

Proposed transfer of general insurance business of Royal London (CIS) Limited (formerly known as Co-operative Insurance Society Limited)

Policyholder Guide

This is a guide for transferring policyholders of Royal London (CIS) Limited to CIS General Insurance Limited.

January 2014

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Introduction

This guide explains the key facts you need to know about our proposal to transfer certain of the general insurance business (as defined in the Glossary of Terms) of Royal London (CIS) Limited ("RLCIS"), (formerly known as Co-operative Insurance Society Limited) into CIS General Insurance Limited ("CISGIL") and how you will be affected by that proposal. We have sent you this guide because you have held an insurance policy with RLCIS. Please note - there will be no change to your rights under the policy that we are proposing to transfer.

Within this guide you will find:

- Information on what we are doing and why;
- information on the process we are following;
- information on what the transfer means for you; including how to raise any concerns you may have;
- a summary of the Scheme (as defined in the Glossary of Terms); and
- a summary of the report produced by the Independent Expert (as defined in the Glossary of Terms) which considers how your interests as a policyholder may be affected.

What are we doing?

Co-operative Insurance Society Limited ("CIS") operated for many years as part of The Co-operative Group. CIS was sold to The Royal London Mutual Insurance Society Limited ("Royal London") last year and renamed Royal London (CIS) Limited. RLCIS currently contains general insurance business written before 15 January 2006 when CIS was part of The Co-operative Group. It is this business that we are proposing to transfer to CISGIL, which is still part of The Co-operative Group.

In the past, CIS used to provide both long-term insurance policies and general insurance policies. When CIS stopped providing general insurance policies, that role in The Co-operative Group was taken on by CISGIL.At that time, CISGIL agreed to take on the liabilities associated with CIS's general insurance business. The proposed transfer will therefore simplify the operations of the general insurance businesses going forward.

Why are we doing this?

CISGIL is already responsible for the administration of the general insurance business of RLCIS and pays any claims which arise, under a contractual arrangement with RLCIS. Royal London and The Co-operative Banking Group ("**CBG**") have agreed that it would help simplify this arrangement to bring all the general insurance business together within.

What is transferring under this proposal?

We are transferring the general insurance business of RLCIS, which includes open or future claims under policies written before 15 January 2006.

How will this transfer be made?

If your policy was sold in the UK, Guernsey, or the Isle of Man, your policy will be transferred to CISGIL using a process known as an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (known as a "Part VII transfer").

A PartVII transfer is a legal process under which an insurance company can transfer its insurance policies to another insurance company, and is a process strictly governed by law and must be approved by the High Court.

If your policy was sold in Jersey, your policy will be transferred to CISGIL by a separate insurance business transfer scheme in Jersey (the "Jersey Scheme"). As with the PartVII transfer, the Jersey scheme has to be approved by the Royal Court of Jersey, and is a heavily regulated process. The terms of the Jersey Scheme are substantially the same as those of the PartVII transfer.

When will the transfer take place?

Provided that the High Court sanctions the PartVII application, the transfer is expected to take place on 31 March 2014. The Jersey policies are also expected to transfer on 31 March 2014, provided that the Royal Court of Jersey approves the Jersey scheme.

How will you be protected?

Throughout this process we have been in consultation with the Prudential Regulation Authority and the Financial Conduct Authority, who have oversight of this proposal. We have also appointed an Independent Expert, Derek Newton of Milliman LLP, whose role is to assess the impact of the transfer on all policyholders and claimants of RLCIS and CISGIL, and to present his findings to the High Court and the Royal Court of Jersey. Please see the section "Where can you find out more?" for details of how to obtain a copy of the Independent Expert's report.

You are entitled to make your views known and the way in which this can be done is described in the "What rights do you have?" section overleaf.

How will you be affected?

As explained above, CISGIL is already responsible for dealing with claims and other administrative matters affecting your historic policy with RLCIS. If the transfer is approved there will be no change to the way claims are managed but they will be against CISGIL rather than RLCIS. The contact details that you will need to use in relation to your historic policy will also remain the same and you will not see any changes to the service you receive. Please note; any current policies you may have with CISGIL will not form part of this transfer.

Is there anything for you to do?

The transfers will take place automatically on 31 March 2014 following the High Court's approval of the Part VII transfer and the Royal Court of Jersey's approval of the Jersey scheme.

We recommend that you read the summary of the Independent Expert's report and the summary of the terms of the Scheme, which are included in this guide, to determine if your rights will be adversely affected.

What rights do you have?

If you think that your rights will be adversely affected by our proposals, you have the right to participate in the UK High Court hearing on 17 March 2014 (or the hearing in the Royal Court of Jersey if your policy was sold in Jersey) by making a statement as to why you believe you may be adversely affected by this proposal. You may do so either by making a written representation or by appearing in person (or by a legal representative) in court.

If you would like us to clarify anything in relation to the Part VII transfer, please ask us. You can call us on 0845 603 4032 or write to us at Transfer Team, Royal London (CIS) Ltd, 2nd floor, Miller Street, Manchester M60 0AL. Alternatively further details are available on our website at co-operative insurance.co.uk/transfer

If you are still worried that the proposed transfer could adversely affect you, you have the right to raise your concerns with the Court. You can do this by:

- Contacting us with your concerns
- · contacting the relevant solicitors below
- through a legal representative who can speak at the hearing on your behalf
- attending the hearing at Court in person.

If you hold a UK, Isle of Man or Guernsey policy and intend to make a written representation to the High Court or to appear in person on 17 March 2014, you are requested to inform Clifford Chance LLP of your objections as soon as you can, and by no later than 10 March 2014, at Ref. HJE/70-40462798, Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ.

If you hold a Jersey policy and intend to make a written representation to the Royal Court of Jersey or to appear in person at the hearing, you are requested to inform Appleby of your objections as soon as you can at Ref. 209558.0003, Michael Cushing, Appleby, 13-14 Esplanade, St. Helier, Jersey JET 1BD.

3 Summary of the Scheme

The following is a summary of the main points of the Scheme. It does not explain every aspect of the Scheme. Full details can be obtained only from the full Scheme document which can be found at co-operative insurance.co.uk/transfer

- 3.1 The transfer of RLCIS's general insurance business will happen only if the Court gives approval. In that case, the transfer will become effective on (the "Effective Date") which is planned to be 31 March 2014.
- 3.2 If the Court imposes any change to the proposed Scheme, the Scheme will not take effect unless RLCIS and CISGIL consent.

The Effect of the Scheme

- 3.3 As stated above, the Scheme is intended to transfer all of the GI business ever written by CIS (now RLCIS), and all reinsurance that relates to it, to CISGIL. The effect would be that CISGIL replaces RLCIS as the insurer or reinsurer in all that GI business, and would also become entitled to the benefit of any reinsurance that RLCIS holds in respect of it.
- 3.4 This means that, from the Effective Date, all the rights and obligations arising from RLCIS's GI business will automatically transfer to CISGIL and will no longer rest with RLCIS. In particular, CISGIL will be responsible for paying all claims and meeting all the other obligations which were previously RLCIS's in relation to its GI business.

Exceptions

3.5 Despite the intention explained in 3.3 above, there may be a small number of exceptions to the effect of the Scheme. These would be Excluded Policies or Residual Assets, as described in more detail in the full version of the Scheme.

Continuity of Proceedings

- 3.6 From the Effective Date, any proceedings which are pending by or against RLCIS in connection with the business transferred by the Scheme shall be continued by or against CISGIL, and CISGIL shall be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to RLCIS. RLCIS shall have no liability under any such proceedings (whether current or past).
- 3.7 From the Effective Date, any judgement, settlement, order or award under existing or past proceedings obtained by or against RLCIS in relation to the business transferred by the Scheme shall be enforceable by or against CISGIL in place of RLCIS.

Costs and Expenses

3.8 All costs and expenses relating to the preparation of the Scheme and the Court processes will be borne by CISGIL. No such costs will be borne by policyholders.

4 Summary of the Jersey Scheme

4.1 The Jersey Scheme mirrors the Scheme, but it relates to the transfer of just the general insurance and reinsurance business written by RLCIS in circumstances that required RLCIS to be authorised under Jersey law ("RLCIS's Jersey Business") rather than to all of the general insurance and reinsurance business written by RLCIS.

The Jersey Scheme is conditional on the Scheme being effective.

5 Summary of the Independent Expert's Report

About the Report

- 5.1 Part VII of the Financial Services and Markets Act 2000 requires that, in transfers such as that proposed by the Scheme, an Independent Expert provides a report so that the Court may properly assess the potential impact of the Scheme on all affected policyholders, including the security of their policies and the levels of service that policyholders could expect to receive after the transfer. Similarly, the Insurance Business (Jersey) Law 1996 requires that, in transfers such as that proposed by the Jersey Scheme, an Independent Actuary provides a report so that the Jersey Court may properly assess the potential impact of the Scheme on all affected policyholders.
- 5.2 Section 5 of this document provides a summary of the Report prepared by Mr Newton to meet the above requirements.
- 5.3 This summary is subject to the same limitations on its use as those set out in the Report. The Report contains the reasoning behind Mr Newton's conclusions, some of the detail of which has been omitted from this summary. The Report also includes further information regarding RLCIS, CISGIL and CBG which has not been included within this summary. While Mr Newton is satisfied that this summary provides an appropriate synopsis of the Report, reliance on the summary alone could be misleading. Copies of the full Report and any updated Report can be obtained at www.co-operativeinsurance.co.uk/transfer or by writing to Transfer Team, Royal London (CIS) Limited, 2nd Floor, Miller Street, Manchester M60 0AL.

Purpose of the Schemes

- 5.4 The primary purpose of the Schemes is to rationalise the general insurance and reinsurance business of RLCIS and CISGIL into a single entity. This will result in a reduction in the complexity of regulatory compliance (compared to that anticipated with the current structure). It will also result in RLCIS changing from being a composite insurer into purely a life assurer (other than in respect of Excluded Policies).
- 5.5 The economic liability in respect of RLCIS's general insurance and reinsurance business has been carried by CISGIL since January 2006, in accordance with an agreement between RLCIS and CISGIL, which was amended and restated on 31 July 2013 (the "Indemnity Agreement"). Under the Indemnity Agreement, CISGIL has agreed to continue to indemnify RLCIS for all payments, net of reinsurance recoveries, arising under RLCIS's general insurance and reinsurance business. CISGIL's obligations under the Indemnity Agreement are guaranteed by CBG. Under the same agreement, RLCIS has agreed to pay to CISGIL all non-reinsurance recoveries. The run-off of the business is currently handled by CISGIL. It is intended that the Indemnity Agreement remains in place after the Effective Date.
- 5.6 In March 2013 CBG announced that it intended to sell CISGIL. As at the date of this summary there has been no further announcement regarding the possibility of such sale.

Who will be affected by the Schemes?

- 5.7 Members of the following policyholder groups might be affected by the proposed Schemes:
 - Holders of Transferring Policies (the "Transferring Policyholders"), including those policyholders of RLCIS Jersey Business (the "Transferring Jersey Policyholders");

- CISGIL policyholders;
- Holders of life policies within RLCIS (the "Life Policyholders"); and
- Holders of Excluded Policies (the "Excluded Policyholders")
- 5.8 Mr Newton has assessed the change in circumstances, security and levels of service of each group of policyholders separately.

Is there an impact on security of the Transferring Policyholders?

- 5.9 After making his review, Mr Newton has concluded that the security of the Transferring Policyholders, including the Transferring Jersey Policyholders, will be reduced by the Schemes, but not to a material degree. This is explained in paragraphs 5.10 5.12 below.
- 5.10 Although the Transferring Policyholders, including the Transferring Jersey Policyholders, have no direct contractual relation with CISGIL, in practice under the Indemnity Agreement CISGIL is currently meeting the claims relating to the Transferring Policyholders, including the Transferring Jersey Policyholders, and that will remain the case after the Effective Date. The security of the Transferring Policyholders, including the Transferring Jersey Policyholders, is currently, and indirectly, partially reliant upon the financial strength of CISGIL; after the transfer it will be wholly reliant. Mr Newton has considered whether this would affect the security of the Transferring Policyholders.
- 5.11 In the event of CISGIL becoming insolvent prior to the Effective Date and in accordance with the applicable law, payments due to RLCIS under the Indemnity Agreement to meet the claims of the Transferring Policyholders, including the Transferring Jersey Policyholders, would rank behind those of CISGIL policyholders. However, were CISGIL unable to fully meet payments due to RLCIS under the Indemnity Agreement to meet the claims of the Transferring Policyholders, including the Transferring Jersey Policyholders, then CBG would be obliged to meet the shortfall under a guarantee of CISGIL's obligation. After the Effective Date, Transferring Policyholders, including the Transferring Jersey Policyholders, would rank alongside existing CISGIL policyholders in the event of the insolvency of CISGIL, with equal access to the remaining assets of CISGIL, but with no recourse to CBG to the extent that CISGIL's assets were insufficient to meet all remaining claims of the Transferring Policyholders, including the Transferring Jersey Policyholders. In this respect, the Transferring Policyholders, including the Transferring Jersey Policyholders, would be disadvantaged by the Schemes.
- 5.12 Mr Newton has reviewed the current financial strength of CISGIL. He has concluded that the likelihood of both CISGIL becoming insolvent and in such an event the Transferring Policyholders being materially disadvantaged is small.

Is there an impact on security of the CISGIL policyholders?

- 5.13 After making his review, Mr Newton has concluded that the security of the CISGIL policyholders will be reduced by the Schemes but not to a material degree. This is explained in paragraphs 5.14 5.15 below.
- 5.14 As explained above, after the Effective Date, in the event of the insolvency of CISGIL, the Transferring Policyholders, including the Transferring Jersey Policyholders, that become direct policyholders of CISGIL will rank as creditors alongside the CISGIL policyholders, whereas in such circumstances prior to the Effective Date the liabilities of the Transferring Policyholders,

including the Transferring Jersey Policyholders, via the Indemnity Agreement, would rank behind the CISGIL policyholders. As such, the CISGIL policyholders will be slightly disadvantaged as a result of the Schemes.

5.15 The gross discounted liabilities to be transferred to CISGIL were, as at 31 December 2012, less than 9% of CISGIL's equivalent gross discounted liabilities. (This percentage continues to reduce as the claims relating to the Transferring Policyholders, including the Transferring Jersey Policyholders, run-off). Therefore, the relative dilution of the security of the CISGIL policyholders is not material and is also reducing.

Is there an impact on security of the Life Policyholders?

5.16 After making his review, Mr Newton has concluded that the Schemes will have no negative impact upon security of the Life Policyholders. The security of the life assurance policyholders within RLCIS is predominantly tied in to the financial strength of the long-term fund. The long-term fund will not be affected by the Schemes. In addition, from time to time the long-term fund can call upon excess assets, if any, from within the shareholders' funds. Immediately following implementation of the Schemes, the capital requirements of the other than long-term business will reduce as capital will no longer be required within RLCIS in respect of the Transferring Business. This will therefore increase the excess assets within the shareholders' funds.

Is there an impact on security of the Excluded Policyholders?

5.17 The Excluded Policyholders (if any) will remain covered by the Indemnity Agreement, post the Effective Date. In this respect the situation of the Excluded Policyholders would be nearly identical to that prior to the Effective Date. In the event of the insolvency of CISGIL, post the Effective Date, the liabilities relating to the Excluded Policyholders and as covered under the Indemnity Agreement would rank behind the claims of a larger group of policyholders within CISGIL than pre the Effective Date, due to the inclusion after the Effective Date of the Transferring Policies, including the Transferring Jersey Policyholders. However, in the event that the Excluded Policyholders claims are not met by CISGIL via the Indemnity Agreement, the Excluded Policyholders would benefit from CBG's guarantee of CISGIL's obligations under the Indemnity Agreement.

Mr Newton has concluded that the Schemes do not impact to any materially adverse extent the security of those policyholders whom he has identified that might be affected. He believes that no other policyholders will be affected by the Schemes.

Will the Schemes affect levels of service?

5.18 There will be no change to the administration of claims and policies as a result of the proposed Schemes and the service standards will continue following the implementation of the Schemes.

Mr Newton has concluded that no group of policyholders affected by the Schemes will suffer any reduction in service standards as a result of the Schemes.

Conclusion

5.19 Mr Newton has confirmed that he has been provided with access to all material facts of which he is aware that he considers relevant in order to assess the proposals under the Schemes. He has had discussions with senior members of staff at The Co-operative Banking Group that have helped him to evaluate the potential impact of the proposals on all policyholders under the Schemes.

5.20 In Mr Newton's opinion, provided the proposed Schemes operates as intended, and Mr Newton has no grounds for believing it will not do so:

- The security of benefits of policyholders of RLCIS and CISGIL will not be materially adversely affected by the implementation of the Schemes on the Effective Date; and
- The Schemes will not have an impact on service standards (operated in accordance with TCF criteria) experienced by the policyholders of RLCIS and CISGIL.

Update Report

5.21 Mr Newton's analysis has been based upon the material supplied to him, including balance sheets and other information, based on accounting positions as at 31 December 2012. He has also taken into account updated financial information which has been made available, although he has noted that this updated information has not been audited. Since the proposed Effective Date for the Schemes is 31 March 2014, he will revisit the analysis closer to the time to confirm that there have been no material changes to the arrangements that he has reviewed that would affect his overall opinion. He will then prepare and issue an update report to be made available to the Court prior to the Final Court Hearing and to the Jersey Court prior to the Final Jersey Court Hearing. Copies of the updated Report can be obtained at www.co-operativeinsurance.co.uk/transfer or by writing to Transfer Team, Royal London (CIS) Limited, 2nd Floor, Miller Street, Manchester M60 0AL.

Where can you find out more?

If you'd like to know more about the proposed transfer, further information is available at www.co-operativeinsurance.co.uk/transfer where there are copies of the following documents:

- Summary of the Schemes and the Report
- The Independent Expert's full report
- The Scheme document
- Claim Form

If you have any further questions or would like a free paper copy of any of these documents, please call the helpline on **0845 603 4032**. Lines are open 9am - 5pm Monday to Friday, excluding bank holidays.

Alternatively, you can write to us at:

Transfer Team
Royal London (CIS) Limited
2nd Floor
Miller Street
Manchester
M60 0AL

Glossary of terms

"general insurance business" – means all types of insurance policy (such as motor, home and business insurance) but not long-term insurance products such as life insurance or pensions.

"Scheme" – the formal process by which certain general insurance business of RLCIS (formerly known as Co-operative Insurance Society Limited), will be transferred to CISGIL.

Appendix I – Formal notice of our application to the High Court for the Scheme

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT

No. 7101 of 2013

IN THE MATTER OF ROYAL LONDON (CIS) LIMITED ("**RLCIS**")

and

CIS GENERAL INSURANCE LIMITED ("CISGIL", the "Applicant")

and

IN THE MATTER OF PART VII OF
THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE

Notice is hereby given that the Applicant made an application on 14 October 2013 to the Companies Court in the Chancery Division of the High Court of Justice under Part VII of the Financial Services and Markets Act 2000 (the "**Application**") for an order sanctioning an insurance business transfer scheme (the "**Scheme**").

The Application provides for the transfer to CISGIL under section 111 of the Financial Services and Markets Act 2000 ("FSMA") of the entire general insurance business of RLCIS, and for ancillary provisions in connection with the Scheme under section 112 of FSMA.

A copy of the report on the terms of the Scheme prepared in accordance with section 109 of FSMA by an independent expert, approved by the Prudential Regulation Authority, Derek Newton FIA, FSAI of Milliman LLP, and a statement setting out the terms of the Scheme and containing a summary of the report of the independent expert are available free of charge on the website at www.co-operativeinsurance.co.uk/transfer or by writing to Transfer Team, Royal London (CIS) Limited, 2nd Floor, Miller Street, Manchester M60 0AL or by calling the helpline on 0845 603 4032.

The Application is directed to be heard before a judge at the Royal Courts of Justice, Strand, London WC2A 2LL on 17 March 2014. If approved by the Court, the transfer will be effective on 31 March 2014.

Any person who believes that he or she would be adversely affected by the carrying out of the Scheme is entitled either to make written representations or to be heard in person (or by a legal representative) at the hearing of the Application on 17 March 2014. Any person who intends to appear at the Court, or to make representations in writing, is requested to notify his or her objections as soon as possible, and by no later than 10 March 2014, to Clifford Chance LLP, 10 Upper Bank Street, London E14 5]], Ref. H]E/70-40462798.

Lines are open from 9am to 5pm Monday to Friday. Calls may be monitored or recorded for security and training purposes. If you are calling from outside the UK, please call +44 161 376 6266

Dated January 2014

Please call 08457 46 46 46 if you would like to receive this information in an alternative format such as large print, audio or Braille.

If you are calling from outside the UK, please call +44 161 376 6266.

Calls may be monitored or recorded for security and training purposes.

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