



HOUSE OF COMMONS

LONDON SW1A 0AA

Mark Carney
Governor of The Bank of England
Threadneedle Street
London
EC2R 8AH

26th March 2019

Dear Mr. Carney,

The handling of the HBOS Reading fraud and the evidence of subsequent attempts to cover-up the extent of the fraud raises serious questions around the corporate governance and conduct of Lloyds Banking Group's executive directors, including its Chief Executive, António Horta-Osório.

Crucially, it seems clear that the executive directors of Lloyds withheld the Project Lord Turnbull report, authored by Sally Masterton a senior risk officer in the Group, from the non-executive directors until March 2017. The report, published in September 2013, made substantiated claims that "*proper disclosure of the Reading Incident (the fraud) in July 2007 would have rewritten history for HBOS, Lloyds TSB and the Government*". Despite this seriousness of the allegations, and the fact that the fraud had been the subject of a parliamentary debate, a BBC documentary and nine arrests had been made at the time, the executive directors decided to withhold the report from the board.

The PRA's supervisory approach makes it clear that the PRA expects the boards and management of regulated forms to run the business prudently, consistent with the firm's own safety and soundness. The Bank of England's Supervisory Statement SS5/16 entitled "Corporate governance: Board responsibilities" makes it clear that there are expectations of managers to be transparent with their boards. Specifically, section 9.2 states that:

"The PRA expects management to be open and transparent with the board to ensure the board is adequately apprised of all significant matters about which the board should be made aware. Management should not simply confine such information to matters formally reserved for the board or falling outside the board's stated risk appetite, but should raise issues where, for example, the size, nature or impact suggest that disclosure or escalation is appropriate. Non-executives should have unrestricted access to a firm's employees and information as needed to enable them to carry out their duties."

In addition, despite being made aware of the fraud as early as 2011 and being given the report in 2013, Mr Horta-Osório did not commission a thorough investigation of the allegations made by Ms Masterton, but instead first suspended her, constructively dismissed her, attempted to discrediting her to the regulator and knowingly prevented her from assisting the police.

Lloyds are now being allowed to use the Dobbs Review as a 'fig leaf' for the Group to deflect any questions being raised and with any valid enquiry we have made about these matters persistently being left unanswered. They have used this tactic to deflect questions from myself and the Thames Valley Police and Crime Commissioner, Mr Anthony Stansfeld. I asked Mr Horta-Osório to answer the following questions:

- What action did you take to establish the accuracy of the fraud allegations contained within the report?
- What investigations did you carry out into the fraud cover-up and other allegations contained in the Executive Summary of the report?
- Why did LBG deny that they have requested that Sally Masterton document her concerns?
- Why did LBG state to the FCA that Sally's actions were not sanctioned by the bank and that there was no substance to her report?
- Why did LBG set out to destroy Sally Masterton's reputation and credibility?
- Why did LBG ignore the requests of Thames Valley Police officers who were investigating the HBOS fraud to have continued access to Sally Masterton and instead suspend her from her duties?
- Is it still LBG's position that no evidence exists to substantiate the report?

To this date, he has refused to answer or even acknowledge these questions. Given that the Bank of England are responsible for the prudential regulation and supervision under the Financial Services and Markets Act 2000, could you confirm:

1. What actions you are taking to make sure that appropriate corporate governance rules have been followed?
2. Are you content to allow an investigation of such significance, and one which you hold ultimate responsibility for, to be delegated to a Lloyds appointee rather than by the relevant regulator?

Yours sincerely,



Kevin Hollinrake MP
Co-Chair of the All-Party Parliamentary Group on Fair Business Banking