

THE MOST SERIOUS FINANCIAL SCANDAL OF MODERN TIMES23. LLOYDS' EXECUTIVE PAY & THE BANK'S CRIMINAL FRAUD

In May, Institutional Shareholder Services (ISS), the influential shareholder advisory group recommended Lloyds' shareholders to vote against the bank's proposed three-year executive pay policy and 36% did, representing a sizeable revolt¹. Not only has Lloyds' share price fallen by 56% since Horta-Osorio became Chief Executive but it has been widely perceived that his remuneration package, which has totalled £56mn since 2011,² has represented a reward for failure, rather than success. However, ISS was almost certainly totally unaware of Lloyds Asset Theft Frauds.

- **Minutiae of Lloyds' executive pay less important:** The pay of senior executives of Lloyds Banking Group is so complex that it required thirty pages of the bank's 2019 annual report to explain.³ How basic pay is supplemented by a fixed share award, pension, benefits, a short-term variable (otherwise known as a "group performance share") and a long-term variable (or "group ownership share"). However, we prefer not to focus on minutiae, such as how the Chief Executive taking cash in lieu of pension has breached the Investment Association's guidelines.
- **Leading bankers must be well rewarded:** The remuneration of top UK bankers must be set at international levels and reward those individuals appropriately. In the case of a leading domestic bank, its senior management should also be rewarded for helping to maintain the country's financial infrastructure. However, it is clearly not appropriate that their rewards should reflect, at least in part, the benefits of serious professional misconduct and criminal fraud undertaken by officers and agents of the bank, for which they are responsible.

What has Lloyds' senior management actually known ?

There is a case to be made that Lloyds' executive management may not have known about its extensive legal wrongdoing. The bank's legal counsel, for example, withheld the Project Lord Turnbull report from senior management, when they first

¹ <https://www.bloomberg.com/news/articles/2020-05-21/lloyds-shareholders-lodge-protest-vote-over-executive-pay>

² <https://www.dailymail.co.uk/money/comment/article-8495345/RUTH-SUNDERLAND-Horta-Osorio-leaving-Lloyds.html>. Article printed on 7th July 2020 as "Farewell to £56mn man after ten years at top" has subsequently been re-named.

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https://www.lloydsbankinggroup.com/globalassets/documents/investors/2019/2019_lbg_annual_report_v3.pdf - pages 98 to 128.

received it,⁴ so they may again have protected them, when evidence actually emerged of the bank's widespread legal wrongdoing.

However, the culture of Lloyds Bank has consistently been set from the very top. The lying, denying and covering up, the hard line which the bank has maintained and even reportedly tightened recently, have all come from its senior executive management.

It was Lloyds' Chief Risk Officer, Juan Columbás, who lied to the Police & Crime Commissioner of Thames Valley about when he had first known about the HBOs Reading fraud⁵. The date when the bank first knew of the major fraud is the subject of the Dobbs review and will determine the bank's liability to compensation. Similarly, the use of two NDAs to silence the author of the Turnbull report will have been authorised at the highest level.⁶ When Lord Blackwell was provided with a copy of the Turnbull report, it was he as Lloyds' Chairman who chose to conceal it from his non-executive board for a further year.⁷

How much senior management has known of the widespread criminality, which has run right through the bank's recovery units - the engineering of customer defaults, the mis-use of accounting firms, the industrial forgery of signatures, the Land Registry fraud, the mis-use of NDAs and the mistreatment of whistleblowers – may never be fully known. We suspect that it has known much, if not all, of this. Certainly, senior management has authorised the expenditure of large sums on heavyweight law firms to cover up its wrongdoing by all available means.

Lloyds Business Support Units (BSU) were turned into profit centres four years before Horta-Osorio took office but he and his executive management have conducted the bank in full knowledge that, and most possibly because, such infrastructure was in place. Indeed, senior management will have signed off the securitisation deals whereby assets, which had been misappropriated at deep discounts from customers, were later sold off, now at a significant premium, to the buyers of distressed debt such as Cerberus.

Senior management, including the Chairman and Chief Executive, have set the tone in which widespread criminality has flourished at Lloyds Banking Group and for that they must be held fully accountable.

⁴ Press release 19.

⁵ Statement of Thames Valley Police & Crime Commissioner, Mr Anthony Stansfeld.

⁶ Press release 18.

⁷ Statement of Thames Valley Police & Crime Commissioner, Mr Anthony Stansfeld.