<u>Email to the BEIS Committee Chair, from Lex Greensill, received 9 July 2021</u>

Covering Statement

There is currently a live Serious Fraud Office investigation into the GFG Alliance. On 14 May 2021 the SFO announced that they were investigating "suspected fraud, fraudulent trading and money laundering in relation to the financing and conduct of the business of companies within the Gupta Family Group Alliance (GFG), including its financing arrangements with Greensill Capital UK Ltd". As such, it would not be appropriate for me to comment on GFG or Liberty related matters. Further, Greensill Capital UK Ltd is now in administration. I am not permitted to comment on GFG or Liberty Steel related matters. Confidential client-specific information can only be provided by the Administrator of Greensill Capital.

1. Can you outline in detail the process of due diligence undertaken by Greensill Capital before lending to large customers? Was this process routinely undertaken in all circumstances? Are you satisfied that the mechanisms in place for due diligence were a) comprehensive and b) applied thoroughly and consistently?

- The initial credit due diligence of an obligor and/or obligor group was a comprehensive, standard, iterative process involving the origination, credit, legal, and distribution teams. The process included 5 distinct stages:

    1. <u>Initial Greenlight:</u> An initial view of the potential of the deal is obtained (identifying and rectifying any major issues that would prevent the deal moving forward).
    2. <u>Client (Obligor) Due Diligence:</u> This included client meetings and pitches, collection of relevant financial data and KYC information, and clarification on any follow up questions from deal or credit teams.
    3. <u>Credit & Financial Analysis:</u> This was based on a fundamental analysis of the credit using the "Five C's of Credit" framework, which, for each obligor, resulted in the determination of the provisional Greensill Obligor Risk Rating.
    4. <u>Credit Packs:</u> Greensill deal teams produced a credit risk submission using our Credit & Counterparty Management System ("CCMS"), which was a paperless submission and tracking system.
    5. <u>ORRs:</u> The end result of the financial analysis is the generation of a provisional Obligor Risk Rating (ORR). This is based on the outputs from S&P CapIQ, competitor analysis, subjective experience in relation to financial metrics, and reference to any public credit ratings. Greensill rated all obligors on a scale from 1 to 10, 1 being the lowest or best risk rating, and 10 being the highest or worst risk.

- This process was followed in all cases as there was not an exception basis for credit applications. Therefore, they were applied thoroughly and consistently.

2. It has been reported that Greensill Capital frequently relied on audit reports when lending to companies. What due diligence did Greensill Capital undertake on audit firms before using their reports to agree lending to large customers? Did Greensill Capital ever seek to clarify or check the basis of audit-derived conclusions about its customers?

- If by audit reports it is meant annual audited financial statements, then yes these were always requested. If an auditor was not a well-known auditing firm, the financials were red flagged as this was always considered a heightened credit risk. If audits had adverse information listed in them the credit would not have been approved, and/or additional clarification would have been needed to proceed.

- It should be noted that Greensill did not solely rely on audit reports for credit assessment, and indeed there are many other ways to assess credit risk including reviewing forward looking cashflows and modelling.

3. What were the terms of the supply chain finance contracts between Greensill Capital and Liberty Steel UK businesses? Please specify which legal entities your answer applies to.

- I am not permitted to comment on GFG or Liberty related matters. This information can only be provided by the Administrator of Greensill Capital.

4. To what extent were you aware of financial issues within GFG Alliance before it began to default on its loans?

- I am not permitted to comment on GFG or Liberty related matters. This information can only be provided by the Administrator of Greensill Capital.

5. In evidence to the Treasury Committee you said that "the British company that you keep talking about was not our largest customer in terms of the assets that we funded". What percentage of Greensill Capital's total lending was extended to GFG Alliance?

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a) What percentage of Greensill Capital's total lending was extended to its largest customer?

- 10.1%.

6. How much of Greensill Capital's total lending in the last four years has been underpinned by future receivables?

- In the years 2018, 2019 and 2020 the proportion of future receivables to overall receivables purchased was 2%, 7% and 11% respectively.

7. Did Liberty Steel UK or GFG Alliance receive financing from Greensill Capital at any point on the basis of future receivables? If so, how much capital was extended to Liberty Steel UK or GFG Alliance under the future receivables programme? What checks were undertaken before accepting future receivables?

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8. In evidence to the Treasury Committee you said that Greensill Capital's future receivables programme was based on algorithms. How did those algorithms inform your use of supply chain finance when lending to large private customers?

- We used historical data from many sources to inform our lending decisions. These included data from the customer's own ERP, data from historical funding we had done for other customers that had a supply chain overlap, rating agency and credit scoring agency data, and publicly available data. Much of this data was voluminous and hence we used algorithms to identify patterns and forecast expected performance.

9. What is Greensill Capital's general approach to, and policy on, circular financing?

- "Circular financing" was against credit policy at Greensill Capital.

a) Were you aware of circular financing being used by any of your customers?

- No.

i) If so, were funds originally derived from Greensill Capital used as part of those circular financing transactions?

ii) If so, please provide some specific examples.

b) What assessment did you make of the risks of circular financing in the context of lending to GFG Alliance, and the risk that circular financing could have on the financial sustainability of Greensill Capital?

- See the answer to question 9 above, additionally, I would note that I am not permitted to comment on GFG or Liberty related matters. This information can only be provided by the Administrator of Greensill Capital.

10. What did Greensill Capital gain from the use of circular financing by customers it extended loans to?

- See the answers provided in question 9 above.

11. After raising concerns about Greensill Bank's exposure to GFG Alliance in December 2020, BaFin proposed a concentration reduction plan which you rejected. You told the

Treasury Committee that you were later able to agree an alternative concentration reduction plan which included targets you thought you could meet. Why was Greensill Capital unable to meet this revised concentration reduction plan with BaFin before it filed for insolvency?

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12. Prior to filing for insolvency what concerns did you have about:
a) Greensill Capital's credit risk prior to its trade credit insurance non-renewal;

- Whilst Greensill Capital had several concentrated customer positions, prior to the non-renewal of our insurance I was broadly comfortable with same.

b) the concentration risk that each of Greensill Capital's large customers posed?

- Greensill Capital's Credit Committee and the board Risk Committee carefully monitored and reported back to the Board on client concentrations on an ongoing basis. The Committees had defined strategies to mitigate and manage these risks over time to remain within the firms' risk parameters.

13. Why did Greensill Capital reportedly extend over £400 million of Government guaranteed loans to GFG Alliance when there was a £50 million limit on loans to individual companies? What assessment did you make of the i) legality, and ii) ethics and appropriateness of using taxpayer funded guaranteed in this way?

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- As a general statement, we sought extensive legal advice relating to facilities guaranteed under the CLBILS and CBILS programmes. In particular, as I have noted before, we had our legal firm seek explicit feedback from the BBB on any matters where the rules were open to interpretation and we followed the resulting advice.

- All of the businesses that Greensill Capital supported under the CLBILS and CBILS programmes had sustained material adverse impacts from COVID and the facilities we provided were consistent with the stated aim of the Government to support those businesses so that they could continue to employ thousands of people in the UK and support our economy.

14. Did Greensill Capital provide any advice to GFG Alliance on how to structure its business interests in order to access Government-guaranteed loans? Was such advice offered to any other customers?

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15. Did you personally ask employees, advisors or other stakeholders engaged with Greensill Capital to lobby decision makers in Government? If so, who?

- David Cameron, Bill Crothers and I all spoke with various Government decision makers at various times in connection with the Supply Chain Finance facilities we provided, various COVID schemes and to offer the Earnd employee early pay option.