LLOYDS BANKING GROUP'S LEGACY ISSUES – NOT REMOTELY SORTED

The bank is only at the start of confronting these

Lloyds' 2021 results presentation last Thursday was bizarre in many ways. While the new chief executive Charles Nunn and finance director William Chalmers worked hard to direct attention towards the bank's strategy and plans for growth, the stockmarket's focus appeared to be elsewhere. It had instead been disquieted by the larger than expected remediation charge for the HBoS Reading fraud and the shares closed -11% on a day, which otherwise was affected by events in Ukraine. During the presentation, banking analysts asked many questions about the bank's performance and prospects but very few about the massive turnaround in impairment, which was equivalent to 93% of the improvement in underlying profits. As previously, we leave analysis of the main business to the analysts of the major investment banks and concentrate on impairment. We continue to highlight the wilful obstruction of justice and due process, which is ongoing between HM Treasury, Lloyds, the Financial Conduct Authority (FCA) and the Police to conceal, frustrate and prevent investigation into major outstanding frauds involving Lloyds Banking Group and deny rightful compensation to their victims. For due process to be obstructed and the rule of law violated in this way, while the bank returns £3.4bn of excess capital to its shareholders, is very deeply improper. All this has parallels with the Post Office scandal, except that the cover up of the Lloyds' frauds has been considerably more extensive. Lloyds has only just started confronting its legacy issues and until it does so honestly and comprehensively, we believe that the bank's reputation and accompanying share price will never properly recover. With the stock price languishing 23-38% below the levels at which the Government sold the taxpayer's 43% shareholding several years ago[1], investors appear overwhelmingly to share the same opinion.

Lloyds' impairment costs since 2017	**£ mn**	**Q1**	**Q2**	**Q3**	**Q4**	**Year to Dec**
Impairment	2017	127	141	270	257	795
	2018	258	198	86	395	937
	2019	275	304	371	341	1,291
	2020	1,430	2,388	301	128	4,247
	2021	-323	-333	-84	-467	-1,207
PPI	2017	350	700	0	600	1,650
	2018	90	460	0	200	750
	2019	100	550	1,800	0	2,450
	2020	0	0	0	85	85
	2021	0	0	0	0	0
Impairment & PPI	2017	477	841	270	857	2,445
	2018	348	658	86	595	1,687
	2019	375	854	2,171	341	3,741
	2020	1,430	2,388	301	128	4,247
	2021	-323	-333	-84	-467	-1,207

Note: negative numbers reflect the write-back of impairment costs

[1] Between September 2013 and May 2017, UK Finance & Investments (UKFI) sold the taxpayer's 43% stake in Lloyds at prices between 65p and 81p for gross proceeds, including dividends received but excluding finance costs, of £21.2bn.

2021 results & accounting change

Statutory profit before tax for 2021 was £6.9bn, which was slightly below market expectations of £7.1bn and compared with just £1.2bn in the previous year. However, the turnround in impairment of £5.4bn was equivalent to 93% of the overall improvement in underlying profits. The bank attributed the better impairment results to an improved macro-economic outlook for the UK, as well as fewer cases flowing through to default. Meanwhile, it announced a £2bn share buyback and a 2p dividend for the full year, representing a capital return of £3.4bn.

Management is well aware of the outstanding legacy issues, which we describe below and have yet to be addressed. With these in mind, the bank is adopting accounting changes for the current year, which will result in significantly reduced transparency. Both non lending-related frauds costs, which are currently included in impairment, together with restructuring costs, excluding M&A and integration, will henceforward be included in operating costs. This change has presumably already been sanctioned by the bank's new accountants Deloitte.[2]

The outstanding legacy issues – not remotely sorted

The indecency of what is taking place is more serious than the Post Office scandal, because Lloyds continues to be assisted by every arm of state to cover up, lie about and frustrate investigation into a wide range of its other serious professional misconduct and criminal fraud.

1. **The HBoS Reading fraud – the un-investigated balance**

HBoS Reading has many parallels with the Post Office scandal. A decade after the fraud ended, HBoS Reading culminated in a trial in 2017, which saw the immediate perpetrators jailed. In the Post Office case, their successful appeal occurred two years later. However, after the trial and following consultation with the FCA under Andrew Bailey, Lloyds appointed the first of four reviews, which were designed to play for time and had little to do with ensuring justice and proper compensation for its victims. This wrongful stance was maintained by chief executive Horta-Osório and has only just changed.

Lloyds' spending on HBoS Reading since 2017

£ mn	Up to 2020	2021 H1	Q3	Q4	2021 FY	Total to date
Lawyers & reviews	335	75	20	30	125	460
Compensation for victims	100	75	20	570	665	765
Total	435	150	40	600	790	1,225

Totals - mainly actuals; Breakdown - our estimates

In the three years up to and including 2020, we estimate that Lloyds spent three times more on lawyers and flawed reviews than on compensating victims and up to and including the third quarter last year, the former was still running at more than double the latter. However, we detect a change of approach under Nunn, hence the Q4 charge of £600mn, the bulk of which is likely to be for anticipated

[2] Deloitte audited Lloyds for the first time in 2021, replacing Pricewaterhouse Coopers which had audited the bank's accounts since 1865, the oldest such audit relationship in the UK.

costs of compensation. He may finally have concluded that spending almost £0.5bn on lawyers and flawed reviews for the Reading fraud has represented a decidedly poor use of shareholders' funds.

However, has Lloyds' approach to HBoS Reading changed completely ? No - we do not think it has.

The planned appointment of former HBoS banker, Simon Amess to oversee the bank's side of the Foskett re-review [3] resembles the same "policing" role, which Stephen Pegge is currently performing, as a key non-executive director, for the Business Banking Resolution Service. Also, why is a former HBoS banker being appointed to assist in the re-review of a fraud involving .....HBoS and does anyone care about the impropriety of such an appointment ?

In March 2021, the NCA closed its three-year investigation into additional aspects of the HBoS Reading fraud, claiming that it could find no evidence of criminal wrongdoing, when criminality was everywhere to be found. Only part of the Reading fraud was prosecuted and a major portion has never been investigated, as it should have been. Consequently, Amess' role is likely to make sure that the extensive wrongdoing and criminality, which HBoS was responsible for, never comes to light, for if it did, it would raise many uncomfortable questions, including why the group of 5,800 Lloyds' shareholders lost their major legal action in 2019, when they claimed that they had been "mugged" by Lloyds' takeover of HBoS.

Lloyds' latest provision for compensation for the Reading fraud, which we estimate at £765mn, equates to three-quarters of what has always unofficially been suggested to have been a £1bn fraud. If the balance of Reading was properly investigated and prosecuted, the bank's provision would likely be revealed as significantly inadequate. Hence, Amess is being appointed to ensure that the lid on Reading is kept firmly sealed.

2. Signature forgeries & use of invalid documentation

In July 2019, the chairman of the All Party Parliamentary Group on fair business banking (APPG-FBB), Rt. Hon Kevin Hollinrake MP and the Police & Crime Commissioner for Thames Valley, Mr Anthony Stansfeld took extensive evidence of signature forgeries and the use by banks of invalid legal documentation including in court, to the National Crime Agency (NCA) and asked the Director General, Lynne Owens to investigate. Leading banks accused of such practices included Royal Bank of Scotland (RBS) and Lloyds. However, both Owens and the current Director General Graeme Biggar have consistently refused to investigate and played for time, using every conceivable device. A parallel with the Post Office scandal can be seen in that Paula Vennells, the chief executive of the Post Office, was awarded the CBE in 2019, while Lynne Owens received the DCB in 2021. The NCA has received 703 individual crime reports and 26 folders of evidence but is still refusing to investigate and is presumably observing the instructions of higher authority to maintain such a stance. In the US, the major scandal over signature forgeries triggered widespread investigations and resulted in compensation for victims totalling US$25bn. However, in the UK, the authorities have wrongfully preferred to cover it up. If the matter is properly addressed, the provision Lloyds might have to make could exceed its Reading allowance by a considerable margin.

[3] https://www.thisismoney.co.uk/money/markets/article-10530367/Former-HBOS-boss-lead-new-probe-fraud-HBOS.html

3. The Lloyds Bristol & associated frauds

In 2007, Lloyds' recovery units were turned into profit centres, which were designed to derive profit for the bank at the expense of troubled business customers. The latter have consistently been denied the normal protections, which are enjoyed by retail customers, such as a duty of care and the requirement for the bank to treat the customer fairly [4] and Lloyds Bristol Recoveries and its two associates have been at the epicentre of serious criminal fraud for more than two decades (cf. the Post Office scandal, which started around 2000). Lloyds has spent heavily on legal costs to prevent its extensive wrongdoing being proven in court but once again, wrongdoing is everywhere to be found.

Under its former Police & Crime Commissioner Sue Mountstevens and her deputy John Smith, Avon & Somerset Police (A&SP) have worked hard to keep the lid on, and not to properly investigate and prosecute, the Bristol frauds with the Police consistently claiming that they could find no evidence of wrongdoing. Such statements then provided the justification for the Serious Fraud Office (SFO) not to investigate. Last year, complaints about A&SP's refusal to investigate were elevated to the Independent Office for Police Conduct (IOPC) but after cursory consideration, the IOPC simply referred the issue back to A&SP. An official request for HM Inspectorate of Constabulary (HMIC) to launch an investigation was later blocked by the Minister for Policing, Rt. Hon Kit Malthouse MP. However, the matter of the Lloyds Bristol and associated frauds refuses to die – there are too many victims who know that they have been seriously wronged. More recently, on 5th February, the BBC reported that evidence had emerged, which indicated A&SP had been improperly contacting, effectively tipping off, Lloyds Bank prior to victims coming to the Police to provide their evidence. [5] This resulted in A&SP referring themselves to the IOPC, a second reference therefore within twelve months. As with the signature forgeries, Lloyds could be looking at multi-billion pound compensation for the extensive frauds committed by Lloyds Bristol and its two associates, UK Acorn Finance and Commercial First.

4. Interest Rate Hedging Product (IRHP) redress

In October 2012, the Financial Services Authority (FSA) concluded that more than 90% of interest rate hedging products had been mis-sold. However, in January 2013, Chancellor Osborne and Economic Secretary to HM Treasury Rt. Hon Sajid Javid MP came down heavily on the supposedly independent financial regulator to drastically restrict eligibility and compensation was later reduced by up to 90% compared to previously anticipated levels. In 2019, FCA chief executive Andrew Bailey appointed John Swift to conduct a "lessons learned" review. In practice however, this was once again to play for time, just like the other reviews which were then underway for HBoS Reading. However, last December, the Swift review concluded that the regulator had wrongfully excluded certain customers, who represented 35% of total IRHPs sold, from redress.[6]

Nevertheless, the FCA has refused to re-open the compensation scheme for IRHPs. This, in turn, is likely to trigger a judicial review being taken by the APPG-FBB against the regulator, in which the latter will be accused inter alia of unlawful conduct. On 31st January, the FCA provided its response to the APPG-FBB in a letter provided by Mark Steward, who described himself as the "accountable executive." [7] This is of considerable interest since it was Steward, who also took responsibility for the

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[4] See table on page six of "Larger than Watergate" on www.lloydbankassetfrauds.com, which is derived from the Treasury Select Committee report on SME finance dated October 2018.
[5] https://www.bbc.co.uk/news/uk-england-bristol-60260364
[6] https://www.appgbanking.org.uk/wp-content/uploads/2022/01/FCA-Swift-Jan-2021.pdf
[7] https://www.appgbanking.org.uk/wp-content/uploads/2022/02/irhp-response-to-appg-31-jan-2022.pdf

FCA taking back in-house the second half of the Section 166 investigation by Promontory into RBS' recovery arm, Global Restructuring Group, when there was a distinct danger of the truth coming out about GRG. In September 2017, FCA chief executive Andrew Bailey subsequently refused to publish the full report and when the latter was leaked, he even threatened that the leak constituted a criminal offence.

During the gathering of evidence by the Swift review, a Lloyds' whistleblower provided critical internal authentication to demonstrate that the bank instructed its sales staff to maximise and effectively exploit margins on those IRHPs, which were sold to non-sophisticated customers. Such evidence carried devastating implications for the conclusions of the review but it was deliberately excluded and never mentioned, which in turn throws significant doubt on Swift's true independence. The APPG-FBB judicial review relates to only 5,000 cases out of the total of 30,000 IRHPs sold but if it succeeds and proper compensation is finally awarded, Lloyds could be looking at another significant provision for its estimated share of more than 10% of these cases.

5. Business Banking Resolution Service (BBRS)

The BBRS has never been fit for purpose and is believed to be close to collapse. Admittedly, there is likely to be a significant element of double counting with the scheme because victims of serious banking misconduct and fraud have been compelled to apply to the BBRS, since they had been denied justice everywhere else. The purposefully improper scheme was devised in 2018 by Andrew Bailey, then FCA chief executive, HM Treasury and the seven participating banks to euthanase those bank victims, who were still standing but disappointingly for the authorities, every applicant realises that they have been conned over eligibility and recognise the direct parallel with the similarly duplicitous Post Office mediation scheme, which collapsed in 2015 after seventeen months of operation. In hindsight, it is astounding that the authorities were sufficiently brazen as to attempt the same deceit.

In late October, the BBRS published its second Quarterly Insights report, which revealed that only one case out of the 626 registered with the scheme had been settled in its first seven months of operation. Since then, the number settled during its first full year of operation is believed to have been a mere four, so the BBRS has shelved further Insights reports, in favour of a "post-implementation review". By resorting to reduced transparency, the BBRS is recording a direct parallel with the accounting changes just announced by Lloyds.

If the four major instances of serious fraud described above are properly addressed, the rationale for the BBRS will disappear. Meanwhile, the scheme serves as an accurate illustration of the concerted, wrongful and ongoing efforts by the authorities and banks to avoid proper investigation of serious banking misconduct and fraud and to try to minimise compensation on the basis that "this is all that is on offer". When the annals are written, the BBRS will go down as one of the most fraudulent and deceitful mediation schemes ever attempted in the UK.

Lloyds' latest results and their subsequent presentation imply that the bank has fully provisioned for the HBoS Reading fraud and its legacy issues are behind them. Based on the above, we maintain that this is decidedly not the case. It is time for the UK's leading domestic bank to behave correctly and for the authorities to recognise that the game of concealment is over. We suggest that only when Lloyds comprehensively addresses its legacy issues with honesty and integrity, will its reputation and accompanying share price truly recover. Major institutional shareholders and the banking analysts of the major investment banks should convey this simple and obvious message to Lloyds' management.