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Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
Treasury Committee
House of Commons
LONDON SW1A 0AA

21st June 2019

Dear Nicky,

The FCA has this morning published the findings of its investigation into whether Bank of Scotland met its disclosure obligations regarding the events at HBOS Reading, in the period before Lloyds Banking Group acquired HBOS.

I welcome this important step in the progress we are making towards understanding better what went wrong, and wanted to update you on the changes we have put in place to ensure we better protect and serve our customers.

The FCA has found that Bank of Scotland 'failed to be open and cooperative...and failed to disclose information appropriately'. It also finds that Bank of Scotland 'failed properly to understand and appreciate the significance of the information it had identified'.

The FCA points out that the disclosure failures it has identified occurred between May 2007 and January 2009, in the period before the acquisition of HBOS by Lloyds Banking Group in 2009. The FCA also concludes that the breach was not deliberate. It points out that the evidence that led to the later convictions of the HBOS Reading criminals in 2017 was not available to Bank of Scotland at the time.

We accept the FCA's findings in full, including the levying of a £45m fine. The criminality at the Impaired Assets Office based in Reading remains a dark period in HBOS's history, prior to its acquisition by Lloyds Banking Group. The conclusion next year of the Dame Linda Dobbs review into what happened in the period after the Lloyds takeover of HBOS is an important next step.

Lloyds Banking Group cooperated fully with the FCA's investigation. We have also embarked on significant change since our acquisition of HBOS to ensure far tighter business controls, improved risk management and lasting cultural change. Risk management in the business is stronger; achieving better

outcomes for customers is now central to the decisions we make on conduct, product design and customer service; governance is driven by the relentless measurement of risk and conduct; and our culture is focused on doing the right thing for our customers and being transparent with our regulators. Lloyds Banking Group today is vastly different to the Bank of Scotland business that was investigated by the FCA.

After the trial in 2017 we also committed to putting things right for the customers affected. As you know the Griggs customer compensation review concluded earlier this year for all 71 businesses in the review. So far 98 per cent of offers made have been accepted. Sir Ross Cranston QC, appointed with the support of the FCA, is examining whether the outcomes reached by the Griggs review were fair and reasonable, and he will report in the autumn.

Best regards,

A handwritten signature in blue ink, consisting of a large, stylized capital letter 'A' followed by a horizontal line and a small flourish.