Milliman Client Report

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The Report of the Independent Actuary

Report of the Independent Actuary on the proposed Scheme to transfer the insurance business of Arca Vita International DAC to Arca Vita S.p.A.

7 Grand Canal
Grand Canal Street Lower
Dublin 2
Ireland

milliman.ie

Prepared by:
Mr Michael Culligan, FSAI

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1 INTRODUCTION

Background

1.1 Arca Vita International DAC ("**AVI**") is an Irish insurance company, which has, since 2000, carried on life insurance business into Italy from Ireland on a freedom to provide services basis. AVI is owned entirely by Arca Vita S.p.A. ("**Arca Vita**"), which is in turn controlled by Unipol Assicurazioni S.p.A. ("**Unipol Assicurazioni** "), both located in Italy. Unipol together with its subsidiaries and affiliates are referred to here as "**Unipol Group**".

1.2 AVI now proposes to transfer its entire business to Arca Vita. While the rationale behind the transfer is not of direct consideration for me in my capacity as Independent Actuary opining on the proposed Scheme, it is helpful for me to be aware of it. I understand that the transfer is part of a broader, intra-group reorganisation within the Unipol Group with the objective of improving operational efficiencies by consolidating the foreign life insurance business, reducing costs and streamlining corporate structures, while reinforcing the Unipol Group's business strategy.

1.3 In order to effect that transfer, a court-approved portfolio transfer is proposed (the "**Portfolio Transfer**"). This would involve a scheme of transfer ("**the proposed Scheme**") which would be subject to approval by the High Court of Ireland ("**the Court**") and which would, if approved, result in all policyholders (the "**Transferring Policyholders**") being transferred from AVI to Arca Vita.

1.4 At the same time, AVI will be merged into Arca Vita via a cross-border merger (the "**Cross-Border Merger**") in accordance with the provisions of the European Union ("**EU**") Mobility Directive as transposed into Irish and Italian Law. The completion of the Portfolio Transfer is linked to the Cross-Border Merger's completion, with a planned effective date of 31 December 2025. This Report examines the effects of the proposed transfer of insurance policies from AVI to Arca Vita.

The role of the Independent Actuary

1.5 Under Section 13 of the Assurance Companies Act 1909 ("**the 1909 Act**"), the Court must approve any scheme which provides for transfer to another body of some or all of the life assurance business carried on by an insurance company.

1.6 The Court will consider any such scheme on the basis of an application ("**Petition**") by one, or both, of the parties. The Petition must be accompanied by a report on the terms of the scheme by an independent actuary (the "**Independent Actuary**"). This report is intended to fulfil that requirement in the case of the proposed Scheme.

Instructions

1.7 AVI and Arca Vita, together referred to as "**the Companies**", have instructed me to act as the Independent Actuary who is required to report to the Court on the terms of the proposed Scheme. My report has been prepared in accordance with the terms of an engagement letter dated 30 January 2025.

1.8 My appointment as the Independent Actuary has been notified to the Central Bank of Ireland (the "**Central Bank**"). The Central Bank has not objected to my appointment.

1.9 The costs and expenses associated with my appointment as Independent Actuary and the production of this Independent Actuary's Report will be borne by the Companies.

1.10 Throughout the remainder of this report (the "**Independent Actuary's Report**"), the term "**the proposed Scheme**" is used to cover all the proposals included in the scheme of transfer, including any related documents referred to in the scheme itself relating to the proposed implementation and operation of the scheme of transfer.

1.11 The Companies anticipate that the proposed Scheme will be presented to the Court in November 2025, with a proposed effective date of 31 December 2025.

1.12 I have interpreted my instructions as requiring me to consider the likely effects of the proposed Scheme on the Companies' life assurance policyholders including, but not limited to, the security of their benefits and their reasonable expectations. In preparing the Independent Actuary's Report, I have had regard to the security of the benefits in each company both before and after the implementation of the proposed Scheme, and the policyholders' reasonable expectations created by the past practices employed or statements made by each company. I have compared the status quo to the position that will apply after the completion of the proposed transfer. I expand further on these topics in section 7.

1.13 As far as I am aware, there are no matters that I have not taken into account in assessing the proposed Scheme and in preparing the Independent Actuary's Report, but which nonetheless should be brought to the attention of the Court in its consideration of the terms of the proposed Scheme.

1.14 I have also reviewed and considered the contents of the documentation that will be made available to policyholders in relation to the proposed Scheme and which contains, amongst other things, this report and a summary of this report.

1.15 I will prepare a further report (the "**Supplementary Report**") prior to the final Court hearing to provide an update for the Court on my conclusions in respect of the effect of the proposed transfer on the different groups of policyholders in light of any significant events or developments that have occurred since this report was written.

Qualifications and disclosures

1.16 I am a Fellow Member of the Society of Actuaries in Ireland ("**SAI**") and have been so since 1996. I am a Principal of Milliman, Consultants & Actuaries ("**Milliman**") and am a consulting actuary based in the firm's Irish insurance practice at 7 Grand Canal Street Lower, Dublin 2.

1.17 I have more than 35 years' experience in the insurance industry, including experience of acting as the Appointed Actuary and/or Head of Actuarial Function ("**HoAF**") for a number of Irish life assurance companies and acting as the Independent Actuary in relation to a number of previous transfers of life assurance business.

1.18 I am not a policyholder of AVI or Arca Vita. I have no financial interests in either of the Companies, or in any parent or affiliates. I am not, and have not been, employed by either of the Companies as an employee, officer or director.

1.19 Milliman's Irish insurance practice has not provided any services to AVI in the last 10 years. Consultants from other Milliman offices provide, or have provided, services to other companies within the Unipol Group. However, having checked within the Milliman organisation worldwide, I do not believe that any work undertaken by Milliman with either of the Companies, or with any other companies within the Unipol Group, would create a conflict of interest for me in my role as Independent Actuary.

1.20 Based on the foregoing I consider that I am in a position to act independently in assessing the proposed Scheme.

1.21 I have been assisted in preparing this report by my colleagues, Paul Marron and Seán McCaw. However, the report is written in the first person and the opinions expressed are mine alone.

Parties for whom my report has been prepared

1.22 The Independent Actuary's Report, and any extract or summary thereof, has been prepared specifically and solely for the purposes of Section 13 of the 1909 Act.

1.23 The Independent Actuary's Report has been prepared for the benefit of the Court, but may also be of interest to the following parties:

- Policyholders of AVI and Arca Vita;
- The Directors and senior management of AVI and Arca Vita;
- The Central Bank (being the authority having responsibility for the supervision of insurance companies in Ireland);
- Istituto per la Vigilanza sulle Assicurazioni ("**IVASS**") (being the authority having responsibility for the supervision of insurance companies in Italy);
- The professional advisers of any of the above with respect to the proposed Scheme; and,
- Anyone who believes the proposed Scheme may affect them and who is entitled to be heard in the Court's proceedings.

Reliances and limitations

1.24 In preparing the Independent Actuary's Report, I have had access to certain documentary evidence provided by AVI and Arca Vita, the principal elements of which I list in Appendix A to this report. In addition, I have had access to, and discussions with, the senior management of both AVI and Arca Vita. My conclusions depend on the substantial accuracy of this information, and I have relied on this information without independent verification. There are no documents or other information that I have requested and that have not been provided.

1.25 I have relied on the work of the Companies' external auditors in gaining confidence in the financial information as at 31 December 2023 and 31 December 2024 as summarised in this report. I have relied on AVI's Head of Actuarial Function in relation to the calculation of the technical provisions as at 31 December 2024 (as certified by them to the Central Bank) and on the written opinion they have provided on aspects of AVI's own risk and solvency assessment ("**ORSA**").

1.26 Neither I, nor any member of my team, is a qualified legal or tax expert. I have relied on the opinions and assurances of the Companies' experts in these matters and have not sought independent expert advice.

1.27 The Independent Actuary's Report is based on the information available to me at, or prior to, 20 May 2025, and takes no account of developments after that date.

1.28 Other than providing a copy to the Court and placing a copy on the Companies' websites, neither the Independent Actuary's Report, nor any extract from it, may be published without my specific written consent having first been given, except that copies of the Independent Actuary's Report may be made available for inspection by policyholders of both AVI and Arca Vita and copies may be provided to any person requesting the same in accordance with legal requirements. In the event consent is provided, the Independent Actuary's Report must be provided in its entirety.

1.29 I have prepared a summary of this report which will be provided to the Court and will be included in the documentation that will be made available to the Transferring Policyholders. No other summary of this report may be made without my written consent and, in particular, no other summary of this report may be distributed to policyholders without my prior approval.

1.30 The Independent Actuary's Report has been prepared within the context of the assessment of the terms of the proposed Scheme. No liability will be accepted by Milliman, or me, for any application of the Independent Actuary's Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of the Independent Actuary's Report (or any summary thereof). Judgments as to the conclusions contained in the Independent Actuary's Report should be made only after studying the report in its entirety. Furthermore, conclusions reached by the review of a section or sections on an isolated basis may be incorrect.

1.31 The Independent Actuary's Report should be read together with the other documents relating to the proposed Scheme.

Professional guidance

1.32 The Independent Actuary's Report has been prepared under the terms of the guidance set out in version 1.0 (effective 1 December 2022) of the Actuarial Standard of Practice ("**ASP**") INS-2 ("Transfer of an Insurance Portfolio – Role of the Independent Actuary") issued by the SAI.

1.33 In addition, version 1.2 (effective 1 March 2022) of ASP PA-2 ("General Actuarial Practice"), as issued by the SAI, requires members to ensure that processes are implemented to ensure that their work is of appropriate quality. In accordance with Milliman quality assurance requirements, this report has been peer reviewed by another Milliman Principal. I have complied with ASP PA-2 in the preparation of this report.

Terminology

1.34 My report contains various technical terms which I need to use in assessing the proposed Scheme. Those terms are written in bold font when first defined in my report and are also listed in the glossary in Appendix B.

Structure of this report

1.35 The remainder of this report is structured as follows:

- An Executive Summary is provided in section 2.
- The regulatory regime governing insurance companies in the EU is summarised in section 3.
- Section 4 provides a summary of the business of AVI.
- Arca Vita's business is summarised in section 5.
- Section 6 summarises the proposed Scheme.
- In section 7, I set out the basis on which I assess the proposed Scheme.
- My assessment of the proposed Scheme is set out in sections 8 (security of benefits) and 9 (fair treatment).

- My conclusions are set out in section 10.
- Appendix A lists the principal data sources I relied upon in carrying out my work.
- A glossary of terms is provided in Appendix B.

2 EXECUTIVE SUMMARY

Background and context

2.1 AVI and Arca Vita have agreed to transfer the entirety of AVI's life assurance business from AVI to Arca Vita. This report considers the impact of the proposed transfer of the insurance policies from AVI to Arca Vita.

2.2 The Cross-Border merger of AVI into Arca Vita is part of a broader process of rationalisation and simplification of the foreign corporate structure of Unipol Group, which has already been initiated with similar transactions implemented in the recent past. The Board of AVI has agreed to the proposed transfer.

2.3 Under the proposed Scheme and the Cross-Border Merger which will take place simultaneously, Arca Vita will acquire the entirety of AVI's insurance business from the effective date and in accordance with the terms and conditions set out in the proposed Scheme.

2.4 The proposed Portfolio Transfer requires the Court's approval, and the Companies are applying to the Court to seek such approval. The terms of the proposed transfer are set out in a Scheme, and the application is set out in a Petition, both of which will be submitted to the Court.

2.5 This report, which I am writing in my capacity as the Independent Actuary appointed by the Companies, considers the impact of the proposed transfer of the business from AVI to Arca Vita. My report contains various technical terms which I need to use in assessing the proposed Scheme. Those terms are written in bold font when first defined in my report and are also listed in the glossary in Appendix B.

2.6 Further details on the background to the proposed transfer and on my role as Independent Actuary are set out in section 1.

2.7 AVI is an Irish insurance company, while Arca Vita is an Italian insurance company. Consequently, they are subject to different regulatory and supervisory regimes. However, both the Irish and Italian regulatory regimes for insurance companies are substantially based on the common EU-wide framework known as "**Solvency II**". The two regimes are, therefore, very similar albeit that there are some local differences.

2.8 Further details on the European regulatory framework for insurance companies are set out in section 3.

The proposed Scheme

2.9 The proposed Scheme will see the entirety of AVI's business transferred to Arca Vita, subject to the approval of the Court. I have been provided with a copy of the proposed Scheme, the main features of which I summarise as follows:

- The transfer will be effective on 31 December 2025 (the "**Effective Date**"), in accordance with clause 3.1.1 of the proposed Scheme, unless another date is specified by the Court. If the proposed Scheme does not become effective on 31 December 2025, or any later date that the Companies and the Court agree on (as provided in clause 3.1.1 of the proposed Scheme), it shall lapse.

- The proposed Scheme is conditional on a number of conditions being fulfilled, including no objection to the Scheme having been made by the Central Bank or IVASS. It will also be necessary to have complied with all of the agreed pre-transfer policyholder notification requirements as directed by the Court.

- Subject to satisfying the necessary pre-conditions as set out in the proposed Scheme, the Transferring Policies will transfer on the Effective Date from AVI to Arca Vita, which will then become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with Arca Vita as they previously had with AVI).

- Any rights, powers, obligations and liabilities of AVI under the Transferring Policies and associated outwards reinsurance contracts will be transferred to Arca Vita. All property and assets held by AVI in respect of the Transferring Policies will also be transferred to Arca Vita under the Cross-Border Merger which will occur simultaneously with, and is contingent on the approval of, the proposed Scheme.

- To the extent that there is discretion available to Arca Vita as to how it will apply or modify the contractual provisions that govern the operation of the Transferring Policies and/or the internal funds to which their benefits are linked, that discretion will be exercised in accordance with the principles that apply to similar business in Arca Vita, taking into account the opinion of Arca Vita's Head of Actuarial Function.

- The costs of preparing and implementing the proposed Scheme will be borne by the Companies. No costs or expenses will be borne directly by any of the policyholders of either of the Companies.

- The Court may impose modifications, additions or further conditions to the proposed Scheme. Other additions and modifications to the proposed Scheme are permitted prior to the Effective Date if the Companies both agree, subject to Court approval.

- After the Effective Date, Arca Vita may, in certain limited circumstances apply to the Court for approval to change the terms of the Scheme. Any such application from Arca Vita would require the Central Bank to be notified and would require a fresh report from an independent actuary. AVI's consent would also be required if the proposed modification would affect its rights, obligations or interests. Finally, the Court would also have to give its approval.

2.10 More details on the proposed Scheme are provided in section 6.

Policyholder communications

2.11 By law, the position with regard to policyholder communications is that all policyholders (of both Companies) must, unless the Court directs otherwise, be provided with certain information, including a summary of the main provisions of the Scheme and a copy of the Independent Actuary's report. However, it is open to the Companies to ask the Court for a derogation from various aspects of those requirements.

2.12 I understand that the Companies intend to ask the Court for permission to modify and waive some of these requirements, as follows:

- That the written communication provided to policyholders (the "**Policyholder Notification Pack**") only include a summary of the Independent Actuary's Report, rather than the full report, and that it include a link to an online copy of the Scheme rather than including the full text of the Scheme in the pack.

- That the Policyholder Notification Pack only be sent to the Transferring Policyholders, rather than to all policyholders in both Companies. However, it is important to note that there is a proposed exception for "new" Transferring Policyholders. AVI remains open to new business until the Portfolio Transfer is complete, and any "new" Transferring Policyholders, who enter into policyholder relationships after the Policyholder Notification Pack exercise, will be informed about the proposed Scheme at the pre-contractual stage of taking out their policy.

2.13 The Companies will also make all required materials publicly available online on the Companies' websites.

2.14 More details on the proposed approach to policyholder communications, and the Companies' rationale for the proposed approach, are provided in section 6 . My views on the proposed approach are set out in section 9.

Information provided

2.15 I have been provided with comprehensive information on the Petition, the proposed Scheme, and the planned approach to policyholder communications (the "**Policyholder Communications Plan**"), as well as on the business of AVI and Arca Vita. Appendix A contains a list of the principal items of information provided to me.

2.16 I summarise the information provided on AVI in section 4, and the information provided on Arca Vita in section 5. The main aspects of the Petition and Scheme are summarised in section 6.

Key assumptions & reliances

2.17 There are certain assumptions that I have made when assessing and reaching my conclusions on the proposed Scheme and which I summarise here. I have disclosed and discussed my assumptions with the Companies, and they have not raised any objections. However, if any of these assumptions are incorrect, it is possible that my conclusions on the proposed Scheme could change as a result.

2.18 Summary of key assumptions:

- Arca Vita will continue in its current ownership and will continue to follow the business strategy as articulated in its most recent ORSA.

- The day-to-day administration of the Transferring Policies will continue with the same service providers in the same way post-transfer to Arca Vita. However, Arca Vita will replace AVI as the contracting party.

- The Court will approve or sanction the proposed Scheme, validating the legal basis for moving insurance contracts from AVI to Arca Vita, following which AVI will be merged into Arca Vita via the Cross-Border Merger.

- All relevant regulatory authorities will provide (or be deemed to have provided) any necessary approvals or waivers.
- There are no unforeseen legal or tax implications that might affect the economics of the transfer or policyholder protections.

2.19 My assumptions are based on my understanding of the issues in question and have been shared with the Companies' respective senior management teams for confirmation. I believe, therefore, that it is reasonable to make the assumptions I have made when assessing the implications of the proposed Scheme. However, if any of these assumptions were to be invalid, then my assessment of and conclusions on the proposed Scheme may need to be revised.

2.20 In the course of my work preparing this Report, I have considered various documents provided by AVI, Arca Vita and William Fry (legal advisors on Irish law matters for the proposed Scheme). A summary of the documents relied upon is appended to this report in Appendix A. I have relied upon the accuracy and completeness of these documents to inform my opinion on the Scheme. I have had meetings and calls with representatives of the Companies and their lawyers to discuss the details provided and to address any queries arising from my analysis. I have also been informed of relevant discussions between AVI, Arca Vita, the Central Bank and IVASS.

2.21 In addition, I have relied on the tax opinions and assurances of the Unipol Group's experts in these matters and have not sought independent expert advice.

My approach to assessing the proposed Scheme

2.22 In section 7, I set out the approach I take in assessing the proposed Scheme.

2.23 The conditions to be met by the proposed Scheme are:

- that the security of policyholders' benefits will not be materially adversely affected; and
- that the proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable benefit expectations.

2.24 In my view, the principal factors to be considered in assessing the security of policyholders' benefits in the context of the proposed Scheme are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and,
- the extent of parental support available.

2.25 The principal factors I consider relevant to an assessment of fair treatment and policyholders' reasonable benefit expectations in the context of the proposed Scheme are its implications for:

- policyholders' contractual obligations;
- the tax treatment of policyholders' premiums and/or benefits;
- areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders;
- levels of customer service to policyholders.

2.26 The arrangement with regard to the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

2.27 I consider the implications of the proposed Scheme separately for the following groups:

- Policyholders transferring from AVI (the "Transferring Policyholders"); and,
- Existing (pre-Effective Date) policyholders of Arca Vita ("**Arca Vita's existing policyholders**").

2.28 Following the completion of the proposed Scheme, because AVI will cease to exist as a legal entity following the completion of the Cross-Border Merger, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in AVI post-transfer.

My assessment of the proposed Scheme

2.29 I provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9. I summarise that assessment in the following paragraphs.

2.30 At a high level, the two Companies share many similarities, which makes the assessment of the implications for the Transferring Policyholders more straightforward than would otherwise be the case and also helps to focus on the areas of difference (which are of particular importance to the Transferring Policyholders). Those points of similarity include:

- Both are members of the Unipol Group, subject to common group-level oversight and strategic direction.
- Both report into IVASS at the group consolidation level, although AVI is directly regulated by the Central Bank.
- Both currently have unit-linked business (although Arca Vita also has other, non-unit linked, business).
- Both investment portfolios are guided by the Unipol Group's overarching risk and investment policies, designed to maintain solvency, liquidity, and capital adequacy.
- Both have similar capital management policies.
- Both employ similar risk management tools in their risk management policies, utilising identification and assessment processes aligned with the Unipol Group policy.
- Both have a similar new business acquisition model with bank partners and bancassurance as their primary business channel.
- Both use intra-group service companies.

2.31 There are also some differences, however, including (but not limited to):

- AVI has its head office in Ireland and is subject to prudential supervision by the Central Bank whereas Arca Vita has its head office in Italy and is subject to prudential supervision by IVASS.
- Arca Vita has more complexity in terms of in-force business (more portfolios, some traditional life business, some with-profits business).
- Arca Vita is a much larger business (e.g. as measured by premium income or total assets).
- The two Companies have different strategic plans.

2.32 My full assessment of the proposed Scheme in relation to its implications for the security of policyholders' benefits is set out in section 8. In the following table I briefly summarise the results of my assessment for the two groups of policyholders.

Table 1: High-level summary of my assessment of the proposed Scheme – benefit security

	Transferring Policyholders	Arca Vita's existing policyholders
Solvency position	The solvency coverage ratio in Arca Vita post-transfer at the Effective Date is projected to be 251%. This is higher than AVI's projected coverage ratio at that date (242%) but lower than AVI's actual coverage ratio as at 31 December 2024 (263%). In the round, therefore, I consider the solvency position of both Companies to be broadly comparable, noting that one should, in any case, exercise caution when comparing solvency ratios at a single point in time and should not rely unduly on that single metric.	The transfer of the AVI business is calculated as having a minor impact on Arca Vita's solvency position (with the solvency coverage ratio at 31 December 2025 projected to reduce slightly from 255% to 251% on a pro forma basis).

Table 1 (continued)

Solvency position (continued)	The development of the future solvency position of Arca Vita (on the assumption that the transfer takes place) is also projected to be broadly consistent with that of AVI.	The transfer of the AVI business is calculated as having a minor impact on Arca Vita's projected solvency position over 2025 and 2026 (compared to the equivalent projection assuming the transfer does not take place).
Risk profile	The Transferring Policyholders will be moving from a company whose main risks are currently policyholder lapse risk, financial market risk, expense risk and counterparty default risk, to one with broadly similar risk profile but with the addition of exposure to some life catastrophe risk. Although the proposed Scheme would result in some changes to the overall risk profile to which the Transferring Policies will be exposed, the risk profiles of the two Companies are broadly similar.	Arca Vita already underwrites unit-linked business in Italy. The transfer will not substantially increase Arca Vita's exposure to any risks that it is not already exposed to. In addition, the size of the AVI portfolio is small relative to Arca Vita's existing business.
Risk management	Arca Vita has similar risk management policies, frameworks, oversight and governance to those in place in AVI.	Arca Vita does not intend to change its risk management framework as a result of the proposed transfer.
Capital management policy	Arca Vita's capital management policy is broadly similar to AVI's.	Arca Vita does not intend to change its capital management policy as a result of the proposed transfer.
Business model sustainability	Arca Vita's business model is broadly similar to AVI's.	The transfer in of the AVI business is in line with Arca Vita's strategy and does not change its business model.
Recovery and resolution options	Arca Vita has a well-developed pre-emptive recovery plan which sets out the actions to be taken in the event of an unacceptable deterioration in the company's solvency position. This plan will be updated to take account of the AVI business. The options available in a resolution situation are similar for both Companies.	The transfer in of the AVI business will not change the options available in a recovery or resolution situation.
Parental support	The proposed transfer will not result in any material adverse change to the nature or character of parental support provided to the Transferring Policyholders. It is worth noting that the Transferring Policyholders will be moving from AVI to AVI's immediate parent.	The proposed transfer will not result in any material adverse change to the nature or character of parental support provided to Arca Vita's existing policyholders.

2.33 My full assessment of the proposed Scheme in relation to the fair treatment of policyholders is set out in section 9. In the following table I briefly summarise the results of my assessment for the two groups of policyholders.

Table 2: High-level summary of my assessment of the proposed Scheme – fair treatment

	Transferring Policyholders	Arca Vita's existing policyholders
Policy terms and conditions	The proposed Scheme provides that there will be no changes to existing policy terms and conditions. In addition, the existing AVI unit-linked funds will be replicated in Arca Vita. I understand that there may be a small change to the investment cycle for Transferring Policies to align with the Arca Vita process, but I am satisfied that it would not have a material impact on Transferring Policyholders.	No change.
Discretion and PRE	I have no reason to believe that there will be any materially adverse impact from the way in which Arca Vita may exercise its discretion, compared to how AVI can currently exercise its discretion, in relation to certain contractual terms and conditions.	No change.
Service standards	Arca Vita will maintain its current administrative arrangements for the Transferring Policies.	No change.
Tax	Unipol Group tax experts retained by AVI have examined the terms of the proposed Scheme and concluded that it will have no adverse consequences for the tax treatment of the Transferring Policyholders.	I have been advised by Arca Vita that the proposed Scheme will have no adverse consequences for its policyholders.
Other	I have not identified any other issues where the implementation of the proposed Scheme would materially adversely affect the Transferring Policyholders.	I have not identified any other issues where the implementation of the proposed Scheme would materially adversely affect Arca Vita's existing policyholders.

My conclusions

2.34 My conclusions are provided in section 10. In summary, having considered the effects of the proposed Scheme on both the Transferring Policyholders and Arca Vita's existing policyholders, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on

- the security of benefits of either group of policyholders;
- the reasonable expectations of either group of policyholders with respect to their benefits; and
- the standards of administration, service, management and governance that will apply to both groups of policyholders.

2.35 I am also satisfied that the proposed approach to communicating with policyholders is reasonable.

2.36 This report is based on the information available to me at 20 May 2025. I will prepare a Supplementary Report closer to the date of the final Court hearing to provide an update for the Court on my conclusions in the light of any significant events or developments that may have occurred in the meantime. The Supplementary Report will be made available on the Companies' websites and will also be available for inspection in accordance with the arrangements set out in the Petition and the communications to the Transferring Policyholders.

3 OVERVIEW OF THE REGULATORY REGIME FOR EU INSURERS

Introduction

3.1 AVI and Arca Vita are both life assurance companies incorporated within the EU and are therefore both subject to the EU-wide Solvency II prudential regulatory framework for insurance companies. Each company is subject to prudential supervision by its respective national supervisory authority – the Central Bank in the case of AVI, and IVASS in the case of Arca Vita.

3.2 Under the EU's supervisory arrangements for insurance companies, the regulation and supervision of conduct of business depends on the territory where the insurer has written the business. Both of the Companies write business exclusively in Italy and are therefore both subject to supervision by IVASS for conduct of business purposes.

Prudential regulation

3.3 Solvency II is the name given to the prudential regime for insurers (and reinsurers) across the European Union. Introduced in 2016, it is based on the following so-called three pillar approach:

- Pillar 1: Quantitative requirements.
- Pillar 2: Governance and risk management.
- Pillar 3: Supervisory reporting and public disclosure.

3.4 Taken together, the three pillars are intended to form a coherent overall approach which incentivises the understanding and management of risks across the insurance sector.

3.5 Some of the key features of the Solvency II regulatory framework are:

- Risk-based: Higher risks will lead to higher capital requirements to cover for unexpected losses. Appropriate credit is given for risk mitigation strategies through reduced capital requirements.
- Market consistent: Assets and liabilities are valued at market value (or a proxy if no direct market price exists).
- Proportionate: The requirements are intended to be applied in a way that is proportionate to the nature, scale and complexity of the risks inherent in an insurer's business.

3.6 The EU Solvency II Directive has been implemented in Ireland in the European Union (Insurance and Reinsurance) Regulations 2015 ("**the Solvency II Regulations**"), supplemented by an EU-wide Delegated Regulation, EIOPA Guidelines and additional requirements and guidelines issued by the Central Bank.

3.7 In Italy, the Solvency II Directive was transposed into Italian legislation by updating the Insurance Code. Again, the EU-wide Delegated Regulation and EIOPA Guidelines apply, as well as additional requirements and guidelines issued by IVASS.

3.8 In the following paragraphs, I provide a summary of the main relevant features of the Solvency II framework. The descriptions and explanations are necessarily high-level in places and should not be taken as exhaustive. They should, however, help to introduce some of the concepts that I refer to later in this report – in particular when discussing the financial and solvency position of the Companies.

PILLAR 1

3.9 Pillar 1 sets out the rules for the valuation of insurers' assets and liabilities and the rules for determining the risk-based capital requirements.

3.10 In summary, the Solvency II Regulations require insurers to value their assets and liabilities at market value, but in most cases liabilities to policyholders are determined on a best estimate basis with the addition of an explicit risk margin, reflecting the lack of a market "price" for insurance liabilities. The policyholder liabilities are valued using best-estimate assumptions, with the projected future cashflows discounted using risk-free rates (with some adjustments).

3.11 Together, the best estimate liability ("**BEL**") and risk margin form the technical provisions which sit on the liability side of the Solvency II balance sheet. To the extent that any business is outwardly reinsured, there will be an offset to the BEL ("**reinsurance recoverable**") which sits on the asset side of the balance sheet. The terms "net" and "gross" are sometimes used in the context of the BEL or technical provisions to denote the position with or without allowance for reinsurance respectively.

3.12 The Solvency II balance sheet provides the measure of the amount by which an insurer's assets exceed its liabilities (termed the insurer's "**own funds**"). There can be some further adjustments needed to arrive at the "eligible own funds", which are the own funds eligible to be counted towards meeting the regulatory capital requirements.

3.13 The eligible own funds are then compared with a regulatory capital requirement termed the Solvency Capital Requirement ("**SCR**"), which is a risk-based capital requirement, intended to represent the amount of capital that an insurer needs to hold to ensure that it will still be solvent (i.e. that its assets will exceed its liabilities, measured according to Solvency II valuation rules) in one year's time with a probability of at least 99.5%. Insurance companies must therefore ensure that they have sufficient available capital resources (i.e. "eligible own funds") to cover the SCR.

3.14 The SCR must cover a prescribed list of various types of risk:

- underwriting risks (life / non-life / health);
- (financial) market risks;
- counterparty default risk; and,
- operational risk.

3.15 Insurers may calculate their SCR using standard prescribed stress tests or factors for the various types of risk, which are then aggregated using prescribed correlation matrices. This approach is known as the "**Standard Formula**". Alternatively, the SCR may be calculated using an internal model, which is based on the insurer's internally-derived assessment of appropriate capital requirements, provided it has first been approved by the insurer's regulator and, in doing so, must meet a number of prescribed standards.

3.16 The benefits of risk mitigation techniques (e.g. reinsurance of underwriting risks; hedging of market risks) can be recognised in the calculation of the SCR, subject to certain conditions being met.

3.17 AVI uses the Standard Formula and Arca Vita uses a Partial Internal Model to determine their respective SCRs.

3.18 In addition to the SCR as described above, there is also a second, lower, level of regulatory capital requirement under Solvency II, known as the Minimum Capital Requirement ("**MCR**") which is intended to represent the amount of capital required to ensure continued solvency in one year's time with a probability of at least 85%.

3.19 The two capital requirements – SCR and MCR – define two rungs on the so-called "ladder of supervisory intervention", under which increasingly severe actions will be taken by an insurer's regulator if its level of available capital falls below the SCR (the first point of regulatory intervention)[1] and approaches the MCR. The MCR is the ultimate point of supervisory intervention, below which an insurer would lose its authorisation.

PILLAR 2

3.20 In addition, under Pillar 2, insurers are required to adopt risk management policies, capital management policies, and risk appetite statements (amongst other things), all of which aim to contribute to effective risk and capital management.

3.21 Furthermore, every insurer is required to conduct an Own Risk and Solvency Assessment ("**ORSA**") on at least an annual basis and to report the findings to the Board and the Central Bank. An ORSA must also be carried out whenever there is a material change in risk profile.

PILLAR 3

3.22 Pillar 3 imposes reporting requirements on insurers – both private reporting to the supervisor and public reporting.

3.23 The private reporting to the supervisor includes quarterly financial and other quantitative information which is provided in defined formats (termed Quantitative Reporting Templates or "**QRTs**"), as well as a more comprehensive suite of annual QRTs and a periodic narrative report (the Regular Supervisory Report).

3.24 In terms of public reporting, every insurer is also required to publish detailed information on its recent performance and solvency position in its annual Solvency and Financial Condition Report ("**SFCR**"), which also includes a subset of the annual QRTs.

[1] Although, legally, the supervisory authorities can only first intervene when an insurer's available capital falls below the level of its SCR (i.e. an SCR coverage ratio of less than 100%), in practice supervisors expect insurers to manage their businesses to a higher level of coverage and supervise insurers accordingly.

Conduct of business regulation

3.25 As noted above, AVI is an Irish-authorised insurer and Arca Vita is an Italian-authorised insurer. They are both subject to the relevant national prudential regulations and to the ongoing prudential supervision of the Central Bank and IVASS respectively for their entire businesses. However, under EU rules, the regulation and supervision of conduct of business depends on the territory where the insurer has written the business. Both of the Companies write business exclusively in Italy and are therefore obliged to comply with Italian conduct of business rules and are both subject to supervision by IVASS for conduct of business purposes.

Policyholder's reasonable expectations

3.26 Whilst not, strictly speaking, a legal or regulatory requirement, the concept of "policyholders' reasonable expectations", or "**PRE**", has evolved over time and has come to be an important consideration in terms of how Irish insurers treat their policyholders beyond the contractual obligations set out in their policy terms and conditions.

3.27 The concept first arose in the context of "with-profits" business, where insurers retained very substantial discretion in deciding on the extent to which profits would be shared with policyholders by way of discretionary bonus additions to their contractual benefits. Over the years, the concept has been extended to apply to other types of business, including unit-linked business.

3.28 The PRE concept is not, however, well defined. It is not set out in any Irish insurance legislation, nor in any regulatory communication, and it is important to note that the concept does not exist in an Italian insurance context.

3.29 A paper[2] presented to the UK's Institute of Actuaries defined PRE as follows:

> *"PRE is a concept that relates to policies which have a discretionary element. The holders of such contracts may reasonably expect that life offices will behave fairly and responsibly in exercising the discretion which is available to them. They may also expect a reasonable degree of continuity in an office's approach to determining variable charges or benefits."*

3.30 Until relatively recently, the SAI maintained an ASP on PRE ("ASP LA-4: Additional guidance for Appointed Actuaries on policyholders' reasonable expectations"), but this was withdrawn in March 2020.

3.31 That ASP following included the requirement for Appointed Actuaries:

> *"The Appointed Actuary must ensure that the Board is aware of his or her interpretation of policyholders' reasonable expectations. In general terms, this interpretation must have regard to the broad nature of the Company's practices and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders. When a material change is likely to take place in the Company's practices, the Appointed Actuary must advise the Board of the implications for policyholders' reasonable expectations."*

3.32 Under Solvency II, the role of the Appointed Actuary no longer exists. However, the Central Bank has, without defining what it means by PRE, introduced requirements for the HoAF to set out, in his or her annual report to the Board of Directors on technical provisions, his or her interpretation of PRE and how this has been considered in establishing the technical provisions. However, despite this role for the HoAF, it is generally accepted that under Solvency II the responsibility for meeting PRE rests with the Board of Directors.

3.33 Given the lack of codification, considerations of PRE are largely a matter of judgement. The Board of Directors is ultimately responsible but will often take the HoAF's views into account (particularly given the requirement for the HoAF to articulate his or her view of PRE, but also because of the long history of the actuarial profession's involvement in this area, as evidenced by the notes and ASP referred to above) and will also look to standards or approaches from other relevant territories (particularly the UK for historical and cultural reasons).

3.34 The SAI has stated, in ASP INS-2, the need for the Independent Actuary to consider PRE when assessing a proposed transfer of business from one life assurance company to another under the provisions of Section 13 of the 1909 Act.

[2] "A review of Policyholders' Reasonable Expectations" by M. Shelley, M. Arnold and P. D. Needleman [Presented to the Institute of Actuaries, 25 February 2002]

4 BACKGROUND TO AVI

History and background

4.1 AVI is an Irish-incorporated and Irish-authorised life assurance company. It was incorporated in Ireland on 18 September 1998 as a limited company under the name Arca Vita International Limited and with the company registration number 293632. On 28 July 2016 it converted to a designated activity company ("**DAC**") and changed its name to Arca Vita International Designated Activity Company. AVI has its registered office at 33 Sir John Rogerson's Quay, Dublin 2, Ireland and its principal place of business at 4-5 Dawson Street, Dublin 2, Ireland.

4.2 AVI's sole shareholder is Arca Vita which is a member of the Unipol Group. Further information on Arca Vita is provided in section 5.

4.3 AVI is authorised by the Central Bank to transact insurance business in Life Class III (contracts linked to investment funds) under the Solvency II Regulations. AVI was authorised by the Central Bank on 29 March 2000.

Nature of business written

4.4 AVI has a portfolio of single premium unit-linked products sold exclusively to policyholders in Italy. The entire portfolio of insurance policies (the "**Transferring Policies**") will transfer to Arca Vita under the proposed Scheme.

4.5 On certain products AVI provides a Guaranteed Minimum Death Benefit ("**GMDB**"), which guarantees that a specified sum will be paid on the policyholder's death. The GMDB is mandatory for Take Care and is offered on an optional basis for Private Selecta and Personal Selecta Plus. The GMDB ensures that the benefit payable on death is at least equal to the original gross premium paid adjusted for premium top-ups and partial withdrawals.

4.6 AVI's three main products are as follows:

- Private Selecta: This is a Class III (i.e. unit-linked) life insurance policy that links the benefits directly to the value of the investment fund units. It includes a death benefit for the life of the policyholder equal to the value of the units plus an additional 0.1%, with an option to add a GMDB that ensures a payout equal to at least the total premiums paid, adjusted for premium top-ups and partial withdrawals, up to a maximum of €100,000. The minimum single premium is €150,000 and the product offers a choice of 20 fund options.

- Personal Selecta Plus: This is a Class III (i.e. unit-linked) life insurance policy that links the benefits directly to the value of the investment fund units. It includes a death benefit for the life of the policyholder equal to the value of the units plus an additional 0.1%, with an option to add a GMDB that ensures a payout equal to at least the total premiums paid, adjusted for premium top-ups and partial withdrawals, up to a maximum of €100,000. The minimum single premium is €50,000 and the product offers a choice of 10 fund options.

- Take Care: This is a Class III (i.e. unit-linked) life insurance policy that links the benefits directly to the value of the investment fund units. It can be sold on a single or joint-life basis. It includes a death benefit for the first life of the policyholder equal to the value of the units plus either an additional 1% if the insured life is 65 or under, an additional 0.5% if the insured life is 66-75 or an additional 0.1% if the insured life is over 75. There is a mandatory GMDB that ensures that the benefits paid on death is at least equal to the original gross premium paid.

4.7 As at 31 December 2024, AVI's total in-force portfolio of insurance policies was as set out in Table 3.

Table 3: AVI – Business in force as at 31 December 2024

	No. of policies	Best Estimate Liability (€000s)
Private Selecta	469	231,953
Personal Selecta	443	77,771
Take Care	1,513	91,563
Total	**2,425**	**401,287**

Source: Public QRTs for year-end 2024

4.8 Private Selecta Plus, Personal Selecta Plus, and Take Care policies are all open to new business. In addition, the Private Selecta and Private Selecta New policies remain open and may accept top-ups upon request.

4.9 In total, as at 31 December 2024, the technical provisions of AVI totalled €407.3 million. Table 4 summarises the technical provisions for each line of business in AVI as at 31 December 2024.

Table 4: AVI – Technical provisions for in-force business as at 31 December 2024 (€000s)

	Unit BEL	Non-unit BEL	Total
Take Care	91,943	(379)	91,564
Private Selecta	236,683	(4,730)	231,953
Personal Selecta Plus	76,997	773	77,771
Other provisions	1,546	1,223	2,769
Total BEL			**404,056**
Risk Margin			3,251
Total Technical Provision (gross of reinsurance)			**407,307**
Recoverables from reinsurance			0
Total Technical Provision (net of reinsurance)			**407,307**

Source: AVI ARTP for 2024. Due to rounding, figures may not add to the totals.

4.10 My Supplementary Report will include updated figures for the Transferring Policies.

The Transferring Policies

4.11 As stated above, the Transferring Policies comprise the entire portfolio of AVI's business.

4.12 None of the Transferring Policies participates in profits and none of the Transferring Policies has been subject to any previous schemes of transfer.

4.13 The Transferring Policies are currently administered by AVI, using the Albedo platform provided by Arca Sistemi Scarl (an IT Service Company providing services to members of a consortium made up of companies within the Arca Group) for the provision of policy administration, customer service, IT, HR, finance, actuarial, risk management, compliance, internal audit and corporate communications. AVI acquired a 5% shareholding in Arca Sistemi Scarl on 1 January 2020.

4.14 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, AVI has not exercised any discretionary powers on the charges of Transferring Policies in the past as follows:

- AVI has never exercised discretion in a detrimental manner in relation to the terms and conditions of the Transferring Policies.
- Regarding the fund offering, adjustments have been made only when a fund has closed or merged, in which case a switch option was offered and the policyholder was notified.

Solvency position

RECENT SOLVENCY POSITION

4.15 At 31 December 2024, AVI had an excess of eligible own funds over its SCR, as shown in Table 5. The table also shows the equivalent position as at 31 December 2023.

Table 5: AVI – Solvency position at 31 December 2024 and 31 December 2023 (€000s)

	31-Dec-24	31-Dec-23
(1) Net assets before deducting Technical Provisions	439,870	451,092
(2) Technical Provisions	407,307	417,356
(3) Other adjustments to arrive at eligible own funds	(1,532)	(1,827)
(4) Total eligible own funds (= (1) - (2) + (3))	31,031	31,909
(5) Solvency Capital Requirement (SCR)	11,785	12,567
(6) Minimum Capital Requirement (MCR)	4,000	4,000
(7) Relevant Solvency II Capital Requirement (= Higher of 5 & 6)	11,785	12,567
(8) Coverage ratio (= (4)/(7))	263%	254%

(9) Excess of eligible own funds over capital requirement (= (4)-(7))	19,246	19,343

Source: Public QRTs for year-end 2024

4.16 In summary, the assets of AVI exceeded its liabilities by €31.0 million (31 December 2023: €31.9 million). The eligible own funds exceeded the relevant regulatory capital requirement by €19.2 million (31 December 2023: €19.3 million). In percentage terms the company's solvency coverage ratio was 263% (31 December 2023: 254%).

4.17 AVI operates a policy of targeting risk appetite solvency coverage ratio of 150%. See paragraph 4.36 below for details.

PROJECTED SOLVENCY POSITION

4.18 In addition to looking at the recent solvency position, it is also useful to look at the projected future solvency development.

4.19 In April 2024, the board of AVI ("**AVI Board**") approved a report documenting the results of an ORSA of the company's business. Prepared prior to the transfer of business proposal to Arca Vita, the ORSA report included projections of AVI's solvency through to the end of 2028, assuming AVI would retain the Transferring Policies and continue writing new business.

4.20 The future premium volumes were key assumptions in the development of the financial projections. The central set of assumptions (which formed the basis for the projections set out in Table 6) assumed that AVI writes substantial volumes of new business throughout the period in question.

Table 6: AVI – Projected future solvency development (Central Projection from 2023 ORSA) (€000s)

	2023	2024	2025	2026	2027	2028
Own Funds Eligible	31,909	32,750	33,865	36,647	39,267	41,578
SCR	12,567	12,773	13,997	15,806	18,152	20,465
Excess/Deficit	19,343	19,977	19,867	20,841	21,115	21,113
Solvency II Ratio	254%	256%	242%	232%	216%	203%

Source: AVI ORSA Report as approved by the Board in April 2024

4.21 These ORSA projections indicated that AVI's solvency coverage ratio was projected to fall over the coming years – from a projected 256% at end-2024 to 203% at end-2028.

4.22 The premium volumes were projected to grow from €45 million in 2024 to €95 million in 2025, reaching €137 million annually from 2026 to 2028. Premium volumes are a key driver behind the increase in the SCR in this projection. In summary, AVI anticipate significant growth in premiums and profitability over the next five years. However, increased capital requirements driven by expansion in underwriting activities, investment risks, and operational complexities are projected to outpace the growth in Own Funds. This results in a gradual decrease in the projected Solvency II coverage ratio from 254% to 203% by 2028.

4.23 The ORSA report also investigated the projected solvency development on a range of alternative adverse scenarios, testing the following key risks to solvency coverage: an additional COVID-19 wave, increased new business and reduced surrenders, credit rating downgrade, additional interest rate risk on government bonds, increase in government bond spreads, an operational loss event, and increased expenses and expense inflation.

4.24 Apart from a scenario which assumed the occurrence of an operational loss event at 1 January 2024 which reduced the solvency coverage ratio to 100%, none of the other scenarios tested result in a significant deterioration in the projected solvency position. Other than the impact of the assumed operational loss event, the ORSA indicated that the solvency position was most sensitive to increased new business and decreased surrenders: a combined 40% decrease in surrenders and 20% increase in new business volumes resulted in a reduction in solvency coverage ratio to 205% at year-end 2024. No scenario required a capital injection to be made to support the company's solvency position.

4.25 As noted above, the ORSA projections in Table 6 do not allow for the proposed transfer of business to Arca Vita. As the proposed transfer involves all AVI policies, there will be no remaining business in AVI if the proposed transfer of business proceeds.

Risk profile

4.26 According to the ORSA, the range of risks to which AVI is exposed are life underwriting risks including lapse, expense and mortality risk; market risks including equity, currency and spread risk; counterparty default risk; and operational risk. As required under the Solvency II Regulations, the company has in place a risk management framework to monitor and manage risk on an ongoing basis.

4.27 Table 7 sets out the composition of AVI's SCR as at 31 December 2024. As the SCR is a risk-based calculation of the amount of capital required to be held in respect of various risks to which the company is exposed, it is a useful measure to help understand the company's risk profile.

Table 7: AVI – SCR as at 31 December 2024 (€000s)

Capital Requirements	31 December 2024
Non-life insurance risks	0
Life underwriting risks	7,186
Market risks	5,729
Counterparty risk	864
Diversification	(3,226)
Basic Solvency Capital Requirement	**10,553**
Operational risk	1,617
Loss absorbing capacity of deferred tax	0
Solvency Capital Requirement	**11,785**

Source: Public QRTs for year-end 2024

4.28 As can be seen from Table 7, the largest contributor to AVI's SCR are the capital requirements for life underwriting risk and (financial) market risk.

- Market risks include equity market risk, interest rate risk, corporate bond valuation risk (known as "**spread risk**"), concentration risk and currency risk. The largest contributor to AVI's capital requirement for market risk at 31 December 2024 was equity risk, followed by currency risk and spread risk.
- Life underwriting risk capital includes capital for lapse risk, expense risk, mortality risk and catastrophe risk. At 31 December 2024, lapse risk was the greatest contributor to AVI's capital requirement for underwriting risk, followed by expense risk, mortality risk and catastrophe risk.

4.29 In addition to the financial risks shown above, AVI is also exposed to non-financial risks, including outsourcing risk. AVI's operating model involves the outsourcing of a significant number of key functions and activities to other providers. More information on the outsourcing arrangements is provided below, starting at paragraph 4.42.

Risk management

4.30 AVI's Risk Appetite Statement establishes the type and amount of risk which AVI is willing to accept, to pursue its business objectives. AVI's Risk Appetite Statement was revised for 2024 to align with the Group Risk Appetite Statement.

4.31 AVI sets out qualitative and quantitative risk appetite statements for risk types classified to provide direction as to how the risk appetite statement indicator is to be interpreted.

4.32 AVI has an appetite for certain risks – such as technical life insurance risks – that it believes it can understand, control, and manage.

4.33 AVI's risk appetite framework sets out the key objectives which are to maintain the security of policyholder benefits, protect and enhance shareholder investment, and to take only risks which it understands and are within its risk tolerance levels.

4.34 Risks are monitored on an ongoing basis and are reported to the Board in the Risk Function Report on a quarterly basis as part of a regular risk monitoring and reporting process.

4.35 AVI has a reinsurance arrangement in place with General Reinsurance AG, Milan Branch ("**GenRe**"), which is part of the Berkshire Hathaway Group, to manage mortality risk for its "Selecta" and "Take Care" products, which include a

GMDB. AVI retains 50% of the sum at risk, with retention limits set at €20,000 per policy and €40,000 per insured life. Reinsurance covers the excess amount up to €460,000 per person insured. The impact on the TPs of existing reinsurance arrangements is not material (€2.6k at 31 December 2024).

Capital management policy

4.36 Unipol Group's capital management policy (which has been adopted by the AVI Board) sets out the following parameters for managing the company's solvency position.

Table 8: AVI – Board-adopted solvency coverage ratio thresholds

METRIC	AGREED LEVEL
Risk Appetite	150% of SCR
Risk Tolerance	130% of SCR
Risk Capacity	110% of SCR
Regulatory Minimum	100% of SCR

Source: AVI ORSA Report as approved by the Board in April 2024

4.37 The policy emphasises that AVI must always meet the SCR and MCR. The solvency levels are aligned with the company's risk appetite framework. The policy mandates continuous monitoring of capital adequacy. It also states that when considering dividend distributions, the company must consider the sustainable solvency position, the risk appetite and any potential changes to solvency positions from distributions. There is a management action that if capital adequacy falls below the risk appetite thresholds or approaches regulatory minimums, the policy outlines that management must take appropriate actions to restore solvency levels which could include adjusting capital allocations, modifying dividend distributions, or implementing other capital-enhancing measures.

4.38 AVI and Unipol Group's capital management policies are consistent in stating the conditions for dividends to be considered for distribution or reallocation within the Group. It also states that, when considering dividends or other capital withdrawal measures, certain additional aspects must also be considered including:

- The existence of the legal conditions in terms of the presence, on the basis of the individual financial statements determined in accordance with the accounting principles in force, of profits or distributable reserves;
- The company's risk management policy, particularly the risk appetite; and,
- The company must ensure that the distribution does not adversely affect its sustainable solvency position and the overall liquidity situation.

AVI's position within the Unipol Group

4.39 As noted above, Arca Vita holds 100% of AVI's issued share capital. Arca Vita is, in turn, 63.39% owned by Unipol Assicurazioni, which is the top-level operating company within the Unipol Group.

4.40 The Unipol Group is one of Italy's leading insurance and financial services conglomerates, with a significant presence in the insurance, banking, and asset management sectors. The company's shareholder structure comprises a mix of cooperative societies, institutional investors, and retail shareholders. As of January 2025, Unipol Assicurazioni. was rated 'Baa2' (with a stable outlook) by Moody's and was rated 'A-' (with a positive outlook) by the Fitch credit rating agency.

4.41 Although AVI is managed so that it should be self-sufficient from a capital perspective, it can call upon its parent, Arca Vita, should it need additional capital to support its business (although Arca Vita is under no legal obligation to provide such capital).

Operational arrangements

4.42 AVI has an intra-group agreement with Unipol Group Risk Management for the provision of services relating to certain risk management activities. AVI has an agreement with Arca Sistemi Scarl, a consortium within the Unipol Group, for the provision of the technology platform, Albedo, which stores and administers policyholder information and integrates with finance, investment and other relevant systems. Separately, AVI outsources its investment management platform, Sophia, to the Group to store and manage unit-linked and non-unit-linked investment information.

4.43 AVI also has outsourcing arrangements for critical and/ or important functions with external providers covering actuarial services and the internal audit function.

4.44 Arca Inlinea S.c.ar.l. provide a number of essential outsourced operations including call centre support for intermediaries and policyholders, ensuring timely assistance and managing a range of communications and service requests. Microdata Service S.r.l. is responsible for scanning, verifying, and archiving policy documents, cash slips, and intermediary training materials, as well as mailing customer communications.

4.45 The Outsourcing Policy of the Unipol Group, adopted by AVI, provides a framework for decision-making, responsibilities, tasks, and controls in all outsourcing arrangements, both within the Unipol Group and with external parties. Its purpose is to ensure effective oversight and mitigate the risks associated with outsourcing.

4.46 The company's Chief Risk Officer is responsible for monitoring compliance across all arrangements.

Policyholders' Reasonable Expectations

4.47 Under the Solvency II regime in Ireland, the Central Bank requires the Head of Actuarial Function's annual report to discuss the following issues:

> *"Where policy conditions confer discretionary powers in reviewing certain charges or product features, the HoAF's opinion on any such matters.*
>
> *The HoAF's interpretation of "Policyholders' Reasonable Expectations" and how these have been considered in establishing the TPs."*

4.48 The Head of Actuarial Function of AVI has stated in his most recent Actuarial Report on Technical Provisions, that in his view, the following reasonable expectations apply to the AVI's policyholders (my paraphrasing of his comments):

- In order to avoid exposure to the risks associated with investment guarantees and the consequent capital implications for AVI, it is of critical importance that AVI, through its sales materials and the operation of its sales processes, avoid conveying the impression to current or prospective policyholders that AVI is offering any guarantee of a minimum investment return on the products sold to policyholders;
- It is necessary to ensure that AVI practices remain consistent with the information provided in sales materials, policy conditions, and other relevant documentation. This applies, for example, to all charges levied and any features related to policyholder benefits;
- It is important to monitor the asset mix of its unit-linked funds on a regular basis to ensure that the investment strategy being adopted aligns with the objectives stated in policy and sales materials. Any deviations warrant careful assessment and documentation so that policyholder expectations remain appropriately managed;
- Certain policy terms grant AVI discretionary powers such as reviewing risk charges and altering investment mandates. These powers are intended to protect AVI's solvency and should be exercised only in exceptional circumstances, in a manner that is transparent, consistent, and fair to policyholders. Where changes to charges or other key terms are anticipated, the Head of Actuarial Function expects to be notified beforehand.

4.49 The first two items listed above are principally concerned with activities that take place at the point of sale (although ongoing communications with policyholders can also play a role), whereas the last items are relevant on an ongoing basis.

Other

COMPLAINTS

4.50 AVI has a well-established complaints process, which is clearly set out for customers on its website. Customers may make complaints in writing via post, email or fax.

4.51 I was provided with a complaints policy document detailing how AVI deals with complaints. No material issues were noted.

4.52 I note that AVI received no complaints during 2024. AVI has a documented complaints management procedure for both internal complaints and for complaints that are escalated to the Financial Services and Pensions Ombudsman ("**FSPO**").

4.53 I have been advised that AVI currently has no legal matters outstanding nor any regulatory matters outstanding with the Central Bank.

COMPENSATION SCHEMES

4.54 AVI’s policyholders are not currently covered by any compensation schemes.

5 BACKGROUND TO ARCA VITA

History and background

5.1 Arca Vita S.p.A. is a life insurance company which was established in 1987. In June 2010, Arca Vita became part of the Unipol Group, initially under the direct control of Unipol Gruppo S.p.A (now named Unipol Assicurazioni S.p.A) and from 2018 under the control of UnipolSai Assicurazioni S.p.A ("**UnipolSAI**"). From 31 December 2024, following the merger of UnipolSAI into Unipol Assicurazioni it became under the control of Unipol Assicurazioni. It is registered under number 1,00082 and is headquartered at Via Stalingrado 45, 40128 Bologna. The company is listed in the Italian register of insurance groups under number 046.

5.2 The Unipol Group structure is outlined in detail in Figure 1. As of the date of this report, the company's ownership is as follows:

- Unipol Assicurazioni S.p.A., holds 63.39%;
- BPER Banca S.p.A., holds 19.67%;
- Banca Popolare di Sondrio S.p.A., holds 14.84%;
- Banca Agricola Popolare di Sicilia S.C.P.A., holds 1.69%;
- Banca Popolare del Lazio S.C.P.A., holds 0.29%;
- Banca Popolare di Fondi S. Coop., holds 0.11%.

5.3 Arca Vita is subject to supervision by IVASS, which is the authority responsible for the financial supervision of the company in Italy and the group to which it belongs.

5.4 Arca Vita carries out insurance and reinsurance activities in the life sector. The company operates solely within Italy offering products in the areas of investment, savings, supplementary pensions, and insurance. Over the years, Arca Vita has focused on traditional life insurance solutions – such as savings, investment, and protection policies – while gradually introducing more products tied to unit-linked investments and, most recently, long-term care authorisations. Arca Vita leverages the Unipol Group's resources to maintain competitive offerings, underwriting standards, and capital reserves. Its products are distributed through approximately 2,996 bank branches across the country.

5.5 The company's objective is to expand its presence in the banking market by developing specific products for the sales network. It aims to provide commercial and operational support tools to partner banks to boost production consistently. Historically, the company has focused on traditional life insurance products where Arca Vita manages investments ("Gestioni Separate") and protection products. For products where the financial risk is borne by the customer, Arca Vita continues to develop new offerings, primarily through the use of multi-fund products, particularly the "Ingegno" product.

Nature of business written

5.6 Arca Vita's life insurance contracts can be classified into three main lines of business: Insurance with profit participation, index-linked and unit-linked, and other life insurance:

- Insurance with profit participation comprises "rivalutabili" or with-profit policies (Class I), which credit a guaranteed minimum return plus discretionary returns depending on the performance of the segregated funds (gestioni separate). They often include single-premium products and can also be part of "multiramo" (hybrid) contracts when combined with unit-linked components. Premiums for this line of business reached about €2.19 billion, around 79% of Arca Vita's total life premiums for the year 2024.
- The unit-linked/Index-linked products are primarily investment-driven policies (Class III), where the policy's value is tied to investment funds or market indexes. Pure unit-linked contracts have no guaranteed return. They offer potential for higher gains but come with market risk. Multiramo products may allocate part of the premium to a unit-linked fund and part to a traditional segregated account. The unit-linked/Index-linked segment represents around 17% of the total premiums.
- The other life insurance category covers term life, disability, long-term care ("LTC"), and other risk-only policies. A considerable portion is credit-protection insurance linked to mortgages and personal loans (e.g., "Salva Mutuo," "Salva Prestito"). In 2023, Arca Vita debuted LTC products for loss of self-sufficiency. Premiums for this category were around €113 million in 2024, about 4% of total life premiums.

5.7 The following table breaks down Arca Vita's technical provisions by line of business at year-end 2024.

Table 9: Arca Vita – Summary of Solvency II Technical Provisions by Line of Business as at 31 December 2024 (€'000s)

Line of business	Number of policies in force	Best Estimate Liability	Risk Margin	Technical Provisions	Reinsurance recoverables	TP net of Reinsurance recoverables
Insurance with profit participation	264,300	12,254,780	251,742	12,506,522	0	12,506,522
Index-linked and unit-linked insurance	17,733	2,935,826	24,396	2,960,222	0	2,960,222
Other life insurance	342,408	8,835	22,635	31,470	(42,906)	74,376
Accepted reinsurance	0	0	0	0	0	0
Total	624,441	15,199,440	298,774	15,498,214	(42,906)	15,541,120

Source: Public year-end 2024 QRTs

Solvency position

RECENT SOLVENCY POSITION

5.8 At 31 December 2024, Arca Vita had an excess of eligible own funds over its regulatory capital requirement, as shown in Table 12.

Table 10: Arca Vita – Solvency position at 31 December 2024 and 31 December 2023 (€'000s)

	31-Dec-24	31-Dec-23
(1) Net assets before deducting Technical Provisions	16,911,062	14,759,663
(2) Technical Provisions	15,541,120	13,568,290
(3) Other adjustments to arrive at eligible own funds	(413,374)	(306,554)
(4) Total eligible own funds (= (1) - (2) + (3))	**956,528**	**884,819**
(5) Solvency Capital Requirement (SCR)	396,117	378,305
(6) Minimum Capital Requirement (MCR)	178,253	170,237
(7) Relevant Solvency II capital requirement (= Higher of 5 & 6)	**396,117**	**378,305**
(8) Coverage ratio (= (4) / (7))	241%	234%
(9) Excess of eligible own funds over capital requirement (= (4) - (7))	560,411	506,514

Source: Public year-end 2024 QRTs

5.9 As at 31 December 2024, the company's assets exceeded its liabilities by €957 million (31 December 2023: €885 million). The eligible own funds exceeded the regulatory capital requirement by €560 million (31 December 2023: €507 million). This translated into a solvency coverage ratio of 241% at 31 December 2024, compared to 234% at end-2023.

5.10 Overall, there was a slight increase in SCR, but a larger increase in the eligible own funds, leading to an increase of €54 million in the amount by which the eligible own funds exceeded the SCR, and an increase in the coverage ratio.

5.11 Arca Vita operates a capital management policy focussed on maintaining robust solvency coverage. See paragraphs 5.35 to 5.39 below for details.

PROJECTED SOLVENCY POSITION

5.12 In addition to looking at the recent solvency position, it is also useful to look at the projected future solvency development.

5.13 In March 2024, the Board of Directors (the "**Arca Vita Board"**) approved a report documenting the results of an ORSA of the company's business. The ORSA report included projections of the future solvency position of Arca Vita for the period to end-2028 (with no allowance for the proposed transfer of business from AVI which is the subject of this report, as that transaction had not been agreed at that time).

Table 11: Arca Vita – Projected solvency development – Central scenario (€'000s)

	2023	2024	2025	2026	2027	2028
Eligible Own Funds	884,819	949,538	1,039,787	1,086,212	1,159,550	1,224,556
SCR	378,305	368,799	411,095	464,000	485,674	507,326
Excess/Deficit	506,514	580,739	628,692	622,212	673,876	717,230
Solvency II Ratio	234%	257%	253%	234%	239%	241%

Source: Arca Vita Own Risk and Solvency Assessment as approved by the Board in March 2024

5.14 Under the central projections, in the absence of any dividends being paid, Arca Vita's solvency position as measured by the coverage ratio was expected to improve over the coming years – from 234% at end-2023[3] to 241% at end-2028. Arca Vita Vita's solvency position was projected to increase significantly in 2024 to 257% driven by the growth in eligible own funds. However, from 2024 onward, the coverage ratio was forecast to taper off, as the projected rise in the Solvency Capital Requirement (primarily due to market, credit, and operational risks) was projected to outpace the increase in Eligible Own Funds.

5.15 Note, however, that the actual end-2024 solvency position turned out to be lower than that projected in the ORSA (an actual solvency coverage ratio of 241% compared to a projected 257%). This means that the projections for subsequent years may need to be adjusted accordingly although, that said, the pre-transfer end-2025 projection prepared in connection with the proposed merger (see Table 12 below) shows a similar projected ratio to the one in the ORSA (255% versus 253% respectively).

5.16 In addition, a broad range of adverse scenarios was examined in the ORSA report, demonstrating that Arca Vita's solvency position remains robust under various economic and non-economic stresses. The forward-looking projections provided in the ORSA indicate that capital adequacy is sufficient to meet Solvency II requirements while maintaining a coverage ratio above the company's 150% risk appetite in all tested scenarios.

PRO-FORMA POSITION ALLOWING FOR TRANSFER

5.17 I have been provided with projections for the solvency position through 2026 allowing for the Portfolio Transfer and the Cross-Border Merger, providing insights into their financial impact on Arca Vita. The document provided to me sets out the approach used to assess the solvency positions, including the application of the Partial Internal Model.

5.18 These evaluations are conducted for specific dates surrounding the merger to capture the financial implications accurately. Table 12 illustrates the pro-forma solvency position based on three key dates:

- 30 December 2025: Projected solvency position immediately prior to the business transfer.
- 31 December 2025: Projected solvency position on the Effective Date of the business transfer (post-transfer).
- 31 December 2026: Projected solvency position one year after the Effective Date of the business transfer.

Table 12: Arca Vita – Pro-forma projected solvency position at 30/31 December 2025 and 31 December 2026 (€'000s)

	30-Dec-25	31-Dec-25	31-Dec-26
Non-life insurance risks	0	0	0
Life underwriting risks	462,400	469,700	524,200
Market risks	713,300	710,500	791,700
Counterparty risk	117,500	119,500	125,700
Operational Risks	92,300	93,200	94,300
Solvency Capital Requirement	**437,900**	**444,400**	**487,300**
Eligible Own Funds	**1,115,500**	**1,114,100**	**1,158,400**
Excess/Deficit	677,600	669,700	671,100
Solvency II Ratio	255%	251%	238%

Source: Explanatory note prepared for IVASS

5.19 The impact of the transferring policies on the balance sheet is to reduce eligible Own Funds by €1.4 million due to some minor valuation differences.

5.20 The SCR increases by €6.4 million, largely driven by the integration of the additional risks from the transferring business, but this is slightly offset by the reduction in pre and post market risk. It is useful to consider the impact of each risk separately:

- Life underwriting risk increases by €7.3 million, calculated using the Standard Formula
- Market risk decreases by €2.8 million, also calculated using the Standard Formula.
- Counterparty risk rises by €2.0 million, assessed in a simplified and prudent manner due to its limited weight in the AVI portfolio compared to Arca Vita.
- Operational risk increases by €0.9 million, calculated similarly due to its limited impact.

5.21 The calculations indicate that Arca Vita's solvency coverage ratio will decrease slightly due to the transfer from a projected 255% to a projected 251% as at 31 December 2025. The merger has a negative impact on the capital surplus of €7.9 million.

5.22 The projected solvency position of the combined portfolios also reduces between 2025 and 2026 by 13 percentage points. Compared to the ORSA approved by the Arca Vita Board in March 2024, the projected end-2025 solvency ratio from the ORSA is 2 percentage points higher than the projected pro-forma position above. In addition, the projected end-2026 solvency ratio from the ORSA is 4 percentage points lower than the corresponding projected pro-forma balance sheet ratio above.

5.23 These small changes to the projected ratios indicate that the impact on Arca Vita is not expected to be material.

Risk profile

5.24 The ORSA report identifies the range of risks to which Arca Vita is exposed as including market/financial risk, credit risk, counterparty risk, insurance risk, business/operational risk, regulatory compliance risk and fiscal risk. As required under the Solvency II Regulations, the company has in place a risk management framework to monitor and manage risk on an ongoing basis.

5.25 The table below shows the components of the SCR at 31 December 2024 as reported by Arca Vita. As previously noted, the make-up of the SCR (as a risk-based capital measure), is a useful proxy for the company's risk profile.

Table 13: Arca Vita – SCR at 31 December 2024 (€'000s)

Capital Requirements	2024	2023
Non-life insurance risks	0	0
Life insurance risks	404,405	335,582
Market risks	668,284	530,647
Credit risks	110,534	97,212
Diversification	(393,236)	(308,022)
Basic Solvency Capital Requirement	**789,988**	**655,419**
Operational risks	93,909	122,174
Loss absorbing capacity of TPs.	(371,797)	(288,013)
Loss absorbing capacity of deferred tax	(121,325)	(114,882)
Conservative margin	5,342	3,608
Solvency Capital Requirement	**396,117**	**378,305**

Source: Public year-end 2024 QRTs

5.26 Arca Vita's risk profile primarily encompasses financial market risks (including government bond spreads and asset-liability matching), life underwriting risks (primarily lapse risk), and operational and compliance risks.

5.27 In addition to the financial risks shown above, Arca Vita is also exposed to non-financial risks, in particular outsourcing risk.

Risk management

5.28 Arca Vita's Risk Appetite is formalised through the Risk Appetite statement, which indicates the risks that the company intends assume or avoid, fix the limits in quantitative terms, as well as the qualitative criteria to be taken into consideration. The Risk Appetite is designed to manage, rather than eliminate, risks by emphasising capital solidity, sufficient liquidity, and a strong reputation. Derived from stakeholder needs, the Risk Appetite Statement formally defines specific targets, limits, and guidelines to safeguard the company's strategic objectives under both normal and stressed conditions.

5.29 Arca Vita has adopted a risk management framework which includes the following components:

- risk strategy, profile and appetite, aligned to the company's business strategy;
- risk capacity, tolerances, limits and triggers; and
- risk management policies and ongoing processes to identify, measure, monitor, manage and report risk.

5.30 Arca Vita' risk management framework follows an enterprise risk management approach, jointly considering current and prospective risks that could impact strategic objectives.

5.31 The risk management framework provides for the continuous and forward-looking identification and assessment of the company's risks. Risk monitoring is carried out through ongoing review, stress testing, and reporting to ensure compliance with established limits and to swiftly address any emerging threats to strategic objectives. On an annual basis, Arca Vita performs an ORSA to assess whether it has sufficient capital to meet solvency capital requirements over the business planning period under specific risk scenarios or stressed business conditions (which are designed based on the company's risk profile). The Arca Vita Board reviews the conclusions drawn from the ORSA and agrees potential actions to be taken.

5.32 The risk management process focuses on the identification, assessment, control, and mitigation of risks, as well as the roles and responsibilities of the corporate bodies and structures involved in the process.

5.33 This structure forms part of the broader Risk Appetite Framework, which aligns the Risk Appetite with the overall business model, strategic planning, ORSA processes, budgets, organisation, and internal controls.

5.34 Arca Vita has a number of reinsurance arrangements in place primarily relying upon proportional reinsurance arrangements through quota-share and surplus arrangements that protect against core life risks. The retention thresholds are set at €50,000 for constant-sum and €80,000 for decreasing-sum policies, with a LTC arrangement where Arca Vita retains 50% up to €80,000 per insured life. Reinsurance coverage is split across a number of reinsurers with strong credit worthiness including GenRe, Reinsurance Group of America, Hannover Rück SE, Swiss Reinsurance Company Ltd and SCOR SE. Arca Vita's reinsurance strategy aligns with the broader reinsurance strategy of the Unipol Group.

Capital management policy

5.35 The Arca Vita Board has adopted a Capital Management and Dividend Policy, which seeks to maintain a solid and efficient capital structure and solvency coverage while aligning with profitability targets and the Board's defined risk appetite. The policy sets out strategic objectives for return on capital and ensures that sufficient capital is available to support growth, regulatory obligations, and the needs of policyholders.

5.36 The policy is strongly linked to the company's Business Plan and ORSA. The Business Plan outlines medium-term capital needs based on projected profitability, asset and liability management, and strategic growth. In parallel, the ORSA adds a forward-looking view of both baseline and stress scenarios. By combining insights from these two processes, the capital policy remains responsive to changing risk profiles and planned business initiatives, fostering a balanced and adaptable approach to growth.

5.37 Although the policy does not enumerate fixed numeric buffers for planned capital distribution (for instance, stating "130% SCR" or "110% MCR" as a trigger), it imposes a series of qualitative and regulatory-driven thresholds:

- Compliance with SCR and MCR always takes precedence, with mandatory distribution freezes if coverage falls short or would fall short.
- The defined risk appetite thresholds and capital tolerance levels serve as an early-warning system: once approached or breached, an escalation process begins, and management must consider actions ranging from halting dividends to seeking new capital. The capital adequacy risk appetite is set at 150% in Arca Vita's 'Current Risk Appetite Statement'.

- Tier-level constraints ensure the structure of capital complies with Solvency II.
- Ancillary own funds must be callable if coverage dips below acceptable levels.

5.38 A key element of the policy is the systematic planning around dividends or other distributions. Proposed distributions take into account legal constraints, projected profits, and the broader solvency landscape. Should adverse circumstances arise, dividend payments can be postponed or cancelled to safeguard the firm's capital position.

5.39 The Board sets strategic directives, approves distributions, and oversees the capital plan, while senior management, finance, and risk functions coordinate activities such as capital issuances, monitoring solvency metrics, and reporting to governance committees. Regular reporting underpins the capital framework, with quarterly and annual reviews providing updates on the capital position, classification of funding tiers, and evolving risk factors. Any departure from the original plan must be justified with an explanation of how it aligns with risk appetite and regulatory requirements. The policy undergoes an annual review led by the Chief Planning and Controlling Office.

Arca Vita's position within the Unipol Group

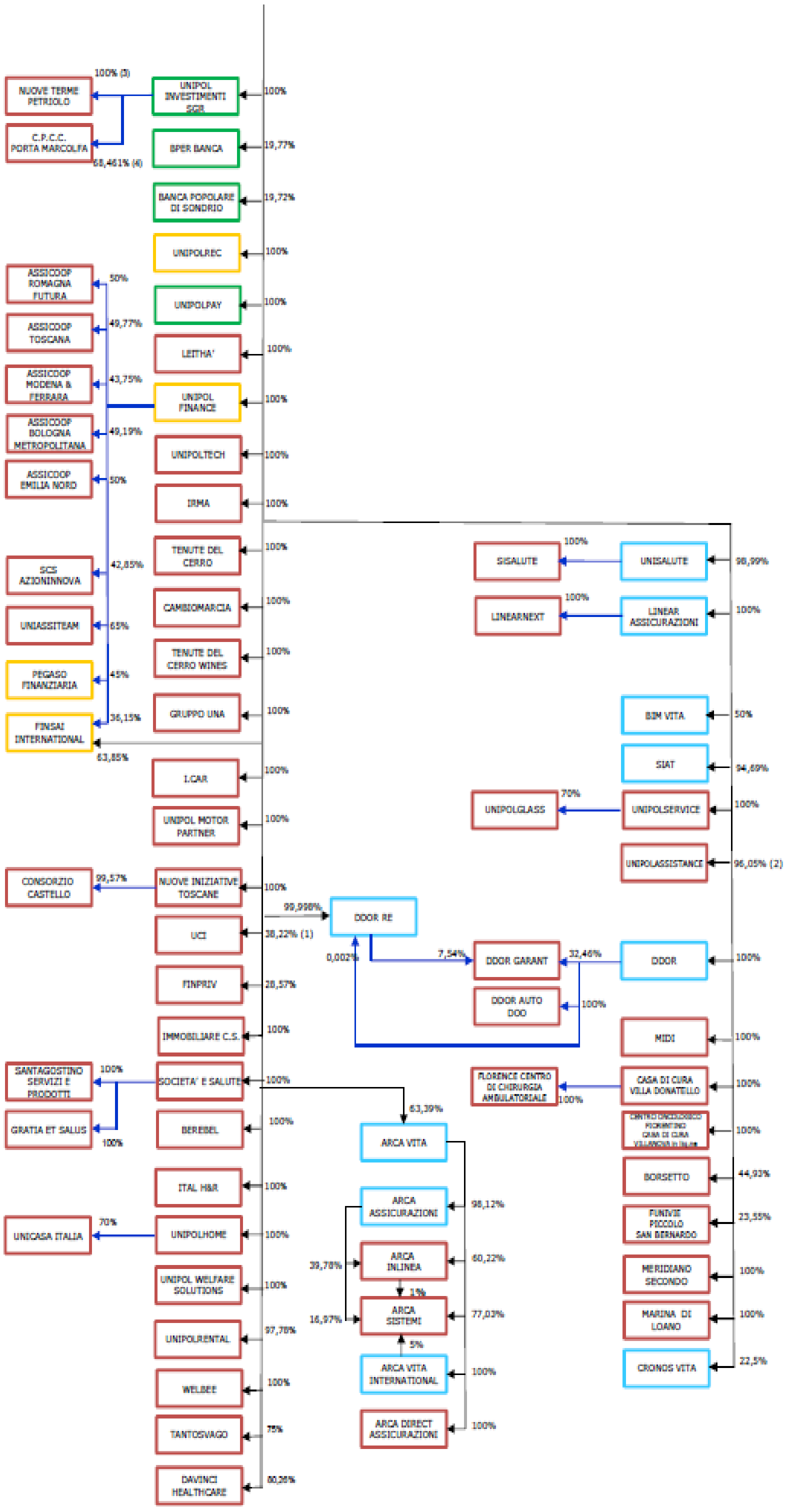
5.40 As noted above, Arca Vita is majority owned by Unipol Assicurazioni, which is the top-level operating company within the Unipol Group. The Unipol Group is one of Italy's leading insurance and financial services conglomerates, with a significant presence in the insurance, banking, and asset management sectors. The company's shareholder structure comprises a mix of cooperative societies, institutional investors, and retail shareholders.

5.41 The Unipol Group's structure is as summarised in Figure 1. AVI is a subsidiary of Arca Vita, which is in turn majority owned by Unipol Assicurazioni.

Figure 1: Unipol Group corporate structure

PARTICIPATION HOLDING COMPANIES

OTHER



1. A further 0.10% is held by other Group companies
2. A further 3.95% is held by other Group companies
3. Shareholding held through the Athens R.E. Fund
4. Shareholding held through the Emporion Fund

Additionally, the direct holdings of Unipol Assicurazioni in the real estate funds Athens R.E. Fund, Fondo Emprion Immobiliare, Fondo Landev, Fondo Oikos and Tikal R.E. Fund are reported.

Source: AVI SFCR 2024

5.42 In January 2025, Unipol Assicurazioni was rated ‘Baa2’ (with a stable outlook) by Moody’s and rated ‘A-’ (with a positive outlook) by the Fitch credit rating agency.

5.43 Although Arca Vita is managed so that it should be self-sufficient from a capital perspective (other than requiring capital to support future acquisitions), it can call upon its parent, Unipol Assicurazioni, should it need additional capital to support its business (although its parent is under no legal obligation to provide such capital).

Operational arrangements

5.44 A formal Outsourcing Policy sets out the guidelines for externalizing activities or functions, including those done via cloud service providers. This policy governs decision-making, responsibilities, oversight, and risk controls associated with outsourcing any business activity or function within or outside the Unipol Group. The policy is periodically updated and approved by Arca Vita’s Board of Directors.

5.45 Arca Vita relies extensively on outsourcing arrangements at a group level, predominantly assigning vital service provisions to Unipol Assicurazioni. Unipol Assicurazioni’s role is governed by a detailed contractual framework, which outlines the services Unipol provides to other group entities, as well as the services it may receive from specialised entities within the group.

5.46 Arca Inlinea S.c.ar.l. provide a number of essential outsourced operations including call centre support for intermediaries and policyholders, ensuring timely assistance and managing a range of communications and service requests.

5.47 Arca Vita currently also outsources a number of other key functions to external third parties. Microdata Service S.r.l. is responsible for scanning, verifying, and archiving policy documents, cash slips, and intermediary training materials, as well as mailing customer communications. This includes managing physical documents and processing them into digital formats for secure storage and easy retrieval, ensuring efficient and compliant handling of critical paperwork.

5.48 In respect of the Transferring Policies, following the Portfolio Transfer, AVI policies will be administered by Arca Vita. The administration platform – currently provided and maintained by Arca Sistemi – will continue to operate under the same arrangement after the transfer. The call centre setup will remain unchanged. Additionally, distributors will retain access to the Arca Sistemi applications they use to manage customer relationships and life cycle activities.

Policyholders’ Reasonable Expectations

5.49 AVI has set out its approach to policyholders’ reasonable expectations and Arca Vita has confirmed its intention to continue these principles post-transfer.

Other

COMPLAINTS

5.50 I received a summary of the complaints logged during 2024. There are a small number of open cases which are neither expected to generate notable costs nor set a precedent. No material issues were noted.

5.51 I have been advised that Arca Vita was involved in eight civil judicial proceedings during 2024 and Arca Vita has no regulatory matters outstanding with the IVASS.

COMPENSATION SCHEMES

5.52 No compensation schemes apply to Arca Vita policyholders.

6 THE PROPOSED PETITION AND SCHEME

Introduction

6.1 The Transferring Policies will be transferred to Arca Vita via the mechanism of the proposed Scheme, subject to the approval of the Court. I have been provided with an advanced draft of the proposed Scheme and, in this section, I summarise its principal features. I also summarise certain relevant aspects of the petition that the Companies intend to make to the Court (the "**Petition**") when submitting the proposed Scheme to the Court for its approval (particularly the proposed approach to communicating with the Companies' policyholders in respect of the proposed Scheme).

6.2 I provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9.

Effective date

6.3 It is envisaged that the proposed Scheme will become effective and the transfer take place at 00:00 CET on 31 December 2025, or such other date as may be specified by the Court in accordance with clause 3.1.1 of the proposed Scheme (the **"Effective Date**"). If the proposed Scheme does not become effective before on or before 00:00 CET on 31 December 2025, or by any subsequent date or time identified in the Notarial Deed of Merger, or such later date as the Companies may agree and the Court may allow in accordance with clause 3.1.1 of the proposed Scheme, it shall lapse. In any case, the proposed Scheme shall not become operative on the Effective Date unless a number of pre-conditions have been met, as set out in 6.4 below.

Pre-conditions

6.4 The proposed Scheme is conditional on a number of conditions being fulfilled, including:

- obtaining the non-objection of the Central Bank;
- obtaining the agreement or deemed agreement of IVASS;
- certification by IVASS of the post-transfer solvency of Arca Vita;
- completion on the Effective Date of the Cross-Border Merger;
- the sanction of the Court.

Business to be transferred

6.5 Subject to satisfying the necessary pre-conditions as set out in the proposed Scheme, the Transferring Policies are scheduled to be transferred in their entirety on the Effective Date to Arca Vita, which will become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with Arca Vita as they previously had with AVI).

6.6 Under the proposed Scheme, any rights, powers, obligations and liabilities of AVI under, or by virtue of, such policies will be transferred to Arca Vita. All property and assets held by AVI in respect of the Transferring Policies will also be transferred to Arca Vita.

6.7 In addition, those assets and liabilities of AVI (including outwards reinsurance contracts) that relate to the business being transferred will also transfer to Arca Vita on the Effective Date via the proposed Scheme and the Cross-Border Merger. In March 2025, AVI formally notified GenRe of the Cross-Border Merger, and GenRe acknowledged receipt without objection.

Regulatory matters

6.8 Policies issued by an Irish authorised insurer cannot be transferred to another EEA authorised insurer unless the relevant supervisory authority in the EEA Member State(s) where the transferring policies were concluded have been notified of the transfer, and either agree to it or do not object within three months from the notification. I understand that AVI has informed the Central Bank that all Transferring Policies were concluded in Italy and will be asking the Central Bank to notify IVASS (the relevant supervisory authority).

Maintenance and operation of funds

6.9 Following the publication in August 2017 of the European Union (Insurance and Reinsurance) (Amendment) Regulations 2017 (SI 384 of 2017), the concept of the “life assurance fund”, as set out in Sections 14 and 15 of the Insurance Act 1989, no longer exists for life assurance companies that fall within the scope of the Solvency II regime.

6.10 Furthermore, as neither AVI nor Arca Vita operate any “ring-fenced funds”, as defined under Solvency II, all assets and liabilities of AVI relating to the Transferring Policies will simply transfer to Arca Vita’s ownership, without any allocation or ring-fencing to any particular fund.

6.11 From the Effective Date, all unit-linked funds tied to the Transferring Business will be operated and administered by the Arca Vita under applicable Italian regulations.

6.12 The Communication Plan states that there will be no change to the investment strategy or underlying funds, or to fund charges, that apply to the Transferring Policies as a result of the transfer. The Scheme states the investment strategy is “*subject in every case to the provisions of the applicable policy conditions and the rules of any relevant investment fund and, where relevant, to the opinion of Arca Vita’s Head of Actuarial Function*.”

Arca Vita’s rights in relation to Transferring Policies

6.13 Arca Vita’s right to assume the Transferring Policies is grounded in the formal insurance portfolio transfer process under Irish law, together with the associated Cross-Border Merger. Once all legal and regulatory approvals are obtained (including sanction from the Court and authorisation from Italian authorities), the policies formally transfer, with Arca Vita stepping into AVI’s role and rights. Afterward, Arca Vita must adhere to the same policy terms AVI held – no unilateral policy modifications are introduced.

6.14 The proposed Scheme provides that Arca Vita may:

- enforce the terms of the Transferring Policies and to receive all premiums, fees, and other amounts due under those policies; and
- is also entitled to all defences, claims, counterclaims, and related rights previously available to the Transferor under the Transferring Policies,

subject in every case to the provisions of the applicable policy conditions and the rules of any relevant investment fund and, where relevant, to the opinion of Arca Vita’s Head of Actuarial Function.

Costs of the proposed Scheme

6.15 All costs and expenses relating to the preparation and carrying into effect of the proposed Scheme will be borne by the Companies (in such proportion as may be agreed between them). No costs or expenses will be borne directly by any of the policyholders of either of the Companies.

Modification or additions

6.16 Modifications and additions to the proposed Scheme, or further conditions to the proposed Scheme, may be imposed by the Court. Other additions and modifications to the proposed Scheme are permitted if Arca Vita and AVI both agree, subject to Court approval.

6.17 After the Effective Date, Arca Vita may, in certain limited circumstances and subject to the Court’s approval, vary the terms of the Scheme. Any such application from Arca Vita would require the Central Bank to be notified and would require a fresh report from an independent actuary. AVI’s consent would also be required if the proposed modification would affect its rights, obligations or interests.

Policyholder communications

6.18 In accordance with Section 13 of the 1909 Act (and reflecting the underlying requirements of the Insurance Act 1989 and the 2015 Regulations), the Companies have developed a proposed approach to communicating with policyholders (the “**Policyholder Communications Plan**”). This Policyholder Communications Plan remains subject to the approval of the Court and will be shared by AVI in draft form with the Central Bank for comment sufficiently in advance of the date of the first hearing before the Court. AVI and Arca Vita anticipate seeking certain directions from the Court in respect of the Policyholder Communications Plan at the first Court hearing, which is expected to take place in or around July 2025.

6.19 The Policyholder Communications Plan governs notification, advertisement, handling of policyholder objections, and publication of the Scheme-related materials in Ireland and Italy, being the two relevant jurisdictions for the transferring business. It also addresses how any policyholders that may be onboarded by AVI prior to the Effective Date (any such policyholder, for the avoidance of doubt, being a Transferring Policyholder) will be notified of the proposed Scheme if they were not already captured by the mailout of the written communication provided to policyholders (the "**Policyholder Notification Pack**"). The Policyholder Communications Plan similarly makes provision for ensuring that all required materials will be publicly available—both online and, where required, in hard copy at specified physical locations.

6.20 In respect of the proposed Scheme, I understand that the Companies intend to ask the Court to modify and waive some of the statutory requirements for policyholder communications. In summary, the Companies request that:

- The Policyholder Notification Pack will include a summary of the Independent Actuary's report, rather than the full report;
- The Policyholder Notification Pack will only be sent to persons who are identified by AVI from its records as Transferring Policyholders shortly before the proposed mailout date of the Policyholder Notification Pack, such that any person who becomes a Transferring Policyholder afterwards would instead be notified of the proposed Scheme by AVI (either directly or indirectly) at the pre-contractual stage of taking out their Transferring Policy;.
- The Policyholder Notification Pack or any other individual notification about the proposed Scheme will not be sent to any existing (pre-Effective Date) policyholders of Arca Vita ("**Arca Vita's existing policyholders**").

6.21 Therefore, if the Court agrees, AVI will only send a copy of the Policyholder Notification Pack to Transferring Policyholders. Arca Vita's existing policyholders will not receive the Policyholder Notification Pack.

6.22 As noted above, the Companies propose to not send the Policyholder Notification Pack to Arca Vita's existing policyholders. Nonetheless, they may access all relevant documentation online and, if necessary, request copies from Arca Vita.

6.23 The Policyholder Communications Plan proposes that this approach balances clarity for impacted policyholders with proportionality in notifying policyholders unaffected by the transfer. I have concluded that neither the security of benefits nor the fair treatment and reasonable benefit expectations of those policyholders will be materially adversely affected by the proposed Scheme[4] and that, therefore, sending them the Policyholder Notification Pack risks causing them unnecessary concern.

6.24 In addition to the mailing of the Policyholder Notification Pack, the Policyholder Communications Plan confirms that all core documents associated with the Scheme—including the Petition, the Scheme document (with a summary), the Independent Actuary's Report (and summary), and drafts of any relevant legal notices—will be lodged for public inspection. In addition, the materials will be available on both the AVI website (https://www.arcaintl.com/arcaintl/) and the Arca Vita website (https://www.arcassicura.it/).

6.25 The Policyholder Communications Plan, as summarised above, is subject to any amendment directed by the Court.

[4] Please refer to sections 8 and 9 for details of my conclusions and the basis on which I reached them.

7 APPROACH TO ASSESSING THE PROPOSED SCHEME

Introduction

7.1 In this section I explain the approach I have adopted in assessing the impact of the proposed Scheme on the policyholders of AVI and Arca Vita.

Context of assessment

7.2 My assessment is conducted within the context of the proposed Scheme, and only the proposed Scheme, and considers its likely effects on the Transferring Policyholders and Arca Vita's existing policyholders. It is not within my remit to consider possible alternative schemes or to form a view as to whether this is the best possible scheme.

7.3 My assessment of the impact of the implementation of the proposed Scheme on the various affected policies is ultimately a matter of expert judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.

7.4 A Scheme may have both positive and negative effects on a group of policies and the existence of detrimental effects should not necessarily imply that the Court should reject a Scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.

7.5 In order to acknowledge this inherent uncertainty, and to be consistent with normal practice in these matters, the conclusions of the Independent Actuary in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.

7.6 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

Principles of assessment

7.7 The conditions to be met by the proposed Scheme are:

- that the security of policyholders' benefits will not be materially adversely affected; and
- that the proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable benefit expectations.

7.8 In sections 8 and 9, I assess the proposed Scheme in the context of security of policyholders' benefits, fair treatment and policyholders' reasonable benefit expectations. In addition, I have considered the impact of other miscellaneous aspects of the proposed Scheme as set out below. I do not believe that there are any other matters that I have not taken into account that might be relevant to my assessment of the proposed Scheme.

7.9 In my view, the principal factors to be considered in assessing the security of policyholders' benefits in the context of the proposed Scheme are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and,
- the extent of parental support available.

7.10 The principal factors I consider relevant to an assessment of fair treatment and policyholders' reasonable benefit expectations in the context of the proposed Scheme are its implications for:

- policyholders' contractual obligations;
- the tax treatment of policyholders' premiums and/or benefits;

- areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders;
- levels of customer service to policyholders.

7.11 The arrangement with regard to the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

Policyholder groupings

7.12 I consider the implications of the proposed Scheme separately for the following groups:

- Policyholders transferring from AVI (referred to as the "Transferring Policyholders"); and,
- Existing (pre-Effective Date) policyholders of Arca Vita (referred to as “Arca Vita’s existing policyholders”).

7.13 Following the completion of the proposed Scheme, because AVI will cease to exist as a legal entity following the completion of the Cross-Border Merger, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in AVI post-transfer.

Assumptions made when assessing the proposed Scheme

7.14 There are certain assumptions that I have made when assessing and reaching my conclusions on the proposed Scheme and which I summarise here. I have disclosed and discussed my assumptions with the Companies, and they have not raised any objections. However, if any of these assumptions are incorrect, it is possible that my conclusions on the proposed Scheme could change as a result.

7.15 The assumptions I have made include:

- Arca Vita will continue in its current ownership and will continue to follow the business strategy as articulated in its most recent ORSA.
- The day-to-day administration of the Transferring Policies will continue in the same way post-transfer to Arca Vita on the same underlying platform. However, Arca Vita will replace AVI as the contracting party.
- The Court will approve or sanction the proposed Scheme, validating the legal basis for moving insurance contracts from AVI to Arca Vita, following which AVI will be merged into Arca Vita via the Cross-Border Merger.
- All relevant regulatory authorities will provide (or be deemed to have provided) any necessary approvals or waivers.
- There are no unforeseen legal or tax implications that might affect the economics of the transfer or policyholder protections.

7.16 My assumptions are based on my understanding of the issues in question and have been shared with the Companies’ respective senior management teams for confirmation. I believe, therefore, that it is reasonable to make the assumptions I have made when assessing the implications of the proposed Scheme. However, if any of these assumptions were to be invalid, then my assessment of and conclusions on the proposed Scheme may need to be revised.

Reliances made when assessing the proposed Scheme

7.17 In the course of my work preparing this Report, I have considered various documents provided by AVI, Arca Vita and William Fry (legal advisors on Irish law matters for the proposed Scheme). A summary of the documents relied upon is appended to this report in Appendix A. I have relied upon the accuracy and completeness of these documents to inform my opinion on the proposed Scheme. I have held meetings and calls with representatives of the Companies and their lawyers to discuss the details provided and to address any queries arising from my analysis. I have also been informed of relevant discussions between AVI, Arca Vita, the Central Bank and IVASS.

7.18 In addition, I have relied on the tax opinions and assurances of the Companies’ experts in these matters and have not sought independent expert advice.

8 ASSESSMENT OF THE PROPOSED SCHEME: SECURITY OF BENEFITS

Introduction

8.1 In this section, I set out my assessment of the proposed Scheme in so far as it may affect the security of policyholders' benefits.

8.2 In assessing the implications of the proposed Scheme on the security of benefits for the various groups of policyholders, I have considered a number of factors including the risk profiles of the two Companies and the outlook for their respective future solvency development (including consideration of their business plans).

8.3 The security of policyholders' benefits is provided by the amount by which an insurer's assets exceed its liabilities. In addition, the regulatory regime for Irish and Italian insurers requires that this excess of assets over liabilities must in turn exceed a prescribed minimum level (which is calculated taking account of the risks to which the insurer is exposed), thus providing a minimum level of security (see section 3 for more details).

8.4 The principal issue with regard to security of benefits, therefore, is whether or not the transferee company will have adequate resources following the completion of the proposed Scheme and whether this is likely to remain the case over time. This assessment must also have regard to the corresponding situation which would pertain should the proposed Scheme not be proceeded with.

8.5 In my view, the relevant factors to be considered are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and,
- the extent of parental support available.

8.6 I deal with each of these aspects in turn in the following paragraphs. Before doing so, however, it is worth first noting the principal similarities and differences between the two Companies.

8.7 At a high level, the two Companies share many similarities, which makes the assessment of the implications for the Transferring Policyholders more straightforward than would otherwise be the case and also helps to focus on the areas of difference (which are of particular importance to the Transferring Policyholders). Those points of similarity include:

- Both are part of the broader Unipol Group, subject to common group-level oversight and strategic direction.
- Both report into IVASS at the group consolidation level, although AVI is directly regulated by the Central Bank.
- Both currently have unit-linked business (although Arca Vita also has other, non-unit linked, business).
- Both Companies' investment portfolios are guided by the group's overarching risk and investment policies, designed to maintain solvency, liquidity, and capital adequacy.
- Both have similar capital management policies.
- Both employ similar risk management tools in their risk management policies, utilising identification and assessment processes aligned with the Unipol Group policy.
- Both have a similar new business acquisition model with bank partners and bancassurance as their primary business channel.
- Both use intra-group service companies.

8.8 There are also some differences, however, including (but not limited to):

- AVI has its head office in Ireland and is subject to prudential supervision by the Central Bank whereas Arca Vita has its head office in Italy and is subject to prudential supervision by IVASS.

- Arca Vita has more complexity in terms of in-force business (more portfolios, some traditional life business, some with-profits business).
- Arca Vita is a much larger business (e.g. as measured by premium income or total assets).
- The two Companies have different strategic plans.

Relevant factors to be considered

SOLVENCY

8.9 The solvency position of the two Companies is discussed in sections 4 and 5. In particular, the position is examined:

- As reported at 31 December 2024, with the reported 31 December 2023 position also shown for comparison.
- As projected over the period up to 31 December 2028 in the case of both AVI and Arca Vita, without allowance for the proposed transfer.
- As projected on a pro forma basis as at 31 December 2025 and as at 31 December 2026 allowing for the proposed transfer.

8.10 I note that, as at both 31 December 2024 and 31 December 2023, both Companies had available capital resources well in excess of both the regulatory minimum (100% of SCR) and their respective target levels as per their capital management policies (see below).

8.11 In addition, projections carried out by both Companies in the context of their ORSAs, indicate that the two Companies are expected to maintain more than adequate solvency levels (in excess of the target levels specified in their capital management policies) over the projection period.

8.12 Whilst examination of the current and projected solvency position is helpful, it does not, in my view, provide the full picture necessary for an evaluation of the security of policyholders' benefits. In my view, it is also necessary to review and consider the other items listed in 8.5 above.

RISK PROFILES AND RISK MANAGEMENT

8.13 In my view, any consideration of the respective future solvency positions needs to include an assessment of the extent to which the projected future development of the Companies' solvency positions could vary as a result of differences in the Companies' risk profiles and approach to risk management. Comparison of the Companies' respective risk profiles is also an important consideration when examining the impact on the Transferring Policyholders of moving from a company with one particular risk profile to a company with a different risk profile.

8.14 The makeup of each company's SCR provides a good indication of the risks to which the Companies are exposed, and the extent of their exposure. in sections 4 and 5, I summarise the key risks for both AVI and Arca Vita, based on the composition of their respective SCRs and commentary from their respective ORSA reports. In summary, the two Companies are exposed to broadly similar types of risk.

8.15 In terms of risk management, both Companies adopt similar approaches in terms of risk management policies, frameworks, oversight and governance (as is to be expected as they are both subject to a common set of group requirements in this regard). Both AVI and Arca Vita's risk management policies are closely aligned with the overarching strategies and frameworks of the Unipol Group. This means that their risk appetites are consistent with the group's strategic objectives and capital adequacy requirements.

8.16 Both AVI and Arca Vita implement risk mitigants such as maintaining capital buffers above SCRs and setting specific risk limits and tolerances to manage potential exposures proactively. They conduct regular monitoring, stress testing, and scenario analysis to identify vulnerabilities and ensure compliance with regulatory requirements. Diversification and operational controls are employed with the aim of mitigating risk and preventing losses from operational failures.

8.17 Having reviewed the relevant documentation provided to me, and based on my experience of insurance risk management, I am satisfied that both Companies' risk management frameworks are comparable and appropriate.

CAPITAL MANAGEMENT POLICIES

8.18 In my view, the Companies' capital management policies are a very important aspect of the assessment of financial strength and security as ultimately any excess capital resources above the level specified in the capital management policy may be transferred out of either company. That specified level of coverage should therefore, in my view, form the basis for assessing the Companies' financial strength.

8.19 The two Companies' capital management policies are summarised in sections 4 and 5. They are both reasonably similar in terms of the level of excess capital resources the Companies must hold in excess of the regulatory minimum requirement of 100% of the SCR. They are both similar in terms of the level of excess capital resources the Companies must hold to meet their risk appetite target solvency ratio i.e. 150% of the SCR.

8.20 As the SCR is intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%, by maintaining capital resources at significantly higher level than 100% of SCR, the Companies are both reducing the probability of having insufficient assets to meet liabilities to less than 0.5% over that timeframe.

8.21 Both Companies link dividend decisions to solvency positions, business needs, and risk appetite. Both policies highlight the need to ensure that distributions do not compromise minimum statutory/regulatory capital requirements.

8.22 In summary, both Arca Vita and AVI share a similar architecture in terms of their approach to capital management. They each have a formal, multi-stage process (from measuring available and required capital, through to governance, dividend distribution, and emergency measures) and place those procedures within their broader regulatory and risk management structures.

8.23 Having examined the two Companies' respective capital management policies (particularly with the Transferring Policyholders in mind), I am satisfied that Arca Vita's policy is no weaker than AVI's in terms of the protection that it affords to policyholders.

BUSINESS MODEL SUSTAINABILITY

8.24 In assessing the security of policyholders' benefits, I believe it is also necessary to give some consideration to the sustainability of the Companies' business models.

8.25 AVI will cease to exist as a separate legal entity following the completion of the proposed Scheme and the Cross-Border Merger. Prior to the decision to close down the business, AVI's strategy focussed on unit-linked life insurance primarily targeted at the Italian market through targeted distribution with a select group of Italian banks. Arca Vita's business model is to leverage its bancassurance model to distribute a broad range of policies through partner banks.

8.26 The Companies therefore have broadly similar business models. On that basis I do not see the proposed transfer resulting in any material implications for policyholders in that regard.

RECOVERY AND RESOLUTION OPTIONS

8.27 Under Solvency II, insurers are required to develop a recovery plan within two months if they breach their SCR. In addition, however, insurers are encouraged (and will soon be required) to develop pre-emptive recovery plans. These are aimed at ensuring that insurers have a good understanding of the situations that could adversely affect their business to the extent that it becomes necessary to implement a recovery plan, as well as the options available in those situations.

8.28 Both AVI and Arca Vita have recovery measures and actions to be implemented in the event of failure to comply with their SCR coverage requirements.

8.29 Resolution refers to the actions to be taken (by the supervisory authorities) in situations where recovery plans have failed, and all recovery options have been exhausted. In terms of resolution, the options available to both firms are similar as both are regulated under Solvency II and include portfolio transfer and run-off.

PARENTAL SUPPORT

8.30 Both AVI and Arca Vita are capitalised and managed to be self-sufficient on a standalone basis, without needing recourse to their respective parents (except to fund agreed acquisitions or other similar transactions). Nevertheless, both Companies benefit from the support of their parents, in terms of potential access to capital if required (noting that such capital support may or may not be forthcoming depending on the circumstances), which makes parental support an additional factor to consider when evaluating the impact of the proposed Scheme.

8.31 I note that Unipol Assicurazioni (the parent company of both AVI and Arca Vita respectively) reported healthy financial positions as at 31 December 2024, indicating that the parent company has substantial available financial resources (also noting, however, that the parent has other potential calls on those resources).

8.32 In my view, the proposed transfer will not change the nature or character of parental support provided to either group of policyholders.

Consideration of different groups of policyholders

8.33 As noted in paragraph7.12, it is necessary to consider the position separately for each relevant group of policyholders. In the following paragraphs I set out my analysis of the implications of the proposed Scheme for:

- the Transferring Policyholders; and,
- Arca Vita's existing policyholders.

8.34 As noted in paragraph 7.13, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in AVI post-transfer as all AVI policies will be subject to the proposed Scheme and AVI will be merged into Arca Vita.

8.35 Based on my assessment of the outlook for the solvency position of the two Companies, together with my assessment of the Companies' respective risk profiles and capital management policies, my views on the implications of the transfer for the security of benefits of each of the categories of policyholders are set out below.

THE TRANSFERRING POLICYHOLDERS

Solvency

8.36 Arca Vita's projected solvency coverage ratio (pro forma at 31 December 2025 as if the transfer had taken place on that date) is calculated as being slightly lower than AVI's coverage ratio at 31 December 2024 (251% versus 263%).

8.37 Based on the projections prepared recently for submission to IVASS, Arca Vita's projected solvency development over 2025 and 2026 (on the assumption that the transfer takes place) is expected to remain strong (and higher than the level required under the company's capital management policy), with the projected SCR coverage ratios also higher than those projected for AVI.

8.38 Based on the information provided, I am satisfied that the Arca Vita is reasonably projected to have a healthy solvency position such that the Transferring Policyholders will not be materially adversely disadvantaged as a result of the proposed Scheme.

Risk profile

8.39 The Transferring Policyholders will be moving from a company whose main risks are currently policyholder lapse risk, financial market risk, expense risk and counterparty default risk, to one with broadly similar exposures to those risks but with the addition of exposure to some life catastrophe risk.

8.40 Although the proposed Scheme would result in some changes to the overall risk profile to which the Transferring Policies will be exposed, the risk profiles of the two Companies are broadly similar. In particular, both Companies will face similar strategic risks.

Risk management

8.41 Arca Vita has similar risk management policies, frameworks, oversight and governance.

8.42 As noted above, both Companies adopt similar approaches in terms of risk management policies, frameworks, oversight and governance.

8.43 I am therefore satisfied that transferring to Arca Vita would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Capital management policy

8.44 I assess Arca Vita's capital management policy as no weaker than AVI's. I am therefore satisfied that the change in capital management policy does not weaken the security of benefits for the Transferring Policyholders.

Business model sustainability

8.45 Arca Vita's business model is broadly similar to AVI's. I am therefore satisfied that transferring to Arca Vita would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Recovery and resolution options

8.46 Arca Vita has a well-developed enhanced emergency plan which I have reviewed, which identifies specific stress indicators, outlines calibrated stress scenarios and defines the measures required to address potential capital or liquidity shortfalls.

8.47 The options available in a resolution situation are similar for both Companies.

8.48 On that basis, I am satisfied that transferring to Arca Vita would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Parental support

8.49 Given the fact that AVI and Arca Vita are part of the same Group and that the Transferring Policies are moving from AVI to its immediate parent, I am satisfied that the proposed transfer will not result in any material adverse change to the nature or character of parental support provided to the Transferring Policyholders.

ARCA VITA'S EXISTING POLICYHOLDERS

Solvency

8.50 The transfer of the AVI's business is calculated as having a negative 4 percentage point impact on Arca Vita's projected solvency position (with the solvency coverage ratio on a pro forma basis at 31 December 2025 projected to reduce from 255% to 251%). This is not a material impact.

8.51 I am therefore satisfied that the transfer into Arca Vita of the AVI business would not lead to any material adverse implications in this regard for Arca Vita's existing policyholders.

Risk profile

8.52 Arca Vita already underwrites unit-linked business in Italy. The transfer will not substantially increase Arca Vita's exposure to any risks that it is not already exposed to.

8.53 I am satisfied that the risks associated with the proposed Scheme will not lead to a material change in Arca Vita's risk profile.

Risk management

8.54 Arca Vita does not intend to change its risk management framework as a result of the proposed transfer. Accordingly, I do not consider there to be any issues of concern for Arca Vita's existing policyholders.

Capital management policy

8.55 Arca Vita does not intend to change its capital management policy as a result of the proposed transfer. Accordingly, I do not consider there to be any issues of concern for Arca Vita's existing policyholders.

Business model sustainability

8.56 The transfer in of the AVI business is in line with Arca Vita's current business strategy and does not change its business model. On that basis, I am satisfied that the transfer into Arca Vita of the AVI business would not lead to any material adverse implications in this regard for Arca Vita's existing policyholders.

Recovery and resolution options

8.57 In relation to the options available in a resolution situation, the transfer in of the AVI business will not change the options available.

8.58 On that basis, I do not consider there to be any issues of concern for Arca Vita's existing policyholders in this regard.

Parental support

8.59 The nature of parental support provided to Arca Vita should not change as a result of the proposed Scheme.

Matters not considered

8.60 I do not believe that there are any material relevant issues that have not been considered in this report.

Summary & Conclusions – Security

8.61 On the basis of the information provided to me and having considered the alternative scenario of the transfer not taking place, I am satisfied that the proposed Scheme will not result in a material adverse impact on the security of policyholders' benefits in the case of the Transferring Policyholders or Arca Vita's existing policyholders.

9 ASSESSMENT OF THE PROPOSED SCHEME: FAIR TREATMENT

Introduction

9.1 I must also consider whether the proposed Scheme treats policyholders fairly and consider the effect of the proposed Scheme on policyholders' reasonable benefit expectations.

9.2 In the case of the proposed Scheme, this involves consideration of:

- Contractual obligations to policyholders;
- Any changes that would be caused to the tax treatment of policyholders' premiums and/or benefits;
- Any areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders. Such areas of discretionary powers may include, in respect of the investment criteria, unit-pricing rules and the level of charges applicable to those funds and the ability to vary the level of any non-guaranteed charges, amongst others; and,
- The levels of customer service to policyholders.

9.3 The arrangement with regard to the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

9.4 The SAI has stated, in ASP INS-2, the need to consider PRE when assessing a proposed transfer of business from one life assurance company to another under the provisions of Section 13 of the 1909 Act. I note that there is no objective standard or definition when it comes to considering PRE (see section 3) and I am therefore guided by the comments made by AVI's HoAF in that regard.

9.5 In the following paragraphs, I set out my views on the impact of the proposed Scheme on the fair treatment and reasonable benefit expectations of the two groups of policyholders.

The Transferring Policyholders

CONTRACTUAL OBLIGATIONS

9.6 The Transferring Policyholders' contractual terms and conditions will not change as a consequence of the proposed Scheme. I understand that there may be a small change to the investment cycle for Transferring Policies to align with the Arca Vita process, but I am satisfied that it would not have a material impact on Transferring Policyholders. Other than that, Arca Vita will administer and service the Transferring Policies on the same terms AVI previously provided.

TAX TREATMENT OF PREMIUMS AND BENEFITS

9.7 AVI has asked tax experts employed by the Unipol Group to assess the tax implications of the proposed Scheme on the Transferring Policies. The experts conclude that the implementation of the proposed Scheme will not result in any changes to the tax treatment of these policies.

9.8 I have been provided with a summary of the advice given. I do not consider it necessary to seek additional independent tax advice.

EXERCISE OF DISCRETION

9.9 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, I note that (as stated in paragraph 5.75) I have been informed by Arca Vita that they do not propose to alter the manner in which discretion will be exercised in relation to the Transferring Policies, nor do they propose to take discretionary measures that would be substantially inconsistent with the current AVI practice.

9.10 AVI has set out its approach to policyholders' reasonable expectations and Arca Vita has confirmed its intention to continue these principles post-transfer.

9.11 Based on this, I am satisfied that there is no reason to believe that the Transferring Policyholders will be materially adversely affected by the way in which Arca Vita may exercise its discretion in respect of aspects of the terms and conditions of the Transferring Policies post-transfer, compared to how AVI can currently exercise its discretion.

CUSTOMER SERVICE

9.12 As noted in paragraph 5.48 above, Arca Vita intends to maintain the current administration arrangement of the Transferring Policies with Arca Sistemi. The call centre arrangements will continue unchanged and distributors will continue to access Arca Sistemi applications in managing the relationship with policyholders.

9.13 In this regard, I note the following:

- Both Arca Vita and AVI follow the Unipol Group's Outsourcing Policy, which ensures consistent decision-making, responsibilities, and controls around any outsourced activities or functions.
- Arca Vita has well-defined outsourcing governance and oversight arrangements in place, as required under Solvency II. These appear fit for purpose and do not represent a material change for the Transferring Policyholders.

9.14 Having considered the relevant facts, as set out above, I am satisfied that there is no reason to believe that the service standards experienced by the Transferring Policies will be materially adversely affected by the proposed Scheme.

COSTS OF THE PROPOSED SCHEME

9.15 The arrangement with regard to the costs of the proposed Scheme are set out in paragraph 6.15 above. I confirm that I am satisfied that the proposals are fair to the Transferring Policyholders.

POLICYHOLDER COMMUNICATIONS

9.16 The proposed communications plan is summarised in paragraphs 6.18 to 6.25 above. From the perspective of the Transferring Policyholders, the only point of difference with the default approach to communications, as specified in the 1909 Act, are that the Transferring Policyholders will receive a summary of the Independent Actuary's Report (which I will draft) rather than this full report, and that the Transferring Policyholders will receive a link to the Scheme document rather than the full text being reproduced in the Policyholder Notification Pack. However, it is important to note that there is a proposed exception for "new" Transferring Policyholders. AVI remains open to new business until the Portfolio Transfer is complete, and any "new" Transferring Policyholders, who enter into policyholder relationships after the Policyholder Notification Pack exercise, will be informed about the proposed Scheme at the pre-contractual stage of taking out their policy.

9.17 I am satisfied that the proposed approach of communicating with the Transferring Policyholders is reasonable.

COMPENSATION SCHEMES

9.18 Currently, there is no broad, industry-specific compensation framework in Ireland for life insurance policyholders. The same holds true in Italy, where no dedicated compensation scheme is in place. The proposed Scheme does not introduce any compensation impact on policyholders. No other compensation schemes apply to Arca Vita policyholders.

Arca Vita's Existing Policyholders

GENERAL

9.19 There will be no change arising from the proposed Scheme to the terms and conditions of the policies of Arca Vita's existing policyholders, nor will there be any changes to the way in which Arca Vita will exercise its discretionary powers. I have been advised that no adverse tax consequences are foreseen and there will be no change to the administration and customer service arrangements.

9.20 I am satisfied that the proposals with regard to the costs of the proposed Scheme are fair to Arca Vita's existing policyholders.

POLICYHOLDER COMMUNICATIONS

9.21 As noted in section 6.21 above, I understand that (subject to the agreement of the Court), the Policyholder Notification Pack will not be sent to Arca Vita's existing policyholders.

9.22 I note that the Companies' arguments for this approach are as follows:

- Arca Vita's existing policyholders' policies will not change. Their terms, conditions, and administration remain the same post-transfer.

- The financial impact of the transfer on Arca vita is not material and the overall financial position of Arca Vita will remain well above required regulatory capital limits even after the transfer, so there is no material adverse financial impact on its existing policyholders.
- Arca Vita's existing policyholders can still obtain information online (website updates) and through press advertisements.
- Sending the Policyholder Notification Pack to Arca Vita policyholders could create unnecessary confusion, since their policies are not being moved and are not materially affected by this transaction.

9.23 I have considered the proposed approach to policyholder communication with Arca Vita's existing policyholders and am satisfied that it is fair and reasonable in the circumstances. In forming this view, I note that the size of the proposed transfer (ca. €0.4 billion in assets transferring) is not material relative to Arca Vita's pre-transfer size (total assets of €16.9 billion at 31 December 2024), and the impacts on Arca Vita's solvency position and risk profile are also not material.

Summary & Conclusions – Fair treatment

9.24 In my opinion, for the reasons set out above, I am satisfied that the fair treatment and reasonable benefit expectations of both groups of policyholders will not be materially adversely affected by the proposed Scheme.

9.25 I am also satisfied with the proposed approach to policyholder communications in respect of the proposed Scheme.

10 CONCLUSIONS ON THE PROPOSED SCHEME

10.1 I confirm that I have considered the effects of the proposed Scheme on the following groups of policyholders:

- Policyholders transferring to Arca Vita from AVI (i.e. the Transferring Policyholders); and,
- Existing (pre-Effective Date) policyholders of Arca Vita.

10.2 I further confirm that I do not consider further subdivisions to be necessary.

10.3 In summary, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on

- the security of benefits of either group of policyholders;
- the reasonable expectations of either group of policyholders with respect to their benefits; and
- the standards of administration, service, management and governance that will apply to both groups of policyholders.

Michael Culligan

Michael Culligan
Fellow of the Society of Actuaries in Ireland

20 May 2025

11 APPENDIX A: LIST OF PRINCIPAL DATA SOURCES

11.1 In carrying out my work and producing this report, reliance has been placed upon, but not limited to, the following information. All items have been provided directly to me by either AVI or Arca Vita unless otherwise noted.

General

- Arca Vita – AVI – Common Terms of Merger 21.02.25
- Arca Vita Relocation Project – Insurance Portfolio Transfer – Petition incorporating Scheme William Fry Draft 02.05.2025
- AVI Arca Vita Relocation Project Draft Policyholder Communications Plan UPDATED DRAFT 6 MAY 2025

AVI

- Arca Vita International DAC Revised Constitution – September 2016
- Arca Vita International – Certification of Authorisation – 2016.01.11
- Arca Vita International – Final Decision Letter – 2016.01.11
- Variation in Certificate of Authorisation 20 December 2018
- Private Selecta Plus F147_2025-01-01
- Personal Selecta Plus F148_2025-01-01
- Take Care F150_2025-02-11
- Product147 – Folder Private Selecta Plus 01_2025 Brochure
- 148 – Folder Personal Selecta Plus 01_2025
- 150 – Folder Take Care ED01_2025
- AVI Financial Statements – Signed
- AVI DAC – Audit Results Report (Final) EY 05042024
- AVI SFCR 2024 & 2023
- 2024 & 2023 Publicly Available QRTs
- AVI Final AOTP year-end 2023 & 2024
- AVI Final ARTP year-end 2023 & 2024
- AVI RSR
- Unipol Group (AVI) ORSA 2023 Central Bank Of Ireland
- AVI Risk Appetite Statement 07 May 2024
- AVI Risk Register 2024 – RC Board approved 16122024 Pre Merger consideration
- Capital Management and Dividend Distribution Policy 2024 v7.0
- AVI Investment Policy 2024 v6.0
- Addendum to Investment Policy-Guidelines for Responsible Investment Activities
- Reinsurance Strategy 16 December 2024
- Details of Current Policy Administration Arrangements
- Details of any recent open complaints and or litigation

- AVI Cross Border Merger Introductory Meeting_CBI_final_sent_22.01.2025
- AVI Actuarial Function Report 2024 Signed
- AVI Annual (AES) Quantitative Reporting Templates 2024
- Complaints Management Policy EN

Arca Vita

- Tax Opinion
- Articles of Association
- Certificate of Authorisation IVASS
- Financial Statements Arca Vita 31.12.2024 & 31.12.2023
- Arca Vita External Auditor's report 2023
- SFCR Arca Vita 2024 & 2023
- 2024 & 2023 Publicly Available QRTs
- RSR Arca Vita 2023
- RSR Arca Vita 2024
- ORSA 2023 Arca Vita
- Current Risk Appetite Statement Arca Vita
- Current Risk Register
- Current Capital Management Policy
- Current Investment Policy
- Reinsurance Policy and additional risk mitigation techniques
- Details of any recent open complaints and or litigation
- Copies of all relevant regulatory correspondence
- Financial Statements 2024 Arca Vita
- FY Annual QRTs 2024
- Actuarial Report Arca Vita 2024
- AFR 2024 – Arca Vita
- AFR Arca Vita – TP Report – YE24
- ACT~1
- ACT~2
- Q&A Complaints procedure

12 APPENDIX B: GLOSSARY OF TERMS

12.1 A glossary of terms and abbreviations used throughout the report is provided below.

Term	Definition
1909 Act	The Assurance Companies Act 1909 (as amended)
Appointed Actuary	An actuary appointed to an Irish life assurance company pursuant to Section 34 of the Insurance Act 1989. (Note that the Appointed Actuary role no longer exists following the transition to Solvency II on 1 January 2016)
Arca Vita	Arca Vita S.p.A.
Arca Vita Board	The board of directors of Arca Vita
Arca Vita's existing policyholders	The existing (pre-Effective Date) policyholders of Arca Vita
ASP	Actuarial Standard of Practice
AVI	Arca Vita International DAC
AVI Board	The board of directors of AVI
BEL	Best Estimate Liability. One of the components of the technical provisions under Solvency II. The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cash-flows
Central Bank	The Central Bank of Ireland, which is the supervisory authority with responsibility for the prudential supervision of AVI
Class III life business	Life assurance business (including annuities) where the benefits are linked to investment funds
Companies	AVI and Arca Vita, collectively
Court	The High Court of Ireland
DAC	Designated Activity Company
EEA	The European Economic Area. The EEA comprises the EU plus Iceland, Liechtenstein and Norway
Effective Date	00:00 CET on 31 December 2025, or such other date or time on which the Scheme will become operative, in accordance with clause 3.1.1 of the proposed Scheme
Eligible own funds	The amount of an insurer's own funds (see) following the application of the eligibility criteria specified in the Solvency II Regulations. Eligible own funds are available to cover the SCR (see).
EU	The European Union
FSAI	Fellow of the Society of Actuaries in Ireland
FSPO	Financial Services and Pensions Ombudsman
GenRe	General Reinsurance AG, Milan Branch, which is part of Berkshire Hathaway Group
GMDB	Guaranteed Minimum Death Benefit, a form of guarantee provided on some of AVI's policies.
Head of Actuarial Function	The person, as nominated by an Irish insurer's Board of Directors and approved by the Central Bank, with overall responsibility for the tasks called out for the actuarial function under Solvency II and the additional responsibilities introduced by the Central Bank
Independent Actuary	Mr Michael Culligan, a Fellow of the Society of Actuaries in Ireland and a Principal with Milliman, a firm of actuaries and consultants.
Independent Actuary's report	This report
Internal Model	A customised (company-specific) model for determining the SCR, which must meet certain specified standards and be approved by the Central Bank (in the case of an Irish insurer). Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model

IVASS	Istituto per la Vigilanza sulle AssicurazionI. The authority having responsibility for the supervision of insurance companies in Italy.
MCR	Minimum Capital Requirement. One of the regulatory capital requirements under Solvency II. Usually lower than the SCR. The MCR defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation
Milliman	Milliman Ltd., Consultants & Actuaries, 7 Grand Canal Street Lower, Dublin 2
Non-linked business	Life assurance business which is not unit-linked business
ORSA	Own Risk and Solvency Assessment. The ORSA is a risk management tool, which is required under Solvency II, to assess the overall solvency needs of the firm taking into account the firm's own assessment of its particular risk profile.
Own funds	Broadly speaking, the excess of an insurer's assets over its liabilities on a Solvency II basis
Petition	The application by one, or both, of the parties for which the Court will consider the proposed Scheme. The Petition must be accompanied by a report on the terms of the scheme by an independent actuary
Policyholder Communications Plan	The proposed approach to communicating with policyholders, subject to the approval of the Court.
Policyholder Notification Pack	The written communication provided to Transferring Policyholders in respect of the proposed Scheme (and which includes a summary of the Independent Actuary's Report)
PRE	Policyholders' reasonable expectations
Proposed Scheme	The legal scheme of transfer by which it is proposed that the Transferring Policies and their associated assets and liabilities be transferred from AVI to Arca Vita. Under the relevant provisions of the 1909 Act (see above), the proposed scheme requires the approval of the Court
QRTs	Quantitative Reporting Templates. These are specific forms which insurers must complete on a regular basis under Solvency II. Some QRTs are required to be produced quarterly and more are required to be produced annually. Some of the annual QRTs are public (typically appended to the SFCR)
Reinsurance recoverable	To the extent that business is reinsured, reinsurance recoverable is an offset to the BEL which sits on the asset side of the balance sheet
Risk Margin	The risk margin is an amount, in addition to the BEL, designed to bring the technical provisions up to the amount that another insurer (or reinsurer) would be expected to require in order to take over and discharge the insurance liabilities in an arm's length transaction
Run-off	A line of insurance business, or an insurance company, that no longer accepts new business but continues to provide coverage for claims arising on policies still in-force and that makes payments for claims that have occurred on policies that have expired
SAI	The Society of Actuaries in Ireland
SCR	Solvency Capital Requirement. One of the regulatory capital requirements under Solvency II. Intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%
SFCR	Solvency and Financial Condition Report. This is a public document which all insurers are required to produce on an annual basis under Solvency II. Insurers are required to publish their SFCRs on their websites. In addition, the Central Bank also maintains a public repository of all Irish insurers' SFCRs
Solvency II	The regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising insurance regulation across all EEA countries
Solvency II Regulations	The European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No 485 of 2015) (as amended)
Spread Risk	Corporate bond valuation risk
Standard Formula	A standardised calculation method for determining the SCR. Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model
Supplementary report	A further report to be prepared by the Independent Actuary prior to the final Court hearing. The purpose of the supplementary report is to provide an update for the Court on the Independent

	Actuary's conclusions in light of any significant events subsequent to the date of the finalisation of this report
Technical provisions	The value of the insurance liabilities of an insurer, as determined for regulatory purposes. Under Solvency II, the Technical Provisions comprise the BEL and the Risk Margin
TPA	Third-party administration
Transferring Policies	The entire portfolio of AVI's insurance policies which will transfer to Arca Vita under the proposed Scheme
Transferring Policyholders	The holders of the Transferring Policies
Unipol Assicurazioni	Unipol Assicurazioni S.p.A.
Unit-linked business	A type of life assurance business, written under Class III of the Solvency II Regulations, where the benefits payable linked to the performance of investment funds