

Lloyds Banking Group
PO Box 70368
London
SE16 9DZ

Mr Errol Bland
The Coin Group Limited
12 Treadaway Business Centre
Treadaway Hill
Loudwater
Buckinghamshire
HP10 9RS

23 August 2013

Our reference: LB1269/S2/1/1212/COINGROUP

Dear Mr Bland

PRIVATE AND CONFIDENTIAL- IMPORTANT INFORMATION


Review of your Interest Rate Hedging Products – Change of sophistication status

On 27 September 2012 we wrote to inform you that you would be invited to have your IRHPs reviewed as part of the pilot exercise announced by the Financial Conduct Authority (FCA)¹. Since this initial pilot the FCA has revised and finalised the sophistication assessment criteria that Lloyds Banking Group (the Bank) is required to apply.

Having now reassessed your case against this revised sophistication criteria, the Bank has identified you as a "sophisticated" customer and consequently you do not qualify to have your case assessed as part of this review. The enclosed letter details the basis on which we have made this determination.

Lloyds Banking Group apologises for any inconvenience caused by this change in assessment and the time taken to communicate our conclusion.

Yours sincerely


Subha Rath
Case Handler

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Enclosure:
Sophistication Outcome Letter

¹ On 01 April 2013, two new financial regulators - the Financial Conduct Authority and the Prudential Regulation Authority replaced the Financial Services Authority (FSA)

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Dear Mr Bland

PRIVATE AND CONFIDENTIAL- IMPORTANT INFORMATION

Review of your Interest Rate Hedging Products – Sophistication test

In September 2012, we wrote to inform you that you had been identified as a customer potentially affected by the review announced by the Financial Conduct Authority (FCA)¹ into the sale of Interest Rate Hedging Products (IRHPs) sold to small and medium sized businesses from 01 December 2001 onwards (the Review).

As part of the Review Lloyds Banking Group (the Bank) is required to assess whether a customer had the specific expertise to understand the risks associated with purchasing an IRHP. The criteria that the Bank needs to take into account to determine whether a customer is eligible has been prescribed by the FCA and is known as the "sophistication" criteria.

How does this sophistication assessment apply to you?

You have been identified as a "sophisticated" customer as the Bank's records show that you met the following criteria in the financial year during which the sale(s) occurred:

¹ On 01 April 2013, two new financial regulators - the Financial Conduct Authority and the Prudential Regulation Authority replaced the Financial Services Authority (FSA)

Company Act Group Test.

At the time you were sold the following products:

- i) Enhanced Interest Rate Collar GBP 2,250,000 entered into on 24 July 2007
- ii) Callable Interest Rate Swap GBP 2,250,000 entered into on 24 July 2007

There is evidence connecting you with the following companies through a group structure:

- Setwest Limited

As a group you met i and ii of the following criteria for the financial year in which the trades occurred, this assessment has been made using information you have provided to the Lloyds Banking Group.

- i. Turnover for the group was more than £6.5 million net or £7.8 million gross
- ii. The aggregated balance sheet for the group was greater than £3.26 million net or £3.9 million gross
- iii. Your group of companies employed more than 50 employees

We therefore believe you are not eligible to have your file reviewed in respect of the IRHP(s) detailed above. Please refer to the enclosed 'Sophistication Criteria Guidance' for further details of the FCA criteria that we have applied.

Company Act Group Test.

At the time you were sold the following products:

- iii) Interest Rate Swap GBP 6,000,000 entered into on 01 December 2008

There is evidence connecting you with the following companies through a group structure:

- Setwest Limited

As a group you met i and ii of the following criteria for the financial year in which the trades occurred, this assessment has been made using information you have provided to the Lloyds Banking Group.

- i. Turnover for the group was more than £6.5 million net or £7.8 million gross
- ii. The aggregated balance sheet for the group was greater than £3.26 million net or £3.9 million gross
- iii. Your group of companies employed more than 50 employees

We therefore believe you are not eligible to have your file reviewed in respect of the IRHP(s) detailed above. Please refer to the enclosed 'Sophistication Criteria Guidance' for further details of the FCA criteria that we have applied.

Role of the Independent Reviewer

As agreed with the FCA the Review is being overseen by an Independent Reviewer. The Independent Reviewer has reviewed the sophistication assessment based on the information provided to them.

How do you challenge this determination?

In applying the FCA's criteria, Lloyds Banking Group has relied upon information held by the Group and publicly available information (including information provided by third parties, such as credit agencies). Lloyds Banking Group accepts no responsibility for the accuracy of the publicly available information.

We recognise in limited cases customers may disagree with the determination that they meet the sophistication criteria. Should you wish to challenge this decision please detail why you believe our determination to be incorrect, and supply documentation to support your challenge to:

CB-IRHP Customer Service
Lloyds Banking Group
PO Box 70386
London SE16 9DZ

Alternatively you can telephone customer services on: 0845 602 3076.

Where can you find further information?

The FCA has issued a series of updates which you might find helpful, including a fact sheet which explains the sophistication criteria. Please see the links below for further information:

- <http://www.fca.org.uk/consumers/financial-services-products/banking/interest-rate-hedging-products>
- <http://www.fca.org.uk/consumers/financial-services-products/banking/interest-rate-hedging-products/questions>

Yours sincerely



Tony Nash
Review Programme Director
Interest Rate Hedging Products

Enclosure:
Sophistication Criteria Guidance

Sophistication Criteria Guidance

Customers who were sold interest rate hedging products (IRHPs) and who fall outside the definition of non-sophisticated customers are not within the scope of this review. Every bank's assessment of whether a customer is a 'sophisticated' customer or a 'non-sophisticated' customer is made in accordance with criteria set out by the FCA and is scrutinised by the Independent Reviewer to ensure the correct classification is applied.

Understanding the sophistication criteria:

The FCA has developed principles to ensure that the review is focused on those small and medium businesses that were unlikely to understand the risks associated with IRHPs. To this end, six different Sophistication Tests have been stipulated by the FCA to determine whether a customer is eligible for inclusion in the review.

- 1) **Notional Value or Aggregated Notional Value for Live Trades:** The notional value of a trade or total notional value of all live trades of the customer at the time of the trade being assessed is greater than £10 million.
- 2) **Company Act Test*:** The customer meets i and ii; i and iii or i, ii and iii of the following criteria at the time of the trade:
 - i. Turnover was greater than £6.5 million
 - ii. Balance sheet total was greater than £3.26 million
 - iii. Employed more than 50 employees
- 3) **Company Act Group Test*:** A connected company or group of connected companies meet i and ii; i and iii or i, ii and iii of the following criteria at the time of the trade:
 - i. Turnover was greater than £6.5 million
 - ii. Balance sheet total was greater than £3.26 million
 - iii. Employed more than 50 employees
- 4) **Aggregated Notional Value for Live Trades for Company Act Group test:** The total notional values of all live trades of the connected companies at the time of the trade are greater than £10 million.
- 5) **Group of connected companies test under BIPRU:** Following the application of the BIPRU test set out in the FCA Handbook, should the aggregated notional value of all live trades exceed £10 million at the group level at the time of the trade, the customer is 'sophisticated'.
- 6) **Subjective Test:** At the time of the sale, and irrespective of the size of the business, did the Customer have the necessary experience and knowledge to understand the service to be provided and the type of product or transaction envisaged, including its complexity and the risks involved.

***Companies Act Test and Companies Act Group Test criteria explained:**

Balance sheet figures explained:

- Where, at the time of the sale, the customer did not belong to a 'group', the relevant turnover figure is £6.5 million and asset size is a figure of £3.26 million.
- Where, at the time of the sale, the customer belonged to a 'group', the relevant turnover figure is £6.5 million net of any set-offs and intra-group transactions or £7.8 million gross; and the relevant asset figure is £3.26 million net of any set-offs and intra-group transactions or £3.9 million gross.

Number of employees explained:

The average number of employees, employed by the company in the financial year in which the product was bought. This is explained in detail in the Companies Act 2006.