised in Appendix 2.

142. Overall, between November 2012 and June 2016, the Bank's staff submitted 11 IMLSRs. These were raised by individuals across the business and country, including staff at three out of six of the Group's English cash centres, NatWest branches, and by Fowler Oldfield's Assistant Relationship Manager. The IMLSRs described suspicions including unusually high volumes of cash passing through the accounts; the unusual predominance of Scottish notes being deposited in England (Fowler Oldfield did not deposit any cash in Scotland); the cash deposits carrying a "*prominent smell*"; and suspicious behaviour by depositors.

143. The Bank's automated transaction monitoring system triggered 10 times between March 2014 and the end of the business relationship. The most frequent trigger was the Security Blanket, which triggered four times between August 2015 and November 2015. The second most frequently triggered rule was a rule that concerned "Large Cheque Deposits," in place between September 2015 and January 2016. This rule

triggered three times, probably as a result of the system wrongly treating cash deposits as cheques (discussed below).

144. Fowler Oldfield was listed as an associated party/remitter in one SAR submitted to the NCA in August 2015: an alert had been triggered on an account belonging to a supplier of hair extensions/wigs, hair accessories and cosmetics. It was noted that the company had received approximately £387k from Fowler Oldfield, following which the funds were transferred to a pub business before being transferred out to money transfer businesses. This did not trigger any independent review of the Fowler Oldfield relationship by the Bank.

145. The alerts, once raised, were mainly investigated at Borehamwood. In six out of 21 investigations (with two IMLSRs being investigated together), the investigators contacted the Relationship Manager for his explanation of account activity. In each case, he gave an account which purported to explain the activity in question. In many of the other investigations, investigators referred to accounts that the Relationship Manager had given on previous occasions, and which were therefore recorded on GK.

146. Three of the alerts were subjected to quality assurances processes prior to NatWest being informed of the criminal investigation into Fowler Oldfield in 2016. The investigation into IMLSR 1 was not criticised; whilst minor accuracy corrections were made to the investigations into IMLSR 6 and TM Alert G (without the overall approach or decision being criticised).

147. No SARs were submitted to the NCA concerning Fowler Oldfield until the Bank was notified of the NCA/West Yorkshire Police investigation into it.

148. After NatWest became aware of the WYP/NCA investigation into Fowler Oldfield, the Nominated Office submitted 13 SARs which retrospectively reported conduct on the account and sought consent for account closures, discussed further below.

Bank charges

149. During its relationship with Fowler Oldfield, the Bank made £497,623 in fees and charges as follows:

   a. 2011: £3

   b. 2012: £29,124

   c. 2013: £18,703

   d. 2014: £77,774

   e. 2015: £213,060

f. 2016: £161,634

g. 2017: £230

h. 2018: £96

150. By 2014, Fowler Oldfield was the most lucrative client for the Bank in the Bradford region. The second highest revenue generating client in that region in 2014 generated less than half of the fees generated by Fowler Oldfield.

West Yorkshire Police & NCA involvement

151. On 9 June 2016, the Bank received notification from the NCA that a WYP investigation had concerns relating to Fowler Oldfield. The Bank was told that a formal request for information would be made in due course. On 21 June 2016, the Bank received a request from the NCA to disclose material under the protection of section 7 of the Crime and Courts Act 2013. The request set out concerns that Fowler Oldfield was processing large sums of cash in a manner consistent with missing trader intra-community ("MTIC") fraud and cash-based money laundering. The request sought information on the customer due diligence checks conducted, and the Bank's understanding of the activities undertaken by Fowler Oldfield.

152. As a result, the same day, the FCIIU opened an internal investigation into Fowler Oldfield. The investigation remained at that stage covert, and the Bank agreed to assist the WYP without alerting the Relationship Management Team on 23 June 2016. By 8 August 2016, that investigation had progressed sufficiently for the Nominated Officer to alert the head of financial crime in the Group's C&RA function about potentially disclosing the Bank's handling of Fowler Oldfield to the FCA:

> *"I have a number of serious concerns about the prior handling of suspicions in respect of this customer, which we may wish to bring to the attention of the FCA in accordance with our obligations under Principle 11 of the Principles for Business (PRIN 2.1)".*

153. There was discussion within the Bank about whether the relationship with Fowler Oldfield should be exited, whatever the wishes of the officers conducting the WYP and NCA investigation. On 10 August 2016, the Bank commenced its exit process for Fowler Oldfield and associated accounts. SARs were drafted on all accounts that received money from Fowler Oldfield. Between 8 August 2016 and 4 May 2017, thirteen SARs were submitted to the NCA, retrospectively reporting conduct on the account in advance of account closure. These SARs included references to a dramatic increase in cash deposits from December 2013; the high proportion of Scottish notes

and the "*prominent smell"* to notes. The Nominated Office gave as the reason for one SAR in August 2016:

> *"the activity seen on the accounts of the business is not in line with expectations for the nature of business. We have been unable to identify a legitimate rationale for cash to account for the vast majority of turnover for a wholesale precious metal dealer. Furthermore, cash credits being up of a high proportion of Scottish notes is inconsistent with what is ostensibly a Bradford based business."*

154. The WYP and the NCA arrested various individuals connected with Fowler Oldfield on 8 September 2016, including the Bank's Relationship Manager who has not been charged but remains under investigation by WYP. The informal credit arrangement which the Relationship Manager had maintained with Fowler Oldfield meant that when the police seized Fowler Oldfield's cash *en route*, the Bank was exposed to a loss of £1,556,625.

155. Following internal consideration of the issues, the Nominated Officer formally requested the exit of Fowler Oldfield's accounts on 21 September 2016. Liquidators were appointed for Fowler Oldfield on 5 October 2016.

Fowler Oldfield and HMRC

156. As noted above, during the onboarding process, the Relationship Manager had indicated he had been told by Fowler Oldfield that "*the VAT*" referred complex issues to GEF Trading, who were effectively acting as a *"consultant"*. At various points during Fowler Oldfield's relationship with the Bank, the Relationship Manager repeated on the RMP and RMD details of the company's apparently positive relationship with HMRC (see paragraphs 132 to 133 above). He would also raise Fowler Oldfield's purported positive relationship with HMRC with analysts from the Nominated Office Function who were investigating suspicious activity on the account.

157. Those in the Nominated Office Function do not appear to have sought corroboration for this account. In reality, Fowler Oldfield's relationship with HMRC was not as recorded by the Relationship Manager. During the course of its relationship with NatWest, Fowler Oldfield was regularly visited by HMRC's MTIC VAT fraud officers in respect of some of those companies with which Fowler Oldfield traded in the purchase of non-gold metals. The suspicions of and investigations by HMRC were not known to the Bank, nor would any information about them have been provided by HMRC had it been approached by the Bank. HMRC was investigating whether Fowler Oldfield was involved in MTIC fraud and the dishonest evasion of VAT. During its visits to

Fowler Oldfield, numerous concerns were raised including concerns about Fowler Oldfield’s purchases from Wardacre, and the nature of its transactions with Place Trading, a company which HMRC had noted as having a trade classification unrelated to gold and silver.

158. In May 2016, HMRC issued Fowler Oldfield with two penalties, totalling over £3m, following an assessment that Fowler Oldfield had claimed input tax on transactions which were traced back to fraudulent defaulters, in circumstances where Fowler Oldfield 'knew or ought to have known' this was the case.

159. Separately, Fowler Oldfield was itself regulated by HMRC for the purposes of the MLR 2007 and was obliged to be registered with HMRC if acting as a High Value Dealer. The HMRC AML team visited Fowler Oldfield on 1 December 2015 for the purpose of assessing Fowler Oldfield’s compliance with MLR 2007. During the visit, Fowler Oldfield's policies and procedures for customer due diligence measures and ongoing monitoring were assessed. Fowler Oldfield was asked to improve its procedures. The officers were informed that all customers had a business relationship with Fowler Oldfield and that KYC checks had been carried out. The receipt of cash was discussed during the visit and the visiting officers were assured by Fowler Oldfield that it was not receiving in any direct cash payments with respect to individual payments of £10k or more. The report drafted following the visit identified a limited number of compliance points and the company was rated a '2' by the officers, described as "*Willing and wants to comply. Takes legal responsibilities seriously*". The summary of the visit included noting the '*huge throughput of cash*'. It concluded that *"Business not fully compliant with MLRs, but no HVPs."*

160. The HMRC AML team requested sight of the bank statements for the two preceding years, which were supplied by email on 9 December 2015. The statements were subsequently reviewed by the one of the HMRC officers in order to establish whether there were any payments to businesses mentioned in an intelligence report. There were not, and so HMRC was satisfied that the risks around cash that had led to the visit had been dealt with. The HMRC AML team did not appear to have had concerns about Fowler Oldfield’s AML processes following the visit to its premises and review of Fowler Oldfield's bank statements. HMRC’s AML team made no adverse findings about Fowler Oldfield as a result of the December 2015 review.

Failures in Monitoring

161. Although NatWest's AML systems and policies were broadly in line with relevant industry guidance, there were serious deficiencies with the Bank's ongoing monitoring of Fowler Oldfield during the Indictment Period.

Risk rating

162. Fowler Oldfield was taken on as a high risk customer, and was onboarded with approval by the CEU, as required for certain high risk accounts. However, from November 2012 the relationship did not receive the requisite level of risk sensitive or enhanced ongoing monitoring that was required under the Group's policies and procedures. It remained recorded as high risk following an Event Driven Review in October/November 2013.

163. On 7 December 2013, Fowler Oldfield's risk rating as recorded in RMD was amended from high to low. This change occurred following the ADR and SIC Remediation programmes, rather than through any bespoke or manual action regarding the risk rating for this specific customer. At some point within the SIC Remediation Programme, the nature of Fowler Oldfield's business activity was changed on the system from '*precious metals*' to '*wholesale of metals and metal ores*'. This amendment, combined with low risk factors such as Fowler Oldfield's jurisdiction, may in turn have led to the downgrading of the risk assessment during the ADR remediation process. Ultimately, the Bank is unable to say definitively how this happened.

164. The industry classification of '*wholesale of metals and metal ores*' was incorrect, and in any event Fowler Oldfield should have been rated as high risk throughout its relationship with the Bank. On 17 April 2014, the Relationship Manager amended the risk rating to "medium", recording "*Whilst the level of cash activity is not disprrportionate* [sic] *it is very high due to the nature of the business and therefore I feel a Medium Risk categorisation is more reflective on this file*." The customer was rated as medium risk from April 2014 to March 2016.

165. For the period 7 December 2013 to 3 March 2016, therefore (on which date the risk-rating was increased to "high" by the Relationship Manager), the customer was incorrectly risk rated by NatWest.

166. The downgrading of Fowler Oldfield's risk rating may have also contributed to the account not being subjected to the Group's high risk customer file remediation exercise which began in 2013 and was largely completed in 2014. By the time Fowler

Oldfield's rating was no longer high risk in December 2013, it had not been subject to a review as part of this exercise.

Periodic Reviews and Event Driven Reviews: Account monitoring and updating of customer information

167. On 8 May 2012, six months into its relationship with the customer and in line with CEU's onboarding conditions for Fowler Oldfield, the Relationship Manager was required to conduct a desktop review to ensure that the account was operating as anticipated. As explained as paragraph 86 above, the Bank has not identified any evidence of the review being discussed, conducted or recorded.

168. As set out above, on 9 December 2011 a new director (an existing NatWest customer) was appointed. The involvement and imminent appointment of that director was known during onboarding, with some due diligence conducted, and he was a primary point of contact for the Bank. However, no Event Driven Review was conducted at the time of his formal appointment, as required by the Bank's policies and procedures. The director would go on to invest £200k into the Fowler Oldfield business, £100k purportedly from his mother. No source of funds or due diligence checks were completed on the director's mother or where these funds had been obtained from. A further director would be appointed in July 2012. Again, no Event Driven Review was completed and no updated KYB was obtained on that further director at that time.

169. As Fowler Oldfield was rated high risk, the Bank's Periodic Review policy dictated that it should have been subject to a Periodic Review in November 2012, one year into the relationship. This review did not occur – there is no recorded reason for why it was not completed. Fowler Oldfield was not subject to any Periodic Reviews during the lifetime of the customer relationship.

170. Two Event Driven Reviews were conducted on the Fowler Oldfield account during the lifetime of the customer relationship that involved the completion of KYB forms and a review by KYC analysts. The first was conducted by a KYC analyst on 7 November 2013 and included consideration of the October 2013 KYB form. It was requested by the Relationship Manager, on the basis that Fowler Oldfield had added two new directors. Although both individuals were known to the Relationship Management Team, these directors had been appointed on 1 December 2011 and 4 July 2012 respectively, over 15 months prior to the request. In the October 2013 KYB form, in response to the question "*to which country does the customer make payments eg where are its suppliers / members based*" the Relationship Manager stated "*United*

Kingdom" only, which was at odds with the international transactions on the account which had involved payments totalling £78k to Hong Kong, Belgium, Ireland and Italy.

171. Between September and November 2013, cash deposits accounted for over 50% of all cash deposited into the account since the account was onboarded. However, it does not appear that the reviewer responsible for the Event Driven Review took appropriate further steps such as examining the transactional activity in detail to consider the reasons for these payments and the associated money laundering risks.

172. The Relationship Manager produced an updated but incomplete KYB form five months later on 17 April 2014. It incorporated only minor changes to the October 2013 version. The entries made regarding Fowler Oldfield's business model were identical in spite of the significant change in transactional activity (some £4.5m in cash deposits since 1 October 2013). As with the October 2013 KYB form, the Relationship Manager did not record a full analysis of the significance of the change in the customer's business model and activities. The form remained unsigned, incomplete and appears to have been subsequently removed from RMD. The precise date of its removal is unclear, but by August 2016 the document was no longer available on this platform.

173. On 28 April 2014, when asked about significant cash deposits by an analyst in the Nominated Office Function, the Relationship Manager replied "*In terms of the client they were fully assessed at take on 2 years ago and the business activity has pretty much been consistent throughout."* This statement did not reflect the changes on the account over the previous six months. Further, this statement did not reflect the more recent transactions on the Fowler Oldfield account(s). He went on to say that the "*cash volumes are very much in line with our expectations for this type of business*".

174. None of the records of the 19 investigations into the suspicious activity that post-dated the November 2013 change in account activity, and predated the March 2016 KYB update, referred to or assessed the credibility of the change in business model and activity on the account, as described by the Relationship Manager. However, IMLSR 8 did trigger a request for the Relationship Manager to consider whether an Event Driven Review on the account was necessary. The Relationship Manager was required to complete an Unusual Transaction Activity Referral ("UTAR") form, which he completed on 23 September 2015 and stated:

> *"Customer has now opened additional trade counters in both Birmingham and London, who both plan to have G4S collections in the*

near future. However, in the meantime the falling gold price, together with a new business offering following a J/V wtih Stunt Metals has increased business and the requirement to get transactions paid quickly. Since G4S collections are often unreliable, with no set timings, there is often a requirement to get cash into the account more urgently to ensure they stay within their facility. Rest assured whilst the customer needs to get funds into the account, the cost is significantly higher to do this so it is a last resort measure. A good strong relationship is held with this client and that there are no AML concerns with activity fully explained and consistent with the account information being produced. Customer has regular visits from HMRC with clean reports on every occasion."

175. In September 2015, the only visits conducted by HMRC had been from MTIC fraud officers who visited Fowler Oldfield on 4 July 2014, 5 November 2014, 12 January 2015 and 7 August 2015. Each visit identified concerns with the business's trading practices.

176. The Relationship Manager stated that the customer's due diligence did not need to be updated as the activity was in line with the knowledge of the customer. He also stated that the customer's risk rating had not moved to high risk. He did not initiate an EDR via the Event Driven Review Team which would have occurred had he selected that the customer's CDD required updating. IMLSR 8 is discussed in more detail at Appendix 2.

177. The second full Event Driven Review was requested on 3 March 2016 and may have led to the Relationship Manager amending Fowler Oldfield's trading activity and raising its risk rating to 'high'. This Event Driven Review was triggered by an application by Fowler Oldfield for a letter of credit.

178. The Relationship Manager updated the KYB form. He repeated that "*Significant cash utilisation as more than 90% of purchases are made in cash,*" before asserting "*Gold then assayed, & manufactured and sold back to their main clients as bars or gold grain which is used by jewellers as a raw material and in asian areas as a currency as it can be easily divided into small amounts.*" He also claimed that "*Actual transaction turnover c£100m with c90% being in cash which is common in this sector*" and answered "*No*" to the question in the form "*Does the Business have a disproportionate level of cash turnover relative to the trading activity and the customers business proposal?*". He further stated that "*In this business suppliers are also their customers. Large number of jewellery business across the UK. Fowler*

Oldfield have operational hubs in London and Bradford, Birmingham and Glasgow, and operate across the UK".

179. Despite Fowler Oldfield's risk rating being increased to high prior to the second EDR, it was not subject to the same level of scrutiny that a high risk customer should have received. It does not appear that the reviewer responsible for this EDR examined any transactional activity on the account; nor challenged the Relationship Manager's assertions. There is no evidence that he identified (and did not record in his KYC report) that, although the Relationship Manager claimed that Fowler Oldfield had an 'operational hub' in Glasgow, it had not at that time (nor did it ever) make a cash deposit in either a branch or cash centre in Scotland. Nor did he record in his KYC report any consideration of the volumes of Scottish notes deposited by the customer all across England between 2014 and 2016. He did, however, check and confirm that Fowler Oldfield was correctly rated as high risk.

180. Although two EDRs which took place involved a review by independent KYC/KYB teams, multiple triggers for further Event Driven Reviews were missed. The Bank consequently missed opportunities for the KYB held on the customer to be reconsidered and updated where required. For example, this included when:

    a. The volume of cash deposits began to be received into Fowler Oldfield's account in ever-increasing amounts over the counter at the Bank's high street branches and through the Bank's BQD and Direct Cash services;

    b. The NCA formally requested information on Fowler Oldfield in July 2014; and

    c. A SAR was submitted in August 2015 to the NCA on the hair accessories business Place Trading listing Fowler Oldfield as an associated subject / remitter.

181. As set out below at paragraphs 237 to 239, processes in place during the Indictment Period for ensuring that Periodic Reviews and Event Driven Reviews were conducted in a timely manner were not robust.

Problems with automated monitoring affecting Fowler Oldfield

2016 Cash/Cheque Issue

182. In October 2014, and again in October 2015, in the course of investigating two IMLSRs relating to Fowler Oldfield, an analyst in the Nominated Office Function had observed that the Group's automated monitoring system, Monitor 5.5, had recorded deposits of cheques which, on further examination, were in fact cash. Those

observations were recorded in the investigative notes for each of those IMLSRs, but do not appear to have been escalated at that time.

183. In April 2016, it was separately identified by a Transaction Monitoring Manager in the Personal and Business Banking ("PBB") division that incorrect data had been fed through Monitor 5.5. From before the start of the Fowler Oldfield relationship, most likely from the introduction of Monitor 5.5 in 2008, until March 2017, cash-only deposits made via the Direct Cash product (i.e. which comprised payments directly to cash centres), which was used by a number of the Group's Brands including NatWest, were erroneously recognised by the automated monitoring system as cheques rather than cash. It appears likely that the analyst in in the Nominated Office Function was observing the same issue in October 2014 and October 2015.

184. The potential impact of the issue was set out by a member of staff investigating the problem in June 2016:

> *"As I've explained, there is the potential for this to have a massive downstream impact, so ensuring we have covered all avenues of enquiry is important.*
>
> […]
>
> *This could have a number of different impacts to our monitoring system such as:*
>
> *1)Specific rules that target cash activity will not capture cheque transactions.*
>
> *2)The separate monitoring methodology (known as security) blanket applies a higher risk weighting to Cash activity.*
>
> *3)Ongoing work into implementing Cheque based rules will be impacted by the data quality issues."*

185. This analysis was correct. During the course of the relationship period, the Bank's automated transaction monitoring system had targeted rules that differentiated between cash and cheque activity; and the Security Blanket treated cash and cheque deposits differently. In both cases (and consistent with cheques posing less of a money laundering risk than cash), the Bank's automated systems used a higher alert threshold for cheque activity.

186. On 19 July 2016, whilst investigating the activity on the Fowler Oldfield relationship the issue was also separately identified by FCIIU and raised with the Bank's Nominated Officer. The resulting investigations during July and September 2016

confirmed that the issue affected the automated monitoring system. It does not appear that the FCIIU brought the matter to the attention of those responsible for the system, the Transaction Monitoring and Screening team within Services, or those responsible for investigating suspicious activity (the Nominated Office Function).

187. In November 2016, the Transaction Monitoring Manager investigating the problem said that £100m per day was being misrepresented as cheques. Customers affected by this issue would have been all users of the Group's Direct Cash and Bulk Cash products (those that use cash courier deposit services). The product was aimed at commercial and corporate customers. Commercial customers were split into segments relating to small businesses (with an expected turnover up to £2m) and medium businesses (with an expected turnover between £2m and £25m). Corporate customers were those with expected turnovers of over £25m. By November 2016, a fix had been identified but discussions on implementation and allocation of funding of the fix (which cost approximately £8.5k) took a few months to resolve. On 7 March 2017, it was confirmed that a fix had been implemented successfully.

188. In relation to Fowler Oldfield, over £165m of cash was deposited as cash-only deposits using the Direct Cash product and thus was affected by this issue. This represented 97% of the total deposits made by Fowler Oldfield via the Direct Cash product.

Removal of targeted automated rules

189. The tuning and switching on and off of targeted automated monitoring rules should be part of the normal ongoing operation of the system. The automated rules applicable to the medium business customer segment, which the Bank placed Fowler Oldfield in, were switched on and off at various times. Some of the rules were removed on 13 June 2014. The result was that, for 15 months from that date, Fowler Oldfield's primary trading account was only subject to the Security Blanket; one targeted rule concerned with international wire payments out; one targeted rule concerned with construction tax fraud; and one targeted rule concerned with VAT carousel fraud. While all transactions were at all times subject to automated monitoring, including by the Security Blanket, during that period, there were no automated monitoring rules applicable to the primary Fowler Oldfield account that specifically targeted cash deposits (including at branch counter, through BQD and via the Direct Cash product) or cheque deposits. The cash credits to Fowler Oldfield's account in that period through those products were over £90m.

190. From at least September 2012, the CBD AML Transaction Monitoring (TM) Steering Group was responsible for targeted automated transaction monitoring although the Bank has been unable to provide any evidence from this period that demonstrates whether transaction monitoring governance issues were discussed by the steering group. In March 2013, the Group established a committee, the Monitor 5.5 Working Group, which was a fortnightly management forum for internal stakeholders of the Group's automated transaction monitoring system. From 2013, the Monitor 5.5 Working Group was the first committee dedicated to automated transaction monitoring. This working group oversaw changes to the system, and the escalation of issues, risks and required configurations.

191. The minutes of the Monitor 5.5 Working Group in June 2013 suggest that the Group was aware of the limited rule coverage in place for the CBD customer base. The minutes record that *"other than a few rules for business banking there were no real rules in place for commercial or corporate."* Changes were proposed, and the minutes indicated that the planned changes to CBD rules were focused on "*covering red flags not currently covered*."

192. Limitations to the CBD rule coverage were identified in various reports within the Bank. A February 2013 document entitled "C*BD AML Transaction Monitoring – Monitoring Coverage Report*" concluded that not all areas of CBD were being effectively monitored by the automated system, that monitoring was degraded due to poor or missing account and product assignment, that the system did not take risk rating into account, that customer account segregation and the application of rules was inadequate, that there was no regular assurance review, no regular review or update of settings, no business or technology documentation, not enough engagement from the business and that there were capacity constraints with the current monitoring platform (i.e. Monitor 5.5). It also observed that there was no process for ongoing review and evaluation of the data going into the Bank's automated transaction monitoring system or review of the effectiveness of rules and coverage, nor had there been since 2008/9. As a result of the findings, the existing rules were reviewed, with a view to replacing them. A set of sixteen new rules was developed and introduced in three batches over the course of 2013, of which three applied to Fowler Oldfield, but each of these three rules were switched off again in June and August 2014. Two of the three rules related to high volume cash deposits and withdrawals.

193. Problems with the Security Blanket were identified in March 2015, when the Security Blanket was reviewed, it not having been reviewed or tuned since 2008 – which the review noted *"is essential for the continued optimum working of the security*

blankets". The review described the Security Blanket as "*a fundamental part of automated Transaction Monitoring*," but found that the failure to review and tune them since implementation in 2008 had led to *"a high probability that they are not performing as intended, may not be mitigating the risks as expected and may be generating unnecessary alerts and could be missing suspicious activity."* The report also stated, amongst other things, "*That the set of collective controls used to mitigate risks are not as effective as previously thought".* The conclusion was that complete tuning of the Security Blanket was not recommended, given the complexity of the task, the time it would take to implement and the known data issues that might impact on its effectiveness. Other factors that would make the tuning of the Security Blanket "*extremely complex*" included there being no defined process within the Group for undertaking tuning activity, the lack of a full-sized test environment and known existing segmentation issues. Instead, the review proposed improving relevant performance management information and introduced additional rules.

194. Twelve new automated rules were introduced in October 2015, including nine that targeted cheque and cash activity, some of which triggered TM alerts on the Fowler Oldfield account. However, many were removed four months after they were introduced. One rule (which targeted unusual cash deposits made into accounts held by medium-sized businesses) had itself been deactivated from June 2014 until October 2015, apparently due to a 'brand exclusion' which meant that it was not applied to NatWest brand accounts. The request for that rule (and others) to be reactivated in September 2015 was sought in order to "*increase cash risk coverage in CPB".*

195. Sixteen further rules were deactivated in January 2016, at first temporarily with instructions that they must be activated again before Monitor 5.5 considered the following month's customer data, but many were in fact not reinstated thereafter. The Bank had, in November 2015, also identified a specific risk caused by Monitor 5.5 being limited to 70 concurrent users, which allowed the Nominated Office Function to work an average of only 6,500 alerts per month, when it was receiving 9,000 alerts per month. Rules were therefore identified for deactivation which had been shown to produce few or no alerts resulting in SARs being submitted to the NCA. It is not known if there was consideration of the reasons for the low conversion rate including whether this was due to rule construction or inadequate investigation.

196. The deactivation of those automated rules in January 2016, including a rule which related to Large Cheque Deposits, meant that Fowler Oldfield's cash deposits via the Direct Cash product would thereafter only have been monitored by the Security Blanket (itself treating them as less risky cheque deposits) and one other targeted

rule (the Construction Tax Fraud rule), with a second from May 2016 (the Unusual Event Score rule aimed at high risk customers). Neither of these rules ever alerted on the Fowler Oldfield accounts.

197. Between January 2016 and the freezing of its accounts in September 2016, Fowler Oldfield paid in over £131m in cash through the Direct Cash service.

No specific rules for high risk customers in the automated monitoring system

198. Prior to 29 April 2016, the Bank's automated monitoring system did not apply additional specific rules for high risk customers. This was known within the Bank from 2010, and the Bank struggled to establish and implement a complete solution to the issue. The issue was identified in various internal risk systems and reports between 2010 and 2016. On 12 November 2013, an Exception to Policy ("EtP") was raised with a planned closure date of 30 November 2014. The summary read:

> *"An Exception to Policy is requested as a gap currently exists in the Transaction Monitoring solutions in place for CBD as they do not fully comply with … Group Anti Money Laundering Policy.*
>
> *The CBD AML Programme established a Transaction Monitoring project in 2011 which identified 23 key Transaction Monitoring gaps in CBD. A number of these gaps have been addressed by quick wins implemented by the CBD Transaction Monitoring project and plans are in place to upgrade the rules in the Fortent Monitor 5.5 system that currently supports TM alerts for CBD by the end December 2013. This plan is detailed in Orbit Risk 251339.*
>
> *Whilst this activity will address the largest proportion of TM issues identified, a number of gaps remain as business requirements to address these gaps cannot be supported on the current system infrastructure. At this time there is no clear time horizon for provision of upgraded infrastructure, but initial estimates from Business Services suggest that upgrade could take between 2-5 years. Therefore, an exception to policy is requested for a period of 12 months whilst Business Services and Group AML agree preferred suppliers and timelines for delivery of infrastructure to support CBD requirements".*

199. At this stage, the EtP identified the inability to recognise customer risk rating as a gap which could not be addressed until the system was upgraded. In fact, this

functionality was eventually implemented in Monitor 5.5 in March 2016, without the need for an upgrade.

200. The EtP raised in November 2013 was withdrawn in March 2014, on the basis that none of the particular features apparently missing from the system were requirements for compliance with Group policy or the MLR 2007, and so no 'Exception to Policy' was required. Nonetheless, the Bank's internal "Change Request" documentation submitted in February 2014 and updated in October 2014 asserted that the absence of differential risk markers put the Group in breach of regulation 14(1) of the MLR 2007, the JMLSG guidance, Group Policy and guidance issued by the FCA. The MLR 2007 and JMLSG do not explicitly require all firms to conduct automated monitoring or that all automated monitoring systems include the capability to apply risk-based monitoring. However, the Bank accepts that given its size and the volume of its activity, automatic transaction monitoring is a necessary part of the Bank's overall AML protections, including compliance with the MLR 2007. A document dated December 2014 relating to the "Customer Risk Marker update for Monitor 5.5" project also described the "*Current position*" as the *"bank is not fully compliant with policy and regulations High Risk customers are not as visible to AML Investigators when reviewing suspicious behaviours."*

201. Work continued, therefore, to resolve the issue. The "*Revised terms of reference – customer risk markers for Monitor 5.5 Phase* 2" dated 27 August 2015 set out the aims and likely customer impact of the planned changes. It stated that development of differentiated monitoring would "*protect the Group from regulatory breaches and further safeguard customers' business."* The high level benefits of the project included "*These deliverables for Customer Risk Markers move the bank further toward its goal of achieving an efficient and effective Transaction Monitoring regime with a documented understanding of business risk landscape and the* expected *control environment."* It aimed to deliver the "*ability to differentiate monitoring of our Higher Risk clients and PEPs".*

202. From March 2016, high risk customers were capable of immediate identification on the automated monitoring system and could therefore be subjected to a specific level of scrutiny via that system. The rule in question applied to Fowler Oldfield's primary trading account from 12 May 2016.

Summary of automated monitoring weaknesses

203. The weaknesses in the Bank's automated monitoring of the Fowler Oldfield account were therefore, in summary:

a. Cash only deposits made directly into Bank cash centres (via the Direct Cash product) were erroneously recognised as cheque deposits by a system feeding into Monitor 5.5. These cash deposits via Direct Cash were therefore not subjected to automated cash monitoring rules. Instead, they were subjected to rules applicable to cheque deposits (when in force – see below), which are typically less risky transactions. In addition, cheque transactions had a lower risk weighting within the Security Blanket rule. At least £165m of Fowler Oldfield cash deposits were affected by this failure in automated monitoring.

b. There were significant gaps in the coverage of other targeted automated rules. For example, there were no cheque-specific automated transaction monitoring rules in place for the majority of NatWest's relationship with Fowler Oldfield (which meant that at least £151m of Fowler Oldfield's "Direct Cash" deposits that were incorrectly identified as cheques were neither subject to rules monitoring cash or rules specifically targeting cheque deposits). There were also no cash specific rules from June 2014 to September 2015. During this period, £47m was deposited via BQD and therefore would not have been subject to cash specific targeted rules.

c. There was no differentiated monitoring of high risk customers until April 2016.

d. The Security Blanket rule, for which tuning was "*essential*", had never been tuned leading to a transaction monitoring risk manager stating that there was "*a high probability that they are not performing as intended, may not be mitigating the risks as expected and may be generating unnecessary alerts and could be missing suspicious activity.*"

204. Although, as set out in industry guidance, cash is known to present an inherently higher money laundering risk, there is no specific requirement, under the MLR 2007, to have any particular cash-based rules. Further, the 'tuning' of the Security Blanket was not the only way in which the system could be kept aligned to the risks posed on customer accounts. The Fowler Oldfield transactions did not go wholly unmonitored by the automated system; some rules were in place, and the Security Blanket rule was active throughout the period when Fowler Oldfield was a customer. However, NatWest accepts that the various factors set out above meant that its automated transaction monitoring system was not adequate in the circumstances

and did not deliver the requisite level of automated monitoring of the Fowler Oldfield business relationship.

205. Given the nature of the above issues with the automated system, these issues would have applied to a significant number of the Bank's clients in addition to Fowler Oldfield.

Staff Vigilance

206. In addition to the monitoring and record keeping failures of the Relationship Management Team referred to above, there were monitoring failures from other parts of the Bank's 'First Line of Defence'. In particular, staff at certain cash centres and branches (some of which are referred to at paragraphs 104 to 127 above) did not submit IMLSRs about Fowler Oldfield's activity despite, from November 2013, increasingly voluminous cash deposits into its account until the end of the Indictment Period.

Nominated Office Function investigations - Borehamwood

207. The bulk of the IMLSRs raised on the Fowler Oldfield account were investigated by the Borehamwood office of the Nominated Officer Function. Of the 10 TM alerts that were triggered on the Fowler Oldfield account, five were investigated by the Borehamwood office and five by the Edinburgh office. The Borehamwood office was opened as part of the Project Hudson enhancements in order to build a specific team dedicated to CBD alerts.

208. The first individuals from the Nominated Office Function commenced work in the Borehamwood office in September 2013, with work fully transitioning from Edinburgh to Borehamwood during the first quarter of 2014. Borehamwood only processed TM alerts before March 2014, at which point CBD IMLSRs were also transferred from the Nominated Office Function in Edinburgh to Borehamwood.

209. The staff at Borehamwood worked in two teams: one dealing with TM alerts, and one dealing with IMLSRs. The majority of analysts and their team managers were either new to the Bank or new to AML investigatory work.

210. Certain staff at Borehamwood had delegated authority from the Nominated Officer, so that they could assist the Bank to comply with the requirements of POCA 2002 to submit disclosures to the NCA when appropriate. The staff had to be formally accredited to be able to submit disclosures on behalf of the Nominated Officer. Throughout its existence the Borehamwood office lacked the experience of its Edinburgh counterpart. The strategy for addressing the lack of experience included

training as well as occasional secondment of experienced individuals from Edinburgh and weekly visits. All the work of new analysts was checked by accredited analysts, until they had successfully completed sufficient training to be accredited to submit disclosures to the NCA. Borehamwood had difficulties achieving a sufficient level of accredited staff, which placed additional pressure on the Quality, Assurance and Training Analysts who were tasked with the checking of unaccredited analysts.

211. From March 2014, while efforts were made to overcome the challenges of establishing a new office, there were contemporaneous observations and concerns about training and experience at Borehamwood. Some members of staff reported that they thought that analysts were not adequately trained for CBD cases, and that pressure to meet unrealistic targets meant that there was insufficient time for training, and that overtime was regularly required to get through the workload.

212. The training material received by the Borehamwood staff was adequate for the purposes of the MLR 2007. However, members of staff in the Nominated Office Function had to meet targets which were ambitious, with the result that the training was not sufficiently embedded. There was also a lack of Group specific training resulting in staff having a limited understanding of the products offered by the Group and the risks associated with them.

213. Support was offered by the Edinburgh-based Nominated Office Function staff: a list of Edinburgh contacts was provided to Borehamwood staff, and weekly conversations were established with them to discuss any particular issues. The Borehamwood team was also supported by the CBD Financial Intelligence Unit ("FIU") who provided advice and support to investigators. However, Borehamwood was intended to operate independently, and efforts were made to reduce its dependence on the ability to seek advice from the more experienced Edinburgh staff. Two members of staff occupied quality assurance and training roles in Borehamwood, but they too were inexperienced and new to the role, and needed assistance from Edinburgh-based staff.

214. Visitors from other parts of the Bank, including the divisional MLRO for CBD, analysts from the Edinburgh office, and various members of the C&RA assurance team repeated the observations and concerns about Borehamwood. In May 2014, the Operations Manager within Financial Crime Operations at the Nominated Office Function outlined his observations after a week-long visit to Borehamwood. He acknowledged the positive attitude and enthusiasm of staff but raised concerns including that there were too many non-accredited staff; that there was insufficient experience within the operation to deal properly with CBD cases (which all had their own complexities); there was a lack of ongoing support for follow up queries once

Edinburgh staff sent down to conduct training had left (although please see the reference to weekly conversations with Edinburgh-based Nominated Office Function staff at paragraph 214 above); and low SAR disclosure rates.

215. The concerns were raised with the Nominated Officer in May 2014. In June 2014, the head of AML training for Financial Crime in CBD commented that the '*conversion rates*' (i.e. the rate of filing of SARs) for transaction monitoring alerts were '*quite low compared to industry*', and that he wished to examine that on an upcoming visit to Borehamwood.

216. Some staff within Borehamwood have expressed views connecting the targets of alerts to be processed per day to a low level of care for each investigation.

217. In July 2014, a team manager at Borehamwood resigned. He stated "*the major reason for resignation is that I have no confidence in my line manager*". He also stated that he believed that he had "*been treated unfairly at work".* In his resignation letter, he cited concerns about training, the poor level of AML and financial crime knowledge across the teams and a drive for speed over quality.

218. Similarly, in July 2014 the Deputy Nominated Officer relayed to the Nominated Officer the key themes that had come out of staff feedback discussions, which included that:

> *"Trying to meet target is causing quality issues. Targets bases* [sic] *on Edinburgh, however these should be slightly reduced.*
>
> […]
>
> *Stressful that always on Day 29/30, no quality time to investigate some cases and have to make quick decision without feedback from RM's, etc.*
>
> *Don't feel enough staff to cover all the pieces of complex work we have at present."*

219. Concerns about the negative effects of targets and a lack of training continued to be expressed by staff. In February 2015, an issue was discussed about a TM alert (not in relation to Fowler Oldfield) which had been discounted by an analyst in Borehamwood but which should, in the view of others including an "*FCIIU Specialist*", have required disclosure to the authorities and the immediate exit of the relationship. The discussion that followed identified concerns that the explanations about transactions supplied by the Relationship Manager involved were being accepted at face value and insufficiently challenged.

220. The Nominated Officer Forum Monthly Report from September 2015 reported that no internal quality assurance had been undertaken at Borehamwood because the induction and training of a high volume of new recruits had taken too much time. The Borehamwood office was suffering at that time from significant staff attrition levels, which was itself recognised in July 2015 in the relevant internal database, known as 'Operational Risk Business Intelligence Technology' ("ORBIT"), as a risk issue within NatWest. During the Indictment Period, the Bank had an internal intranet-based system which it used to record Group-wide risks which required tracking and remediation, ORBIT. The Report for November 2015 recorded that there were still challenges and that new recruits had not reached full productivity.

221. On 13 January 2016, the Shared Services Control department queried whether the high level of unaccredited staff was an issue which needed to be placed on ORBIT. On 21 April 2016, there were discussions about the Edinburgh office absorbing the Borehamwood work by November 2016. This was eventually brought forward, and the last staff left Borehamwood at the end of October 2016.

<u>Nominated Office Function investigations into Fowler Oldfield</u>

222. NatWest accepts that the practical effect of the issues described above (including the lack of direct access to KYB forms, KYC reports and risk ratings until February 2015) is that, despite the policies and processes in place and the training and guidance on investigations provided, the investigations into IMLSRs and TM alerts raised on the Fowler Oldfield account were inadequate.

223. The investigations are summarised in Appendix 2, from which it is apparent that investigators over-relied on and failed to challenge explanations provided by the Relationship Manager. Many of those explanations could have been probed by the seeking of further information from internal or open sources about Fowler Oldfield. Investigators also placed undue reliance on the outcome of previous investigations and there were also occasions on which TM alerts were closed based on the incorrect use of the "Closed - Already reported". Once a disclosure / non-disclosure decision has been made, internal investigation guidance and training required that "*consideration must be given as to what follow-up actions would be appropriate*", which may include initiating further updates to a customer's CDD information or amending a customer's risk rating. This task would not, in any event, have been possible for investigators prior to February 2015, as they did not have direct access to RMD (and therefore KYB forms, KYC reports or customer risk ratings). The inability of investigators to access this key monitoring information would have applied to their investigations of IMLSRs and TM alerts across all customer relationships for which

KYB forms, KYC reports or customer risk ratings were stored in RMD until February 2015. With respect to Fowler Oldfield, investigators did not identify or question the customer's risk rating despite it being erroneously rated as 'low' and 'medium' risk between 2014 and 2016. No investigators commented on the fact that the business model of Fowler Oldfield had changed from transfer in / cash out to cash in/transfers out (although they were not necessarily required to do so).

Internal investigations post Fowler Oldfield

224. The NCA's Section 7 request in June 2016 led to an internal investigation being opened on 21 June 2016, and the first report of the FCIIU was dated 14 July 2016. It observed that cash credits were to be expected for a company with public-facing trading counters, but that the sheer volume of cash credits on the Fowler Oldfield account and the high proportion that they constituted of the total turnover, did raise concerns. The report noted a lack of evidence on the file to support the assertions made by the Relationship Manager, and scepticism about the explanations given for the large numbers of Scottish notes. It raised the fact that AML analysts had identified the automated transaction monitoring system's erroneous treatment of cash deposits as cheques. It highlighted a number of other money laundering red flags raised through IMLSRs and TM alerts, and expressed concern about the missed opportunities for reporting Fowler Oldfield's transaction activity. It concluded:

> *"Given the clear red flag indicators on the account and the numerous opportunities the bank has had (and missed) to identify and report this activity, this case has evidenced internal control failings*
>
> [...]
>
> *Despite there being a change in activity (an ever increasing cash turnover both in volume and as a proportion of total turnover), this case has been continuously discounted and RBS has missed multiple opportunities to report what is suspected to be the large scale laundering of criminal proceeds."*

225. The report also recommended a thorough review of the rationales for non-disclosure on the IMLSRs in order to identify and fix root causes of control failings, and that consideration "*may need to be given as to whether this finding warrants a self declaration of controls failures to the FCA*":

    a. Following on from the above recommendation, on 29 September 2016, the Deputy Nominated Officer completed a report entitled 'Review of Fowler Oldfield

Ltd suspicious activity investigations carried out in Nominated Officer Function'. It concluded that it seemed "*inconceivable*" that a disclosure to the authorities had not been made and that:

i. The comments and input from the Relationship Manager had been widely accepted so as to normalise the activity; that the influence of the Relationship Manager's comments, in response to questions both directly from the Investigator and in previous investigations, influenced the decision not to disclose;

ii. There was no management information or control to determine how many times a suspicion on a specific connection has been discounted;

iii. The confidence and business knowledge of individual analysts meant that they were not comfortable to challenge the Relationship Manager; and

iv. Quality assurance carried out failed to identify any issues and an action was underway to improve the quality assurance and increase the sample size.

226. The Deputy Nominated Officer was not provided with the information that two Operations Managers, referred to at paragraph 115 above, had been involved with the Fowler Oldfield case in the summer of 2014. This was because the 2014 email exchanges between the Washington Cash Centre and the Nominated Office Function were not recorded on Fowler Oldfield's GK file, although there was no policy requirement to do so in the circumstances. The FCIIU provided further reports in 2016, which fed into a working group overseeing 'Project Paper' (the name given internally for the Bank's investigation into Fowler Oldfield) which was established in September 2016 and met weekly to investigate and respond to the events connected to the Fowler Oldfield relationship. As well as emphasising the undue reliance on the Relationship Manager, the second FCIIU report, dated 13 September 2016, noted that cash deposits at cash centres were appearing as cheques in bank systems.

227. A final FCIIU report, dated 12 December 2016, also referred to over-reliance on the Relationship Manager and that this had been fed back to the operations managers in the Nominated Office Function for dissemination to the investigators. It also noted that the quality assurance model had been reviewed and additional measures put in place with a view to providing rigorous and structured reviews to be undertaken by subject matter experts.

228. One of the steps taken was to investigate other connections within the portfolio of Fowler Oldfield's Relationship Manager, and over 300 other accounts where there had

been multiple 'non-disclosure' of IMLSRs, but no other concerns were identified as a result of that exercise.

229. The Project Paper working group also prepared a draft ORBIT risk in relation to this work. On reviewing the draft, the Bank's nominated officer, Mr Heather, stated that the root causes were due to a number of issues including:

   a. appropriate checks and balances in the relationship management of high risk customers;

   b. a reasonable belief by the Nominated Office Function that *"the RM was both honest and knowledgeable about his customer's business, when responding to queries";* and

   c. that the Nominated Office Function did not refer the issue to the Relationship Manager's senior management or CPB Process and Controls *"when confronted with a repeated and concerning series of internal suspicions which the RM was discounting".*

230. The draft ORBIT risk stated that there was a risk that high risk customers were being incorrectly classified and that customer activity which may be indicative of money laundering was not being *"appropriately identified, investigated and reported".* The cause was noted as due to a "*lack of specific controls required to identify and regularly review clients operating in sectors considered high risk from a money laundering perspective."* It also noted that a further root cause was a *"lack of appropriate training, both of colleagues within the Nominated Office function, who investigate alerts and internal suspicions on customers, and of those dealing with high risk clients on a day to day basis, such as relationship managers".*

231. The ORBIT risk was ultimately not finalised as it was concluded that all actions identified had either been completed through Project Paper's work or included in ongoing AML remediation exercises (see further below). Also, as part of Project Paper, a "significant" Group Notifiable Event (known as a GNEP), reference 966, connected to issues on Fowler Oldfield was raised on 13 September 2016.

232. For the purposes of Project Paper, C&RA undertook a review which focused on the risk rating and customer due diligence issues on the Fowler Oldfield account. Amongst other issues already identified as part of Project Paper, C&RA concluded that there had been "*a number of operational failures*" including:

   a. Fowler Oldfield's erroneous risk rating between December 2013 and March 2016, which C&RA said potentially led to Fowler Oldfield's exclusion from a high risk remediation cycle and reduced the frequency and intensity of independent reviews;

b. A lack of oversight during the March 2016 Event Driven Review (caused, in part, because Fowler Oldfield had not been rated as high risk). The report found that within CPB the full suite of EDR triggers were not fully operable and therefore was not working end to end. Further, whilst a KYB form was completed, there was no follow up or oversight process;

c. The fact that, as part of the March 2016 Event Driven Review, Fowler Oldfield's involvement as an associated party in relation to the Place Trading SAR (as defined below) did not provoke further enquiry, in circumstances where "*from a plausibility perspective the commercial rationale for our customer (involved in gold trade) sending large sums of money to an unrelated industry sector (hair dressing supplies) is perplexing*" (following an explanation provided by the Relationship Manager, Fowler Oldfield's involvement in relation to the Place Trading SAR was discounted on the basis that there was "*no evidence of wrongdoing in relation to the customer*"); and

d. That Fowler Oldfield's 2016 KYB form contained a "*plethora of red flags*" that should have led to further inquiries around the information provided by Fowler Oldfield on its business model and operations. This included:

   i. questions around the plausibility of Fowler Oldfield's commercial rationale;

   ii. further questions in relation to the 90% cash turnover, customer base, agents and hubs and the need for this information to be corroborated; and

   iii. conflicting information on the nature of its suppliers and customers recorded as "*across the UK*" against the various international payments, which should have warranted additional questions.

233. Other criticisms made by Project Paper included:

a. Quality assurance within the Nominated Office was said by the Nominated Officer to not be "*fit for purpose*," in that it was not being conducted by subject matter experts and did not assess the quality of the decision; and

b. The level of staff experience at Borehamwood was considered "weak".

234. A further independent review was conducted by the Director of Shared Operations, Services, in March 2017. The purpose was to ensure that appropriate process and

oversight took place and to confirm whether any follow-up was required. On 24 May 2017, the report concluded:

> *"Based on the materials and our discussions, I am of the opinion that no further action needs to be taken from an accountability review perspective in this case. My rationale for this is as follows:*
>
> *Whilst the chronology of events when mapped out implies this should have been spotted, when reviewing the actions taken versus the prescribed process, particularly the point where the investigator only needs to review since the last alert was discharged, means there was no gap to approved process (as written at that point in time).*
>
> *The responses provided by the RM each time were very credible and were corroborated via external information sources.*
>
> *Project Hudson which was executed as a random QA sample that happened to include this case mid way through the events and concluded the appropriate decisions had been taken in every case provides an independent view of the judgements taken at that point in time.*
>
> *A review of all multiple triggers post the event shows no other examples therefore this was not a systemic issue.*
>
> *I am happy that changes have been made to the process to now ensure that multiple triggers are escalated to QA automatically will provide additional control. I have however requested changes to the MI that is received by the Nominated Officer and also the Nominated office manager includes more than just volume and productivity related data to also include trend analysis around number of multiple flags, trends per region/RM/client etc."*

235. In the course of the various internal reviews, the Bank identified and remediated a number of issues, some directly connected to problems observed on the Fowler Oldfield account, and some intended more generally to strengthen the Bank's controls. In particular:

    a. There was concern that, although investigators in the Nominated Office Function were rightly told to have regard to information from the Relationship Manager, the investigators relied too heavily on those comments without appropriate challenge. The quality assurance undertaken within the Nominated Office Function was reviewed and made more rigorous;

b. Repeat non-disclosures on an account were in the future to be escalated and reviewed;

c. A monthly report was instituted, with a view to ensuring that if a customer's high risk rating was lowered, an Event Driven Review would take place, and potential risks identified and escalated;

d. The Bank's Legal function investigated the role and conduct of the Relationship Manager. The investigation was critical of the Relationship Manager for his sanctioning of Fowler Oldfield's unauthorised lending arrangement and tipping off regarding early warning indicators but concluded there was no evidence to suggest that he had been complicit in or had knowledge of illicit activity. Disciplinary proceedings followed, and the Relationship Manager was dismissed on 19 June 2018 (following an appeal, the decision to dismiss was upheld on 18 October 2018); and

e. Training was updated within the Nominated Office Function to reflect the importance of challenging explanations provided by relationship managers, and making an independent decision, rather than relying on previous decisions not to disclose. The Nominated Office Function's team at Borehamwood had in any event been discontinued in October 2016.

AML issues, development and improvement

236. Throughout the period of its relationship with Fowler Oldfield, the Bank had an open and cooperative relationship with the FCA (and its predecessor the FSA) as its regulator. It engaged regularly with the FSA / FCA in relation to its AML controls and on compliance with its regulatory obligations, including as to the significant efforts it had made and was making to improve its controls and processes following some adverse supervisory findings.

237. In 2010, KPMG had been instructed to review the Bank's AML framework, identify areas that required remediation and to assist with queries from regulators. In 2011, KPMG identified areas requiring attention within CBD that included: the risk assessment of customers; a lack of subject matter expertise within the First Line of Defence; the absence of differential monitoring for high risk customers within the automated transaction monitoring system; and gaps within CBD's Periodic and Event Driven Review framework.

238. A "major" ORBIT risk was also raised by CBD in May 2012, which captured the issues identified by KPMG (for example, it noted that "[t]*here are inadequate Periodic Review and Event Driven Review processes in Corporate Banking Division, which could result in a failure to keep customer data up to date and presents a risk that changes to customer trading activity / ownership structure / risk rating or suspicious activity are not detected.*"). These concerns were also highlighted in the Banks's 2011-2015 divisional MLRO reports, which repeated the findings that progress to embed effective Periodic Review and Event-Driven Review processes was "*negligible*" and there was an increasing backlog. Concerns in relation to CBD included:

a. "*there are inadequate periodic and event-driven review processes in Corporate Banking Division, which could result in a failure to keep customer data up to date and presents a risk that changes to customer trading activity / ownership structure / risk rating / suspicious activity are not detected.*

   There is a gap against Section 4.11.1 of the Group AML Policy which requires Divisions to have effective Risk Based Periodic reviews and robust Event Driven Reviews in place to ensure the Division satisfies its regulatory requirement to keep due diligence measures up to date for the lifetime of a customer relationship" (2013); and

b. "*Progress to embed effective periodic review and event-driven review processes was negligible and in Business Banking, Commercial Banking and NWM there was an increasing population of periodic review and event-driven review backlogs.*"

   "Periodic reviews for high-risk customers began in Q2 2016. An increasing trend was reported in terms of backlogs with around 700 reviews outstanding at 31 December 2016." (2016).

239. Remediation of many of these areas was to fall within the AML Change Programme, which ran from the second half of 2010 until 2015 and was sponsored by senior executives within the Group. The initial target completion date was scheduled for 15 January 2015, although, by the end of the Fowler Oldfield relationship, the risk remained open with a revised target completion date of July 2020.

240. In mid-2012, the FSA wrote to the Group regarding the progress of the AML Change Programme. The FSA informed the Group that it would use the Systematic AML Programme ("SAMLP") to test the effectiveness of the Group's AML controls, including those which had been implemented as part of the AML Change Programme.

241. Between 15 November and 21 December 2012, the FSA completed onsite visits of the Group in London and Edinburgh and undertook testing of customer files and

interviewed staff, as part of the SAMLP review. The SAMLP review findings were published in June 2013. They included:

a. That the Group started from a low base, but significant efforts had been made to improve the AML framework;

b. Serious weaknesses, including in areas previously raised by the FCA and/or where remedial action had already been carried out, remained, which exposed the Group to an "*unacceptable level of money laundering risk*";

c. Concerns as to whether the AML Change Programme would be completed by the scheduled deadline of the end of 2013;

d. Concerns that the new risk rating process within CBD only considered the trading activity/industry sector in the vast majority of cases; and

e. The need for major updates to the Group's automated transaction monitoring system.

242. In Q3 2012, whilst the SAMLP was ongoing, the Group conducted a gap analysis following the FSA's industry-wide thematic review "*AML: Unauthorised Business*". The Group shared its plans for improvement with the FSA in December 2012 and began implementing them.

243. In addition to the internal reviews, the issues highlighted as part of the SAMLP process, and following a small number of incidents where disclosures of suspicious activity were not made in a timely manner, the Group engaged external consultants to undertake a review of the end-to-end SAR process. The purpose of the review was to identify the gaps and weaknesses that had to be addressed to ensure that the process was adequate in design and effectively managed. The review findings determined that the quality of investigations required improvement and were largely insufficient to allow a disclosure determination to be made. The FSA was briefed orally regarding this review. The consultants, Promontory, recommended in March 2013 that the findings of their review also be shared with the FSA.

244. The Group summarised Promontory's key findings as follows:

> *"1. Serious concerns with our management of suspicious activity reporting across the UK, Republic of Ireland, Channel Islands and the Isle of Man*
>
> *2. Indications that we may be significantly under-reporting, particularly in respect of certain fraud issues. The (incorrect) exclusion of certain types of fraud cases appears to be systematic*

3. Documentation of money laundering investigations - either in respect of automated alerts or manual reports - does not routinely permit the corroboration of decisions

4. Management of workflow does not routinely assign more experienced investigators to difficult cases

5. Reliance on standard wording for some SARs risks confusing end users as it can be difficult to easily determine whether we are referring to a suspect or a victim"

245. Following the Promontory review, the Group launched 'Project Hudson' to tackle the issues which had been raised concerning the investigation and reporting of suspicious activities by Group Services. This Project ran between 2013 and 2014 and included improvements to the Nominated Office Function's investigation processes, Quality Assurance ("QA") processes, and management information received and produced by the Nominated Office Function.

246. On 4 June 2013 the FCA wrote to the Group setting out the SAMLP findings outlined above and requesting further information about the AML Change Programme. This included a request for an attestation stating:

    a. that the relevant elements of the revised plan were fully completed;

    b. that the Group was compliant with all legal and regulatory requirements relating to AML;

    c. that root causes were being addressed;

    d. that appropriate assurance activity had been undertaken to ensure the quality of this work; and

    e. that it would appoint a skilled person under section 166 of the Financial Services and Markets Act 2000 ("FSMA") to test whether the implementation of the AML Change Programme had been effective.

247. This attestation was originally required by the end of 2013, but was ultimately provided on 10 July 2014.

248. On 8 July 2013 the Group wrote to the FCA. It did not refute the SAMLP findings, acknowledged the positive findings but agreed there was "*more to do*." With regard to automated transaction monitoring, it stated that its systems had not all been subject to regular tuning such as the review of customer segments, rules, or thresholds. This correspondence included a timetable for the remediation of "*known*

high risk" customer files. The High Risk Customer Remediation Programme ran from 2014 and sought to address any CDD gaps in those files.

249. The FCA's letter of 4 June 2013 was followed by two draft FCA Requirement Notices which required a Skilled Person to independently assess the adequacy and effectiveness of the Group's AML systems and controls. The Requirement Notice was finalised on 16 April 2015. Insofar as the scope of the review encompassed CDD, transaction monitoring and suspicious activity reporting, the Skilled Person was required to focus on PBB and the Coutts & Co brand. However, in practice, the report still considered the effectiveness of the AML Change Programme with respect to parts of CPB / CBD given that Business Banking, which was subject to Skilled Person's review, had formerly been part of CBD, and Coutts & Co was transitioning into the newly formed CPB. However, it did not undertake a comprehensive review of CPB's financial crime framework.

250. The Skilled Person, Grant Thornton, published its findings on 17 August 2015. The assessment was known internally as 'Project Malachi'. The report's key findings (which included an assessment of certain Group-wide controls) were positive, highlighting a commitment to improvement of AML systems and controls, a good AML compliance culture, effective governance and the robustness of the "Three Lines of Defence". Grant Thornton concluded that senior management was serious about improving its AML systems and controls, that there was a clear 'tone from the top' and that the Group's key values of 'doing the right thing' and 'taking risks seriously' had filtered down to the front line.

251. The Skilled Person also noted:

   a. "*The quality of Internal Audit assurance reports is generally good. They are well written, providing clear findings and impartial gradings and actions are being tracked through to completion.*" Progress was noted to be being made in improving the timeliness of reporting.

   b. "*We are satisfied that the governance, systems and controls relating to TM and SAR are adequate. The controls relating to the handling of alerts are operating effectively and we are content that the centralisation of key processes that underpin TM and SAR will further improve governance and the creation and distribution of MI.*" Grant Thornton had no concerns with regards to the competency and training of staff who interacted with the TM and SAR systems.

   c. "*Decision making around alerts, PRs and internal money laundering suspicion reports ('IMLSRs') appears sufficient for the purposes of meeting the requirements of MLR, and it is evident that the staff are conducting good quality* *investigations around TM alerts.*" (Although due to CPB not being within scope, Grant Thornton had not visited the Borehamwood office which undertook the majority of investigations on the Fowler Oldfield account).

d. There was a failure within PBB to complete Periodic Reviews for high risk customers on an annual basis.

e. The automated transaction monitoring system was in the process of being *"enhanced to include risk markers which enable different rules to be applied to high risk and PEP clients."* However, until that enhancement was complete, enhanced monitoring was not being undertaken for the majority of high risk and PEP clients.

252. As detailed further above, the Bank also sought to address the issues which arose as part of its handling of Fowler Oldfield's accounts, including those identified by Project Paper. These included requiring that repeated IMLSRs be subject to additional scrutiny, requiring additional scrutiny of customer risk rating changes, enhancing the training provided to staff within the Nominated Office Function and the Group more broadly, and enhancing the quality assurance processes within the Nominated Office Function. With respect to the automated monitoring, risk sensitive monitoring was incorporated into the automated monitoring system from March 2016 and the erroneous identification of "Direct Cash" deposits as cheques was corrected in March 2017.

253. During the period 2010 to 2015, the Group authorised the expenditure of £700m on its AML systems, processes and controls.

254. From 2016 to date, the Group is said to have invested over £700m in financial crime compliance, including investments with a view to:

a. improving the ongoing CDD applied to the customer through its lifetime via a remediation exercise entitled the 'CDD Pathways Programme' (which sought to address CDD policy, underlying standards, processes and IT systems); and

b. upgrading the Bank's automated transaction monitoring system to the 'Actimize SAM8 Transaction Monitoring Programme' ("SAM8").

255. Both of these programmes were subject to implementation delays and various quality concerns. For example, a 2019 SAMLP, that focussed on CPB, noted weaknesses in the delivery of these programmes. Whilst the FCA found the Bank's financial crime framework to be "*largely effective*", it also concluded that the Bank was not meeting its regulatory standards with the root cause of the delays in the two programmes above being inadequate financial crime governance. As a result, in October 2019 the

FCA required the Bank to commission a further Skilled Person report pursuant to section 166 of FSMA to determine the adequacy of the governance of these programmes.

256. In January 2020 the Skilled Person, in its final stage 1 report, concluded that:

   a. the governance of CDD Pathways had been poor but had improved following a programme reset in 2018;

   b. "*Demonstrable progress*" had been made in replacing the transaction monitoring system but the governance of the SAM8 programme required improvement; and

   c. Issues were identified in relation to some of the high risk customer CDD files remediated, which suggested that the Bank's QA and QC processes in relation to remediation were ineffective. Files from the medium and low-risk remediation population however showed a reasonable level of financial crime risk assessment and mitigation.

257. Later reports published by the Skilled Person would identify further failings in relation to CPB file remediation. These findings led to correspondence from the FCA to the Bank's CEO in October 2020 which noted the FCA's disappointment with the Bank's file remediation of certain customer files identified as "high risk", and delays in addressing this issue. The FCA requested that the Group take appropriate steps to remediate these issues. Since this time the skilled person has subsequently acknowledged positive progress made by the Group in completing the vast majority of the recommendations initially raised by the review. The Group's CDD remediation is ongoing with a targeted completion date in 2023.

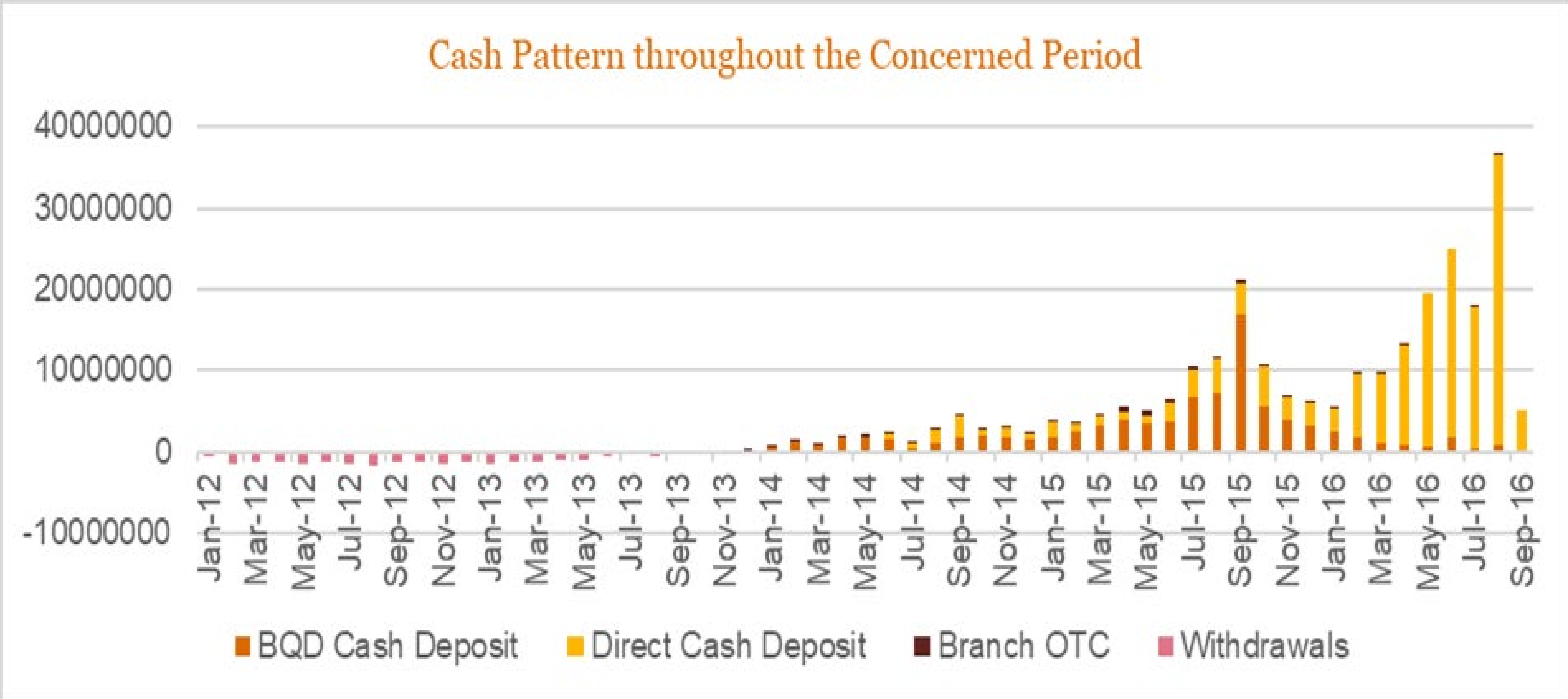
258. The Group's current intention is to spend in excess of £1 billion between 2021 and 2025 on financial crime arrangements. It has created a new and centralised FinCrime team, and has grown the size of its Financial Crime and Fraud team to 5,000 employees, representing roughly 8% of NWG's total employees. In February 2021, it introduced the FinCrime Hub which centralised where possible all First Line of Defence financial crime activity (namely all operations, controls and processes).

NatWest's account under caution

259. On 5 May 2020, the FCA sent NatWest a detailed overview of its investigation to date, and invited NatWest to answer a series of questions under caution. On 28 August 2020 NatWest provided a 60 page response under caution.

260. In its response, NatWest answered the majority of questions posed, and made extensive admissions as to the chronology and events on the account. It accepted that, in respect of Fowler Oldfield, there were instances where some aspects of its AML processes did not work as intended. However, overall it denied that it had breached any of the three regulations.

Appendix 1 – Fowler Oldfield Cash Activity



Appendix 2 – Summary of Alerts

1. IMLSR 1

GK5116868

Edinburgh

Date raised: 08.11.12

Date closed: 23.11.12

Suspicion:

Raised by a member of staff at NatWest Pontefract Branch, re a/c 30095786: suspicious behaviour involving c. £5k cash deposit in £50 notes being paid in by a third party. When questioned, the individual stated that he owed the funds to Fowler Oldfield and that "*money laundering only concerns transactions over £10,000.*" He stated that the funds were from his personal bank account held elsewhere. The cash was all in £50 notes and not in bank banding or bags.

Relationship Manager Account:

N/A

Investigation:

Review considered transactional activity on account and noted turnover of £17,946,923 on account "*made up of transfers in from companies which are in the same line of business as our customer*" and "*direct debits we would expect to see in relation to a business of this nature*". The reviewer deemed that "*activity is in line with what we would expect to see in relation to a business of this nature and the cash lodgement is minimal*"."*Insufficient grounds to make a financial disclosure*" (L1 Reviewer). Investigation notes state that the investigator will contact the "*RM to establish if he has any concerns with theaccount and have him carry out a review, case can be reviewed if RM reverts with any further concerns.*" There is no evidence that the Relationship Manager was contacted.

A review of the material held on RMD including the KYB form completed at onboarding would have shown that the Bank's account expectations were that the customer would use money raised from the sale of gold to precious metal trading companies (received in the form of electronic payments only)) to purchase gold predominantly from local jewellers. However, while they could contact the relevant relationship manager to request copies of the information stored on RMD and then await a response before undertaking each investigation, the Nominated Office Function investigators did not themselves have access to RMD, and therefore any KYB forms, until 11 February 2015. There was also no consideration of the customer's KYC report, or risk rating, which were also inaccessible to reviewers at this time.

In December 2014, this report was subject to a historic case review as part of Project Hudson. The review noted the subsequent IMLSRs 2, 3 and 4 but no analysis of these is recorded. The reviewer considered that the "*Case notes support the decision. The activity is in line with what we would expect to see from a business of this nature. There are no ML concerns on customer's account. Further referral would not bring any benefits. Case to closed at L1.*"

Despite the original investigation notes indicating that contact would be made with the Relationship Manager to *"establish if he has any concerns with the account and have him carry out a review",* the Project Hudson reviewer did not comment on the lack of recorded contact made with, or response from, the Relationship Manager, which should have been recorded on the GK file. In response to the question *"if information has been received from the* […] *Relationship Manager has this been used to support the decision or does it support the decision which was taken prior to the receipt of the information?"* the reviewer replied "*N/A*".

2. TM Alert A

301449

Borehamwood

Date raised: 09.03.14

Date closed: 14.05.14

Closure Status: Closed – already reported (L2)

Trigger reason:

Re a/c 30095786: rule for 'High Volume Cash OTC Deposits' (Rule ID 1153).

The Level 1 Reviewer noted the previous IMLSR and concluded that the Relationship Manager should be consulted to discuss whether the cash lodgements observed on the account were in line with business expectations. The matter was escalated to Level 2.

Relationship Manager Account:

Level 2 reviewer emailed the Relationship Manager, referencing both the reason for the TM alert and concerns expressed within IMLSR 2 (although this reviewer is not recorded against the GK file for IMLSR 2). The L2 reviewer asked the Relationship Manager to "*let us know about the deposits and confirm what is the main business they do."*

The Relationship Manager's response: *"In terms of the client they were fully assessed at take on 2 years ago and the business activity has pretty much been consistent throughout. They are precious metal manufacturers/ traders who deal predominantly with Cooksons (one of the largest gold brokers in the world). The recent number of Scottish notes is because they have jewellery clients based in England but who have Scottish stores including Chacha Jewellers & Rashid Jewellers both of whom manufacture gold and who often require gold grain which my client manufactures. In addition there is increasing activity in Scotland as in the build up to the Independence vote many more people are buying gold as protection over this period of uncertainty.*

Cash volumes are very much in line with our expectations for this type of business and we are confident our customer continues to carry out necessary due diligence checks as per agreement when we won this switcher two years ago. The "round amounts" you refer to are a function of the BQD service - you have to pay volumes in round amounts of c£12K in each envelope as it seems we have no other alternative now (I think you need to refrain from asking this question of similar clients as it appears nebulous.)"

As of May 2014, there was no recorded explanation of the volume of anticipated cash deposits on the account nor were there any recorded discussions of the nature of the customer's "*due diligence checks*" across any of the Bank's CDD repositories.

Neither the L2 reviewer's nor the Relationship Manager's emails were recorded against TM alert A or Fowler Oldfield's GK file at the time.

Investigation:

The L2 reviewer for this TM alert received an email from the reviewer for IMLSR 2 on 14.05.14 to confirm she had carried out an investigation of IMLSR 2 and stated "*you can probably close the alert on the basis the SAR has been investigated*". The L2 reviewer closed the alert on the same date.

The Relationship Manager's suggestion that business activity had "*pretty much been consistent throughout*" did not reflect the recent change in account activity from mainly bulk cash withdrawals up to November 2013, to large cash deposits from 7 November 2013 and this was not yet reflected in KYB forms held on the customer (which in any event were not available to reviewers at this time). There is also no recorded request for, or consideration of, the customer KYB form information, KYC report or customer risk rating (reviewers not having access to RMD at this time).

3. IMLSR 2

GK5835917

Borehamwood

Date raised: 22.04.14

Date closed: 14.05.14

Suspicion:

Raised by a member of staff at the Washington Cash Centre re a/c 30095786: large cash credits always in round thousands; an unusually high volume level of Scottish notes for a Bradford based firm; and unusual use of the BQD service which was not in line with other customers'.

The IMLSR identified four cash deposits from 11 April 2014 totalling £35,000 that had been deposited into the Bank's Bradford Market branch and noted that the centre received remittances of this nature from the branch on average once a week.

Relationship Manager Account:

In her email to the Relationship Manager, the reviewer stated: "*Over £5.5m of cash has been deposited to this account in the last 6 months which is over 50% of their turnover. There are multiple cash deposits on a daily basis and this is nearly always in round amount. Concerns have also been raised as to why so much of the cash is in Scottish notes when the business is based in Bradford. I am looking to get an understanding of where all this cash comes from and why so much of their turnover is cash? Also where do the Scottish notes originate from? Have you met with this customer/visited the business premises recently and are you completely satisfied that the cash seen is in fitting with your knowledge of the business? Have you seen paperwork to support this level of cash?*"

In response, the Relationship Manager forwarded his earlier exchange with the reviewer of TM alert A which included details from IMLSR 2 (as set out under the heading "*Relationship Manager Account*" in the "*TM Alert A*" section above) and which at the time was not recorded against Fowler Oldfield's GK file or TM alert A records. He added: *"Ok this is the second such request in a few days and was fully covered last time (28/4) as well by onboarding KYB and ongoing regular visits to this excellent customer. They have a number of clients based in Scotland and cash turnover is entirely in line with their business operations. They buy and manufacture gold offering assay and manufacturing services to the jewellery trade as well as dealing with Cooksons - one of the largest bullion brokers in the UK. Several senior managers have done WWY days with this client and we remain entirely comfortable with their m.o. and their own stringent AML systems which* *are reviewed regularly per the original onboarding brief given the - as anticipated - high cash volumes."*

Investigation:

The reviewer referred to Fowler Oldfield's website, as well as two companies that Fowler Oldfield had transferred money to. She noted that over £5.5m had been deposited in cash in the last 6 months and that the transactions included regular transfers to and from businesses that appeared to be within the wholesale jewellery trade, but did not evidence sufficient challenge of the explanation provided, for example, by asking why Scottish notes would be transported to England for depositing. There is also no recorded request for, or consideration of, the customer KYB form information, KYC report or customer risk rating (reviewers not having access to RMD at this time).

The reviewer concluded "*In view of the RM comments, I feel we have no grounds to disclose. No escalation is required as no cause for concern.*"

4. TM Alert B

315120

Borehamwood

Date raised: 12.05.14

Date closed: 22.07.14

Closure Status: Closed – worthy (L2)

Trigger reason:

Re a/c 30095786: rule for 'High Volume Cash OTC Deposits' (Rule ID 1153).

The Level 1 reviewer recorded on 29.05.14: "*Even though I can see the RM's comments I still feel it is not justified as they are taking in such a high level of cash nearly 50% of their turnover is cash*". This was escalated to Level 2.

Relationship Manager Account:

N/A

Investigation:

After noting the previous alerts and identities of Fowler Oldfield's counterparties (including their website addresses) as *"related parties*", the L2 reviewer commented that there were "*no ML concerns as there has been no change in activity from previous investigation where RM has also commented that there are no concerns with this account.*" There is also no recorded request for, or consideration of, the customer KYB form information, KYC report or customer risk rating (reviewers not having access to RMD at this time).

5. TM Alert C

332150

Edinburgh

Date raised: 14.07.14

Date closed: 20.08.14

Closure Status: Closed – already reported (L2)

Trigger reason:

Re a/c 30095786: rule for 'VAT carousel fraud' (Rule ID 1155).

The Level 1 reviewer recorded on 30.07.14: "*Although this alert has been closed previously I feel that the volume of cash is very excessive for a business of this type*". This was escalated to Level 2.

Relationship Manager Account:

N/A

Investigation:

The Level 2 reviewer closed the Alert, together with TM alert D discussed below, as the matter had been "*raised under GK ref: 6024103* [IMLSR 3] *which is still to be worked.*" No standalone review took place of TM Alert C, as a review was expected to take place as part of IMLSR 3.

Bank policy at the time allowed TM alerts to be closed "*already reported*" when there was an IMLSR received or reported within 3 months for the same alert activity and there is no significant change seen. The alert activity here is different to that of TM Alert D, which is also different to the alert activity of IMLSR 3. There is no evidence of analysis of whether any "*significant change*" had taken place across the three TM alerts/IMLSR.

The failure to scrutinise TM alert C and D meant that the investigators did not consider transactional activity on the account at that time, which if done adequately would have revealed payments to a new beneficiary, Wardacre Limited, which had started receiving large payments from Fowler Oldfield on 30 May 2014. Payments to Wardacre would later be identified in October 2014 as part of the investigation into IMLSR 4 (discussed below). A review of August 2014 Companies House information and the payments from Fowler Oldfield to Wardacre would have shown that:

a) Although Wardacre was incorporated in 2011, annual returns and company accounts filed in May 2012, January 2013, May 2013, January 2014 and April 2014 revealed it was dormant;

b) At the time when TM Alert C took place, Wardacre's office had changed four times in three months; and

c) Despite being a UK registered company, the payments to Wardacre were being made to an account in Poland.

There is also no recorded request for, or consideration of, the customer KYB form information, KYC report or customer risk rating (reviewers not having access to RMD at this time).

6. IMLSR 3

GK6024103

Borehamwood

Date raised: 02.08.14

Date closed: 01.09.14

Suspicion:

> Raised by a member of staff within the Work Reception Team at the Nominated Office re a/c 30095786: concerns raised with Nominated Office by a third party bank about commercial rationale for payments made by Fowler Oldfield to its customer MZ Personnel Limited ("MZ Personnel") - a food wholesaler which were then withdrawn in cash.
>
> The IMLSR gave the example of a payment of £33k on 9 June 2014, subsequently withdrawn in cash. The report stated: "… *This activity is out of character of what we would expect to see on an account for a wholesale of metals and metal ores business."*

Relationship Manager Account:

> *"I understand this is a relatively new client for Fowler Oldfield – they started dealing with them approx 3 months ago. Fowler Oldfield do a significant amount of due diligence on every new client and have driving licence, passports, bank statements, a copy of the cheque book, Cert of Inc. etc. all held as ID in their customer file. They understand he operates as a low grade silver dealer - he has brought in several lots of scrap silver which they classify and then pay for as part of their trade counter service. They have subsequently had an HMRC inspection and they have passed MZ Personnel as a client (in the past on 2 occasions they have been told to not trade with a specific client which they immediately comply with).*
>
> *They understood the business was actually a management consultant but that the scrap metal business was a "side" business which transacted through the same account. As an example Fowler Oldfield originally operated as a bonded warehouse before starting as a metal broker a few years ago and they are now one of the largest metal broking businesses in the UK with trade counters in Bradford and Bournemouth and soon to open in Glasgow, although may still be described at companies house as a bonded warehouse.*
> *They have bought scrap silver on approx. 8 occasions - the last time being yesterday - involving silver coins, silver jewellery and on one occasion a silver bar which was actually platinum which the MZP had bought as silver so had a significant windfall and in my customers words was as a result "very pleased with himself". Fowler Oldfield have a simple rule – metal seen, metal tested, metal paid for. In other words they would only send a*

payment to a client's account after physically having the metal in their hands. Happy to provide any further info if required including copies of their own due diligence file & if you need any more info please contact me."

Investigation:

The reviewer (who had asked the Relationship Manager to explain the payments to MZ Personnel) closed the IMLSR, noting, "*KYB response received … on the information provided I do not feel that a disclosure or escalation is required*." The notes reference Fowler Oldfield's website and review and consider the remitters of certain credits on the account to be "*not unusual for this type of business*". The reviewer also noted "*there have also been cash deposits, for which I have used the dates, 28/2 to 27/8 for approximately £8,092,073 which is not unusal* [sic] *for this type of business.*" The reviewer did not record an explanation for the basis for the assertion that the activity was "*not unusual*" for a business of this type.

By this date MZ Personnel had received over £245k in payments from Fowler Oldfield in less than three months.

A review of Companies House would have shown that MZ Personnel's abbreviated accounts for 2012 and 2013 showed a very low turnover, in contrast to the multiple five-figure payments received from Fowler Oldfield from 9 June 2014 onwards. It would also have shown that at one point in 2012/2013, MZ Personnel had traded as "*Expert Management Consultants*"; and that it had the SIC code for "*Other business support service activities not elsewhere categorised*." The notes for the investigation note: "*I am unsure from the report submitted whether* [the third party bank] *have advised us that MZ Personnel is a food wholesale or if the submitter has advised this*." No contact with the third party bank or the IMLSR submitter to explore this further was recorded.

The analyst for IMLSR 3 did not refer to TM Alerts C or D, which were both closed pending its review.

On 06.09.14, following receipt of the NCA's section 7 request, the reviewer was requested by a manager to look again at the case, and the manager stated that "*I think we are now looking to disclose*."

There is no record of such review or further analysis. There is also no recorded request for, or consideration of, the customer KYB form information, KYC report or customer risk rating (reviewers not having access to RMD at this time).

7. TM Alert D

340984

Edinburgh

Date raised: 12.08.14

Date closed: 20.08.14

Closure Status: Closed – already reported (L1)

Trigger reason:

> Re a/c's 30095786 & 33518848: rule for 'Commercial Business Unusual International Wires Out' (Rule ID 1087).

Relationship Manager Account:

> N/A

Investigation:

> The reviewer who closed TM alert C closed this Alert on the same day without any substantive review, as the matter had been "*raised under GK ref: 6024103* [IMLSR 3] *which is still to be worked.*" The same basis for closure of the alerts, with identical wording, was used in both TM Alert C and D (i.e. "*already reported*"), despite the different alert activity (see further TM Alert C above).

8. IMLSR 4

GK6098193

Borehamwood

Date raised: 15.09.14 and 03.10.14

Date closed: 09.10.14

Suspicions:

> Raised by a member of staff at the Washington Cash Centre re a/c 30095786: large cash credits; high levels of Scottish notes (mostly Clydesdale); a noticeable smell (which was unusual for notes received into a cash centre); interest from the NCA; and a reduction in Scottish notes shortly after the Cash Centre raised the issue with the Relationship Manager. The submitter stated that following contact made with the Relationship Manager on 18 June 2014 where she had "*queried the large volume of Scottish note deposits*" she was informed by the Relationship Manager that this "*was due to the nature of the business and the Business Centre were aware of internal reports that had been submitted either by the Cash Centre or the Branch network."* She stated that "[s]*hortly after this period deposits of Scottish note decreased and an increase of English note was seen*."
>
> A second report raised by another member of staff at the Washington Cash Centre was added to the IMLSR. This was re a/c 30095786: high cash deposits with high volumes of Scottish notes - up to £180k a day.

Relationship Manager Account:

> *"The client now uses Lewis Hamilton Smalls solicitors for all their due diligence to ensure they remain compliant, and also deal closely with HMRC on a regular basis taking advice about their client base.*
>
> [...]
>
> *Customers operate with about 15 jewellery businesses across Scotland making up approximately 10-15% of Fowler Oldfield business. Predominantly Asian businesses these operate as smaller family businesses but involve brothers and cousins etc. operating as individual sole traders /partnerships but all under a family name. By way of example Chacha Jewellers and Raschid Jewellers. Both these businesses also have family shops in Bradford hence how Fowler Oldfield have won this business. Other Scottish clients include Atta Jewellers, Asia Jewellers, Pakistan Jewellers and Tariq Sadiq Jewellers. All these clients have gone through a rigorous due diligence process which Fowler Oldfield are happy to share with us if required - they are completely open with us around all their due diligence / clients.*

The rise in Scottish notes over recent months has been driven by a number of issues - not least the Scottish referendum. According to recent Times article, gold activity in Scotland in the run up to the referendum was up 40% as people bought gold given the uncertainty around the outcome of the vote and the uncertainty around the currency situation. In addition they also saw a larger than normal number of Scottish notes being used in England as people looked to get rid of them. In turn, Fowler Oldfield ensured they banked all Scottish notes as they found it easier to pay in than use in the business as their clients were reticent to accept them. As a result they held on to English notes and paid in Scottish notes giving a disproportionate slant to the amount of Scottish notes evidenced. Apparently since the referendum the number of Scottish notes has reduced dramatically which hopefully we could corroborate from our own cash centre stats?

Also worth confirming that the Asian market (Bradford included in this) use gold grain as currency and have done for many years. Fowler Oldfield have built a manufacturing facility which can produce high quality gold grain using jewellery scrap gold as their raw material. This is then bought by the Asian jewellers either to manufacture into new jewellery or use as a currency. As I say this is common in the Asian community not least because buying goods using gold grain avoids VAT implications. This is a known, legal loophole but drives the demand for gold grain in Asian communities."

The reviewer also noted "*a number of large international payments* [made by Fowler Oldfield] *to Wardacre Limited*". In response, the Relationship Manager responded: "*Wardacre were a business they processed industrial silver for who had interest and banking in Poland. Given the tight margins they have subsequently stopped supplying to this client and there should be no further activity with them*".

Investigation:

The investigation occurred after the dialogue between the Washington Cash Centre, the Scottish Notes Team and the NCA (which culminated in the NCA's section 7 request and the advice from CPB FIU). The reviewer who investigated the IMLSR did not have sight of the section 7 request or the analysis completed by CPB FIU. Washington Cash Centre was not contacted for further information.

In relation to the firm of solicitors referenced by the Relationship Manager 'Lewis Hamilton Smalls', no firm of this name appears to have existed. However, a firm called 'Lewis Hymanson Small Solicitors' were acting for Fowler Oldfield in 2013. The firm changed its name to 'LHS Solicitors' in 2015. The firm has said that whilst Fowler Oldfield was a client between 19 July 2013 and 13 September 2016, there is no record of it having been instructed to undertake due diligence on Fowler Oldfield's customers.

Fowler Oldfield did not "*deal closely*" with HMRC on a regular basis but was, at this time, under investigation by HMRC in relation to concerns around their dealing with potential MTIC fraudsters.

The reviewer also noted that some cash deposits were being erroneously recorded as cheques: *"Other credits appear to use cheque deposits which are predominantly for exactly £20,000. Having viewed a sample of these on VES they are actually cash deposits which suggest the cash turnover may be substantially higher…"*

The reviewer stated: "*In view of the level of concern being expressed by the Cash Centre I have again contacted* [the Relationship Manager] *for further KYB*". Although the explanation above was received, there is no recorded request for, or consideration of, the customer KYB form information, KYC report or customer risk rating (reviewers not having access to RMD at this time).

The reviewer referred to a Daily Telegraph article as supporting the suggestion that Scottish investors were buying gold ahead of the referendum and stated " *the explanations which have been provided by RM in relation to uncertainty over the Scottish currency and increase in gold activity have* [been] *substantiated from open sources and this gives comfort*".

The reviewer does not evidence any consideration of the fact that the IMLSR reports a reduction in Scottish notes being deposited following the submitter's call with the Relationship Manager in June 2014, three months before the Scottish referendum on 18 September 2014. Further, there is no consideration in the reviewer's investigation that the notes were reported as carrying a prominent smell. The submitter was not contacted by the reviewer to explore the nature of or possible reasons for the prominent smell.

The reviewer concluded, "*we have insufficient grounds to make a disclosure at this time. As a valid explanation has been identified for the activity which had caused concern to the cash centre no escalation is required.*"

9. IMLSR 5

GK6279675

Borehamwood

Date raised: 09.12.14

Date closed: 05.01.15

Suspicion:

Raised by a member of staff at NatWest Preston Branch re a/c 30095786: suspicions re £25K deposit made in Scottish notes via rapid cash deposit and behaviour of depositor - which included stating that the "*money was not going near* [the depositor's] *own account. Also that she was simply asked to pay the money into the account stated with no reference details quoted.*"

Relationship Manager Account:

N/A

Investigation:

The reviewer referred to IMLSRs 1-4, noting the Scottish notes deposits, the trading with a food wholesaler and the concerns raised by Washington Cash Centre.

The reviewer noted that "*a large amount of cheque and cash deposits seen*" with £7,775,941 deposited via cheque since August 2014. In fact, only £20,963.16 had been deposited via cheque during this period, which likely reflects the issue set out above whereby cash deposits were identified by Monitor 5.5. as cheques. The reviewer also stated that £9m of Fowler Oldfield's £40m turnover was in cash. The accurate figure for this period was in fact £25m in cash. Payments to Wardacre and Rational FX are noted but not discussed.

They concluded: "*Although cash makes up approx £9 million of a £40 million turnover business, RM advises of multiple visits to the business and is assuring us of the legitimacy of the underlying business, advising levels of cash seen are In line with expectations. RM confirms the business have their own AML procedures and have recently employed solicitors to ensure they are compliant. RM has also previously advised of the reason behind the surge in Scottish notes and a residual effect of this may still be seen in the physical cash seen to the account*." *No review or escalation required as RM has already been spoken to on numerous occasions in 2014.*" There is also no recorded request for, or consideration of, the customer KYB form information, KYC report or customer risk rating (reviewers not having access to RMD at this time).

10. IMLSR 6

GK6490779

Borehamwood

Date raised: 25.03.15

Date closed: 24.04.15

Suspicion:

Raised by a member of staff at the Basingstoke Cash Centre re a/c 30095786: customer paying in large amounts of Scottish notes.

Relationship Manager Account:

N/A

Investigation:

The reviewer noted that "*cash lodgements appear to be a regular feature*" with £10m in cash deposited between January and April 2015. The correct figure for cash deposits was in fact £16m. As above, this may reflect the issue set out above whereby cash deposits were identified by Monitor 5.5. as cheques. The analyst also noted expected business expenses. They concluded: "*RM … has been contacted on numerous occasions regarding the cash (please refer to GK 6098193* [IMLSR 4]*) and has confirmed to have made regular visits to the customer. He is completely satisfied with the account activity and has expressed no immediate concerns. In view of this, do not believe we have grounds to disclose, given that the activity is in line with what we would expect to see from a business of this nature. No escalation required as no immediate concerns held … insufficient grounds to make a financial disclosure.*" The reviewer included the website address of one of Fowler Oldfield's counterparties.

There is no recorded consideration of the October 2013 and/or the unsigned and incomplete April 2014 KYB form (if available - see Statement of Facts paragraph 172), KYC report or the customer's risk rating held on file (which from February 2015, the reviewers had access via RMD). The reviewer did not scrutinise why Scottish notes were still being deposited into the account or consider the comments from the Relationship Manager recorded on Goalkeeper from six months earlier (08.10.14) that the amount of Scottish notes had apparently "*reduced dramatically*" since the referendum [18.09.14].

This investigation was subject to the Bank's QA "GQM" testing process and an error was identified within the reviewer's notes in relation to the recorded annual turnover for the customer "*£51k when this should read approx. £51m as turnover according to backoffice* *is £51462743.*" The reviewer amended the figure on 01.05.15 but no other changes were made to the analysis or conclusions.

11. SAR

417679 and GK6767448

Edinburgh

Date raised: 12.05.15

Date SAR submitted: 07.08.15

Trigger reason:

TM alert raised on Place Trading Limited ("Place Trading") account, a supplier of hair extensions / wigs, hair accessories and cosmetics.

SAR submitted raising concerns *"payments since May 2015 totalling approx. £387k from Fowler Oldfield which is a gold / scrap metal business. These funds are transferred out within a few days to GNB Management Ltd (pub business) where the funds are transferred out again via money transfer businesses."* (the "Place Trading SAR").

Investigation:

Fowler Oldfield was disclosed as an associated subject on the Place Trading SAR as a remitter for payments made from its a/c 30546303. A/c 30546303 was not used by Fowler Oldfield for cash deposits, but by the time of the Place Trading SAR, around £12.7m had already been paid from this account to Rational FX, an MSB providing foreign exchange services. It does not appear that Fowler Oldfield's connection to the Place Trading TM alert and SAR led to a review of transactions on this account. No contact was made with the RM, at this stage, to understand the nature of Fowler Oldfield's relationship with a business specialising in the supply of hair products and cosmetics. There is no evidence that consideration was given to whether, as the originator of the suspicious funds, Fowler Oldfield should have been either listed as a main subject of this SAR or as the subject of a separate one.

The Relationship Manger was not contacted about the SAR by the Nominated Office. As set out at paragraph 232.c of the Statement Facts, Fowler Oldfield's connection to Place Trading was identified as an Untoward Incident Database hit and referred "*to risk*" during the Event Driven Review of the customer which took place on the account seven months later in March 2016. On 05.04.16, Fowler Oldfield's Relationship Manager was contacted by CDD Controls (as part of the Event Driven Review undertaken at the time) and asked about Place Trading. He replied: "*My understanding is Place Trading Ltd is an old client of Fowler Oldfield Ltd. Fowler Oldfield bought scrap silver from him about 4-5 times in 2015. They believe the business has since gone into administration or receivership. Worth mentioning Fowler Oldfield undertake due diligence on all their clients. Their understanding is he was a silver trader*."

The explanation that the business had "*gone into administration or receivership"* was at odds with the publicly available information on Companies House. The explanation was not explored further by the CDD analyst and the search hit was overridden on the basis that there was no evidence of wrongdoing.

HRCC had separately considered Fowler Oldfield's relationship with Place Trading nearly a month earlier on 11 March 2016 and had also decided to discount the connection. The HRCC analyst did not ask the Relationship Management Team any questions about Fowler Oldfield's relationship with Place Trading. However, the HRCC analyst did state that, due to the high risk nature of the customer, the 2016 EDR that was being completed by Poland would also need to be considered by the high risk team in Crawley. There is no documentary evidence that a further review was ever completed by Crawley.

There is no recorded consideration of the October 2013 and/or April 2014 (if available) KYB forms, KYC report or the customer's risk rating held on file.

12. IMLSR 7

GK6626209

Borehamwood

Date raised: 02.06.15

Date closed: 26.06.15

Suspicion:

Raised by a member of staff at the Basingstoke Cash Centre re a/c 30095786: large cash credit all in £50 notes.

Relationship Manager Account:

N/A

Investigation:

The same reviewer of IMLSR 6 considered IMLSR 7. She referred to IMLSRs 1-6 in her note, which is near identical to the analysis recorded for IMLSR 6. She noted that *"cash lodgements appear to be a regular feature"* and again incorrectly stated that £10m in cash had been deposited between January and April 2015 (correct figure £16m). As above, this may reflect the issue set out above whereby cash deposits were identified by Monitor 5.5. as cheques. The reviewer does not appear to have considered the cash deposits for May and June, which totalled £11m, bringing the total value of cash deposits for 2015 to £27m on a total turnover of £34m. She concluded "*The RM … has been contacted on numerous occasions regarding the cash (please refer to GK 6098193* [IMLSR 4]*) and confirms to have made regular visits to the business premises and the customer. He has advised that he is completely satisfied with the account activity and has expressed no immediate money laundering concerns. In view of this, do not believe we have grounds to disclose, given that the activity is in line with the banks expectations and the cash makes up a small proportion of the significant account turnover. No escalation is being considered at this time as there are currently no concerns that would support the decision to exit … insufficient grounds to make a financial disclosure.*"

The assertion that cash activity made up a small proportion of the significant account turnover was incorrect. The activity was also not in line with that expected as set out within the customer's KYB form dated October 2013 (and/or April 2014 if available).

There is no recorded consideration of the October 2013 and/or April 2014 (if available) KYB forms, KYC report or the customer's risk rating held on file.

13. IMLSR 8

GK6764446

Borehamwood

Date raised: 06.08.15

Date closed: 01.09.15

Suspicion:

Raised by a member of staff at NatWest Hounslow Branch re a/c 30095786: several large cash credits, totalling £800k, deposited over three consecutive days by a third-party, significant change in account activity and "*overconfident*" behaviour of depositor. The IMLSR stated:

"Customer has started banking in the branch on Monday – depositing £300,000 worth of Business Quick Deposit bags (BQD). He states that he will be coming into branch due to G4S cannot access the shop due to roadworks. The business is a gold shop – buying and selling, located in Southall. It is part of a franchise Ram Prakash (sic). He has since come in the next day and today – three days consecutively. Each day at least £250,000 worth deposited. Customer stated this morning he also deposited money of the same amount into the Southall branch and chooses to come to Hounslow to split the deposits due to not wanting to carry large amounts of cash in person."

It would appear from the details of the IMLSR that this individual had paid in £1,050,000 in cash into Fowler Oldfield's account over a three-day period.

Relationship Manager Account:

"Customer has now opened additional trade counters in both Birmingham and London who both plan to have G4S collections in the near future. However, in the meantime the falling gold price, together with a new business offering following a j/v … has increased business and the requirement to get transactions paid quickly. Since G4S collections are often unreliable, with no set timings, there is often a requirement to get cash into the account more urgently to ensure they stay within their facility. Rest assured whilst the customer needs to get funds into the account, the cost is significantly higher to do this so it is a last resort measure.

In addition I met with the customer this week with a view to trying to provide an increased intra day facility so payments can be made without the need to pay in over a counter and wait for G4S to collect. I am aware there were roadworks close to their Bradford officers recently but I'm not convinced this has been an issue with cash payments although delays in G4S again would impact and mean they would need to pay into the branch to keep the *account within terms.*

I can confirm I do enjoy a strong relationship with this client and that I have no concerns about AML with activity fully explained, & consistent with the accountant information being produced. In addition I am aware the client has had regular visits from HMRC with clean reports on every occasion. Happy to discuss in more detail if required."

The Relationship Manager's response was not saved against Fowler Oldfield's GK record by the reviewer.

Investigation:

The reviewer noted the history of the suspicions raised by employees on the customer account including the SAR that was submitted on Place Trading. She reviewed the transactional activity and turnover of the account and noted that the monthly credit turnover for the months of July and August 2015 appeared to have doubled compared to earlier months. She noted that since 23.02.15 £31,365,874 in cash had been deposited. The reviewer also noted payments to numerous beneficiaries including recurring credits to businesses in the gold and jewellery trades. She also notes payments to MZ Personnel (described as "*administration and support service activities as per open sources*") Place Trading ("*activities of head offices – Companies House*") and Rational FX (no commentary). There is no recorded consideration of Place Trading's trading activity or the onward flow of funds from that account. She closed the alert and noted: "*Insufficient grounds to warrant a disclosure. The RM has confirmed on numerous occasions, that having made regular visits to the business premises/customer, he is completely satisfied with the cash/account activity and has no immediate money laundering concerns. He has also confirmed that the business has stringent money laundering checks in place*." The reviewer also incorrectly stated that "*The cash activity accounts for a small proportion of the significant business turnover*." For the full year running up to the date of this review the total turnover was £77m with £63m deposited in cash (82%). Between 01.01.15 and 01.08.15, Fowler Oldfield had a total turnover of £58m of which £50m was deposited in cash (86%).

The reviewer did not ask any questions about the "*overconfident*" behaviour of the depositor, the nature of the transactions over the three-day period or whether any checks had been completed on the depositor. The reviewer does not record any consideration of the business, "*Ram Prakash*", that was depositing the cash. There is no recorded consideration of the October 2013 and/or April 2014 (if available) KYB forms, KYC report or the customer's risk rating held on file.

On 15.09.15 the Relationship Manager was asked to complete an Unusual Transaction Activity Referral ("UTAR") request. He stated *"I know the business really well so it's better* *if I complete*" the UTAR request, rather than another member of the Relationship Management Team. The UTAR concluded no further action would be taken on 23.09.15 and that the Relationship Manager had completed a transaction review. He confirmed that further consideration of the customer's ongoing CDD was not required as the activity was in line with his knowledge of the customer. Under 'RM Declaration' and in response to the question "*Has the risk rating moved to High*" the Relationship Manager selected "*No*".

14. TM Alert E

443960

Borehamwood

Date raised: 11.08.15

Date closed: 06.09.15

Closure Status: Closed – worthy (L1)

Trigger reason:

Re a/c's 30095786, 30449790 & 30546303: accounts' 'Security Blanket'.

Relationship Manager Account:

N/A

Investigation:

The reviewer noted the Place Trading SAR as well as "*multiple*" IMLSRs and TM alerts raised on the account, most recently IMLSR 8 and TM Alert D. The reviewer observed that there had not been "*much changes to account activity*" since IMLSR 8 which had been closed on 01.09.15, and that he was therefore closing "*in conjunction*" with IMLSR 8.

The reviewer also noted "*multiple cash and cheque credits*" on the account. Monitor 5.5 had inaccurately recorded that £3.5m had been paid in via cheque. There had actually only been three cheque deposits during this period totalling £55,190.

There is no recorded consideration of the October 2013 and/or April 2014 (if available) KYB forms, KYC report or the customer's risk rating held on file.

15. TM Alert F

452481

Borehamwood

Date raised: 15.09.15

Date closed: 30.09.15

Closure Status: Closed – already reported (L1)

Trigger reason:

Re a/c 30095786: account 'Security Blanket' and rules for 'Large Cash Deposits – Peer Profile Avg' (Rule ID 1279) and 'Large Cheque Deposits – Peer Profile Avg' (Rule ID 1281).

Relationship Manager Account:

N/A

Investigation:

The reviewer noted that the previous TM alert had been closed – worthy a month previously and commented, "*The customer … continues to be funded by cash deposits. Closed already reported.*" £4.3m in cheque deposits were recorded by Monitor 5.5. In fact, there had only been three cheques during this period totalling just over £4K.

There is no recorded consideration of the October 2013 and/or April 2014 (if available) KYB forms, KYC report or the customer's risk rating held on file.

16. IMLSR 9

GK6867090

Borehamwood

Date raised: 21.09.15

Date closed: 16.10.15

Suspicion:

Raised by Assistant Relationship Manager re a/c 30095786: increase in volume of cash paid in at branch from what Fowler Oldfield advised it would pay in.

Relationship Manager Account:

N/A

Investigation:

The reviewer noted that the turnover on the account had "*significantly increased in the last three months*" and that a significant proportion of the turnover was in cash. The reviewer correctly identified that Monitor 5.5 had erroneously recorded cash deposits as cheques.

The notes include references to the website of Fowler Oldfield and set out key counterparties in the metals and jewellery industries. The GK database and the reviewer erroneously noted that Individual 5 was a director. Individual 5 had in fact resigned from the business several months earlier on 30 June 2015, an event which was recorded on RMP but it is not known if investigators had access to this system at this time or at all (see further Statement of Facts at paragraph 100). It also notes the multiple payments to Rational FX, identifying it as providing foreign exchange services. It referred to "*open sources such as*" a Telegraph article referencing low gold prices, suggesting that would "*appear to support the explanation for increased turnover*."

The Review notes that "*activity in the main appears consistent with the nature of the business*" and concluded "*the customer's RM has been contacted on several occasions regarding this connection and has continually maintained that he is comfortable with the levels of cash seen and the AML and CDD measures that the company themselves have in place. He was most recently contacted with regards to GK6764446* [IMLSR 8] *and responded on 23/09/15 (see attachment) indicating that increases in turnover are linked* *to a fall in the price of gold and a new joint venture with Stunt Metals … He has also mentioned that the company has regular visits from HMRC with clean reports on every occasion. Cash is covering payments to expected beneficiaries within this industry. In view of this and the comfort given by the RM, it is not felt that we have sufficient grounds to warrant a disclosure. Escalation is not required as insufficient grounds for concern have been identified.*"

The reviewer also does not record any consideration of the fact that the IMLSR itself had been raised by the Assistant Relationship Manager.

There is no recorded consideration of the October 2013 and/or March 2014 (if available) KYB forms, KYC report or the customer's risk rating held on file.

17. TM Alert G

461899

Edinburgh

Date raised: 13.10.15

Date closed: 08.01.16

Closure Status: Closed – worthy (L2)

Trigger reason:

> Re a/c 30095786: account 'Security Blanket' and rules for 'Unusual Cash Deposits – Medium Business' (Rule ID 1034), 'Large Cash Deposits – Peer Profile Avg' (Rule ID 1279), 'Large Cheque Deposits – Peer Profile Avg' (Rule ID 1281) and 'Excessive Cash Deposits – Profile Peak Value' (Rule ID 1284).
>
> The Level 1 reviewer commented, "*GK checked - multiple previous disclosure including 6767448* [the Place Trading SAR] *… Since prev disclosure* [sic] *the a/c has received cash credits totalling approx £29,752,080. As the activity is continuing I feel that further investigation is required into this.*" The matter was escalated to Level 2.

Relationship Manager Account:

> N/A

Investigation:

> The L2 reviewer referred to Fowler Oldfield's website when describing the business; and websites/Companies House for a number of Fowler Oldfield's counterparties. He reviewed the transactional activity on the account since the previous alert and noted that the "*account has continued in similar manner funded by EMS, cash deposits and third parties*" and that "*Credits are for various amounts on ad hoc basis although cash deposits almost daily and have returning clients such as Cookson Gold. Funds cover multiple debits to third parties within customers business industry*". The reviewer erroneously noted that that Individual 5 was a Fowler Oldfield director, despite his resignation from the business six months earlier. He noted previous feedback from the Relationship Manager regarding the opening of additional trade counters, the new joint venture, the need to get cash into the account more urgently given the unreliability of G4S collections and the RM's belief that "*there are no AML concerns with activity fully explained and consistent with the account information being produced*".

The reviewer concluded that "*No concerns or red flags identified with alerting account, therefore further review of linked accounts not required. Not disclosed as customer operating within expectations confirmed by RM reply & within business industry.*"

On 11.01.16, the L2 reviewer's treatment of TM Alert G was the subject of a quality assurance review by a Quality Assurance & Training associate in the Nominated Office, Edinburgh. Her only correction was to the reviewer's comment "*disclosed in August 15 under GK ref: 6767448*", remarking "*Please note, Fowler Oldfield Limited was keyed as a Remitter on GK 6767448*."

There is no recorded consideration of the October 2013 or April 2014 (if available) KYB forms, KYC report or the customer's risk rating held on file.

18. TM Alert H

471775

Edinburgh

Date raised: 16.11.15

Date closed: 21.11.15

Closure Status: Closed – worthy (L2)

Trigger reason:

Re a/c 30095786: account 'Security Blanket' and rule for 'Large Cheque Deposits – Peer Profile Avg' (Rule ID 1281).

Relationship Manager Account:

N/A

Investigation:

The L1 reviewer referred to Fowler Oldfield's website when describing the business; and websites/Companies House for a number of Fowler Oldfield's counterparties. He referred to previous alerts and the RM's explanations given. The review noted various wire transfers on the account, including payments to Hong Kong, the United Arab Emirates and Switzerland. There is no evidence that these payments were queried or raised with the Relationship Manager. There is no recorded consideration of the October 2013 and/or the April 2014 (if available) KYB forms. The October 2013 form stated that payments were expected to the UK only. On the unsigned and incomplete April 2014 KYB form, of the three countries noted above, only Hong Kong is listed as a country to which the customer makes payments. There is no reference to the customer's, KYC report or risk rating held on file.

The reviewer did not address the reason for the TM alert triggering (large cheque deposits).

The review concluded "*The electronic transfers seem in line with business industry trading with mainly precious metal businesses. Cash amount is excessive, although precious metals can be a cash intensive industry. Feel a further disclosure would be detrimental as account has continued in same manner since disclosed in August 15. Closed – already reported.*"

The Level 2 reviewer stated: "*Based on information provided by RM as per GK ref 6867090* [IMLSR 9] *recommend close worthy at this time.*"

19. IMLSR 10

GK7441981

Borehamwood

Date raised: 17.06.16

Date closed: 23.06.16

Suspicion:

Raised by a member of staff in the Manchester Cash Centre re a/c 30095786: daily large cash credits deposited (via Direct Cash and BQD) and large amounts of Scottish notes.

Relationship Manager Account:

N/A

Investigation:

The reviewer referred to Companies House for the director of Fowler Oldfield, and the websites of most of the companies that she identified the business as exchanging electronic payments with.

The reviewer incorrectly stated that *"The cash activity accounts for a small proportion of the significant business turnover".* In fact, cash now accounted for over 90% of all deposits into the account. The reviewer noted that the turnover on the account was £141,097,636 which had been funded by £10,318,636 in cash payments and £69,969,394 in cheque payments. These figures were incorrect. Since January of that year, the account had seen deposits totalling £84m of which £82m had been paid in as cash (97.6%). However, the reviewer did correctly identify that a majority of the cheque payments were in fact cash payments. The reviewer also noted a £1,000,000 payment to a gold/precious metals investor on 31.12.15. This payment was nearly double all other transactions made.

The reviewer concluded that "*The RM… has confirmed on numerous occasions; that having made regular visits to the business premises/customer, he is completely satisfied with the cash/account activity and has no immediate money laundering concerns. He has also confirmed that the business has stringent money laundering checks in place/work closely with HMRC (as per previous GK cases). The cash activity accounts for a small proportion of the significant business turnover (all accounts collectively) and the overall a/c activity appears to be industry related/in line with expectations.*"

There is no recorded consideration of the March 2016 KYB form, the KYC report or the customer's risk rating held on file.

20. TM Alert I

538866

Edinburgh

Date raised: 12.07.16

Date closed: 17.08.16

Closure Status: Closed – already reported

Trigger reason:

Re a/c 30095786: account 'Security Blanket'.

Relationship Manager Account:

N/A

Investigation:

The Level 1 reviewer commented, "*Account alerted in Jun16 due to level of credits identified in Monitor 5.5 as cheques, however in fact these were cash lodgements made via cash centre.*"

The reviewer noted this was already reported under GK ref 7556459, a SAR dated 08.08.16.

21. TM Alert J

554821

Edinburgh

Date raised: 12.09.16

Date closed: 31.10.16

Closure Status: Closed – already reported

Trigger reason:

Re a/c 30095786: account 'Security Blanket'.

Relationship Manager Account:

N/A

Investigation:

The reviewer noted this was already reported under GK ref 7556459, a SAR dated 08.08.16.

Appendix 3 – Excerpts from Bank records identifying reported contact with Fowler Oldfield and discussions of its business

14 March 2012: Relationship Manager updated the RMP with a synopsis of the business for the purposes of an application for a letter of credit and overdraft, to assist with the purchase of machinery from Italy.

18 May 2012: Relationship Manager updated the RMP about Fowler Oldfield's credit situation and application for a Letter of Credit.

12 October 2012: Notes on RMP state that the Relationship Manager was due to meet with Fowler Oldfield that afternoon. There is no recorded minute or note of a meeting.

23 November 2012: in relation to customer's overdraft and the deferment of card facilities RMP was updated to record:

> *"regular meetings with customer confirming strong trading performance which is bringing its own challenges iro* [in respect of] *working capital In all instances where o/d is used (or exceeded)we have had confirmation of pipeline funds from Gold buying agency NTL."*

14 December 2012: in an email dated 30 November 2012 the Relationship Manager noted he had arranged to spend a "Working with You" day with Fowler Oldfield at its premises on 14 December 2012. There is no recorded minute or note of a meeting.

14 January 2013: in relation to a credit referral approval process as the facility had exceeded the 90 day limit, RMP recorded:

> *"At review we need to understand the reasons for the introduction /reliance on the overdraft over the last 6 mths as I cannot locate any comments around this facility on RMPS."*

15 January 2013: during a credit approval process and an application to extend card facilities in the absence of up to date accounts, RMP noted:

> *"I am aware this was introduced by an excellent bank ambassador well known to us for many years and had to go through rigorous KYB process given the trading activity* […] *Whilst supportive of the request- an effective deferment on the cards line-having looked at the account profile and discussed day to day activity with the portfolio manager (in the absence of RM on annual leave) I do want us to get closer to what has actually caused the 'excesses'."*

26 March 2013: RMP was updated to record that the customer was seeking a short-term renewal of existing facilities pending "*confirmation of these accountant produced draft accounts, and more definitive requirements i.r.o. future business model*", and that:

> *"Overdraft used merely to cover cash movements daily – odd excess seen but always covered by funds in transit and on occasions where the money is delayed, we are always informed and have confirmation funds are in the system. Having spent a WWY* [working with you] *day with the client I can confirm that the broker was most apologetic as (typically) the funds were delayed that morning through no fault of my customer."*

The Relationship Manager noted with respect to the speed of the "*working capital cycle utilisation*" that "[t]*here is no speculative stock build up here - stock will be turned into cash at the earliest opportunity, i.e. moved to broker next day. Whilst this may change when they start to manufacture their own gold products we await further info here before we have a full understanding…."*

10 April 2013: the Relationship Manager and his line manager met with Fowler Oldfield at their premises for a relationship meeting that included a trading update, Fowler Oldfield's business strategy, ambitions and how NatWest could assist with delivering those ambitions, and bank funding.

25 July 2013: RMP was updated to record:

> "*Very short deferment following receipt of finalised accounts from accountant today. Insufficient time to complete full review (via EL) before end |July so have agreed 1m deferment and will complete application within a few days. Accounts reveal acceptable first year despite impact of several one-off items and full RMP will cover in detail. In addition I am visiting customer next week for full update."*

1 August 2013: Reference on the RMP to a four hour meeting between the Relationship Manager, a member of the credit team and the customer. Note reference in RMP on 2 August 2013 to *"SOURCE OF ADJUSTMENT - Chaps payment from regular customer NTR metals expected on Monday. Expect excess to be cleared by now however due to the Bank meeting (with Individual 6 & RM) for 4 hours yesterday they did not have timeto process the gold."*

27 August 2013: during a short-term deferment of facilities RMP was updated to include:

> *"Awaiting full projections and m.i pack to support additional facilities (o/d & loan) covered at ABC and via recent WWY day including Individual 6 from credit who was supportive* […] *While day to day account operation looks far from ideal, we are all comfortable with the reasonsfor this, which amount to timing issues iro payment from NTL*

[sic] *and Cooksons* [two large precious metal trading companies]*. Increased facilities will alleviate as well as offering opportunity for significant margin enhancement. Move into manufacturing will be a game changer in terms of margins (can achieve 35% on manuf whereas goldtrade margin is c2%) which will transform the business and they already are already* [sic] *servicing significant demand in this area*" (see paragraph 91)*.*

11 October 2013: a KYB form was completed by the Relationship Manager, indicating that there had been "*many meetings over the last 12 months most often at the company premises, most recently on 10 October 2013*" (see paragraph 92 of the Statement of Facts).

25 October 2013: RMP updated by the Assistant Relationship Manager as part of an excess referral. The customer was expected to resolve the excess with *"£81k due from regular customer Cooksons …, £20k cash from confirmed sale of gold grain*". The update included:

> *"I spent time with Fowler Oldfield yesterday for my 'working with you' day, and witness the whole process they have to go through to process the gold each day."*

23 December 2013: RMP updated re an Excess Referral, *"created due to late banking of cash on Friday."* The adjustment was for £140k, which had been received at 4.20pm and therefore "*too late to process the same day."* The source of adjustment noted as *"cash following gold sales"*.

17 April 2014: a draft KYB form was started by the Relationship Manager, describing the business model. As set out at paragraph 172 of the Statement of Facts, the form was unsigned, incomplete and appears to have been subsequently removed from RMD. The precise date of its removal is unclear, but by August 2016 the document was no longer available on this platform.

24 April 2014: the Relationship Manager met with Fowler Oldfield's accountants, Grant Thornton.

28 April 2014: TM Alert A – description of the customer activity provided to the investigator by the Relationship Manager. This email exchange was not saved on any of Bank's record repositories, including GK, by the investigator at this time (see Appendix 2).

30 April 2014: RMP was updated with reference to a renewal of facilities following draft accounts being sent by Grant Thornton.

14 May 2014: IMLSR 2 – a description of the purported customer activity provided to the investigator by the Relationship Manager (see Appendix 2) was recorded on GK.

5 June 2014: The Relationship Manager explained to Transaction Services colleagues, during a discussion about service charge fees, that Fowler Oldfield was expected to generate £35-40m cash per annum but the figure may rise to £50m per annum or more. He also explained that Fowler Oldfield was looking at an alternative to G4S.

30 June 2014: RMP was updated with reference to a *'mid term review of facilities following receipt of accounts from new accountants Grant Thornton'* (see paragraph 99). The update provided a description of Fowler Oldfield's business model, including descriptions of buying and selling *'scrap gold'*. It continued: *"More recently the direction of the business has changed significantly from the original model above."* and indicated that *"Bar & Grain Trading"* had commenced in November 2013. The significant cash deposits into the business are not specifically recorded, but it was noted that, in relation to Fowler Oldfield's "*bar & grain trading*" was *"still low margin business but turnover substantial"* and that the business now "*use couriers to deliver the gold and G4S providing cash drops/pick ups*". The update concluded:

> *"significant money laundering implications and we 'advised' on our requirements iro new clients from this perspective. Since advised now using Lewis Hymans Small, a large Manchester solicitors to carry out all their due diligence and provide an audit trail on every client."*

1 September 2014: IMLSR 3 - a description of the purported customer activity provided to the investigator by the Relationship Manager (see Appendix 2) was recorded on GK.

9 October 2014: IMLSR 4 - a description of the purported customer activity provided to the investigator by the Relationship Manager (see Appendix 2) was recorded on GK.

29 December 2014: RMP was updated with reference to an annual review of facilities seeking increase of existing overdraft facility by £25k following receipt of accounts.

11 February 2015: RMD (on which KYB forms, KYC reports and risk ratings were kept, amongst other things) becomes available to Nominated Office Function investigators for the first time.

2 April 2015: Request is made for Nominated Office Function investigators to have access to RMP for the first time. There is no documentary evidence that confirms if or when access to the system was granted to investigators.

7 May 2015: RMP entry recorded discussions between the client, the Relationship Manager and a credit manager about a credit application. It included details of the operation of the account:

"significant payments moving every day between clients and Cooksons their main Gold broker. Many times the cash is in transit – i.e. paid to G4S but this involvesat least a day delay and there is an argument from the client (which has validity) that we are "in control" of these funds."

27 July 2015: RMP was updated with reference to an annual review of facilities seeking increase of existing overdraft facility by £25k following receipt of accounts.

30 July 2015: CPB Business Controls asked the Relationship Manager about Fowler Oldfield's recent BQD activity, following the concerns raised at the Basingstoke Cash Centre. The Relationship Manager indicated that he was fully aware of the recent spike in cash amounts and the reasons (see paragraph 120).

28 August 2015: RMP updated with a review of the operating model and management team, commenting that four members of the Bank's staff, in addition to the Relationship Manager, had visited the business during the relationship, and that the original introducer was "*in the background*".

4 September 2015: IMLSR 8 - description of the customer activity emailed to the investigator by the Relationship Manager. Included reference to having met with the customer that week. This email response from the Relationship Manager was not saved on any of Bank's record repositories, including GK (see Appendix 2).

8 September 2015: RMP was updated with information about an incoming director, the appointment of a new in-house accountant, and a proposed joint venture. Information was recorded about the Fowler Oldfield client base, and apparent reassurance that the customer base was well spread, and about Fowler Oldfield's relationships with a solicitors firm and HMRC. It stated that "*Margins are very tight here and gross margin does appear under pressure although net margin appears to be improving*."

23 September 2015: The Relationship Manager responded to email queries about operational concerns at the Walsall branch. He provided a description of the purported business model, commenting that it was a well spread customer base, "*which alleviates our AML concerns"*. As this was an email exchange relating to operational concerns it was not recorded on any of the Bank's record repositories.

24 February 2016: Meeting at Fowler Oldfield's premises between a member of Transaction Services and Fowler Oldfield (see paragraph 134).

2 March 2016: RMP was updated to include additional detail on the purported business model of a planned joint venture with Individual 3.

4 April 2016: Meeting between the Relationship Manager and another member of bank staff from Transaction Services with Fowler Oldfield at its business premises, in which details of the business model were recorded (see paragraph 134).

5 April 2016: Relationship Manager contacted by CDD Controls as part of the Event DrivenReview. In response to a query on the nature of Fowler Oldfield's relationship with Place Trading Ltd, which had been the subject of a SAR in August 2015, he stated. "*My understanding is Place Trading Ltd is an old client of Fowler Oldfield Ltd. Fowler Oldfield bought scrap silver from him about 4-5 times in 2015. They believe the business has since gone into administration or receivership. Worth mentioning Fowler Oldfield undertake due diligence on all their clients.*"

28 April 2016: Visit by a member of staff from Transactions Services and the temporary Relationship Manager (the other Relationship Manager being unwell at the time) to the Fowler Oldfield office, in order to discuss the pricing reductions arranged by Transactions Services (see paragraph 134).