

Professor Russel Griggs OBE
Independent Reviewer
HBOS Reading

Dear Ms Morgan

Thank you for your letter dated 26 June 2018.

This letter sets out my response to your questions about the HBOS Reading Customer Review (the "Review") in my role as the Independent Reviewer, to the extent that I am able to do so.

As at the date of writing, the Review has provided offers of compensation to almost 90% of the businesses within the Review and more than 80% of those who have received offers have accepted them and settled their cases with Lloyds Banking Group ("LBG").

Review Methodology

I agreed with LBG at the outset of the Review that the objective was to achieve swift and fair compensation for customers who had been impacted by the events at HBOS Reading, in a way that would not subject them to a difficult or lengthy, legal process. In this spirit, LBG proposed (and I agreed with this proposal) to make an ex gratia payment, separate to any subsequent compensation offer, of £35,000 to each potentially impacted customer at the start of the process, before questionnaires or submissions were received. Importantly, the Review does not therefore try to replicate a legal process, although consideration is given to what losses might be recoverable by customers. It is made clear to impacted customers, however, that, because participation in the Review is voluntary, the usual avenues of legal and other redress remain open to them at all times, should they be dissatisfied with their outcome.

Given the nature of the events at HBOS Reading, I agreed that it would be important that customers were able to provide their own input directly into the Review. While the factual history of the impacted customers day to day dealings with LBG is a matter of record (from their customer files with LBG), the personal experience of individuals who dealt with the now convicted former HBOS employees (as well as the convicted individuals from Quayside Corporate Services ("QCS") with whom they interacted) is something I felt unlikely to be adequately recorded in LBG's records, and so is something I (with LBG's support) have encouraged those individuals to document.

LBG identified which customers it considers fall within the scope of the Review and I then review those cases. To ensure that customers have every opportunity to provide their input without undue formality, the Review methodology provides those customers with a simple questionnaire to complete. There is however no restriction on how information can be provided to the Review and indeed many customers have chosen to either provide their own written statements or have their legal advisors create written statements in addition to, or in replacement of the questionnaire. Where customers have sought legal advice, the reasonable costs of this have been paid for by LBG.

I have conducted a substantial number of customer meetings, primarily after an outcome has been communicated to the customer, and when requested I have met with some customers prior to submissions being sent to LBG and me if that has been the customer's preference.

In summary, to arrive at my determination, I review all of the input provided by customers, and the files and records held by LBG. In making my determinations, I am supported by legal and accountancy/insolvency advisors that I have directly contracted to me to provide me with advice on

the individual circumstances and issues of each case. This allows me to make the final determination on appropriate settlement with all the necessary professional advice and resources. LBG conducts a parallel review using the same criteria, but the reviews take place separately and without reference to each other.

The principles by which offers are determined are based on:

- the reasons why the business was referred to the impaired assets office at HBOS Reading in the first place, its financial standing when it was referred, events after the business was referred to the impaired assets office Reading, and the impact and extent of contact with the now convicted individuals.
- consideration of any evidence or allegation of direct losses being incurred as a result of the criminal activity at HBOS Reading.
- consideration of any evidence or allegation of consequential losses as a result of the criminal activity at HBOS Reading.
- consideration of the personal impact that individuals have experienced as a result of dealing with those individuals that were convicted - expressed in terms of their "distress and inconvenience" (D&I).

Direct and consequential losses are considered using established legal principles on the basis of the information before me. In order to reach a conclusion on the extent of D&I which I consider should be awarded, I agreed with LBG that these payments should be heavily based on the customer's own account of their experiences. In determining the D&I compensation, in order to achieve the Review objective of providing both swift and fair outcomes:

- the default position is that the customer's account of events should be believed unless there is express evidence to the contrary
- it should be generously calibrated (at a level several times greater than might be achieved in court, even if such damages were available)
- impacted customers should not need to prove causation, as a court would require.

Outcome letters are sent to customers notifying them of the level of compensation which LBG is offering. Some customers simply accept those offers, but some request an outcome meeting with me and LBG, and/or submit additional information. I consider that additional information with my team (and LBG does the same), and whether it alters my conclusion as to the level of compensation that should be offered.

If my conclusion as to the level of compensation which should be offered differs from that of LBG (either before an outcome letter is sent by LBG or after additional information is received), I will then discuss that and explain to LBG why I consider that the offer should be different. In most cases, I reach agreement with LBG as to the offer. In some cases, I have been unable to reach agreement with LBG and in these cases my view is final. In every case where I have reached a different view from LBG on the proposed offer, the offer has increased.

Specific questions in your letter of 26 June 2018

The number of businesses currently participating in the Review is 72, which represents a small increase from the original 65 as additional cases have been included as a result of customer contact. Outcomes have been provided to 64 of these. In relation to these 72 businesses, there are 187 individual directors currently participating in the Review. Around 90% have had an outcome

communicated to them, and we are awaiting information from the small remaining number of companies or their directors, or their review is currently work in progress.

170 of these individuals have had an outcome communicated to them. The impacts on individuals that I have seen have varied greatly, and the range of offers to individual directors varies from less than £100,000 to in excess of £5,000,000.

Of the 170 individual director offers made to date, 134 have been accepted and 36 remain open. I am not aware of any who have formally rejected their offer, although in relation to 22 customers the initial offer was increased following the submission of additional information. In a number of these cases, I know that customers are preparing the submission of additional information, as allowed for within the Review methodology as described above.

Turning to your questions on timing, while LBG initially thought 30 days would be sufficient time for the input of former directors to be provided, I can confirm that former directors have on average taken 88 days to provide their input to the review, although there is again a wide range here. I (with LBG's support) have sought all along to balance the desire for a swift resolution with ensuring that customers should have the time they need to provide their input. There are various deadlines set out in the communications to customers, but in practice, there is flexibility around those deadlines for that reason.

Once final customer input has been received by LBG, I am informed by LBG that the assessment process has taken 30 days for the majority of customers to receive and outcome offer. In a small number of more complex cases this has taken longer, and the average time overall is 34 days

You have asked about disagreements with LBG over customer outcomes. As noted above, the Review considers D&I as one of the key areas of assessment and in this particular part of the assessment there is often a judgement to be applied. In over 20 cases, I have debated with LBG the appropriate level of compensation, and we have sought to reach agreement on the offer made to the customer. In 9 out of the 170 director outcomes communicated to date, I have remained of a different view as to the appropriate level of compensation. In every one of these cases where I held a different view to that of LBG, LBG has amended its offer to reflect my conclusion, in line with the Review methodology. There are a number of other cases where, in discussion with LBG, we have both agreed to amend initial proposed offers.

In the Review, LBG has provided offers of compensation totalling £76m, of which £63m is categorised as D&I suffered by customers.

I have attached a sample of a settlement agreement that LBG enters into with a customer when agreement is reached on the outcome. You will see that (as queried) there are standard confidentiality provisions, as would be expected in a legally binding settlement. I am aware, and support, that LBG requires and pays for all customers to take independent legal advice prior to entering into the settlement agreement to ensure that they are aware of and understand its terms.

I am grateful for your interest in the Review and I trust that the above provides you with the update you requested.

Yours sincerely,

