



Report of the Independent Actuary

**Golden Arches Insurance DAC and
Zürich Versicherungs-Aktiengesellschaft**

KPMG
5th July 2024

GAI_to_ZVA Report of the Independent Actuary

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1 Introduction

1.1 Purpose of the Report

This is the Independent Actuary Report (the “Report”) relating to the transfer of vast majority of the insurance business of Golden Arches Insurance DAC (“GAIDAC” or “the Transferor”) into Zürich Versicherungs-Aktiengesellschaft (“ZVA” or “the Transferee”) (both jointly referred to as “the Companies”) under the European Transfer Regime (in line with Solvency II and Irish law). I refer to this proposed transfer of the portfolio as the proposed “Scheme”.

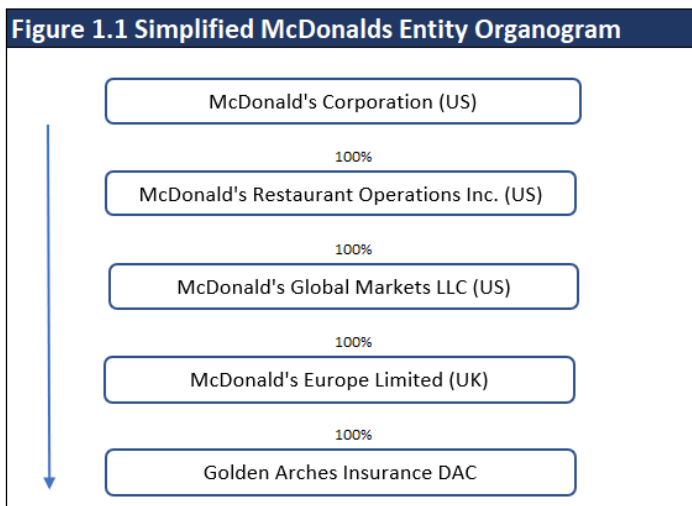
GAIDAC intends on extinguishing its insurance contract liabilities during 2024 through a combination of this proposed Scheme, Novation(s) and Commutation Agreements and then to return its licence to the Central Bank of Ireland (“Central Bank”), after which it is intended that GAIDAC will be placed in Members’ Voluntary Liquidation thereafter.

1.1.1 Golden Arches Insurance DAC

GAIDAC was incorporated in Ireland as a private limited company on 9 June 1993 under the name Golden Arches Insurance Limited and under company number 203703. On 11 May 2016, Golden Arches Insurance Limited converted to a Designated Activity Company in accordance with the Companies Act 2014. GAIDAC’s registered office is at Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland.

GAIDAC is a direct wholly owned subsidiary of McDonald’s Europe Limited, a company incorporated in the United Kingdom under company number 05206138 (MCD Europe). MCD Europe is an indirect wholly owned subsidiary of McDonald’s Corporation a company incorporated in the United States of America. The McDonald’s Corporation is listed on the New York Stock Exchange with a market capitalisation of US\$119bn (as at 19 April 2024) and a credit rating of BBB+ (S&P Global Ratings).

The McDonald’s Group is one of the world’s largest restaurant chains and is headquartered in Illinois, USA.



GAIDAC is a non-life insurance undertaking authorised by the Central Bank pursuant to the 2015 Regulations to carry on non-life insurance and reinsurance business in the designated Solvency II Classes of 1 (Accident), 2 (Sickness), 3 (Land Vehicles), 7 (Goods in Transit), 8 (Fire and Natural forces), 9 (Other Damage to Property), 10 (Motor Vehicle Liability), 13 (General Liability) and 16 (Miscellaneous Financial Loss), as described in Schedule 1 to the 2015 Regulations. That authorisation remains in full force and effect.

GAIDAC commenced writing policies on 1 September 1993 and, since that time, has insured, on a direct and fronted basis, a variety of different coverages (within the above Solvency II classes), including property damage, business interruption, general liability, employers' liability, crime, personal accident, intellectual property liability, motor, nuclear, biological, chemical and radiological (often referred together as "NBCR"), terrorism, builders' risk, loss of license, workers' compensation and auto risks for the McDonald's Group, its franchisees and Ronald McDonald charities houses.

Material geographic areas in which GAIDAC has carried out business are Europe, the Middle East, Asia, Australia and Central and South America.

According to GAIDAC's most recent Solvency II return (S23.01.01.01) at year-end 2023, GAIDAC had Eligible Own Funds ("EOF") to meet its Solvency Capital Requirement ("SCR") of \$13.0m, versus an SCR of \$7.6m, yielding an SCR ratio of 171.6%. From 1 July 2020, it was confirmed that GAIDAC would cease writing new business and renewing existing business after the last policy had expired. Therefore, it had zero Gross Written Premium ("GWP") in 2023.

As stated GAIDAC ceased to renew business as of 1 July 2020, this means that all of GAIDAC's policies have expired in terms or period of coverage, however claims may still arise in the future.

The Probability Risk and Impact System (PRISM) is the Central Bank's risk-based framework for the supervision of regulated firms in Ireland. GAIDAC is rated as a Low Impact Financial Service Provider for PRISM purposes.

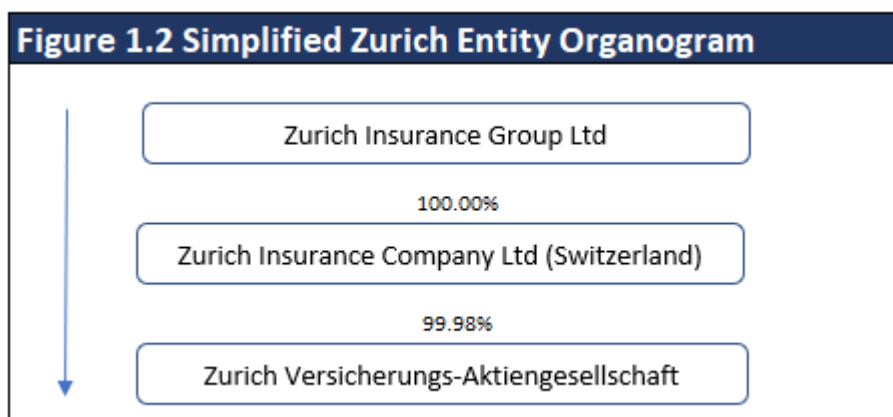
1.1.2 Zürich Versicherungs-Aktiengesellschaft

ZVA was incorporated in Austria as a private limited company in 1910 under the name Kosmos Allgemeine Versicherungs AG. Its company register number in Austria is 89577g. In 1979, the name was changed to Zürich Kosmos Versicherungen AG, and, in 2002, to Zürich Versicherungs-Aktiengesellschaft. ZVA has its registered office at Leopold-Ungar-Platz 2, 1190 Vienna, Austria.

ZVA is an insurance undertaking authorised by the Austrian Financial Market Authority pursuant to the 2015 Regulations to carry on life and non-life insurance and reinsurance business in the designated Solvency II Classes 1 (Accident), 3 (Land vehicles), 4 (Railway rolling stock), 5 (Aircraft), 6 (Ships), 7 (Goods in transit), 8 (Fire and Natural Forces), 9 (Other Damage to Property), 10 (Motor Vehicle Liability), 11 (Aircraft Liability), 12 (Liability for Ships), 13 (General Liability), 16 (Miscellaneous financial loss), 17 (Legal expenses), 18 (Assistance), I (Life), II (Marriage insurance and Birth insurance) and III (Unit linked and Index linked Life assurance).

ZVA offers non-life and life insurance products. These can be purchased nationwide through the company's own sales force, independent sales partners and online.

ZVA is part of the globally active Zurich Group ("Zurich"). The Zurich Group is one of the leading global multi-line insurers, providing services to customers in global and local markets. With approximately 60,000 employees, Zurich offers a comprehensive range of property and casualty and life insurance products and services. Its customers include individuals, small, medium and large companies and multinational corporations in more than 200 countries and territories. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872.



According to ZVA's most recent Solvency II return (S23.01.01.01) at year-end 2023, ZVA had EOF to meet its SCR of €390m, versus an SCR of €214m, yielding an SCR ratio of

182%. In 2023, ZVA had a gross written premium of €600m in non-life insurance and €131m in life assurance.

1.1.3 Motivation for the Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

In 2020, McDonald's Group, having examined the efficiency, cost and administrative burden and other factors of its insurance operations, completed a thorough review of alternative domiciles for its insurance operations, while remaining focused on the interests of the policyholders/insureds.

The outcome of this review was that the optimum domicile for McDonald's Group's insurance operations is Bermuda. Therefore, McDonald's Group formed a new insurance undertaking in Bermuda, Golden Arches Insurance Limited ("GAIL"), which was incorporated on 14 April 2020. GAIL commenced issuing coverage from 1 July 2020, coinciding with GAIDAC ceasing to renew business as at 1 July 2020.

It is intended that GAIDAC will de-risk (extinguish its insurance liabilities) entirely and, subsequently, close down its operations after which it is intended that GAIDAC will be placed in Members' Voluntary Liquidation thereafter.

GAIDAC considered various options to accelerate the ultimate closure of GAIDAC. The option being pursued to accelerate business closure is an Insurance Business Transfer ("IBT"), under Section 13 of the Assurance Companies Act 1909 (the "1909 Act"), of most of its legacy portfolio to ZVA.

The vast majority of its business would be transferred to ZVA under the Scheme. There are some pockets of business that will not transfer under the Scheme (see section 5 for full details of the business not transferring under the proposed Scheme). Those pockets of business are:

- the Inwards Reinsurance Policies;
- GAIDAC's outwards reinsurance arrangements;
- the UK Portfolio; and
- the US Policies.

Under the 1909 Act, a petition to the Court for a transfer of long term (or life insurance) business must be accompanied by a report on the terms of the proposed transfer by an Independent Actuary. I understand that there is no equivalent legal requirement for any such report for the transfer of non-life insurance business. However, in practice this is now fully expected. So, the Companies have engaged me to act in a similar and broadly comparable manner for the transfer of the non-life insurance business under the Scheme. This Report is a report prepared by me, the appointed Independent Actuary, in order to aid the Court and the regulators in their deliberations.

For information, the UK regulators, the PRA and FCA, issue guidelines for the content of the equivalent independent report as part of their UK equivalent process (called the Part VII transfer in the UK). I have found those guidelines useful in the Irish context as well, and therefore I have mapped my report against those guidelines in Appendix F.

In this Report I will consider if the proposed Scheme affects in a materially adverse way either the security or the policy servicing levels of the GAIDAC Policyholders, or the ZVA policyholders.

Materiality

In order to determine whether any effects of the Scheme on any group of policyholders are materially adverse it has been necessary for me to exercise my professional judgement in the light of the information that I have reviewed. 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, on a group of policyholders then it is not considered by me to have a material adverse effect on that group of policyholders.

My 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 impact on the financial security of a group of policyholders is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

This is the framework in which I undertake my consideration of materiality in relation to the Scheme.

This Report has been prepared for the purposes of Section 13 1909 Act in accordance with:

- Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015) (“2015 Regulations”). Regulation 41 of the 2015 Regulations makes express reference to Section 13 of the 1909 Act and Section 36 of the 1989 Act. Both sections concern the sanction of transfers by the Court;
- The Actuarial Standard of Practice (“ASP”) issued by the Society of Actuaries in Ireland, ASP LA-6, “Transfer of long-term business of an authorised insurance company – role of the Independent Actuary”. Even though the ASP is related to life business, I consider it reasonable to consider it in my work; and
- The ASP issued by the Society of Actuaries in Ireland, ASP PA-2, “General Actuarial Practice”.

I owe an overriding duty to the Court and to give the Court independent actuarial evidence on the proposed Transfer.

This Report s to be provided to:

- the Central Bank and the Financial Market Authority (The “FMA”, the Austrian insurance Regulator); and
- the policyholders of The Companies, should they request it.

I agree that this Report and any Supplementary Report (see section 2.6) may be made publicly available at the registered offices of the Companies and online. The extent of the communications to the different stakeholders will be discussed with the Central Bank in the first instance and ratified by the Court in terms of any exemptions.

This Report is in respect of the proposed Scheme. GAIDAC and ZVA are collectively referred to as the “Scheme Companies” (or the Companies) throughout this Report. The terms covering the proposed transfer are set out in the Scheme that will be presented to the Irish High Court.

It is anticipated that directions will be sought from the High Court in relation to the Scheme around July 2024. It is proposed that the sanctions hearing for the Scheme will take place in October 2024, when approval of the Scheme will be sought with a proposed effective date of 1 December 2024 (the “Effective Date”, also referred to as the “Effective Date” in the Scheme Document).

This Report is prepared by the Independent Actuary in order to aid the High Court in its deliberations.

This Report describes the proposed transfer and discusses its potential impact on the relevant policyholder groups within both GAIDAC and ZVA, particularly in terms of security of benefits and levels of policyholder service. This Report is organised into 7 sections as follows:

- **Section 1:** Describes the purpose of this Report and the role of the Independent Actuary;
- **Section 2:** Executive Summary and Conclusions;
- **Section 3:** Provides relevant background information on GAIDAC;
- **Section 4:** Provides relevant background information on ZVA;
- **Section 5:** Provides details on the proposed Scheme;
- **Section 6:** Describes the impact of the proposed Scheme on the policyholders of GAIDAC and ZVA; and
- **Section 7:** Describes other considerations.

1.2 Independent Actuary

I, Aoife O’Brien, am a director and senior actuary in KPMG Ireland. I am a Fellow of the Society of Actuaries in Ireland (“SAI”) having qualified as an actuary in 2014. My summary curriculum vitae is included in Appendix C.

I have been appointed by GAIDAC and ZVA to act as the Independent Actuary in connection with the Scheme. The Central Bank has been informed of my appointment, and the Central Bank has raised no objections to my appointment. The terms on which I was formally appointed are set out in an engagement letter dated 16 April 2024 and an extract of my scope is included in Appendix B.

In terms of direct and indirect interests, I can confirm that I have no direct or indirect interests with either GAIDAC or ZVA. I consider myself able to act as an Independent Actuary on this transaction.

I have also considered the position of KPMG. I can confirm that I have carried out appropriate internal checks in line with KPMG's internal risk management procedures with no issues being raised.

Neither I, nor any member of my team, is a qualified lawyer or tax expert. I have not considered it necessary to seek my own specific legal or tax advice on any element of the Scheme. The costs and expenses associated with my appointment as Independent Actuary and the production of this Report will be met by the shareholders of GAIDAC and ZVA.

This Report has been subject to internal KPMG risk management processes and peer review in line with those professional requirements. The peer review was performed by a senior actuary in the KPMG team.

1.3 Scope of Report

I owe an overriding duty to the Court and to give the Court an independent actuarial assessment of the proposed transfer.

This Report is prepared primarily to assess the likely impact that the Scheme will have on

- the transferring policyholders of GAIDAC (i.e. all the policyholders remaining immediately prior to the Effective Date), and
- the existing policyholders of ZVA.

if the Scheme proceeds. Note as referenced in section 1.1.3, there are some pockets of business that are not transferring under the Scheme. My understanding is that the obligations to these remaining policyholders will be extinguished via commutation and/ or novation. Full details of this are provided in section 5.

The Report is limited in its scope to the assessment of the Scheme alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Court when it considers whether or not to sanction the Scheme.

The term "Effective Date", as used in this Report, refers to the date at which, if the Scheme proceeds, GAIDAC's policies will be transferred to ZVA. The proposed Effective Date is approximately 1st December 2024.

1.4 Assurances

Whilst I have been assisted by my team, this Report is written in the first person singular, and the opinions expressed are my own.

I believe that the content of this Report is accurate and complete. I have considered all matters that I regard as relevant to the opinions I have expressed, and I have considered all matters that I believe may be relevant to the policyholders of GAIDAC in their

consideration of the Scheme. All the matters on which I have expressed an opinion lie within my field of experience.

I have received assurances as follows:

- I have circulated this Report to the management of each of GAIDAC and ZVA to ask for commentary on the detail within this Report, including confirming all material information has been provided to me and how the Scheme will be affected in practice. No issues were noted with the commentary and detail presented in this final version of my Report by either set of management. I have also been given full access to staff of each of GAIDAC and ZVA as necessary; and
- I have provided the Head of Actuarial Function (“HoAF”) of GAIDAC (Mark Malone) and the Actuarial Function (“AF”) of ZVA (Johann Kronthaler life and non-life) and the Appointed Actuary (Bernd Weber life) with my Report to ensure they are aware of comments I have made in this Report in relation to actuarial and risk information and their roles as HoAF / AFH of the respective companies. I understand they have shared my reporting with other colleagues in the companies to solicit their views. No issues have been noted as a result of their review of this final version of my Report.

In the course of carrying out my work and preparing this Report, I have considered various documents provided to me by each of GAIDAC, ZVA, and their respective legal advisers. A summary list of the main documents I have considered is set out in Appendix A.

All of the data and information which I have requested has been provided to me by each of GAIDAC, ZVA and their respective advisers as appropriate. I have relied upon the accuracy and completeness of this data and information, which has been provided to me both in written and oral form by each of GAIDAC, ZVA and their respective advisers. I have not sought independent verification of data and information provided to me by the Scheme Companies, nor does my work constitute an audit of the financial and other information provided to me. I have, where possible, reviewed the information provided

for reasonableness. Where critical information has been initially provided orally, I have requested and obtained written confirmation.

I have conducted conference calls with representatives of the Scheme Companies to discuss the information provided to me and specific matters arising out of the analysis conducted.

I have been made aware of relevant discussions between GAIDAC, ZVA, the Central Bank and the FMA, and specifically inquired of them whether there were issues I should be aware of, and there are no issues that have been specifically noted to me.

1.5 Qualifications and Limitations

This Report must be read in its entirety. Reading individual sections in isolation may be misleading.

A copy of this Report and the Summary Report will be made available to the Court, the Central Bank and the FMA, and the Boards of Directors of GAIDAC and ZVA respectively. It will also be made available to policyholders free of charge at the following:

- The registered office of GAIDAC – Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland;
- The registered office of ZVA, which is Leopold-Ungar-Platz 2, 1190 Vienna, Austria; and
- The GAIDAC website – <https://corporate.mcdonalds.com/corpmcd/GAIDAC.html>
- The ZVA website – www.zurich.at.

The Summary Report covers all the material points and issues raised in this full Report and will be sent to each transferring policyholder.

This Report is prepared solely in connection with, and for the purposes of, informing the Court and relevant potentially affected policyholders of my findings in respect of the impact of the Scheme on the security and expectations of these policyholders and may only be relied on for this purpose.

This Report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter dated 16 April 2024. An extract from this contract describing the scope of my work is contained in Appendix B.

This Report should not be regarded as suitable to be used or relied upon by any party wishing to acquire any right to bring action against KPMG in connection with any other use or reliance. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of this Report to any other party.

In my role as Independent Actuary, I have in the normal course of conducting this role, been provided with a significant and appropriate amount of information and data about the Scheme Companies' activities and performance. When forming my view as set out

in this Report, these disclosures and information have formed a necessary and vital contribution.

This Report is based on information made available to me at or prior to 27 June 2024 and takes no account of developments after that date. However, my understanding is that the Scheme Companies intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing at which the High Court will be asked to consider and sanction the proposed Scheme. This is discussed in further detail later in the document.

1.6 Limits of Liabilities and Legal Jurisdiction

This Report is subject to the terms and conditions, including limitation of liability and legal jurisdiction, set out in the Engagement Letter.

1.7 Terminology

In my discussion of the effects of the proposed Scheme on the policyholders concerned, I use various technical terms. The definitions of these terms as used in this Report are contained in the Glossary in Appendix F.

1.8 Currency

I have clearly identified the currency of figures presented throughout this Report. All figures are presented in either € or US\$, and clearly so labelled.

2 Executive Summary and Conclusions

2.1 The Scheme

It has been agreed by the Board of Directors of GAIDAC and the Board of Directors of ZVA to approve the Scheme (referenced in section 1.1. of this Report) subject to:

- the Independent Actuary being satisfied that the Scheme will not have any material adverse effect on the transferring policyholders of GAIDAC or the existing policyholders of ZVA; and
- the requirements of the Central Bank, the FMA and the sanction of the Irish High Court.

As a result of the Scheme, it is intended that the ZVA will acquire the vast majority of the business of GAIDAC with effect from the Scheme Effective Date and in accordance with the conditions set out in the Scheme, subject to and in accordance with all applicable laws.

It is anticipated that directions will be sought from the High Court in relation to the Scheme around July 2024. It is proposed that the sanctions hearing for the Scheme will take place in October 2024, when approval of the Scheme will be sought with a proposed Effective Date of approximately 1 December 2024.

2.1.1 Motivation for proposed Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

In 2020, the McDonald's Group, having examined the efficiency, cost and administrative burden and other factors of its insurance operations, completed a thorough review of alternative domiciles for its insurance operations, while remaining focused on the interests of the policyholders/insureds.

The outcome of this review was that the optimum domicile for McDonald's Group's insurance operations is Bermuda. Therefore, McDonald's Group formed a new insurance undertaking in Bermuda, GAIL, which was incorporated on 14 April 2020. GAIL commenced issuing coverage from 1 July 2020, coinciding with GAIDAC ceasing to renew business as at 1 July 2020.

It is intended therefore that the vast majority of its business would be transferred to ZVA under the Scheme. There are some pockets of business that will not transfer under the Scheme (see section 5 for full details). Those pockets of business are:

- the Inwards Reinsurance Policies;
- GAIDAC's outwards reinsurance arrangements;
- the UK Portfolio; and
- the US Policies.

2.1.2 Policyholders Affected

I have considered the effects of the Scheme on the following policyholders:

- the transferring policyholders of GAIDAC, and
- the existing policyholders of ZVA.

Note as referenced in section 2.1.1, there are some pockets of business that are not transferring under the Scheme. My understanding is that the obligations to these remaining policyholders will be extinguished via commutation and/ or novation.

2.1.3 Process Followed

My approach to assessing the likely effects of the Scheme on policyholders was to:

- Understand the businesses of the Companies; and
- Understand the effect of the Scheme on the assets, liabilities and capital (on the regulatory basis) of the Companies and their respective businesses.

Having identified the effects of the Scheme on both Companies and their respective businesses, I then:

- Identify the group(s) of policyholders directly affected;
- Consider the impact of the Scheme on the security of this group of policyholders;
- Consider the impact of the Scheme on the security of benefits of this group of policyholders; and
- Consider other aspects of the impact of the Scheme (for example, policyholder service and any changes in administration or other arrangements).

In order to consider the effect of the proposed Scheme on each of the companies and the impacted policyholders, I have been provided with financial information for each legal entity. Specifically, the key GAIDAC year-end numbers I have used (i.e. SCR, balance sheet and technical provisions from the AOTP, SFCR and QRTs; see Glossary in Appendix E) for 2023 have been externally audited, as this is a requirement in Ireland. The Own Risk and Solvency Assessment (“ORSA”) is subject to an opinion, which has been performed by the AON Actuary Mark Malone PhD and has been provided.

For ZVA, I have used similar year-end reports and data, and also the ORSA projections from the ZVA 2023 Board approved ORSA Report. For completeness please note that the SFCR for ZVA is also subject to external audit, but the ORSA is not subject to an Actuarial Opinion (that is a uniquely Irish requirement). I rely instead on the internal governance process in relation to the production of the ORSA.

The following summarises the financial information I was provided with:

- GAIDAC’s historical financial information based on audited financial statements and regulatory submissions to the Central Bank, focusing in particular on the calculations of Solvency II regulatory capital;

- ZVA's translated 2023 financial information based on audited financial statements and regulatory submissions to the FMA, focusing in particular on the calculations of Solvency II regulatory capital;
- ZVA's projected financial information extracted from their 2023 ORSA;
- For GAIDAC, the Actuarial Opinion on Technical Provisions Report (2023) and other Actuarial Opinions in relation to the ORSA, Underwriting and Reinsurance (2023);
- Split reserves as at the Year-end 2023 for GAIDAC between that transferring under the Scheme and other;
- Financial information in respect of the ultimate parent Zurich and the reinsurers; and
- In forming my opinion, I have raised queries with key personnel responsible for core functions in the companies and have placed reliance upon their answers.

In order to satisfy myself that the data provided are an appropriate basis on which to form an opinion, I have considered:

- The appropriateness of the methods used by the Companies to calculate the estimate of regulatory reserves and regulatory capital required; and
- The stress and scenario testing currently performed by ZVA to understand its post Scheme regulatory capital strength and whether further testing is required.

I have also considered the different capital support arrangements available that might be drawn upon to manage adverse events which may impact the financial position of the Companies.

In addition, I have been provided with other non-financial information specifically relating to the Scheme including:

- Background to the Scheme;
- Company and Group structures;
- An overview of the risk and governance frameworks in place in both Companies;
- An overview of the companies' approach to Treating Customers Fairly;
- Documentation outlining any recent discussions the Companies have had with the Central Bank and the FMA;
- For the transferring policyholders, I have also considered the impact of compensation schemes before and after the Scheme.

Appendix A includes a list of all information provided.

2.2 The impact of the Scheme on the policyholders of each of GAIDAC and ZVA

I am satisfied that the proposed Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the transferring GAIDAC Policyholders or the existing ZVA policyholders.

The balance sheets I have reviewed for GAIDAC and ZVA respectively show the past balance sheet as at 31 December 2023 for GAIDAC and ZVA, and projected balance sheets for ZVA for 2024 to 2026.

I have reached the above conclusion by considering:

- the reserves of GAIDAC as 31 December 2023;
- the Solvency II regulatory capital of both Companies as at 2023 and projected Solvency II regulatory capital for ZVA for year-ends 2024 to 2026;
- the operation of compensation schemes pre- and post- Scheme;
- the risk exposures in the Companies and the impact that the Scheme might have on those;
- the financial strength of both ultimate parent companies, Zurich Insurance Company and McDonalds; and
- the impact of the Scheme on non-financial aspects (e.g. standards of policy servicing in each of the Companies).

I concluded that:

- The reserves of GAIDAC and ZVA appear reasonable as at 31 December 2023;
- The Solvency II regime, which applies to both Ireland and Austria, ensures a consistent valuation approach to technical provisions across the EU. Therefore, I believe that any difference in reserving approach will not have a materially adverse impact on the transferring GAIDAC business.
- Based on the balance sheet projections for ZVA, I am comfortable with the ZVA 2023 ORSA stresses, and therefore am comfortable with the strength of its balance sheet over the ZVA plan period from 2024 to 2026.
- Given that the transferring liabilities will be 100% reinsured ultimately to GAIL in Bermuda, via Zurich Insurance Company Ltd in Switzerland, I can reasonably deduce that the ZVA balance sheet is well placed to absorb the transferring business.

2.3 The impact of the Scheme in respect of other matters

From discussion with senior management of GAIDAC, I am satisfied that service levels will be at least as beneficial post the Scheme for the transferring policyholders.

In addition, GAIDAC provided me with documentation in relation to Treating Customers Fairly, in particular in relation to complaints handling. GAIDAC adopts a comprehensive approach to this and has confirmed to me consistent treatment for the transferring business in ZVA post the Scheme relative to their treatment in GAIDAC.

I have been informed that the Scheme is not expected to have tax implications that would affect either of the Companies or the impacted policyholders identified above, in relation to impacting the security of policyholders' contractual rights.

I have been provided with an estimate of the external costs of the Scheme. I consider it unlikely that the costs of the Scheme will be such as to jeopardise the security the transferring policyholders.

2.4 The Approach to Communication to Policyholders

The intended approach that GAIDAC plan to take in communicating information about the proposed Scheme to the affected policyholders and other parties is set out in Section 7.

The main objectives of the communications are to:

- ensure that policyholders and other interested parties receive sufficient and clear information on the Scheme and its effect and implications for them;
- enable recipients to make an informed decision as to whether they wish to make representations to the Court in relation to the Scheme, and the process to follow should they wish to do so; and
- enable recipients to understand any impact on the claims process and their ability to claim.

I believe the proposed approach to communication with policyholders and other interested parties as detailed in this Report including the dispensations sought to be both proportionate and reasonable. It is proposed that only the impacted GAIDAC policyholders will be notified, as there will be negligible impact on existing ZVA policyholders. In making this statement I note that it is for the Court to approve the notification arrangements.

I have also reviewed the policyholder communication pack including the letter to policyholders; the Scheme document setting out the terms of the proposed Transfer; this Independent Actuary's report and the notice of the proposed Transfer. No material issues arose in my review of the final draft communication pack.

2.5 Key Assumptions

In conducting my analysis, I have made the following key assumptions:

- ZVA will retain solvency levels within their risk appetite up to the Effective Date and over the plan period to 2026. In the event of an unanticipated shock in the interim, they will instigate management plans as outlined in the ORSA to remediate the position;
- Service levels will not be impacted by the Scheme;
- For the policyholders of GAIDAC moving to ZVA under the Scheme, their liabilities will be 100% reinsured to GAIL in Bermuda, via Zurich Insurance Company Ltd in Switzerland, providing additional security over and above that of the ZVA balance sheet;
- No significant additional tax liabilities will arise as a result of the Scheme for any of the Companies in relation to impacting the security of policyholders' contractual rights;
- ZVA has no intention to change its plan to accept the transferring policies (subject to appropriate requirements as detailed in section 2.1), or to carry out any restructuring of their businesses as a result of the Scheme;
- As noted earlier, in addition to the portfolio of policies transferred under the proposed Scheme, GAIDAC intends to commute or novates some pockets of business outside

the arrangements detailed in the proposed Scheme. Therefore, all existing policyholders of GAIDAC will (a) become policyholders of ZVA as a result of the Scheme or (b) will have their coverage novated or commuted outside the arrangements detailed in the proposed Scheme; and

- While the Scheme allows for Excluded Policies, none are expected at this time. In the event that such policies are identified I will address them in a Supplementary Report.

The above assumptions underlie the analysis and conclusions in my Report. If these assumptions were to change, my opinion may also change. At the time of writing my Report, the above assumptions are the current intentions for the Scheme and the Companies, as informed to me by GAIDAC and ZVA. If there are any changes to these assumptions, I will consider and comment in my Supplementary Report.

2.6 Supplementary Report

This Report is based on information provided to me on or before 4 July 2024 and therefore reflects a point in time view of the proposed transfer. My understanding is that GAIDAC and ZVA intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing at which the Court will be asked to consider and sanction the proposed Scheme. My Supplementary Report will contain an update on any developments that may have occurred since 4 July 2024. In my Supplementary Report, I will review my findings and opinion which will include consideration of the following:

- Update on ZVA solvency levels relative to their risk appetite statement and the projections in this Report;
- Business performance in the period and updated regulatory and financial information for both GAIDAC, ZVA and reinsurers including relevant actuarial reporting;
- If there were any changes to the assumptions underpinning my Report as noted in Section 2.5;
- Confirmation of the reinsurance arrangements between ZVA, Zurich Insurance Company Ltd in Switzerland and ultimately GAIL;
- Review of any responses from policyholders to the communications issued in respect of the transfer;
- Update on wider market and regulatory developments;
- Review of additional main financial reports produced in the intervening period, e.g. ORSA reports, quarterly management reports, quarterly regulatory filings; and
- Review of all relevant correspondence with impacted Regulators.

Other issues may of course arise, and these will be factored into such a Report.

If required to be produced, this Supplementary Report is intended to be made available alongside this Report at the registered offices of The Companies as soon as is practicable once it has been issued.

2.7 Conclusions

In my opinion, provided the proposed Scheme operates as intended and ZVA retains solvency levels within their risk appetite up to the Effective Date, and I have no grounds for believing that it will not do so:

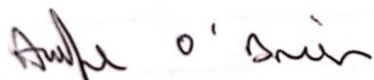
- The security of benefits to the impacted policyholders of GAIDAC and the existing policyholders of ZVA will not be materially adversely affected by the implementation of the Scheme on the Effective Date; and
- The Scheme will not materially adversely impact on the service standards experienced by the transferring policyholders of GAIDAC and the existing policyholders of ZVA.

I will review my analyses and conclusions in the light of any relevant information of which I become aware prior to the High Court hearing to sanction the Scheme, and I will summarise my additional review and conclusions, explaining any revisions to those contained within this Report, in a Supplementary Report.

My opinion in relation to transferring GAIDAC policyholders is based on:

- My review of all the pertinent historical, current and projected information provided by GAIDAC and ZVA; and
- Discussions with the management of GAIDAC and ZVA on what will happen post-transfer.

I note that there is adequate planned communication of the Scheme to the relevant policyholders.



05 July 2024

Aoife O'Brien, FSAI

Date

*Independent Actuary
KPMG in Ireland*

3 Golden Arches Insurance Designated Insurance Company

3.1 Overview

GAIDAC was incorporated in Ireland as a private limited company on 9 June 1993 under the name Golden Arches Insurance Limited and under company number 203703. On 11 May 2016, Golden Arches Insurance Limited converted to a Designated Activity Company in accordance with the Companies Act 2014. GAIDAC's registered office is at Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland.

GAIDAC is a non-life insurance undertaking authorised by the Central Bank pursuant to the 2015 Regulations to carry on non-life insurance and reinsurance business in the designated Solvency II Classes of 1 (Accident), 2 (Sickness), 3 (Land Vehicles), 7 (Goods in Transit), 8 (Fire and Natural forces), 9 (Other Damage to Property), 10 (Motor Vehicle Liability), 13 (General Liability) and 16 (Miscellaneous Financial Loss), as described in Schedule 1 to the 2015 Regulations. That authorisation remains in full force and effect.

The total gross technical provisions for GAIDAC as at year-end 2023 were €23.0m (per the 2023 GAIDAC SFCR Section D.2). GAIDAC is well capitalised with an SCR coverage ratio of 172% at 31 Dec 2023. GAIDAC is currently forecast to rise to and remain above 200% SCR coverage throughout the business plan forecast to the end of 2024.

GAIDAC is a direct wholly owned subsidiary of McDonald's Europe Limited, a company incorporated in the United Kingdom under company number 05206138 (MCD Europe). MCD Europe is an indirect wholly owned subsidiary of McDonald's Corporation a company incorporated in the United States of America. The McDonald's Corporation is listed on the New York Stock Exchange with a market capitalisation of US\$119bn (as at 19 April 2024) and a credit rating of BBB+ (S&P Global Ratings).

GAIDAC is a direct wholly owned subsidiary of McDonald's Europe Limited, a company incorporated in the United Kingdom under company number 05206138 (MCD Europe). MCD Europe is an indirect wholly owned subsidiary of McDonald's Corporation a company incorporated in the United States of America.

The McDonald's Group is one of the world's largest restaurant chains and is headquartered in Illinois, USA.

3.2 Nature of business written

GAIDAC insured, on a direct and fronted basis, various products detailed below in 3.2.1 for McDonald's Corporation and its Franchisees/Licensees, as well as some Ronald McDonald Charity Houses. Material geographic areas in which GAIDAC has carried out business are Europe, the Middle East, Asia, Australia and Central and South America.



More specifically, GAIDAC has written property and liability business in approximately 100 territories worldwide. The majority of these policies inception on 1 July each year and ran for 12 months.

In many territories the business written by GAIDAC is fronted by Zurich and various local retentions are in place. GAIDAC also has written a significant portion of business directly, with the majority of the direct business being in countries within the European Union.

The insurance GAIDAC provided in Australia and New Zealand sits above the primary cover provided by MAFIP, a mutual insurer covering McDonald's and its licensees in these territories.

From 1 January 2017 to 31 December 2020 GAIDAC provided cover to UK stores (both McDonald's owned and franchisees) on an excess basis. GAIDAC also provided fronting for the primary layer for EL, ceding risk to FRIES (a reinsurer based in Guernsey). These policies ran on a calendar year basis.

From 1 November 2017 to 31 October 2020 GAIDAC provided global intellectual property liability cover.

From 1 July 2019 to 30 June 2020 GAIDAC provided cover to Ireland franchisee stores retaining risk on an excess basis and ceding the primary layer to FRIES. GAIDAC continued to write cover for McDonald's owned Ireland stores directly.

From 2018 to 2020, GAIDAC wrote a terrorism policy to provide cover in cases where other property policies issued exclude terrorism. This cover is fully reinsured and so there is nil net retention.

As GAIDAC ceased to write new business and renew existing business since its last policy expired in June 2021, the GWP is zero in 2023. Therefore to illustrate the geographical spread, I show below the statutory technical provisions by main territory (Europe, Asia, Oceania and the US) as at year-ends 2022 and 2023. Note that third party liability reserves make up almost 90% of the total technical reserves.

Table 3.1: GAIDAC Net Technical Provisions (Statutory) by class and main territory						
\$000s	Fire and Other Damage to Property		Third Party Liability		Total	
	2023	2022	2023	2022	2023	2022
Risks located in						
Europe	2,087	8,804	9,129	6,707	11,216	15,511
Asia	169	645	177	471	346	1,116
Oceania	0	1	5,038	6,058	5,038	6,059
US	0	0	3,179	4,058	3,179	4,058
Net Technical Provisions (Statutory)	2,256	9,450	17,523	17,294	19,779	26,744

Source: GAIDAC SFCR A.2 Performance

3.2.1 Products

GAIDAC commenced writing policies on 1 September 1993 and, since that time, has insured, on a direct and fronted basis, a variety of different coverages, including property damage, business interruption, general liability, employers' liability, crime, personal accident, intellectual property liability, motor, nuclear, biological, chemical and radiological (sometimes referred to collectively as NBCR), terrorism, builders' risk, loss of license, workers' compensation and auto risks for the McDonald's Group and its franchisees as well as Ronald McDonald charities houses. GAIDAC ceased to renew business as of 1 July 2020.

Pricing

As the company ceased to renew business since its last policy expired in June 2021, the pricing of products is not of concern to me. A similar comment was made in the Actuarial Function underwriting opinion where they stated "As GAIDAC underwrites no new businessthere are no relevant considerations with respect to underwriting methods and models."

3.2.2 Assets

Table 3.2 summarises the profile of GAIDAC's assets, valued on a Solvency II basis, from 31 December 2021 to December 2023.

Table 3.2: GAIDAC Assets by Asset class			
\$s	2023	2022	2021
Deposits other than cash equivalents	18.8	31.4	40.1
Cash and cash equivalents	15.9	19.1	24.5
Reinsurance recoverables	2.9	3.7	6.4
Other	0.2	0.2	0.1
Total Assets	37.8	54.4	71.1

Source: GAIDAC SII returns YE 21 to 23; SE.02.01.17.01 Balance sheet

Table 3.2: GAIDAC Assets by Asset class			
\$s	2023	2022	2021
Deposits other than cash equivalents	18.8	31.4	40.1
Cash and cash equivalents	15.9	19.1	24.5
Reinsurance recoverables	2.9	3.7	6.4
Other	0.2	0.2	0.1
Total Assets	37.8	54.4	71.1

Source: GAIDAC SII returns YE 21 to 23; SE.02.01.17.01 Balance sheet

Overall, GAIDAC operates a low investment risk environment with all assets invested in highly liquid investments. GAIDAC diversifies its portfolio to reduce the exposure to market fluctuations and matches the profile of the assets backing liabilities to those liabilities. GAIDAC currently invests only in cash and short-term deposits across a number of credit institutions. The Company has an investment strategy in place in line

with its Risk Appetite Framework and the related 'Prudent Person' regulatory requirements.

3.3 Risk Profile and management

3.3.1 Risk Framework and Overview of risks

The Risk Appetite Framework adopted by the Board sets out the level of risk that GAIDAC is prepared to accept in the pursuit of its strategic objectives. It sets out:

- GAIDAC's overall philosophy to risk taking and the expectations of shareholders;
- GAIDAC's tolerance to loss of capital, profit volatility and other specified measures; and
- the risk limits that are acceptable in terms of exposures to different types of risk.

GAIDAC's Risk Register combines operational and risk management processes to deliver a descriptive analysis of material risks threatening at least one of GAIDAC's strategic objectives.

The Board's annual ORSA process is based on GAIDAC's current and expected risk profile over the business planning period and supports the Board in achieving its strategic objectives by taking a structured and combined approach of strategy, risk management and capital management.

The Chief Risk Officer ("CRO") reports to the Board on a quarterly basis on the Risk Management Framework. GAIDAC is exposed to the following risks:

Reserve Risk:

As stated previously, from 1 July 2020, it was confirmed that GAIDAC would cease to write or renew business. Therefore one of the main risks GAIDAC is exposed to is reserve risk.

The risk of GAIDAC holding insufficient reserves to cover claims is low by nature of the good claims history, annual aggregate retention limits, reinsurance cover in place and stable loss trends over recent years. An actuarial review is undertaken annually by GAIDAC's external HoAF to assess the adequacy of GAIDAC's reserves. As part of the year-end audit process, external (independent) attestation to the reserve balances carried is received.

I address this risk in further detail later in this report in:

- 3.3.2 Governance where I describe the role of the Actuarial Function and the Head of Actuarial Function;
- 3.3.4 Risk Sensitivities where I describe impact of large events (including large claims) on the SCR coverage; and
- Chapter 6 where I describe the reserve strength of GAIDAC.

Underwriting Risk:

GAIDAC underwrote contracts that transfer insurance risk. The risk of an insurance contract is the possibility that the insured event occurs and the uncertainty that the premium written does not cover the amounts payable under that contract.

GAIDAC mitigated its exposure to catastrophe type property losses, by purchasing outwards reinsurance with a vertical limit sufficient to cover its maximum probable loss. It protected its exposure to large attritional losses through the purchase of outwards reinsurance, excess of an annual aggregate retention, the amount of which GAIDAC can sustain without unduly endangering its capital base. Reinsurance was also arranged on a “per occurrence” basis in order to mitigate the effect of loss events affecting McDonald’s locations concentrated within any particular geographic location.

Exposure to large liability losses was mitigated through the purchase of outwards reinsurance having an attachment point at a suitable level to protect the Company against the impact of extraordinarily large claims.

Credit Risk:

Credit risk is the risk that one party to a financial instrument or financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss.

Amounts due from intercompany receivables relate to premium and other receivables from Group companies and companies within the McDonald's system. The S&P credit rating of McDonald's Corporation is BBB+.

GAIDAC utilises custodians deemed to be of high credit quality to hold its cash and cash equivalents and deposits with credit institutions, and additionally has limits in place in relation to the amount of cash which can be held by any one financial institution.

GAIDAC also recognises the credit risks associated with its reinsurance arrangements. It manages its reinsurance risks by establishing a reinsurance strategy that sets out the required minimum-security ratings of its reinsurers.

Market Risk:

The risk of future changes in market prices, which would result in devaluation of investable assets, may result from several factors, including, but not limited to, value, liquidity, duration, composition, interest rates, foreign exchange rates and market fluctuations.

Management diversifies its portfolio to reduce the exposure to market fluctuations and matches the profile of the assets backing liabilities to those liabilities. GAIDAC currently invests only in cash and short-term deposits across a number of credit institutions.

There are investment restrictions detailed in the Risk Appetite Statement (the “RAS”) to protect against market risk, such as:

- Six-month maximum duration with at least 50% of funds held for maximum of two months to cover current liabilities; and
- Quarterly matching of balance sheet currency exposures (All assets matched with liabilities in local currency) in arrears.

Operational Risk:

Operational risk entails the potential exposure of GAIDAC to incidences of fraud, material error or delay in the processes of GAIDAC, regulatory sanction and compliance breaches. Operational risk is managed by a strong governance structure in place, which includes the extensive oversight of the shareholder, Board of Directors, executive management and key outsourced service providers.

In addition, GAIDAC has established an Audit Committee and a Risk Committee and is subject to Internal Audit and External Audit and compliance reviews. GAIDAC uses leading service providers, including Aon, Crawford, EisnerAmper Ireland and Artex Risk Solutions UK Ltd, as well as the services of McDonald's to provide its key outsourced functions and to minimise the risk and impact of any material error or delay.

Liquidity Risk:

GAIDAC is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. Liquidity risk is minimised by investing primarily in highly rated short-term deposits which GAIDAC deems to be very liquid.

Strategic Risk

GAIDAC's main strategic risk per its Risk Register is external factors that might derail its plan to transfer the business. GAIDAC is therefore heavily focussed on the appropriate execution of its exit strategy with oversight from the Shareholder, CEO, Board and Aon.

3.3.2 Governance

System of Governance

In order to meet the requirements for sound corporate governance, ensuring efficient conduct of business and to protect the interests of GAIDAC's stakeholders, GAIDAC has a comprehensive Governance and Risk Management system in place.

It is the responsibility of the Board of Directors to ensure that risks are fully understood and appropriately managed in accordance with this framework. Risk management, reporting and auditing processes reflect the requirements set out in this Governance system.

The Governance and Risk Management System of GAIDAC effectively relies on four cornerstones:

- Governance Framework, aligned with GAIDAC's strategic objectives, providing oversight by the Board and Committees, clear ownership and accountability for risks, as well as clear escalating and reporting channels;
- Risk Management System which details GAIDAC's strategic objectives in documented risk policies. For each risk, limits and operational checkpoints as well as functional identification mitigation and monitoring processes are documented;
- A series of Internal Controls, defining the architecture of processes required to manage GAIDAC in accordance with its Governance and risk management framework; and

- A Risk Register combining operational and risk management processes to deliver a quantitative and qualitative analysis of material risks threatening at least one of GAIDAC's strategic objectives.

In addition, GAIDAC has established an Audit Committee and a Risk Committee. Further it is subject to Internal Audit and External Audit and compliance reviews.

Fit & Proper requirements

The 'Fit and Proper' requirement is the standard required by the Central Bank of Ireland when appointing control function holders and pre-approved control function holders. GAIDAC is satisfied that appointed individuals performing such control functions meet all relevant regulatory requirements and have a suitable level of training and qualification to enable them to carry out their respective duties.

Risk management system including the Own Risk and Solvency Assessment

The Risk Management System of GAIDAC comprises the following:

- Risk management strategy; which sets out the risk management objectives, principles, risk appetite and tolerance and assignment of risk management responsibilities across all the activities of GAIDAC consistent with GAIDAC's strategic objectives;
- Risk management policies: define the material risks faced by the undertaking, and sets out how the risk management strategy and the relevant risk appetite shall be implemented across that risk class and the controls and mechanisms that will be put in place;
- Risk management processes and procedures: sets out the processes and procedures that GAIDAC employ to identify, assess, manage, and monitor material risks GAIDAC is, or might be exposed to (emerging risks) and how these risks are reported; and
- ORSA process: the at least annual process of assessing all the risks inherent in the business and thereby determining the corresponding capital needs.

Internal control system

The Internal Control System embedded in the Company's operations is a mix of processes undertaken by the Company to provide reasonable assurance that its strategic objectives will be achieved. In order to achieve the aforementioned objectives, the Internal Control framework of the Company is structured around five complementary components.

- Control Environment
- Risk Assessment
- Reporting Channels
- Monitoring processes
- Control Activities

To set out how the Internal Control System is implemented, the Company's processes and related control activities are documented, monitored and reviewed on a regular basis.

These items are approved by the Board of Directors and evaluated by the Internal Audit Function. They are reviewed by the Board as often as necessary but at least once a year.

Compliance function

The Company has outsourced its Compliance Function to its Insurance Managers, AON. The Board have appointed a Head of Compliance who is responsible for overseeing all compliance activities and ensuring the Compliance Function of the Company is adequately resourced. The Compliance Function reports to the Board at each Board meeting on its activities. The Compliance Function is an integral component part of the internal control system of the Company and is responsible for compliance with the internal control system.

Internal audit function

The purpose of the Internal Audit Function is to serve as an independent function that objectively evaluates and recommends improvements in the Company's Internal Control System by facilitating an objective and independent assessment.

It assists the Company in accomplishing its objectives by bringing an independent, systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes employed by the Company.

The Board develops effective policies and practices and takes appropriate corrective action in response to significant weaknesses identified by internal and external auditors.

Actuarial Function

The Actuarial Function is carried out by AON UK Limited. Roles and responsibility of the Actuarial Function are clearly laid out in the Solvency II regulations and briefly include:

- coordination of the calculation of technical provisions;
- consideration of the interrelations between the underwriting policy, reinsurance arrangements and technical provisions when providing its opinion should;
- reporting in writing at least annually to the Board of Directors.
- contribution to the effective implementation of the Risk Management System in particular:
- provision of an Actuarial Opinion to the Board of Directors in respect of the ORSA

The HoAF role is a Pre-Approval Control Function ("PCF") role, which requires Central Bank approval. Mark Malone PhD, FIA, FSAI was approved as GAIDAC's HoAF in a letter from the Central Bank dated 29 July 2016.

The role of the HoAF is regarded as a key control role by the Central Bank. Per the Central Bank guidance note issued in 2016:

- The skills and experience of the HoAF can provide a different perspective than that of other experts within the undertaking and this perspective, when communicated to the Board, can help to ensure that the Board is fully informed.
- The HoAF is expected to make appropriate enquiries in order to provide informed opinions to the Board. This is not intended to imply that the HoAF is expected to duplicate the work of others or assume responsibilities that rest more appropriately with other functions. Where work has been performed by others which, in the opinion of the HoAF, might assist him or her in meeting his or her responsibilities, he or she may decide to consider this work for the purposes of meeting his or her responsibilities.
- Each undertaking is expected to ensure that the HoAF has the necessary access to such information and resources, including appropriate authority and reporting lines, as he or she may require for the purpose of providing the opinions and performing the tasks allocated to him or her, in particular those specified under the 2015 Regulations and the Central Bank Requirements.
- The HoAF is expected to identify any significant deficiencies or areas for improvement in the information made available to him or her by the undertaking, for the purposes of assisting him or her in the task of expressing opinions on the underwriting policy and the reinsurance arrangements and the contribution to the effective implementation of the risk management system.
- Where the HoAF has a material concern regarding any issue covered by his or her work, he or she is expected to draw the Board's attention to that.
- The HoAF is also expected to indicate any material limitations and the extent and basis of any material reliance on work performed by others in meeting his or her responsibilities. In the Actuarial Function Report 2023, the HoAF stated that he had not identified issues requiring action by the Board from the tasks completed by the Actuarial Function during 2023.

3.3.3 Risk Appetite

Risk Appetite, Tolerances and Limits

The Risk Appetite Framework adopted by the Board sets out the level of risk that the GAIDAC is prepared to accept in the pursuit of its strategic objectives. It sets out:

- GAIDAC's overall philosophy to risk taking and the expectations of shareholders;
- Its tolerance to loss of capital, profit volatility and other specified measures; and
- the risk limits that are acceptable in terms of exposures to different types of risk.

As defined in GAIDAC's Risk Management Strategy, the process for setting the risk appetite of GAIDAC on an ongoing basis is:

- Set out the strategic objectives;
- Identify the risks which may affect the Company's ability to achieve the strategic objectives;

- Determine the risk measurement basis for each risk;
- Determine the target risk appetite across each risk class;
- Set the risk tolerance for each risk;
- Embed the risk appetite in the company's decision-making process; and
- Monitor and report deviation from the defined risk appetite.

The Risk Appetite Statement is reviewed at each Board/Risk Committee meeting. The Company reviews a risk appetite dashboard at each Board/Risk Committee meeting which shows the actual risk metric results for each risk metric defined in the risk appetite statement versus the risk metric appetite set.

Statement of Risk Tolerance and Responsibility

To clarify the distinction between risk appetite and risk tolerance, the risk appetite contains qualitative and quantitative statements that define the general attitude within the organization towards the desired level of risk.

The term risk tolerance denotes the maximum level of variation from this desired level of risk that the Company is prepared to accept.

Risk Appetite – Breaches

- In the event of a risk appetite breach, the breach will be initially reported to the CEO. The CEO will communicate the breach to the Risk Committee with a proposed remedial action, if required. The Risk Committee will assess the breach and associated remedial action and report to the Board of Directors at the next Board Meeting.

Risk Tolerance - Breaches

- In the event of a risk tolerance breach (a material deviation from the defined risk appetite), the breach will be initially reported to management (the CEO) and the Compliance Officer. Management will communicate the breach to the Risk Committee with a proposed remedial action. The Risk Committee will assess the breach and associated remedial action and report to the Board of Directors within 3 business days of management becoming aware of a deviation.
- The Board of Directors shall communicate to the Central Bank in writing (and no later than 5 business days of the Board becoming aware of the deviation) the details of the deviation and the appropriate action to remedy the deviation.

The Risk Appetite is a comprehensive document covering the key areas I would expect including:

- Underwriting and Reserving
- Asset Liability Management
- Investments
- Liquidity and concentration
- Operational Risks
- Reinsurance and other mitigation
- Strategic Risk

3.3.4 Risk Sensitivities

As part of its regular ORSA and risk management process, GAIDAC conducts stress and scenario testing of the material risks to which it is exposed. Specifically for the 2023 ORSA, as GAIDAC ceased to write or renew business after the last policy expired in June 2021, the ORSA concentrated on the most significant threats to the Company's current strategy, based on the significant risks as per its risk register.

For completeness I note in the years prior to GAIDAC ceasing to renew business, GAIDAC ran many more stresses related to the business they were writing such as:

- Loss of two largest exposures;
- Four \$5m losses in one year;
- Full intellectual property loss of \$20m;
- Multiple terrorism losses; and
- Zurich downgrade by three notches etc.

For the 2023 ORSA (approved by the Board on 6th Dec 2023), GAIDAC concentrated on two stresses most relevant to the execution of its exit strategy:

- Stress scenario 1 – Reverse stress scenario on how much adverse claim development is needed to breach 120% (\$12.5m loss) and 100% SCR (\$15m loss).
- Stress scenario 2 – Delayed base case scenario where legal fees are significantly higher than budgeted.

In the case of stress 1, GAIDAC has commented that this scenario was designed to determine the level of losses that would be required to cause the solvency ratio reaching both 120% and 100%. GAIDAC deemed the likelihood of such an increase in losses to be very limited, and therefore that no additional capital planning is required.

In the case of stress 2, GAIDAC also commented that it is not anticipated that the transfer of the liabilities and ultimate withdrawal of authorisation process will extend into 2025 and 2026. It is also not anticipated that such level of fees will be incurred by the Company. Therefore, GAIDAC is comfortable that no additional risk mitigation measures are required.

The HoAF opined in their 2023 Opinion on the ORSA:

"We believe that the range of stress scenarios included in the ORSA represent a fair assessment of the downside risks to which GAIDAC will be exposed over the planning horizon. In our opinion the stresses considered are of sufficient severity that they provide a reasonable understanding of the potential risks to which GAIDAC is exposed."

I concur with these conclusions.

3.3.5 Risk Issues

The current risk register (i.e. list of open risks updated 11th March 2024) for GAIDAC was shared with me and I considered this as part of my review. I note that the risk categories

are consistent with the Risk Appetite categories and the register details sets of risks under each risk category.

Specifically under strategic risk, the register focusses on appropriate execution its exit strategy.

3.4 Outsourcing

In order to provide a cost-effective service to policy holders and shareholders, GAIDAC operates on the basis of an outsourced model similar to that typically employed by captive insurance companies.

Prior to appointment of new outsourced service providers (OSPs) to critical or important functions, due diligence is carried out in accordance with the Company's outsourcing policy. The results of the due diligence performed are received, reviewed and collated by the Chief Executive Officer ("CEO") and reported to the Board for their consideration.

Annual reviews of existing providers of critical or important functions are conducted by a combination of the CEO, AON and the Head of Claims whereby performance is evaluated against agreed key performance indicators. The results of the reviews are then presented by the CEO to the Board along with any concerns that may be raised and any suggested remedial action if required. No significant deficiencies were noted in 2023.

Service level agreements and due diligence procedures are drafted in compliance with Article 274 of Commission delegated Regulation (EU) 2015/35 and the Central Bank's own Notification Process for (Re) Insurance Undertakings when Outsourcing Critical or Important Functions or Activities under Solvency II.

Outsourced critical or important operational functions or activities are as follows:

- Claims handling;
- Insurance management;
- Actuarial;
- Finance;
- IT Services;
- GDPR Support;
- Risk management; and
- Internal audit.

3.5 Reinsurance

3.5.1 Overview of reinsurance

For both property and liability, GAIDAC retained a flat excess of loss amount of each individual claim, subject to an aggregate protection. If the aggregate is ever breached, then the excess of loss on subsequent claims is reduced dramatically. This programme design therefore provides strong protection against individual large claims, and multiple large claims.

Specifically, for property, GAIDAC retains the first \$10m of each and every loss (including Claims Handling Expenses (“CHE”)). The GAIDAC retention is subject to an annual aggregate stop protection of \$35m. After the erosion of the annual \$35m aggregate, the GAIDAC retention drops down to \$500k each and every loss (incl. CHE).

For liability, GAIDAC retains the first \$3m of each and every loss (incl. CHE). The GAIDAC retention is subject to an annual aggregate stop protection of \$12m. Only claims costs between \$50,000 and \$3m contribute towards the aggregate. After the erosion of the annual \$12m aggregate the GAIDAC retention drops down to \$1m each and every loss (incl. CHE).

FRIES

FRIES is a McDonald’s owned reinsurer based in Guernsey. From 1 January 2017 to 31 December 2020, GAIDAC provided cover to UK McDonald’s owned stores and franchisees on an excess basis. GAIDAC assumes liability for individual claims in excess of £100k and aggregate claims above £8.1m and £3m for liability and property losses respectively. The UK EL claims within the retentions described above are fronted by GAIDAC and reinsured 100% to FRIES before being subject to the programme above.

From 1 July 2019 to 30 June 2020, GAIDAC provided cover to Ireland franchisee stores on an excess basis. GAIDAC assumes liability excess €100k of each claim and above €3m for aggregate liability and property losses respectively. All Irish Franchisee claims within the retentions described above are fronted by GAIDAC and reinsured 100% to FRIES before being subject to the programme above.

3.5.2 Ratings of reinsurers

GAIDAC’s reinsurance is provided by a broad panel of reinsurers rated A and above. Based on historical data, there is low risk of default of the reinsurers, with the default of any one reinsurer limited by GAIDAC’s purchasing of cover from multiple providers.

However some reinsurers have significant lines in the reinsurance policies, such as Zurich. Zurich has historically had a line of 38% on the property policy as well providing some cover in the higher liability layer. This represents a concentration of risk to GAIDAC, however the strong credit rating of Zurich limits that risk.

The exception to the above is FRIES. FRIES is an unrated reinsurer domiciled in Guernsey. As at 31 December 2023, a collateral arrangement was in place between FRIES and GAIDAC for £1.1m in respect of the UK EL business, and £0.4m in respect of the Irish franchisee business.

3.5.3 Actuarial Function Opinion on Reinsurance

In his actuarial opinion on reinsurance, the HoAF considers the appropriateness of the reinsurance arrangements under the headings volatility mitigation, historical performance, credit and liquidity risk, and finally concentration risk. His only qualification is in relation to concentration, where he points out that there is a significant concentration of reinsurance risk with Zurich, where Zurich for example retains 38% on the property

reinsurance policy, as well as providing some cover on the higher liability layer. However he does point out that the strong credit rating of Zurich limits this risk.

3.6 Financial Profile

3.6.1 Background

GAIDAC is regulated under the Solvency II regulatory regime, as transposed into Irish law. Similarly, ZVA, is regulated under the Solvency II regulatory regime, transposed into Austrian law. Therefore the Transferring Policyholders will be in a company with equivalent regulatory requirements after the Transfer.

For the purposes of comparing financial strength, I will look at the strength of both entities using the Solvency II basis.

3.6.2 Technical Provisions

Table 3.3 below summarises GAIDAC's Solvency II technical provisions at 31st December 2022 and 2023.

Table 3.3: SII Gross Technical Provisions as at YE 2022 and YE 2023		
\$m	2023 YE	2022 YE
Total Claims Reserves	22.4	29.1
Total Premium Reserves	0.0	0.0
Risk Margin	0.6	0.8
Total SII Technical Provisions	23.0	29.9

Source: GAIDAC SFCR D2 2023

GAIDAC forecasts that the settlement of the total claims reserve will be relatively slow, as almost 90% of the total claims reserves in table 3.3 relate to liability claims.

GAIDAC split the reserves for me between those that are expected to transfer under the Scheme and other reserves (which will be commuted / novated). As at year-end 2023, the reserves expected to transfer under the scheme are €10.811m gross and €10.078m net. The balance will transfer to GAIL in Bermuda, or be novated / commuted on or before the Effective Date. As at 4th July 2024, based on discussions with GAIDAC I understand there has been little movement in the expected Scheme transfer reserves since year-end 2023. I will revisit these numbers in my supplementary report, reporting on any changes up to that date.

3.7 Solvency Position

3.7.1 Solvency II Solvency Capital Requirement

Under Solvency II, firms must hold capital equal to the higher of the SCR or MCR. In GAIDAC's case, it is the SCR that applies.

GAIDAC use the Standard Formula approach to calculate their SCR. The SCR is determined by subjecting the overall balance sheet to a prescribed series of 1-in-200 year shocks and aggregating the impacts in a specific way. The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, the Technical Provisions, written premiums and administrative expenses. The MCR is also subject to an absolute minimum amount, specified in Euro terms.

Under Solvency II, the assets available to cover the capital requirements are referred to as "Own Funds", with the Own Funds reflecting the value of the net asset position of the firm. Comparing the SCR to the level of Own Funds gives an indication as to the level of solvency coverage within a firm.

Table 3.4 below sets out the regulatory capital position of GAIDAC, under the Solvency II framework at 31 December 2022 to 31 December 2023.

Table 3.4: SII Available OWN Funds and SCR/MCR coverage Ratios		
\$M	2023 YE	2022 YE
Eligible Funds to meet the SCR	13.0	25.7
SCR	7.6	9.5
SCR Coverage	171%	271%
Eligible Funds to meet the MCR	9.2	21.0
MCR	4.4	4.3
MCR Coverage	209%	488%

Source: GAIDAC SFCR YE 2023

As at 31 December 2023 the Solvency II returns showed total Own Funds available net of liabilities of GAIDAC were €13.0m, with a solvency capital requirement of €7.6m. There was a Solvency coverage ratio of 171%.

During 2023, there was adverse development on an open Intellectual Property Liability ("IPL") loss which resulted in the ultimate loss increasing by \$10m. As a result, the Company's eligible capital reduced during the 2023 financial year and caused the SCR ratio to reduce to 171%. However, as claims are settled in subsequent years, reducing the reserve risk element within the SCR, per the 2023 ORSA projections, the SCR reduces which results in the solvency ratio forecast rising to 248% in 2024. It is also noted in the ORSA that the parent McDonald's has agreed not to seek any interim dividend until the final solutions pertaining to the transfer / commutation of GAIDAC's liabilities are agreed.

Table 3.5 below sets out the breakdown of the solvency capital position of GAIDAC by risk category, under the Solvency II framework from 31 December 2022 to 2023. The

largest driver is non-life underwriting risk, which as GAIDAC ceased to renew business, is driven by the size of the claims reserve.

Table 3.5: SCR at YE 2022 and 2023		
\$m	2023 YE	2022 YE
Non-Life Underwriting Risk	4.7	5.3
Counterparty Risk	0.9	1.2
Market Risk	3.4	4.8
Diversification	-2.0	-2.7
Basic Solvency Capital Requirement	7.0	8.6
Operational Risk	0.7	0.9
Solvency Capital Requirement	7.6	9.5

Source: GAIDAC 2023 SFCR

3.7.2 Projected Solvency Position

I have considered GAIDAC's 2023 ORSA report, completed in December 2023. I have not reproduced the detail in this Report.

The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of GAIDAC, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of GAIDAC differs from the assumptions underlying the SCR. The ORSA should be an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of GAIDAC.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario to the end of 2024.

The stress and scenarios used in the ORSA were detailed earlier in 3.3.4 and are focussed on the most likely risks to GAIDAC in the context they have ceased to renew business. The details of each stress performed were outlined in section 3.3.4, and the findings from the ORSA illustrate the alignment between the business plan and risk strategy set by the Board. I note that GAIDAC maintains an appropriate level of solvency coverage ratio in all projection years to the end of 2024.

I have no issues to note from my review of the ORSA projections provided by GAIDAC. In the Actuarial Function Report, the HoAF also stated that in his opinion the stresses considered are of sufficient severity that they provide a reasonable understanding of the potential risks to which GAIDAC is exposed.

Given the risk profile of GAIDAC's business and the current level of available assets in excess of GAIDAC's minimum solvency capital requirement, the risk of insolvency and any risk to the security of policyholders is considered remote.

3.8 Treating Customers Fairly

GAIDAC has provided me with documentation in relation to Treating Customers Fairly (“TCF”). In this case, as no policies have been written since July 2021, TCF primarily refers to complaints handling in relation to claims. GAIDAC has informed me that in the event of receipt of a complaint (likely by either Aon as insurance managers or Crawford’s as global claims handlers in the first instance), this would be escalated to McDonald’s insurance team / GAIDAC Board members for investigation, review & remediation / response where needed and in line with required timescales.

3.9 Litigation

I have received an assurance from AON as Insurance Managers (“AON”) in relation to the nature of any litigation issues / exposures. AON has assured me that there are none currently impacting GAIDAC. AON has also provided assurance to me that if anything changes during the transfer, that they will inform me, as the Independent Actuary.

3.10 Other Regulatory matters

3.10.1 Central Bank

I have received the regulatory briefing pack that GAIDAC has provided to the Central Bank. I have also seen a summary of correspondence with the regulators in relation to the Scheme. I have also received an assurance on 26th June 2024 from GAIDAC that “our Compliance team has confirmed that there are no open issues (such as open regulatory inspection findings, regulatory fines and penalties) with the impacted regulators that we are aware of”.

Based on this information and discussions with GAIDAC management, I am therefore satisfied that there are no regulatory matters that would impact the execution of the Scheme.

3.10.2 Compensation Schemes

The Insurance Compensation Fund

The Insurance Compensation Fund, administered by the Central Bank since 2018, is primarily designed to facilitate payments to policyholders in relation to risks in the State of Ireland where an Irish authorised non-life insurer or a non-life insurer authorised in another Member State goes into liquidation.

The Financial Services & Pensions Ombudsman (FPSO)

The role of the FSPO is to resolve complaints from consumers, including small businesses and other organisations, against financial service providers and pension

providers. GAIDAC would be deemed a financial service provider, thus policyholders would be able to make a complaint to the FSPO.

The FSPO has wide-ranging powers to deal with complaints against financial service providers and can direct a provider to rectify the conduct that is the subject of the complaint. There is no limit to the value of the rectification that can be directed. The FSPO can also direct a provider to pay compensation to a complainant of up to €500,000.

Decisions are legally binding on both parties, subject only to an appeal to the High Court.

[Other compensation Schemes](#)

After discussion with GAIDAC and their legal advisors, where overseas residents with policies underwritten by GAIDAC would benefit from compensation from other territories, I believe this position is very unlikely to be altered by the Scheme.

4 Zürich Versicherungs-Aktiengesellschaft

4.1 Overview

ZVA was incorporated in Austria as a private limited company in 1910 under the name Kosmos Allgemeine Versicherungs AG. Its company register number in Austria is 89577g. In 1979, the name was changed to Zürich Kosmos Versicherungen AG, and, in 2002, to Zürich Versicherungs-Aktiengesellschaft. Zurich has its registered office at Leopold-Ungar-Platz 2, 1190 Vienna, Austria. According to its year-end 2023 SFCR (section D1 Assets), ZVA had total assets of over €2.7bn as at 31 December 2023.

ZVA is an insurance undertaking authorised by the Austrian Financial Market Authority pursuant to the 2015 Regulations to carry on non-life and life insurance and reinsurance business in the designated Solvency II Classes 1 (Accident), 3 (Land vehicles), 4 (Railway rolling stock), 5 (Aircraft), 6 (Ships), 7 (Goods in transit), 8 (Fire and Natural Forces), 9 (Other Damage to Property), 10 (Motor Vehicle Liability), 11 (Aircraft Liability), 12 (Liability for Ships), 13 (General Liability), 16 (Miscellaneous financial loss), 17 (Legal expenses), 18 (Assistance), I (Life), II (Marriage insurance and Birth insurance) and III (Unit linked and Index linked Life assurance).

The total gross technical provisions for ZVA as at year-end 2023 were €2.1bn (per the 2023 ZVA SFCR Section D). This is made up from €0.6bn non-life, €0.4bn unit linked, and €1.1bn remaining life. ZVA is well capitalised with an SCR coverage ratio of 200% as at 31 December 2022 and 182% at 31 Dec 2023. Per the year-end 2023 SFCR, the ZVA internal target range is between 150% and 180%. The dividend policy is based on this target solvency ratio, taking into account the development of own funds and the capital requirement.

ZVA is a direct wholly owned (99.98% to be precise) subsidiary of Zurich Insurance Company Ltd., a public limited company incorporated in Switzerland under company number CHE-105.833.114 (ZIC). ZIC is a direct wholly owned subsidiary of Zurich Insurance Group Limited (ZIG) a company incorporated on 26 April 2000 in Switzerland. ZIG is the ultimate parent company in the Zurich group of companies (the Zurich Group).

ZIG is listed on the Swiss Stock Exchange. ZIG does not have a rating, however, ZIC has a current S&P rating of AA Stable as of 26th June 2024.

4.2 Nature of business written

ZVA is one of the leading insurance companies in Austria with more than 755,000 customers. These customers include individuals, small, medium-sized and large companies as well as multinational corporations. ZVA employs almost 1,300 employees in all federal states. The company operates the Zurich brand and the direct brand Zurich Connect.

ZVA offers non-life and life insurance products. These can be purchased nationwide through the company's own sales force, independent sales partners and online. The only material geographical area in which the company operates is Austria.

4.2.1 Products

Table 4.1 below shows how the gross written premium by class was split in 2023 (versus 2022). In total there was €730m written premium, of which €600m was non-life. Within that the largest classes are clearly motor at about €214m and property of €163m. Within life, the premium is split quite evenly between with profit insurance and unit linked business.

Table 4.1: Gross Premium by Class Year-End 2023		
€m	2023	2022
Accident	61.0	57.1
Motor Vehicle Insurance	114.2	112.3
Other Motor Vehicle Insurance	109.2	103.7
Marine and Aviation	15.8	15.6
Fire and Property	163.0	166.3
General Liability	60.2	57.3
Legal Expenses	75.2	68.6
Other (incl rounding)	1.3	0.3
Total non-Life	599.9	581.2
With Profit insurance	63.4	65.4
Unit linked business	66.3	69.7
Other	0.8	0.8
Total Life	130.5	135.9
Total Gross Written Premium	730.4	717.1

Source ZVA SFCR 2023 Section A

Pricing

The Actuarial Function report (Section 4: Statement on Underwriting Policy) provides detail on the underwriting and pricing approach and controls within ZVA.

For non-life, this can be summarised as follows:

- ZVA underwrites insurance business in the property and casualty insurance sector for private and corporate clients. The acceptance criteria for business underwritten are determined by a combination of local legal restrictions (such freedom to provide services, laws, and regulations) and Zurich group wide and ZVA internal underwriting policies and guidelines.
- The relevant group underwriting policies are the Zurich Risk Policy (“ZRP”) and the Global Underwriting Guidelines (“GUG”), which regulate all Zurich entities worldwide, and the extent to which risks may be assumed by the individual Zurich entities.
- These guidelines were adopted into ZVA's internal rules after country-specific modifications.

The following measures are intended to ensure that the adequacy of premium income to cover the expected claims and expenses is maintained:

- For the design of new rates or rate changes, close cooperation between the division functions, product development teams, and pricing as well as reserving actuarial departments is essential and a fundamental prerequisite.
- The determination of the technical price for the risk to be insured is carried out by the pricing actuarial department according to actuarial principles. This technical price is calculated in such a way that a risk-based return at least equal to Zurich's targets is expected, both for the product or customer segment and overall.
- The ratio between the current price of the customer or contract and the technical price (the "TP") itself is one of the most important key performance indicators for ZVA, and is monitored and evaluated monthly, and serves, among other things, to reduce premium risk.
- Every rate or product must also be TP-certified through the appropriate units within the Zurich Group; this certification involves a review to determine whether the price determination process is correct and whether the Technical Price is appropriate.
- Products that do not allow for actuarial calculation due to their volume or number of risks are only permitted by the group in exceptional cases and must be reviewed by actuaries of the Zurich Group as soon as specific key figures are exceeded. Even for these products, the pricing actuary must examine and document that the risks insured through these products do not pose a significant risk to ZIC.
- For specific customer segments such as international clients, corporate risks, as well as specific products like professional indemnity or parts of engineering insurance, the Zurich Group mandates that globally valid group pricing tools be used to determine the price for individual customers. These pricing tools are regularly reviewed by the actuaries of the Zurich Group for accuracy and appropriateness.
- The pricing actuarial department evaluates quarterly whether the respective rate or customer segment is performing within expectations. The results of these analyses are discussed with the divisional managers, and if necessary, measures determined to improve outcomes.
- Other committees that regularly deal with business figures and developments are the Virtuous Circle P&C and the Pricing & Product Committee.
- The Re-Underwriting team's main task is the rehabilitation of loss-making individual customers or insurance contracts. Customer relationships and contracts that exceed or fall below defined key figures regarding loss ratio, claim frequency, and actual price/ technical price ratio are automatically highlighted to the team members.
- The sufficiency of the total premium charged is reviewed through various meetings. The Combined Operating Ratio ("COR") reflects the ratio of (total expenses and claims) to premiums. Therefore, a COR below 100% means that the premiums are greater than the expenses and claims, and therefore that line of business is profitable.
- The Actuarial Function reviews the COR of the four largest lines of business. The Actuarial Function also attends the Virtual Circle P&C (see 4.3.1) meetings where they see the COR's of all lines of business.
- In all divisions, the COR is below 100%. This is an indicator of the profitability of the business and ensures the adequacy of the premiums.

- Overall the Actuarial Function opinion on underwriting expresses no reservation in this area, and has no recommendations for future improvement.

For completeness, for life assurance, the following measures are intended to ensure that the adequacy of premium income to cover the expected claims and expenses is maintained:

- An important KPI to value life insurance policies written within in the reporting period is the new business value based on IFRS metric.
- Additionally, new business written is valued using internal rate of return and payback metric.
- For subsequent measurement several best estimate models are in place (IFRS, SII) to ensure that future premiums and current reserves will cover future benefits.
- All KPIs are calculated on a quarterly basis and are discussed in several local meetings like Virtuous Circle Life and the Pricing & Product Committee. Additionally, the KPIs are reviewed and discussed Zurich Group.
- Additionally, the Actuarial Function reviews
 - The risks written in the new business;
 - Material changes in the terms and conditions of the products open for new business;
 - The impact of new business to the whole portfolio; and
 - The profit sharing rate of the current year.

4.2.2 Assets

Table 4.2 summarises the profile of ZVA's assets, valued on a Solvency II basis, as at 31 December 2022 and December 2023.

Table 4.2: ZVA Assets by Asset class		
€m	2023	2022
Retirement benefits Surplus	52.9	44.8
Real Estate own Use	43.1	53.9
Real estate other than own use	524.8	555.7
Shares in affiliated companies	30.8	29.0
Government Bonds	602.0	690.2
Corporate Bonds	53.1	18.4
Structured Debt instruments	43.1	40.4
Undertakings for collective investment	451.5	416.1
Assets for index and fund linked contracts	394.8	355.4
Policy Loan	0.3	0.3
Loans and mortgages to private individuals	88.2	95.0
Other loans and mortgages	62.6	33.7
Reinsurance Recoverables	316.1	306.3
Receivables insurers	19.1	19.6
Receivables reinsurers	0.7	0.0

Receivables trade	12.1	49.1
Cash and equivalents	34.6	42.6
Other	20.5	14.3
Total Assets	2,750.3	2,764.8

Source: ZVA SFCR 2022 and 2023

Overall, the asset mix of ZVA is very different to that of GAIDAC, as ZVA is also a life company, and needs assets to match its life assurance related liabilities. ZVA has confirmed to me that they manage their assets in line with the SII Prudent Person Principle. This requires insurance and reinsurance companies to only invest in assets whose risks they can properly understand, monitor and manage while bearing in mind the best interests of policyholders and ensuring the overall security, liquidity and profitability of the portfolio as a whole. ZVA has more than sufficient liquid assets in Bonds (Government and Corporate €655m) and Cash and Cash equivalents (€56m) however to cover its net non-life liabilities of approx. €276m (see table 4.6).

I speak more about how asset risk is managed and mitigated below in the section Market Credit and Liquidity Risk.

4.3 Risk Profile Appetite and Management

4.3.1 Risk Framework and Overview of risks

Management Oversight of Risk

The risk management is the responsibility of the Executive Board.

ZVA pursues a "three lines of defence" approach, where the distribution of roles and responsibilities within the risk management system between the operating divisions and the Risk Management, Compliance, Internal Control System and Actuarial Functions as well as Internal Audit are clearly defined.

The Risk and Control Committee 360 ("RCC 360") is at the heart of the company-wide risk management system. This ensures a comprehensive view of risk and, by establishing the subcommittees in the operational line, aims to consolidate the term "risk" as a clear component of day-to-day business.

RCC 360 forms the risk-based decision-making basis for the Executive Board and integrates the overall risk view into operational business management.

The entire Management Board is represented on RCC 360, which makes decisions on topics discussed and proposals submitted by the sub-committees following the meetings of the Risk Steering Committee ("RSC").

The Risk Management function is responsible for chairing the meetings. In addition to the other governance functions (internal audit, compliance, Actuarial Function) and the actuaries (non-life insurance reserving, life insurance), the operational areas are represented by the chairs of the:

- Virtuous Circle Property & Casualty ("VC P&C");

- Virtuous Circle Life (“VC Life”);
- Asset Liability Management and Investment Committee (“ALMIC”);
- Reinsurance, CAT & Peak Risk Committee (“RCPR”);
- Capital Management Committee (“CMC”); and
- Information and Security Committee (“ISC”) subcommittees

Fit & Proper requirements

ZVA assesses people who manage the company, sales managers, employees who are directly or managerially involved in insurance sales and function holders of key functions according to "Fit & Proper" criteria.

Function holders of key functions are also assessed if the key function is outsourced. "Fitness" means that a professional qualification corresponding to the requirements of the activity performed by such persons exists and is maintained. This is determined by comparing the requirements to be fulfilled with the certified professional knowledge and practical experience of the person being assessed.

"Propriety" means personal reliability in the sense of impunity and sound financial circumstances and integrity.

ORSA Process and Oversight

ZVA defines the ORSA under the Solvency II regime as the set of processes and procedures for identifying, assessing, monitoring, managing and reporting the short- and long-term risks affecting the company.

These processes are described in Zurich's Risk Management Guidelines and in the Zurich Group Risk Policy (“ZRP”), which has been adopted by the Board of Directors as binding for the company and is confirmed annually. These descriptions include the following points:

- Tasks and responsibilities within the ORSA process;
- Processes and procedures for carrying out the company's own risk and solvency assessment;
- Processes and procedures for carrying out the forward-looking assessment of the company's own risks and solvency;
- Links to the general risk and capital management system; and
- Frequency and timeframe for the preparation of ORSA reports - ORSA reports are prepared annually, ad hoc ORSA reports follow ZVA's materiality concept¹.

The cornerstone of the core components of the ORSA is the assessment of the current risk profile and the assessment of regulatory and internal capital requirements, including:

¹ An ad hoc ORSA report must also be carried out immediately following the occurrence of a significant change in the risk profile. Significant changes in the risk profile include, for example, large investments or Divestments, significant changes in the product mix or far-reaching changes in the company's environment. For example, significant regulatory changes or changes to the SCR requirement, own funds or the SCR ratio are considered material if they exceed a defined percentage.

As can be seen in table 4.3, the two largest risks according to the Solvency II SF are market risk and non-life underwriting risk.

The life underwriting risk, the health underwriting risk (consists of accident insurance and is actually part of non-life insurance), the operational risk and the counterparty default risk represent lower risks in accordance with the Solvency II SF.

Table 4.3: SCR at YE 2022 and 2023		
€m	2023 YE	2022 YE
Market Risk	226.3	223.4
Counterparty Risk	17.8	29.0
Life Underwriting Risk	31.3	32.0
Health Underwriting Risk	37.0	35.3
Non-Life Underwriting Risk	130.0	123.9
Diversification	-128.2	-130.4
Basic Solvency Capital Requirement	314.2	313.2
Loss Compensation Capability	-58.1	-61.3
Loss Absorbing Capacity	-68.8	-73.2
Operational Risk	26.7	26.6
Solvency Capital Requirement	214.0	205.3

Source: ZVA 2023 SFCR

Risk Appetite and Tolerance

Per the year-end 2023 SFCR, the Management Board of ZVA is responsible for decisions in relation to:

- Setting Risk Appetite (ultimately approved by the Supervisory Board);
- Setting limits and tolerances within the appetite;
- Establishing risk and business strategy, and adjusting same as required; and
- Deciding appropriate risk mitigations.

The risk strategy in particular establishes risk preferences, an approved risk appetite from an IFRS (International Financial Reporting Standards) perspective, and the planned target coverage according to Solvency II perspective. From this, a risk-bearing capacity calculation as well as operational risk limits and early warning indicators are established annually for both the IFRS perspective and the economic perspective (Solvency II).

Based on the business strategic objectives, the following risk preferences are defined:

- Underwriting risks for life and non-life (property and casualty) as well as the strategic risk are consciously taken on;
- Market and liquidity risk are only taken to the extent necessary for business growth in line with the Strategic Asset Allocation (no complex investments are made directly, see also investment strategy); and
- Operational risk, counterparty default risk, and reputational risk are to be avoided.

New risks are incorporated through the continuous risk process and are continuously evaluated; in recent years, the focus has been on sustainability risks, information security risks, and emerging risks. Sustainability risks addressed in the risk strategy, not as a separate risk category; but instead integrated into the existing categories.

IFRS Analysis

The IFRS risk appetite is defined as the deviation from the planned IFRS result in the event of a 10-year occurrence at an aggregated level. This one in ten-year event is then split down further into non-life underwriting risk, life underwriting risk, investment risk, operational risk and strategic risk. This in turn is then compared to the actual deviation from plan in a given quarter attributed to each of the above. This provides strong insight into performance against risk appetite.

SCR Analysis

To ensure adequate capitalization of ZVA, the Executive Board has determined in its risk strategy that the Solvency II standard model solvency ratio should not fall below a value of 150%.

ZVA monitor the relevant components of the plan SCR compared to the actual calculated components at each quarter end, i.e.:

- Market Risk;
- Counterparty Risk;
- Life Underwriting Risk;
- Health Underwriting Risk; and
- Non-Life Underwriting Risk

Should the actual SCR calculation for any one component exceed the plan component, this is analysed to see if action is required.

We have been provided with a number of internal documents in relation to the above, in particular a risk limits document and a strategic risks document. The risk limit document is a detailed document setting out the various triggers under a wide range of headings to assist the business to monitor and report on risk as it emerges on a quarterly basis.

This is a very comprehensive and practical approach.

Risk Potential

ZVA also has a separate but related process for the identification and assessment of company-wide risks within the framework of Enterprise Risk Management. This process within the Zurich Group is referred to as the Total Risk Profiling (“TRP”) method. The risk management function supports the defined Risk Owners within the company (e.g., members of the Executive Board, Chief Claims Officer, etc.) not only in identifying and assessing risks but also in managing, controlling, and monitoring them. All risks identified during the TRP process are documented and managed in the Risk and Control Engine (“RACE”). The Risk Owners carry out a quarterly update of their risks and the corresponding mitigation measures directly in RACE. The updates of those risks for

which a member of the Executive Board is responsible are updated quarterly during the Executive Board meeting and subsequently adjusted in RACE.

Examples of risks that are considered under this process include, but are not limited to:

- Macroeconomic, Geopolitical, and Economic Developments;
- Investment and interest rate risks;
- IT platform risks;
- Man-Made catastrophe risks;
- Emerging risks;
- Reputational Risk;
- Covid 19;
- The Ukraine War;

Insurance Risk

The insurance technical risk for non-life insurance is the risk that, due to chance, error, or changes in the total damage of the insured portfolio, the sum of the funds calculated for risk assumption (premiums and claims reserves) is exceeded. In non-life and accident insurance, the main components of the insurance technical risk are the premium and reserve risk as well as the catastrophe risk. Life underwriting risk is the risk that - due to chance, error or change - the actual cost of benefits from insurance contracts deviates from the expected cost.

In non-life insurance, the main sub-risks are:

- Premium risk: claims are different to that expected when the premiums were set;
- Reserve risk: technical provisions may not be sufficient to fully settle claims; and
- Catastrophe risk: risk of natural or man-made disasters.

Life underwriting risk is the risk that the actual cost of benefits from insurance contracts deviates from the expected cost. The main sub-risks are.

- Biometric risks: mortality, longevity and disability;
- Cancellation risk: cancellations deviate negatively from assumptions; and
- Cost risk: costs increase more than expected.

In ZVA, non-life risk is mitigated in several ways, for example:

- Setting limits on underwriting authorities;
- Reinsurance;
- The Actuarial Function has reviewed and opined that the processes in place for Reinsurance are appropriate;
- Underwriting strategy;

- The Actuarial Function has reviewed and opined that the processes in place for UW are appropriate;
- Control mechanism and audit routines;
- Catastrophe modelling; and
- Prudent case reserving, together with regular reviews of reserves by claim experts and actuaries.

Life Risk is mitigated in several ways, for example:

- Portfolio diversification;
- Product design and regular review;
- Minimising lapse risk; and
- Medical Risk assessment.

Market, Credit and Liquidity Risk

Market risk is the risk to which ZVA is exposed as a result of fluctuations in the value of its assets and liabilities arising from the financial markets. In particular, these are the following risks:

- Real estate risk;
- Equity risk;
- Interest rate and spread risk; and
- Currency risk.

Credit risk results from potential losses associated with the partial or total default of counterparties who are unable to fulfil their financial obligations.

Liquidity risk describes the risk that ZVA may not have sufficient liquid assets to meet its obligations as they come due, or that excessive costs would be incurred in meeting these financial obligations.

Mitigants include:

- The central steering committee in relation to this risk is the "Asset Liability Management Investment Committee" (ALMIC), which meets regularly to discuss the company's risk positioning, current market developments, and the resulting investment strategy. The committee includes the CEO, CFO, actuaries for life and property/casualty, CIO, and a representative of the Zurich Insurance Group, all with voting rights. The local CRO participates in the meetings with an advisory vote.
- In addition to a target allocation, ZVA also defines upper and lower limits for individual asset classes and have set a limit for the interest rate sensitivity of the net position from assets and liabilities. ZVA consciously refrains from using derivatives for risk management.
- Most of the asset exposures are in the AAA to AA- range, with 78% being A- or above.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, people, or from external events, such as legislation or changes in jurisprudence, outsourcing, disasters, or external fraud. This definition thus includes legal risks as well as compliance risks, IT risks, risks related to information security, and risks arising from customer behaviour, but excludes strategic risks and reputation risks from a capital perspective.

Mitigants include:

- Operational event management records loss events and near misses, raising awareness and thereby strengthening risk culture;
- Systematic self-assessments are conducted within all business units and is continuously monitored by risk management; and
- Within the company-wide ICS (Internal Control System), process-related and process-independent controls are used to reduce operational risks.

Other Material Risks

Other material risks discussed in the ORSA include:

- Reputational Risk;
- Strategic risk;
- Risks associated with pension obligations;
- Group Risk; and
- Sustainability Risk.

4.3.2 Governance

System of Governance

ZVA is structured as a stock corporation in accordance with the Austrian Stock Corporation Act, taking into account the provisions of the Insurance Supervision Act. The governing bodies of the company are the Annual General Meeting (meeting of shareholders), the Supervisory Board and the Board of Directors (see both below). These bodies perform the tasks assigned to them by law. Other cornerstones of the company's governance system are the key functions, which are also subject to special "fit and proper" requirements. The company's remuneration system supports efforts to avoid inappropriate risks and promote sustainable action.

In addition to the company's executive bodies, the governance system comprises the governance functions and other key functions, as well as an appropriate organizational and operational structure, strategies, guidelines and the company's internal rules and regulations. This also includes instruments for planning, documenting, monitoring and reporting on the company's activities, appropriate internal controls for risk exposure, legality and efficiency as well as plans for emergencies.

Supervisory Board

Zurich's Supervisory Board consists of three members elected by the Annual General Meeting and two members delegated by the Works Council. The Supervisory Board has established two committees, the Management Committee and the Personnel and Nomination Committee. In accordance with the provisions of the Insurance Supervision Act, the agendas of the Audit Committee are performed by the full Supervisory Board. The Supervisory Board meets as often as required for the good of the company, but at least quarterly. Resolutions are passed by vote.

Relationship between the Supervisory Board and the Management Board

The Supervisory Board and the Management Board interact on an ongoing basis beyond the meetings held by the Supervisory Board. In accordance with the rules of procedure, the Chairwoman of the Supervisory Board and the Chairwoman of the Management Board are responsible for this communication. This communication supports the governance tasks of the Supervisory Board, particularly with regard to the definition of strategies and general principles of business policy.

Management Board

ZVA's Management Board consists of four members, each of whom has been appointed by the Supervisory Board for a fixed term. The Management Board meets as often as the management of the company requires. Board meetings are generally held on a weekly basis. Resolutions are passed by vote. The Management Board is divided into departments. The Management Board is responsible for the comprehensive management of the company and for deciding on measures relating to the management of the company, unless such agendas are assigned to the Supervisory Board by law.

Committees assigned to the Management Board:

- The Risk and Control Committee 360 (with its subcommittees); and
- The central occupational health and safety committee (whose main responsibility is advising the Management Board on all matters relating to safety and health).

The Management Board performs the following main tasks:

- Organization of the company;
- Preparation of the business and risk strategy;
- Drawing up and defining plans for the company's approach;
- Management of the company;
- The establishment and implementation of appropriate internal controls;
- Accounting and solvency calculation;
- Capital investment; and

The following key functions have been set up at ZVA:

- Internal audit function;
- Risk management function;
- Investment Management;

- Compliance function;
- Actuarial Function (life and non-life);
- Life underwriting;
- Performance;
- Human Resources;
- Money Laundering Officer; and
- Appointed Actuary (life).

Appointed Actuary (Life)

The role of the appointed actuary is performed in accordance with Article 115 und 116 Insurance supervisory law (VAG 2016).

The appointed actuary is responsible for reserving under local GAAP. They have to ensure that obligations towards policyholders can be fulfilled at all times. This must be testified by the appointed actuary in each annual report and in the annual Actuarial report (Aktuarsbericht) which is requested by the regulator.

The appointed actuary has to ensure that the premiums are sufficiently calculated for all new products.

Any appointment or replacement of the appointed actuary needs to be reported to the regulator. Every candidate needs to prove, that he is fit for purpose – e.g. be a fully qualified member of the Austrian Actuarial association or equivalent, have enough experience in Austrian life insurance.

The current holder of the rule of the appointed actuary is Dipl.-Math. Bernd Weber. He is member of the German actuarial association (DAV), working for Zurich Austria since 2018. The appointment of Bernd Weber to FMA was reported in July 2023 through the Fit & Proper Procedure.

Actuarial Function (Life and Non-Life)

The Actuarial Function is carried out by Johann Kronthaler, who is a member of a contractually engaged internationally operating independent third-party service provider (KPMG Advisory GmbH, Wien). Roles and responsibility of the Actuarial Function are clearly laid out in the Solvency II regulations and briefly include:

The actuarial function is responsible for validating the technical provisions.

This is achieved in particular through:

- coordinating the calculation of the technical provisions in accordance with the first section of the 8th main part of the insurance supervisory law;
- ensuring the appropriateness of the methods and basic models used and the assumptions made in the calculation of the technical provisions in accordance with the first section of the 8th main part of the insurance supervisory law;

- assessing the adequacy and quality of the data underlying the calculation of the technical provisions in accordance with the first section of the 8th main part of the insurance supervisory law;
- comparing the best estimates with the empirical values;
- informing the board about the reliability and appropriateness of the calculation of the technical provisions in accordance with the first section of the 8th main part of the insurance supervisory law;
- monitoring the calculation of the technical provisions in accordance with the first section of the 8th main part of the VAG in the application area of Article 164 of the insurance supervisory law;
- providing an opinion on the general underwriting and acceptance policy and on the adequacy of reinsurance agreements; and
- participating in the effective implementation of the risk management system in accordance with Article 100 of the insurance supervisory law, particularly with regard to the creation of risk models underlying the calculation of the solvency and minimum capital requirements, and in the internal risk and solvency assessment in accordance with Article 111 insurance supervisory law.

External Audit

Finally, the role of external audit in the governance of a life and non-life company is to provide an independent and objective assessment of the company's financial statements, internal controls, and compliance with regulations, thereby enhancing the credibility and reliability of the financial information provided to stakeholders.

4.3.3 Risk sensitivities

As part of its regular ORSA process, ZVA conducts stress and scenario testing of the material risks to which it is exposed.

ZVA performs standard stress tests every year due to their continued relevance, and for the sake of comparability. These scenarios were created by an expert group (Risk Management, Actuaries, Investment Management, Finance, and Capital Management) of ZVA and discussed within the RCC 360 framework.

These standard stresses are as follows (these are all believed to be very unlikely risks, but are modelled to assess the impact on the solvency ratio should they occur):

- An operational risk in the form of a regulatory fine;
- Downgrade of Zurich Group credit risk (given it is a major reinsurer of ZVA);
- Severe storm and man-made catastrophe (e.g. a gas explosion) combined;
- Severe shock to the asset base;
- Severe drop in premium volumes, combined with a severe shock to asset values; and
- A pandemic triggered stress on mortality, combined with a severe asset shock.

The results of these stresses were given in the ORSA. I have not reproduced the detail here as the results would be commercially sensitive. I can comment that the results indicate that the scenarios do not lead to an immediate threat to the SCR ratio.

The ORSA report also discusses management actions that could be taken in the event of such stresses that include:

- Review of counterparties which present a higher default risk;
- Capital management actions such as reducing or suspending dividend payments;
- Revise reinsurance structures;
- Revise investments; and
- Reducing profit participation on relevant life assurance products.

In additional ZVA consider a "Reverse Stress Test" which assumes a pandemic stress occurs, combined with storm/hail, man-made and natural catastrophe stress, financial distress, and a regulatory fine, which together are so severe that the solvency ratio falls below 100%. This can be considered a suitably severe stress.

4.4 Outsourcing

The term outsourcing refers to an agreement of any form made between an insurance company and a service provider, on the basis of which the service provider provides a process, service or activity, either directly or indirectly, that would otherwise be provided by the insurance company itself. ZVA primarily understands this to mean typical insurance processes, services or activities that enable ZVA to meet the requirements of insurance operations.

In particular, ZVA applies the following principles to minimize outsourcing risks:

- Analysis and minimization of potential risks, especially operational risks, before the decision to outsource and during the term of an outsourcing agreement; this includes, in particular, maintaining sufficient technical expertise within ZVA and an ongoing overview of the services offered on the market;
- Application of standardized procedures to control dependency on third parties for the selection of outsourcing partners and the management of outsourcing relationships;
- Use of service providers from the Zurich Group or reputable service providers contracted by the Zurich Group to better monitor and manage outsourcing risk;
- Record all service providers and outsourced processes, services or activities in a list in order to identify any concentration risks;
- Appointment of outsourcing officers who are responsible for outsourced services internally;
- Implementation of internal controls (outsourcing was last audited in 2023) and appropriate monitoring measures during the term of the outsourcing agreement;
- Obligation of service providers to comply with the ZVA Code of Conduct;

- Comprehensive contractual regulations and clear exit scenarios for outsourcing agreements;
- Issuing conditions for internal outsourcing agreements where necessary for the management of certain risks; and
- Obtaining the necessary official approvals and fulfilling all requirements.

The company has outsourced:

- Data management (data centre and data storage - external);
- Information technology, in particular information security and cloud computing (Zurich Group);
- Accounting (Zurich Group);
- Some business case processing (subsidiaries);
- Investment-related risk management (Zurich Group);
- Support services for the company's own risk and solvency assessment (Zurich Group) and some benefits processing (external); and
- The Actuarial Function has been fully outsourced to KPMG Advisory GmbH, Porzellangasse 51, 1090 Vienna, Austria.

The company makes appropriate use of services associated with cloud computing. An extended internal approval process is implemented for such outsourcing, which is particularly geared towards the risks of cloud computing. Services, including data storage, are mainly provided in Ireland.

Service level agreements and due diligence procedures are drafted in compliance with Article 274 of Commission delegated Regulation (EU) 2015/35. Additionally, Outsourcing is in compliance with Article 109 Insurance Supervisory Law (VAG 2016).

4.5 Reinsurance

4.5.1 Overview of reinsurance

The purchase of reinsurance is carried out with the objective of providing customers with market-leading capacities while simultaneously protecting the balance sheet and optimizing capital efficiency. Reinsurance is therefore also one of the most important risk mitigation measures.

Mandatory reinsurance contracts are predominantly concluded with companies within the Zurich Insurance Group. The adequacy of reinsurance cover is reviewed annually by ZVA's reinsurance department in cooperation with the Board of Directors and the scope of cover is adjusted if necessary.

Per section D in the year-end 2023 SFCR, the core element of the reinsurance solution is a 50% quota share reinsurance contract (Whole Account Quota Share, WAQS for short), which has been concluded for ZVA via Group Reinsurance of the Zurich

Insurance Group since 2011. A separate, different reinsurance solution also exists for the international program business, which mainly comprises internationally active customer relationships that would exceed ZVA's risk appetite due to their size or underwriting complexity.

In addition to these contracts, Excess of Loss (XoL) reinsurance contracts are primarily placed for selected risk-exposed lines of business to protect ZVA from major per event or Catastrophe losses. In addition, and only to a very limited extent, the portfolios are fine-tuned by purchasing facultative reinsurance from selected reinsurers.

In the Actuarial Function opinion on reinsurance they state that “The existing reinsurance program is consistent with the reinsurance strategy as well as the underwriting and acceptance policy of Zurich and provides effective protection against major events and natural disasters.”

4.5.2 Ratings of reinsurers

The majority of ZVA's reinsurance program is covered through the group's internal reinsurance agreement with the Zurich Group. Selective adjustments are made to a very small extent through facultative reinsurance with selected reinsurance companies. The selection is from a list of reinsurers with correspondingly good creditworthiness published by the Zurich Group (Group Credit).

4.6 Financial Profile

4.6.1 Background

As stated in chapter 3, GAIDAC is regulated under the Solvency II regulatory regime, as transposed into Irish law. Similarly, ZVA, is regulated under the Solvency II regulatory regime, transposed into Austrian law. Therefore the Transferring Policyholders will be in a company with equivalent regulatory requirements after the Transfer.

For the purposes of comparing financial strength, I therefore look at the strength of both entities using the Solvency II basis.

4.6.2 Technical Provisions

Table 4.4 below summarises ZVA's Solvency II technical provisions at 31st December 2022 and 2023.

Table 4.4: Non-Life Technical provisions 2022 and 2023, Gross and Net				
€m	2023 YE		2022 YE	
	Gross	Net	Gross	Net
General liability	151.9	60.3	134.6	51.0
Disability insurance (here Accident Insurance)	56.4	25.5	63.4	31.3
Assistance Insurance (here Assistance)	0.6	-0.1	0.5	0.0
Fire and Other Property Insurance	126.0	47.6	132.6	46.4
Legal Protection Insurance	34.5	20.3	31.4	18.2

Motor Vehicle Liability	174.4	98.4	165.0	93.3
Other Motor Vehicle Insurance	35.4	18.4	33.5	18.8
Marine, Aviation, and Transport Insurance	16.0	5.2	12.2	4.8
Total SII Best Estimate	595.1	275.7	573.1	263.6
SII Default Adjustment	0.0	0.7	0.0	0.6
SII Annuity	8.4	8.4	8.2	8.2
Total SII Best Estimate	603.6	284.8	581.3	272.4
Total Risk Margin	35.9	35.9	31.7	31.7
Total SII Technical Provision	639.5	320.7	613.0	304.2
Total SII Technical provision less annuity	631.0	312.3	621.2	312.4

Source: ZVA Actuarial Function Report Year-end 2023

ZVA held €631m of gross non-life technical provisions at the year-end 2023. The above compares to the \$23m gross non-life technical provisions of GAIDAC for the same period. For completeness I also note ZVA also held technical provisions in relation to life and unit linked business of €1,113m and €364m respectively.

4.7 Solvency Position

4.7.1 Solvency II Solvency Capital Requirement

Under Solvency II, firms must hold capital equal to the higher of the SCR or MCR. In ZVA's case, it is the SCR that applies.

ZVA use the standard formula approach to calculate their SCR. The SCR is determined by subjecting the overall balance sheet to a prescribed series of 1-in-200-year shocks and aggregating the impacts in a specific way. The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, the Technical Provisions, written premiums and administrative expenses. The MCR is also subject to an absolute minimum amount, specified in Euro terms.

Under Solvency II, the assets available to cover the capital requirements are referred to as "Own Funds", with the Own Funds reflecting the value of the net asset position of the firm. Comparing the SCR to the level of Own Funds gives an indication as to the level of solvency coverage within a firm.

Table 4.5 below sets out the regulatory capital position of ZVA, under the Solvency II framework at 31 December 2022 to 31 December 2023.

€m	2023 YE	2022 YE
Eligible Funds to meet the SCR	390.0	410.4
SCR	214.1	205.3
SCR Coverage	182%	200%
Eligible Funds to meet the MCR	390.0	410.4
MCR	81.8	76.9
MCR Coverage	477%	534%

Source: ZVA SFCR YE 2023

As at 31 December 2023, the Solvency II returns showed total Own Funds available net of liabilities of ZVA were €390.0m, with an SCR of €214.1m. There was a Solvency Coverage Ratio of 182%.

In contrast, at 31 December 2022 the Solvency II returns showed total Own Funds available net of liabilities of ZVA were €410.4m, with a solvency capital requirement of €205.3m. There was a Solvency Coverage Ratio of 200%.

Table 4.3 below (repeated here for convenience) sets out the breakdown of the solvency capital position of ZVA by risk category, under the Solvency II framework from 31 December 2022 to 2023. The largest drivers are market risk and non-life underwriting risk.

Table 4.3: SCR at YE 2022 and 2023		
€m	2023 YE	2022 YE
Market Risk	226.3	223.4
Counterparty Risk	17.8	29.0
Life Underwriting Risk	31.3	32.0
Health Underwriting Risk	37.0	35.3
Non-Life Underwriting Risk	130.0	123.9
Diversification	-128.2	-130.4
Basic Solvency Capital Requirement	314.2	313.2
Loss Compensation Capability	-58.1	-61.3
Loss Absorbing Capacity	-68.8	-73.2
Operational Risk	26.7	26.6
Solvency Capital Requirement	214.0	205.3

Source: ZVA 2023 SFCR

4.7.2 Projected Solvency Position

I have considered ZVA's 2022 ORSA report, completed in December 2023. I provided details of this in section 4.3.3, Risk Sensitivities.

The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of ZVA, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of ZVA differs from the assumptions underlying

the SCR. The ORSA should be an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of ZVA.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario to the end of planning period i.e. 2026.

I have no issues to note from my review of the ORSA projections provided by ZVA.

Given the risk profile of ZVA's business, the current level of available assets in excess of ZVA's minimum solvency capital requirement and that the future projections remain within risk appetite, the risk of insolvency and any risk to the security of policyholders is considered remote over the planning period 2024 to 2027.

4.8 Treating Customers Fairly

In relation to treating customers fairly, the important consideration for this transferring portfolio is claims handling.

ZVA provided us with details of both their internal claims management procedures, and then the external process operated by the Federal Minister for Labour, Social Affairs, Health, and Consumer Protection.

The internal process is very comprehensive covering areas such as

- Organizational embedding within the company;
- Ensuring adequate access to the complaints handling process and informing complainants;
- The specific design, establishment, and operation of the complaints management system with regard to organizational structure and processes;
- Avoidance and resolution of conflicts of interest;
- Preparation of evaluations and reports;
- Analysis of complainants' concerns and identification of improvement needs;
- Individuals, functions and roles responsible; and
- Implementation of the guidelines.

If the internal mechanism is exhausted, then ZVA has informed me that Pursuant to Article 33 Insurance Supervisory Act (VAG 2016), the Federal Minister for Labour, Social Affairs, Health, and Consumer Protection shall accept complaints from consumers pursuant to Article 1 para. 1 no. 2 of the Consumer Protection Act (KSchG) and from consumer protection organizations regarding insurance companies, small insurance companies, small mutual insurance associations, as well as third country and EEA insurance companies free of charge.

Such complaints must be handled and answered. Mediation should be sought where possible. For the purposes of the public interests mentioned in Article 267 paras. 1 and 2 Insurance Supervisory Law (VAG), the Federal Minister for Labour, Social Affairs,

Health, and Consumer Protection shall forward complaints pursuant to para. 1 to the Financial Market Authority (FMA).

The Federal Minister for Labour, Social Affairs, Health, and Consumer Protection shall cooperate with comparable bodies in other member states in the resolution of cross-border disputes and promote cross-border cooperation of other complaint and conciliation bodies.

4.9 Litigation

I have received an assurance from the XX in relation to the nature of any litigation issues / exposures. He has assured me that there are none currently impacting ZVA. He has also informed me that if anything changes during the transfer, that he will inform me, as the Independent Actuary.

4.10 Other Regulatory matters

4.10.1 FMA

I have received an email detailing the discussions that ZVA has had with the FMA in relation to this portfolio transfer.

I have also received an assurance on 26 June 2024 from ZVA that “our Compliance team has confirmed that there are no open issues (such as open regulatory inspection findings, regulatory fines and penalties) with the impacted regulators that we are aware of”.

Based on this information and discussions with ZVA management, I am therefore satisfied that there are no regulatory matters that would impact the execution of the Scheme.

4.10.2 Compensation Schemes

ZVA has confirmed to us there are no compensation schemes that will apply to the transferring business.

5 The Proposed Scheme

5.1 Motivation for the Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

In 2020, McDonald's Group, having examined the efficiency, cost and administrative burden and other factors of its insurance operations, completed a thorough review of alternative domiciles for its insurance operations, while remaining focused on the interests of the policyholders/insureds. The outcome of this review was that the optimum domicile for McDonald's Group's insurance operations is Bermuda. McDonald's Group formed a new insurance undertaking in Bermuda, GAIL, which was incorporated on 14 April 2020. GAIL commenced issuing coverage from 1 July 2020.

It has ultimately been determined that the best way for the McDonald's Group to achieve its goals, whilst protecting the interests of the policyholders/insureds, is to transfer all outstanding liabilities to GAIL and to proceed with the actions described in this Petition and the Scheme.

5.2 Outline

GAIDAC and ZVA intend to enter into a business transfer agreement (the BTA) which will among other commercial matters record the commercial terms on which the Transferring Business will transfer from GAIDAC to ZVA.

GAIDAC proposes to transfer the Transferring Policies (as defined below) to ZVA as empowered to do by its Constitution.

It is intended that GAIDAC will de-risk (extinguish its insurance liabilities) entirely and, subsequently, close down its operations. The vast majority of its business would be transferred to ZVA under the Scheme. However, there are some pockets of business that will not transfer under the Scheme. Those pockets of business are:

- the Inwards Reinsurance Policies;
- GAIDAC's outwards reinsurance arrangements;
- the UK Portfolio; and
- the US Policies.

Ultimately, all the transferring policies will be 100% reinsured back to GAIL in Bermuda, via Zurich Insurance Company Ltd ("ZIC").

Inwards Reinsurance Policies (often referred to as fronting arrangements)

GAIDAC is licenced to write risks across the EEA, where many of its McDonald Restaurant policyholders are based. However, GAIDAC also writes "indirectly" as a reinsurer via fronting insurers for regions in which it cannot write on a direct basis.

In this case, these fronting policies were issued directly to insureds by a local licensed commercial insurer (in many cases a Zurich company, but in particular not GAIDAC) which then reinsured each policy 100% to GAIDAC.

As these Inwards Reinsurance Policies are not being transferred to ZVA under the Scheme, a different mechanism is needed to deal with them. The Inwards Reinsurance Policies will be novated³ to GAIL which will become the reinsurer of the Fronting Arrangements in place of GAIDAC.

This is being dealt with outside of the Scheme.

The BTA and novation agreements have been drafted; and are designed to take effect at the same time as the Scheme. They are contingent upon the Scheme taking effect. This means that, following execution, those agreements take full effect automatically if the Scheme is sanctioned by the Court. The agreements will be executed prior to the hearing of the Petition.

Outwards Reinsurance Arrangements

GAIDAC also has outwards reinsurance arrangements which will be dealt with (again outside of the Scheme) by the substitution of GAIL for GAIDAC as the reinsurer.

The substitution is contingent upon the Scheme becoming effective on the Effective Date.

The UK Portfolio

A portion of the business written by GAIDAC since it was authorised as a non-life insurer consists of risk coverage in the UK. This risk coverage, which include employers liability, general liability, property damage / business interruption, general liability, crime, personal accident, motor, nuclear, biological, chemical and radiological (NBCR), terrorism, builders' risk, loss of license, workers' compensation and auto risk coverage is

³ To novate in this context means to transfer the rights and obligations of an existing reinsurance contract from one reinsurer to another.

underwritten by GAIDAC on a direct basis in the UK. For regulatory reasons connected with Brexit, the UK Portfolio cannot be transferred under the Scheme.

Instead, it is to be novated⁴ to another entity within the Zurich Group which holds the appropriate regulatory permissions to accept the UK Portfolio. GAIDAC and Zurich have agreed in the BTA that, in relation to the UK Portfolio, GAIDAC will novate the UK Portfolio in one or more novation agreements, outside the arrangements detailed in the Scheme.

The novation agreements have been drafted; and are designed to take effect at the same time as the Scheme.

The US Policies

GAIDAC also has a small number of policies with risk situated in the US and commutation⁵ agreements have been signed to extinguish this risk contingent upon the Scheme becoming effective on the Effective Date.

This is a separate process and is outside the arrangements detailed in the Scheme.

5.3 This Report

As stated previously, I owe an overriding duty to the Court and to give the Court an independent actuarial assessment of the proposed transfer.

This Report is prepared primarily to assess the likely impact that the Scheme will have on the transferring policyholders of GAIDAC (i.e., all the policyholders transferring under the Scheme), and the existing policyholders of ZVA, if the Scheme proceeds. Note as referenced, there are some pockets of business that are not transferring under the Scheme. My understanding is that the obligations to these remaining policyholders will be extinguished via commutation and/ or novation. There should be no policies in force post the Effective Date in GAIDAC.

This Report is limited in its scope to the assessment of the Scheme alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Court when it considers whether to sanction the Scheme.

5.4 Scheme Details

The following is a summary of the main headings in the Scheme document. (Note that the Scheme document uses the term Zurich for ZVA. For the purposes of summarising the Scheme document, I have retained that term in this section). This summary is intended to provide a reasonable narrative of the principal topics covered by the Scheme

⁴ GAIDAC has received legal advice which I have seen that the form of novation agreement proposed would be legally effective and enforceable as a matter of Irish law

⁵ In this context of direct insurance policies, commutation refers to the process by which an insurer and a policyholder agree to settle the obligations and liabilities under the policy before the policy's natural expiration. Essentially it is an early termination of a policy usually in exchange for a lump sum or series of payments.

document. However some of the rigorous legal language has been omitted, to endeavour to make it easier to understand for lay persons.

Scheme Definitions

I summarise briefly (fuller definitions are available in the Scheme document) below the various definitions outlined in the Scheme as follows (in alphabetical order):

- **“Excluded Policy”** means any policy which does not transfer to ZVA on the Effective Date because:
 - the relevant supervisory authority of the EEA Member State in which the Policy was written has not consented to its transfer;
 - further steps are required to secure that its transfer to Zurich is fully effective under the law of any relevant jurisdiction which is not an EEA Member State; or
 - the Court for any reason determines not to transfer, or to transfer it only if further steps are taken;
- **“Transferring Assets”** means all of the following assets as at the Effective Date:
 - the rights and benefits etc. of GAIDAC by virtue of the Transferring Policies;
 - the Records; and
 - cash and other assets held on account of the Transferring Policies and all balances due on foot of the Transferring Policies;
- **“Transferring Business”** means the Transferring Policies, the Transferring Assets and the Transferring Liabilities;
- **“Transferring Liabilities”** means all debts, obligations and liabilities of GAIDAC at the Effective Date arising from, allocated or attributable to the Transferring Policies and the Transferring Assets;
- **“Transferring Policies”** means the Policies (other than any Excluded Policies), including any endorsements or amendments and including the rights and benefits etc. of GAIDAC under or by virtue of such policies; and
- **“UK Business”** means GAIDAC’s UK liability policies.
- **“US Policies”**: GAIDAC has a small number of US Policies. Commutation agreements have been signed to extinguish this risk contingent upon the Scheme becoming effective on the Scheme Date. This is a separate process and is outside the arrangements detailed in the Scheme.

Transfer of the Transferring Policies and the Transferring Assets

- On the Effective Date, the Transferring Policies and Assets shall be transferred to Zurich who shall succeed to and become responsible for all the rights and benefits etc. of GAIDAC by virtue of the Transferring Policies and Assets.
- Zurich shall also be entitled to all defences, claims, counterclaims and rights of set-off against or under the Transferring Policies and Assets which would have been available to GAIDAC.
- GAIDAC and Zurich shall deliver all documents and perform all such other acts and take any such steps as may reasonably be required to effect or transfer to Zurich.
- In the event of any payment being made to, or property etc. being received by GAIDAC after the Effective Date in respect of the Transferring Policies or Assets, GAIDAC shall, as soon as is practicable, pay over the amount of such payment / transfer property etc. to Zurich.
- Every holder of a Transferring Policy and every person who has a right under a Transferring Policy, shall, from the Effective Date become entitled to the same rights against Zurich as were available against GAIDAC under such Transferring Policy.
- Every holder of a Transferring Policy and every person who has a liability or obligation under a Transferring Policy, shall, from the Effective Date be under the same liability or obligation to Zurich.
- Except where the context otherwise requires, all references to GAIDAC in any Transferring Policy etc. shall, from the Effective Date be read as references to Zurich.
- Prior to the Effective Date, GAIDAC may novate one or more of the Transferring Policies to Zurich and, to the extent such Policies are novated, they shall not constitute Transferring Policies for the purposes of the Scheme.

Transfer of the Transferring Liabilities

- From the Effective Date, the Transferring Liabilities shall be transferred to Zurich, with the effect that GAIDAC shall be wholly released from, and Zürich shall succeed to, the Transferring Liabilities.
- GAIDAC and Zurich shall, as necessary or appropriate, execute and deliver all documents and perform all such other acts to effect the transfer to Zurich of the Transferring Liabilities.
- Zurich shall discharge or shall indemnify GAIDAC from the Effective Date against
 - all Transferring Liabilities which are not transferred on the Effective Date until the relevant Transferring Liability is transferred to and becomes a liability of Zurich; and
 - any other liability (other than taxation) accruing after the Effective Date in connection with the Transferring Business.

Excluded Policies

- Excluded Policies shall not be transferred to Zurich on the Effective Date but shall remain in GAIDAC pending their transfer when circumstances allow in accordance with the Scheme.

- From the Effective Date:
 - the Excluded Policies shall be 100% reinsured by Zurich pending their transfer to Zurich; and
 - Zurich shall be responsible for all aspects of the administration of the Excluded Policies.
- If, in relation to an Excluded Policy, from the Effective Date:
 - the relevant supervisory authority consents to its transfer; or
 - such further steps as are referred to in the definition of Excluded Policy shall have been taken;
- then the Excluded Policy shall transfer to Zurich and be treated as a Transferring Policy in all respects once all necessary steps have occurred.
- GAIDAC and Zurich will execute and deliver all documents etc. as required to effect the transfer to Zurich of these Excluded Policies.

Continuity of Proceedings

- If any proceedings are pending by or against GAIDAC on the Effective Date in connection with the Transferring Business, the same shall be continued by or against Zurich from the Effective Date.

Data Protection and Other Authority

- From the Effective Date the records, which may include policyholder data protected under the data protection laws, shall be transferred to Zurich and may be used by Zurich consistent with the usage by GAIDAC prior to the Effective Date, and no consent from the individual holders of such Transferring Policies in respect of that use shall be required.
- To the extent that an authority has been given to GAIDAC in connection with the Transferring Policies, such authority shall, from the Effective Date, be deemed to have been given to Zurich.

Premiums and Mandates

- All premiums relating to the Transferring Business shall from the Effective Date be payable to Zurich. All premiums etc. attributable to any Excluded Policies shall be receivable by GAIDAC.
- Save as otherwise agreed by GAIDAC and Zurich, any mandate or other instruction in force on the Effective Date shall thereafter take effect as if it had provided for and authorised such payment to Zurich.

Costs and Expenses

- The costs and expenses in relation to the Scheme shall be borne by the Scheme Companies in such proportions as they may agree.

Amendments and Modifications

- On or before the Effective Date, the Scheme may be amended or modified on the prior agreement of each of GAIDAC and Zurich provided that the Central Bank shall be notified and subject to any such amendment or modification having been approved by the Court.



Governing Law

- The Scheme shall be governed by and construed in accordance with the laws of Ireland.

6 Impact on the Policyholders of GAIDAC and ZVA

6.1 Introduction

Under the Scheme, the (GAIDAC) Transferring Business will be transferred to ZVA.

This Chapter is structured as follows:

- Section 6.2 covers the reserve strength of GAIDAC and ZVA;
- Section 6.3 discusses the capital strengths of GAIDAC and ZVA, risk appetite and solvency targets, including the approach to regulatory capital held;
- Section 6.4 covers Financial Support arrangements of ZVA and GAIDAC pre and post Scheme, including the impact of reinsurance treaties on the Scheme;
- Section 6.5 discusses the risk exposures in ZVA post Scheme relative to the Risk Exposure of GAIDAC pre-Scheme;
- Section 6.6 then discusses the policy servicing levels in ZVA compared with those currently provided by GAIDAC pre-Scheme; and
- Section 6.7 summarises my conclusion in relation to the impact of the Scheme on the policyholders of GAIDAC transferring under the Scheme.
- Section 6.8 then discusses the impact of the Scheme on the existing policyholders of ZVA.
- Section 6.9 summarises my conclusion in relation to the impact of the Scheme on the policyholders of ZVA.

6.2 Reserve Strength of GAIDAC and ZVA

The balance sheets I have reviewed for each of GAIDAC and ZVA show amounts as at 31 December 2022 and at 31 December 2023.

It is worth noting that the GAIDAC liabilities (technical provisions gross of \$23m) to be transferred are very small in the overall context of ZVA (non-life gross technical provisions of €638m) and are 100% reinsured back to GAIL via ZIC.

I have been provided with the following reserving reports for both companies:

- The Actuarial Function Report (on a Solvency II basis, translated into English) for ZVA 2023 dated 20 March 2024;
 - For completeness please note typically I review an Annual IFRS Reserve Report, but it is not market practice in Austria to produce this standalone document. There was however sufficient detail in the ZVA Actuarial Function report, and additional Actuarial Reporting provided, for my purposes to assess the reserve strength of ZVA.
- The Actuarial Function Report (Final), on a Solvency II basis, for GAIDAC 2023 dated February 2024;
- The GAIDAC Actuarial Report on Technical Provisions (Final) 31 December 2023, dated March 2023; and

- A report detailing the claim reserves as at year-end 2023 for GAIDAC split by those expected to be transferred under the Scheme, and other.
- I also received a brief memo from ZVA entitled “Some key comments on local statutory loss reserving in P&C”, which gave me some useful background information in particular on prior year-development, and therefore reserve strengths.

Actuarial Function Reports are produced for the purposes of Solvency II. As this is a pan-European standard, comparing SII technical provisions is therefore a like-for-like valid comparison of reserve strengths between Austria and Ireland.

There is more detail re methodology in the ZVA Actuarial Function Report. For GAIDAC, the key source document is the Actuarial Report on Technical Provisions (“ARTP”).

The (non-Life) Actuarial Function Report ZVA 31 Dec 2023

As the non-life team will be managing the book, their processes are most relevant for discussion, and therefore in this section I consider the Non-life Actuarial Report in detail. However, in the context of the wider financial strength etc. I consider the book as a whole.

I have reviewed the work carried out by those responsible for estimating non-life reserves for ZVA, as set out in the above-named report, in order to satisfy myself that it is reasonable for me to rely on their work. The report contains all the various headings that I would expect to see i.e.

- Introduction;
- General Principles;
- Technical provisions;
 - Statement on reliability and appropriateness of technical provisions;
 - Important information concerning technical provisions;
 - Analysis of change of technical provisions;
 - Calculation Process;
 - Methods and models;
 - Validation of claims and premium reserves;
 - Assumptions;
 - Completeness and quality of data;
 - Comparison between best estimate and experience; and
 - Recommendations of the Actuarial Function.
- Statement on the Underwriting Policy;
- Statement on the Reinsurance policy;
- Contribution to risk management; and
- Final Recommendation of the Actuarial Function.

The **Introduction** chapter described the purpose and scope of the report. It also informs the reader that the Actuarial Function is carried out by Dr. Johann Kronthaler. There then follows a glossary, and a description of the main classes of business.

The **General Principles** chapter provides background information on Dr. Johann Kronthaler providing assurance that he satisfies the Fit and Proper criterion for the Actuarial Function role.

Chapter 3, **Technical Provisions**, is the main chapter of interest for my review.

This opens with the statement by the Actuarial Function that “the technical provisions have been established in accordance with the regulations of §§ 75 et seq. (corresponding to Articles 76 to 85 of the Solvency II Directive).”

The next section proceeds to explain the component parts of the technical provisions, namely the premium provision, the claims provision, and the risk margin.

Next, the report graphically analyses the changes over the year 2023 of the net claims provision and the premium provision, both for ZVA in total, and for the four major classes general liability, motor liability, legal protection, and accident. Finally, there is a table showing the change over the year for all classes individually, for both gross and net.

In the section calculation process, the report describes how the SII technical provisions are calculated in two essential steps. First ZVA calculate the IFRS reserves, using the normal quarterly process. Then, these are transformed into Solvency II technical provisions, including the calculation of the risk margin and the premium provision.

In summary, during the preliminary closing, a reserve recommendation is developed based on the data from the previous months. The prepared results are checked for plausibility using diagnostic tests. Future developments, ongoing activities, and trends, as discussed in the Virtuous Circle (VC), are already taken into account at this stage. Subsequently, back testing (comparison between observed and estimated reserves) is conducted to validate the relevance and reliability of the models.

The process is described in some detail in this section. It also describes some of the internal peer challenge. Specifically, as part of the "Second Level Peer Review," the results are questioned and discussed again by the head of the Center of Excellence (CoE Actuarial at the Corporate Centre) and are also presented in the Reserve Committee. This committee meets before the actual quarterly closing.

After the actual quarterly closing, the reserve estimates are adjusted if necessary, taking into account material developments, and discussed again in the Reserve Committee as described above.

The next section provides significant detail on the methodologies used, such as Chain-Ladder or Bornhuetter-Ferguson, and how expert judgements are documented in the AWARE system for traceability. It describes how for motor liability, legal protection and general liability, large claims are extracted and projected separately. It describes how claims expenses (allocated and unallocated) are dealt with. It also details how the quota share treaties are handled. Finally, the approach to discounting and annuities is outlined.

Further detail is provided on the premium reserve calculation, reinsurance recoverables and the risk margin calculation.

There follows a section on uncertainty. First, they discuss the uncertainty factors that can significantly influence the claims provision calculation. These include:

- Interest rate development

- Development of major claims
- Increased occurrence of late claims
- Development of claims ratios (for example, due to new products)
- Inflation trends
- Changes in legislation

Next, they discuss the impact of a change in profitability on the premium provision. Finally, for the claims provision, there is a table showing the reader what it would be at various confidence intervals⁶ (from 25% to 95%) around the best estimate.

The next section performs validation analyses of the claims provision and the premium provision. For the claims provision, they use a common statistical technique called bootstrapping. This is performed on the paid and incurred triangles for the four main lines of business detailed above. In summary, the mean of the bootstrapping is generally (and reassuringly) lower than that of the Actuarial Function, which is explained by expert judgement. This would be a fairly standard expected result from such an approach. The premium provision validation is also satisfactory in its result.

There follows a detailed narrative on the major assumptions expert judgement made through the process, followed by a section on the completeness and quality of the data.

Finally, there are two recommendations from the Actuarial Function for future improvements which relate to explicit derivation of cancellation rates in the premium provision, and the extraction of annuities from the triangles.

The next two chapters relate to the opinions on underwriting and reinsurance, which I cover elsewhere in this report.

The report concludes with a summary of the Actuarial Function contribution to risk management, as well as a summary of the Actuarial Function recommendations.

Finally, the memo entitled “Some key comments on local statutory loss reserving in P&C” summarized favourable gross and net prior year development across every major class for each year 2020 to 2023, which confirms a level of prudence in the local statutory reserves.

There is not enough detail in the report to independently recalculate reserves. However independent recalculation is out of scope for this exercise but there is sufficient detail to enable me to review and draw my own conclusions. Therefore, I am satisfied based on the details provided on governance and controls, the methodologies described, the nature of the business, and the favourable reserve run-off reported, that the reserves appear reasonable at present. The adjustment process to Solvency II from IFRS reserves also appear reasonable.

G Aidac Actuarial Report on Technical Provisions and G Aidac Actuarial Function Report

The G Aidac ARTP contains all the various headings that I would expect to see:

⁶ A confidence interval around general insurance reserves is a range of values, derived from statistical techniques, that is likely to contain the true amount of money an insurance company needs to cover future claims, with a certain level of confidence, say 95%.

- Executive summary
- Introduction
- Actuarial Opinion on Technical Provisions
- Standards and Approach
- Statutory Results
- Solvency II Technical Provisions
- Variability and Sensitivity
- Limitations and Caveats
- Various detailed appendices (totalling 170 pages)

Chapter 1, the **Executive Summary**, contains a very comprehensive summary of the full report.

The HoAF details that the gross statutory reserves are \$22.9m inclusive of allocated and unallocated claims expenses. All results are restated from local currency to US\$ at year-end 2023 exchange rate.

He breaks the \$22.9m down in a table into case reserve and IBNR (Incurred but not reported, a statistical reserve derived by the actuaries) by major line of business property, liability and intellectual property.

He notes that liability makes up 77% of the reserves. There is a limited amount of reinsurance recoveries from FRIES in relation to the UK Employers Liability and Irish business (See 3.2 and 3.5 for further details on FRIES).

He provides details in this section also on the actual versus expected in the year per major class. Across all classes except intellectual property, the experience is favourable. The intellectual property class had a large adverse movement, on a claim that has since been agreed. This level of variation is to be expected on a small tail book, with the potential for large claims to emerge or existing claims to develop adversely.

He then provides details of the Solvency II technical provisions, which are calculated by performing a series of adjustments to the statutory reserves.

Finally, he summarises the major areas of uncertainty, which are large losses, inflation, late reporting and exchange rates and economic conditions.

Chapter 2, **Introduction**, details

- Who commissioned the report;
- The purpose of the report;
- The intended audience;
- Previous on GAIDAC analyses by the same actuary; and
- That the Head of Actuarial Function is Mark Malone, as approved by the central bank of Ireland in June 2016.

Chapter 3 provides the signed **Actuarial Opinion on Technical Provision**, as required by the Central Bank of Ireland.

Chapter 4, **Standards and Approach**, list the actuarial standards adhered to, the scope of the investigation, the history of insurance business written by GAIDAC, the nature of

the reinsurance programmes, the conversion from Statutory Provisions to Solvency II Provisions, the application of the principle of proportionality when calculating the technical provisions and finally a commentary on the impact of the high inflation that has impacted the world, and this portfolio, over the last few years.

Chapter 5, **Statutory Results**, is the most detailed chapter in the report (excluding the appendices, which have a large amount of informative detail).

He starts with a summary of the Solvency II Technical Provisions, gross and net, broken down between claims provision, premium provision (which is zero as GAIDAC ceased to write or renew business) and risk margin.

He then goes into each class (property, liability, and intellectual property) in granular detail. First, for each class, he has a separate table detailing the paid, case reserves, incurred, IBNR and total reserve, with a row for each major geographic area. Then he has a table showing actual incurred versus expected by major geographic area. He provides detailed narrative in geographic areas of interest.

He then goes on to describe the reinsurance arrangements, namely FRIES in particular as already referenced.

Next he goes into detail on the treatment of unallocated expenses, and he specifically details the treatment of Crawford's, the main external claims handler. He explicitly points out here that GAIDAC does not incur claims handling expenses from Crawford in respect of all of its business. The claims handling for the Irish EL business written outside of the main package is done on a fixed fee basis. The UK excess, Ireland franchisees, and Australia & New Zealand claims have separate claims handling arrangements. For these claims, claims handling costs are incurred by FRIES and MAFIP (the primary insurer in Australian and New Zealand) respectively for the business where the losses remain within the respective retentions. Above these retentions, Crawford is engaged by GAIDAC to manage the claims impacting GAIDAC.

Finally, in this chapter, he has two sections each on MAFIP and FRIES respectively.

Chapter 6, **Solvency II Technical Provisions**, details how these SII provisions are calculated. To give a little more background, Solvency II technical provisions are made up of the best estimate and risk margin. The best estimate is calculated by considering all future cash inflows and outflows required to settle the existing (re)insurance obligations over their lifetime. It represents the mean outcome of all possible scenarios, taking account of how likely they are to occur and their potential variability. In this regard, the best estimate is a probability-weighted average of future cash flows. The best estimate should also allow for the time value of money. The gross best estimate is made up of a claims provision and a premium provision, relating to past and future exposures respectively. The Solvency II best estimate is calculated gross with any recoverables calculated separately.

The risk margin reflects the adjustment that needs to be made to the value of the Solvency II best estimate technical provisions to bring them in line with a market consistent valuation. It is designed to reflect the discounted cost of capital that would be needed to support the full settlement of the liabilities, and as such is dependent upon the results of our SCR capital calculation.

He then outlines the building blocks in the transition from Statutory Provisions to Solvency II Provisions, again gross and net. He goes on to explain his key assumptions in relation to:

- Expenses
- Events not in the data
- Currencies
- Discounting
- Receivables and payables
- Allocation of provisions to regions
- Counterparty Default
- Subrogation (where an insurance company pays its client's claim for losses directly and then seeks reimbursement from the other party)

And finally, he explains in detail how he derives the Risk Margin.

Chapter 7, **Variability and Sensitivity**, in order to help illustrate the potential variability associated with the estimate of GAIDAC's technical provisions, he discusses nine main drivers of uncertainty. These areas are:

1. Large losses;
2. Class Groupings;
3. Inflation;
4. Limited data;
5. Covid-19;
6. Late reporting;
7. Exchange rates and economic conditions;
8. PIAB legal reforms; and
9. The Russia Ukraine war.

He then describes the properties of the different classes, and how they can generate uncertainty, e.g., late development of liability claims in Argentina and Australia.

Finally in Chapter 8. **Limitations and Caveats**, he explains under several headings why there are limitations associated with the technical provisions. For example, he explains that unanticipated changes such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation and economic decisions may significantly alter the report's conclusions. Similarly, new types of claim are insufficiently developed to allow confident forecasting of the future claims numbers and costs.

Finally there are several very useful and lengthy appendices in this report which expand on

- Data sources etc.
- Data Triangles
- Territory mapping
- Local Retentions
- SII requirements
- Expert judgement log
- Solvency II mapping
- Terminology definitions and descriptions

- Results by territory (approximately 100 pages of very useful exhibits and narrative)
- Assumptions

I also reviewed the GAIDAC Actuarial Function Report, but for the purposes of this section, everything I required was in the ARTP.

In conclusion, there is not enough detail in the report to independently recalculate reserves. However independent recalculation is out of scope for this exercise but there is certainly sufficient detail to enable me to review. Therefore, I am satisfied based on the details provided on governance and controls, the methodologies employed, the nature of the business, and the (in general) favourable actual versus expected and favourable reserve run-off reported, that the reserves appear reasonable at present. The adjustments to Solvency II from these IFRS reserves also appear reasonable.

I am satisfied with the reserving approach and the overall reserve strength of ZVA relative to GAIDAC, and that any difference will not have a materially adverse impact on the transferring GAIDAC business.

6.3 Excess Assets or Own Funds of ZVA and GAIDAC

In this section I look at the solvency coverage (Own Funds over SCR) of ZVA and GAIDAC, as a typical measure of financial strength. I also consider the projections of ZVA over their planning period, although I cannot provide full details on that as it is forward looking commercially sensitive data.

Table 6.1: Comparison of SCR and MCR coverages for ZVA and GAIDAC		
	2022	2023
GAIDAC (\$m)		
Eligible SII Own funds	€25.7	€13.0
SCR	€9.5	€7.6
SCR Ratio	271%	171%
Eligible Funds to meet the MCR	€21.0	€9.2
MCR	€4.3	€4.4
MCR Ratio	488%	209%
ZVA (\$m)		
Eligible SII Own funds	€410.4	€390.0
SCR	€205.3	€214.1
SCR Ratio	200%	182%
Eligible Funds to meet the SCR	€410.4	€390.0
MCR	€76.9	€81.8
MCR Ratio	534%	477%

Source: Tables 3.4 and 4.5 this report

The latest SCR ratios as a percentage are fairly similar for both GAIDAC (171%) and ZVA (182%). ZVA is forecast to remain at similar levels through the planning period.

The balance sheet that the GAIDAC liabilities are being transferred into is much larger, and more diversified by class, as it has a wider range of classes of business. It is true to say that GAIDAC is very diversified by geographical area, but equally that brings some additional uncertainty.

As I mentioned the reducing size of the GAIDAC portfolio as it runs off, could be quite volatile, give the propensity for individual large claims to be reported late.

Given that ultimately the transferring liabilities will be 100% reinsured, the main change to the capital strength for ZVA is the counterparty default risk, which ZVA has confirmed to us as minimal.

Therefore, based on the above analyses, should the Scheme proceed, the transferring policyholders will be moving to a much larger, I would suggest less volatile balance sheet. Therefore I believe that the risk of default to policy holders is very remote in ZVAs.

I am satisfied with the capital coverage of ZVA post Scheme relative to GAIDAC pre-Scheme, and that any difference will not have a materially adverse impact on the transferring GAIDAC policyholders or the existing ZVA policyholders. This assumes ZVA's solvency coverage ratio remains in line with risk appetite ahead of the Effective Date and over the planning period. I am satisfied that the probability of valid claims not being paid for transferring policyholders remains remote after the transfer.

6.4 Financial Support Arrangements of ZVA and GAIDAC

ZVA and GAIDAC both confirmed to us that they do not have any parental guarantees in place (which is typical of insurance companies).

However, as noted previously, the transferring GAIDAC policyholders will have a 100% quota share reinsurance treaty to the McDonalds owned Bermuda Captive GAIL from the Effective Date. They will also clearly benefit from the capital strength of ZVA, and the overall strength of the Zurich Group.

I am satisfied therefore that the 100% quota share reinsurance arrangement in place for the transferring policyholders provides them with reinsurance protection over and above the security provided by the ZVA Balance Sheet.

6.5 The Risk Exposures in ZVA post-Scheme compared with that of GAIDAC pre-Scheme.

The risk exposures in the balance sheet of ZVA that the transferring GAIDAC policyholders will be exposed to post the Scheme, are quite different in nature to those of GAIDAC currently. However, as commented previously, I believe that there will be less volatility in the ZVA balance sheet, than in GAIDAC.

Therefore, I am satisfied that the difference in Risk Exposure between ZVA and GAIDAC will not have a materially adverse impact on the transferring GAIDAC business.

6.6 The policy servicing levels provided by ZVA post-Scheme compared with those currently provided by GAIDAC pre-Scheme.

ZVA has confirmed to me that the conduct of claims, actions or demands under the Transferring and Novating Business will continue post-Completion Date in substantively the same manner as is operating in practice immediately prior to the Completion Date - we cannot commit that they will be 100% the same. This will result in similar levels of services post Scheme, if not better.

I am satisfied that the approach to policy administration will be at least as beneficial to the transferring policyholders as was the approach before the transfer.

6.7 Conclusion for the Policyholders of GAIDAC transferring under the Scheme

I am satisfied that the proposed Scheme does not affect in a materially adverse way either the security of benefits or the policy servicing levels of the Transferring GAIDAC Policyholders.

6.8 Impact of the Scheme on the existing Policyholders of ZVA

As outlined previously, the main issues affecting the existing policyholders of ZVA as a result of the Scheme are likely to arise from relative differences in:

- The financial strength of ZVA pre- and post-Scheme.
 - As the transferring liabilities are all 100% reinsured out of ZVA, and the gross liabilities are less than 5% of the gross non-life liabilities of ZVA, the Scheme will have negligible impact on the financial strength of ZVA.
- The risk exposures of ZVA pre- and post-Scheme.
 - Similarly given the size of the transferring liabilities, and the fact that they will be 100% reinsured, there is negligible impact on risk exposures of ZVA post Scheme.
- The policy servicing levels pre- and post-Scheme.
 - As the transferring business has its own stand-alone claims handling procedures, this will no impact in any way on the ZVA policyholders service levels.

Therefore, I conclude that the impact on service levels for existing policyholders of ZVA will be negligible or positive (i.e. service levels will be at least as beneficial post Scheme).



6.9 Conclusion on the impact of the Scheme on the existing Policyholders of ZVA

I am satisfied that the proposed Scheme does not affect in a materially adverse way either the security of benefits or the policy servicing levels of the existing ZVA Policyholders.

7 Other Considerations

7.1 Risk and Governance

In assessing the impact of the Scheme, I have considered the Risk and Governance of both GAIDAC and ZVA. Both companies have strong Risk Functions and Governance. And in particular given the policyholders are transferring from a small company, which no is no longer renewing business, into one of the world's largest insurance groups, I have no concerns based on my review in this regard.

In my opinion therefore, I do not anticipate that the Scheme will create any materially adverse impact with respect to Risk and Governance for the Transferring GAIDAC Policyholders.

7.2 Assets of the Various Entities

In assessing the impact of the Scheme, I have considered the nature of the actual assets of GAIDAC before the Effective Date, and projected assets of ZVA after the Effective Date.

The asset mix in ZVA is quite different, which is in part a function of the life exposures being larger than the non-life exposures.

However, I have not identified any matter arising from this comparison that would cause me to perform specific further analysis.

In my opinion, the GAIDAC assets now, and the proposed assets of ZVA post the Effective Date are and will be sufficiently liquid assets to meet liabilities as they fall due, both before and after the Scheme. As a result, I do not anticipate that the Scheme will create any material adverse impact with respect to liquidity for the Transferring GAIDAC Policyholders.

7.3 Operations Issues and Changes in Assets and Liabilities up to the Effective Date

The balance sheets I have reviewed for GAIDAC and ZVA respectively show past balance sheet as at 31 December 2023 for GAIDAC, and projected balance sheets for ZVA for 2024 to 2026.

Further to considering the continuation of planned business, I have discussed with GAIDAC and ZVA the possibility of management actions, other than the proposed Scheme that could affect the financial position of GAIDAC and/or ZVA. I have been informed by both GAIDAC and ZVA that they have no planned activities that would have a material effect on the security of the transferring business under the Scheme as at the Effective Date.

I do not consider that any material additional risk to the affected policyholders will emerge as a result of the continuation of planned business between 31 December 2023 and the Effective Date.

Before the final Court hearing, I will consider the extent to which actual changes in assets and liabilities have been in line with expectations and hence whether there have been any changes (including those associated with current economic conditions) that would affect my overall opinion, and, if necessary, I will report on these separately.

7.4 Likely Impact of Scheme on Reinsurers

There are two types of reinsurance that should be considered here. Both are discussed in Chapter 5. But for convenience I repeat those points here. Therefore, below I talk about inward reinsurance into GAIDAC, and outwards reinsurance, and how each is being treated in the context of the transfer.

Inwards Reinsurance

GAIDAC is licenced to write risks across the EEA, where many of its McDonald Restaurant policyholders are based. However, GAIDAC also writes “indirectly” as a reinsurer via fronting insurers for regions in which it cannot write on a direct basis.

In this case, these fronting policies were issued directly to insureds by a local licensed commercial insurer (not GAIDAC) which then reinsured each policy 100% to GAIDAC.

As these Inwards Reinsurance Policies are not being transferred to ZVA under the Scheme, a different mechanism is needed to deal with them. The Inwards Reinsurance Policies will be novated to GAIL which will become the reinsurer of the Fronting Arrangements in place of GAIDAC.

This is being dealt with outside of the Scheme.

The novation agreements have been drafted; and are designed to take effect at the same time as the Scheme.

Outwards Reinsurance Arrangements

GAIDAC also has outwards reinsurance arrangements which will be dealt with (again outside of the Scheme) by the substitution of GAIL for GAIDAC as the reinsurer.

The substitution is contingent upon the Scheme becoming effective on the Effective Date.

I understand all reinsurers impacted have agreed to the above solutions.

Consequently, the existing reinsurers of GAIDAC will not be impacted by the transferring liabilities.

7.5 Approach to Communications

The full details of the approach to communication are described in the Petition submitted to the High Court. Below I provide a summary of this.

As required by the 1909 Act and the 2015 Regulations, the Scheme Companies intend to publish notice of their intention to make this application in Iris Oifigiúil and in two daily newspapers published in the State, namely, the Irish Times and the Irish Independent.

The Scheme Companies also intend to publish the notice in the Financial Times (International Edition) and otherwise as the Court may direct or the Central Bank request.

As required by Regulation 41(5)(b) of the 2015 Regulations, the Scheme Companies also intend to publicise the proposed Transfer in accordance with the law of each other EEA Member State in which risks under the Policies are situated.

As an additional step, GAIDAC/McDonald's Group propose to communicate with the policyholders/insureds in line with its business as usual ("BAU") process for communicating with those policyholders/insureds in relation to their coverage (the Communication).

That BAU process is that the local broker sends policies and invoices to the local McDonald's Group contact who disseminates that information to the policyholders/insureds. Where there are exceptions to this process, AON provide the invoices and policies to the local McDonald's Group contact who disseminate that information to the policyholders/insureds.

GAIDAC/McDonald's Group propose to follow this same approach for its communications in relation to the proposed Transfer. In addition, GAIDAC/McDonald's Group plan to also send the communication directly to the local McDonald's Group contact who will disseminate that information to the policyholders/insureds.

As required by the 1909 Act, a copy of the Scheme will be made available for inspection by the policyholders/insureds and shareholders of GAIDAC and ZVA at their registered offices for a period of at least fifteen days after the date on which the Notice is published in Iris Oifigiúil.

The Scheme Companies also intend to make the petition, a copy of the notice published in Iris Oifigiúil and this Report available for inspection alongside the Scheme (the "Scheme Documentation").

The Scheme Documentation will be available for inspection by the policyholders/insureds and shareholders of GAIDAC and ZVA at their respective registered offices between the hours of 9.00 a.m. and 5.00 p.m. local time on each working day from the date hereof until the date that the said Petition is to be heard by the Court (both dates inclusive).

When available, the supplementary report of the Actuarial Report shall also be made for inspection by the policyholders/insureds and shareholders of GAIDAC and ZVA, as well as other interested parties at their registered offices.

The Scheme Documentation will also be available for inspection and/or download online at the following website(s): <https://corporate.mcdonalds.com/corpmcd/GAIDAC.html> and www.zurich.at. All documents which are made available at the registered offices and online will be in the English language.

As will be detailed in the Notice, each of GAIDAC and Zurich will have telephone contacts and an email address for their respective policyholders/insureds in order to answer any questions or deal with any concerns which any person may have in relation to the Scheme. Any person who cannot access the websites above can request copies of the documents to be posted to them, free of charge, by contacting GAIDAC or Zurich in the manner set out in the notice.

Given the above and with the agreement / non objection of the Central Bank, the FMA and any other relevant supervisory authority and the Court, I am comfortable with this communication approach.

Transferring Policies

The Transferring Policies comprise all insurance policies ever underwritten by GAIDAC, including any endorsements or amendments thereto, under which GAIDAC still has potential liability for claims, other than the pockets previously mentioned which are being dealt with outside the Scheme.

In number terms, there are forecast to be 485 transferring policies. Between GAIDAC, the local brokers and McDonalds Group, GAIDAC has confirmed to me that they are confident that the transferring policyholders will be contacted about the transfer.

Communication Pack

I have also reviewed the policyholder communication pack including the letter to policyholders; the Scheme document setting out the terms of the proposed Transfer; this Independent Actuary's report and the notice of the proposed Transfer. No material issues arose in my review of the final draft communication pack.

Based on the above, I believe the proposed approach to communication with policyholders and other interested parties as outlined above including the dispensations sought to be both proportionate and reasonable. I believe that the planned communication strategy will allow policyholders to form their own view on the proposed scheme. It is clear how additional information can be found. The proposals appear to consider all interested parties.

I consider the communication pack itself to cover the key matters I would expect to be communicated to policyholders and other interested parties; no material issues arose in my review of the draft communication pack.

My conclusions are based on my professional experience of other insurance business transfers. In making this statement I reiterate that it is for the Court to approve the notification arrangements.

7.6 Compensation and Complaints

As I have referenced in chapters 3 and 4, there are compensation schemes providing some protection to existing policyholders of GAIDAC, mainly the insurance compensation fund in the event of insurance company failure, and the ombudsman scheme in the case of disputes/complaints.

ZVA has informed me that there are no equivalent compensation schemes in Austria.

However, I note that the Insurance compensation scheme will only be triggered in the event of insurance company failure. Should the Scheme proceed, the transferring policyholders are moving to a much larger balance sheet, belonging to one of the largest insurance companies in the world. In addition, the liabilities are 100% reinsured back to the McDonalds subsidiary GAIL in Bermuda. Therefore, I regard the chances of insurance company default as extremely remote post Scheme.

As referenced in chapter 3, GAIDAC has informed me that currently (i.e. pre-Scheme) in the event of receipt of a complaint (likely by either Aon as insurance managers or Crawford's as global claims handlers in the first instance), this would be escalated to McDonald's insurance team / GAIDAC Board members for investigation, review & remediation / response where needed and in line with required timescales.

In relation to disputes/complaints, ZVA has a detailed dispute resolution process which will be in place for the transferring policyholders.

I described in detail in 4.8, that ZVA has both a comprehensive internal complaints management process followed, if required, by a strong federally operated complaints process for insurance companies.

I consider that no material additional risk to the transferring policyholders will emerge as a result the absence of compensation schemes in Austria relative to that available in Ireland, or in relation to complaints handling of the transferring policyholders after the Effective Date.

7.7 Capital Policy after the Scheme

GAIDAC and ZVA are currently required to comply with the capital requirements of Solvency II, the European regulatory framework.

Therefore the regulatory requirements in relation to capital are similar pre and post Scheme.

Therefore, I am satisfied that there will be no material change to policyholder protection based on the regulatory capital regime post the Scheme.

7.8 What would happen were the Scheme not to proceed?

If the Scheme were not to proceed, GAIDAC will continue to operate as normal. However in these circumstances, the book of reserves would diminish slowly over time, and it would become more and more impractical to manage such a diminishing book into the future. McDonalds do not consider this a viable medium-term solution. The proposed approach on the other hand allows for the run-off to be managed by one of the world's largest insurance groups as part of its business as usual.

7.9 Pension Scheme Obligations

There are no pension obligations on the balance sheet of GAIDAC, so this is not a matter that I need to consider in this Report.

7.10 Cost and Tax Effects of the Scheme

The Cost of the Scheme is to be borne by GAIDAC and ZVA, and explicitly not by the policyholders.

I have been informed that the Scheme is not expected to have tax implications that would affect any of the Companies in relation to impacting the security of policyholders' contractual rights.

7.11 Other alternatives to the Scheme that were considered

The only alternative to the Scheme that was considered is the continuation of the status quo. But as pointed out in 7.8, McDonalds do not consider this a viable medium-term solution.

7.12 Recent Events

7.12.1 Russia Ukraine Conflict and the Israel Gaza War

ZVA has analysed the impact of the Ukraine Russian war on its business. And whereas it has no direct investment in Russia or Ukraine, the risk is assessed as the high due to its possible impact on capital markets in particular. The economic impacts are regularly reported in the RCC 360.

GAIDAC has exposure in both Russia and Ukraine. All policies in Russia were fronted by Zurich. GAIDAC understands the sanctions will not impact the settlement of claims in these regions.

The Russia Ukraine war introduces uncertainty into the GAIDAC results. Although all GAIDAC policies were off risk for over a year before the start of the war, the conflict may result in delayed reporting of claims from both Russia and Ukraine. Russia and Ukraine are only a small part of GAIDAC's global exposure. Thus, it is unlikely that there will be a significant deviation in overall claims experience from expectations due to delayed reporting because of the war.

The war in Israel and Gaza has no significant direct impact on either the risk profile of ZVA or GAIDAC

A Appendix: Information received

The table below sets out a summary of the information provided to me to facilitate preparation of this Report:

Company	Document	
ZVA	Zurich Group Organogram	
	ZVA SFCR English	
	Risk Strategy Document	
	Risk Limits Document	
	2022 ORSA dated 18/12/2023	
	Actuarial Function Report (non-Life) English YE 2023	
	Commentary on Prior Year movements	
	Authorised classes of business	
	Guidelines for complaint management internal ZVA	
	Claims handling under Article 1 para. 1 no. 2 of the Consumer Protection Act (KSchG)	
	Impact on SCR of transfer	
	Various emails and project calls, and feedback comments on report as we progressed	
	Financial statement YE 2023 English	
	GAIDAC	CBI comms Emails
		Financial statements last three years
Signed Audit opinion		
Risk Register		
Policyholder listing		
ALG Legal Advice on treatment of UK policies		
CBI Scheme Submission May 2024		
Details of Reinsurance programme		
SCR Report		
Various Claims Handling procedures + email detailing complaints process		
Risk Appetite		
Actuarial Function Report and Actuarial Report on Technical Provisions Ye 2023		
SFCR 2023		
ORSA 2023		
Scheme Communication Pack		
Various emails and project calls, and feedback comments on report as we progressed		
GAIDAC split of reserves between those transferring under the Scheme and other		

B Appendix: Scope from Engagement Letter

The role of Independent Actuary will be to consider and to report to the Court on the proposed transfer of business, primarily from the perspectives of the transferring policyholders of GAIDAC and the existing policyholders of Zürich Versicherungs-Aktiengesellschaft, and to opine as to whether the interests of any of those groups of policyholders could be in any way (either directly or indirectly) materially adversely affected by the proposed transfer.

In order to form her opinion, I will expect the tasks that will be carried out will include the following:

- **Understand the business:** Aoife will form an understanding of the current business and the proposed scheme through meetings with key stakeholders and review of financial statements and key scheme documents. Aoife will provide template questionnaires to you that ensure all relevant features of the business are captured for further consideration. This analysis forms the basis from which the impact of the proposed Transfer can be performed. In addition, it provides much of the factual material which will later be included in the Reports.
- **Financial statement analysis:** Aoife apply straightforward financial analysis to gain a high-level understanding of the relative impact of the scheme and identify areas they would like to investigate further. Aoife has found this to be a very efficient approach to identifying areas where further explanation may be required within the Reports. To the extent they identify more detailed analysis is necessary, they may request further information or analysis from the business, legal advisers or your actuarial and finance functions.
- **Analysis of risk-based capital:** Aoife will compare the projected risk based capital position in the event the Transfer proceeds with the existing position from the perspective of each affected policyholder group and seek to understand the factors considered and any potential gaps in the analysis. The key inputs to this analysis are the relevant capital models and actuarial analysis material you have prepared. Where necessary, and subject to further discussion with you, Aoife can perform additional analysis as required to support the opinion.
- **Scenario analysis:** Based on the understanding Aoife has gained from the prior three steps, they will select specific scenarios for further analysis. This may require the assistance of the Actuarial Function and may include performing capital calculations. The objectives of this step are to validate the information they are using, to investigate any areas they have identified as of particular interest, and to create a set of 'plain English' reference points which can be cited in the Report and hence provide a more compelling evidence base
- **Policyholder considerations:** Aoife will explore the potential effects on policyholders of changes that will be implemented due to the Transfer, for example, to governance arrangements, to changes in levels of implicit or explicit group support, and to the impact of the proposed Transfer on levels of policyholder service. Aoife will also assess in detail the proposed policyholder communications to ensure they are fit for purpose.

Other tasks will include:

- review of the internal actuarial and risk assessments of the proposed transfer;
- review of existing company documentation (in particular, documentation sent to policyholders to ground existing expectations);
- review of the Scheme documentation and, if necessary, suggest amended drafting in order to eliminate any concerns;
- review the application of discretion including claims settlement, dispute resolution;
- liaise and raise issues and questions as necessary with the appropriate persons at the Company; and
- liaise and raise issues and questions as necessary with your advisers, including legal and tax advisers.

C Appendix: Independent Actuary CV

Background

- Aoife is a Director at KPMG. She has more than 13 years of experience in the insurance industry both in-house and consulting. She is responsible for a portfolio of Head of Actuarial Function, reserve review and audit clients of the Firm. In addition to holding Head of Actuarial Function roles, Aoife also acts as a formal Reviewing Actuary and supports on high impact audit clients.

Experience

- Aoife is responsible for providing support for a portfolio of reserve review clients. She performs independent reserve reviews on the Technical Provisions of a number of non-life insurance and reinsurance clients, including acting as formal Reviewing Actuary under the Central Bank of Ireland Domestic Actuarial Regime under Solvency II for a complex commercial lines (re)insurer.
- She holds 3 Pre-Approval Controlled Function Head of Actuarial Function roles. She also acts in statutory roles in other jurisdictions including Actuarial Function Holder for Maltese based non-life insurance companies and Loss Reserving Specialist to a Bermudian non-life company.
- She is responsible for providing specialist actuarial support for a portfolio of audit clients of the firm across a range of insurance and reinsurance clients.
- Aoife has worked on domestic and international IFRS 17 projects focusing on methodology, gap analysis, design decisions, policy development and implementation support.
- She has strong modelling experience and has worked with Solvency II capital models in the insurance industry, IFRS 9 models in the banking industry and IFRS 17 projection models. She has also been involved in a wide range of actuarial projects involving business planning for license applications, model building and reviewing.
- Aoife has been involved in a variety of Solvency II projects with non life clients including technical provision reviews, standard formula assessments, standard formula appropriateness, review of ORSA policies and reports, quantitative input to the ORSA process and reviews of risk management functions and frameworks.
- Aoife has spent a number of months on secondment acting in a management role for a large reserving and modelling team.
- Prior to joining KPMG in 2012 Aoife worked in a Reserving and Capital Modelling PPI Role in CACI, an insurance subsidiary of the French Bank Credit Agricole. Her responsibilities included: calculation of best estimate reserves; monitoring appropriateness of reserving model assumptions; and developing processes to bring data and modelling methodology in line with Solvency II requirements.
- She is a member of the General Insurance Committee and IFRS 17 Sub Committee of the Society of Actuaries in Ireland.

Key skills

- Financial reporting, Solvency II, IFRS 17, Non-life reserving, Regulatory reporting – Solvency II, Bermuda and IFRS, Financial Modelling and ERM.
- Advanced Excel and SAS; Intermediate VBA and ResQ; Basic SQL and Matlab.

D Appendix: Solvency II

The European Solvency II Directive is a fundamental review of the capital adequacy and solvency supervision regime for the European insurance industry. As Solvency II is an EU initiative it applies in UK (and across Europe) in a harmonised way. Solvency II was implemented on 1 January 2016.

For the purposes of this Report, the respective Head of Actuarial Function of GAIDAC and Actuarial Function Holder of ZVA have prepared the Solvency II figures.

The Solvency II framework is made up of three Pillars.

Pillar 1 focuses on the quantitative aspects of the regime and sets out the financial resources that a company needs to hold in order to be considered solvent. In particular, it contains guidance on the valuation of assets and liabilities and sets out how the capital requirements of the regime are determined.

The liabilities determined under Solvency II are referred to as Technical Provisions and in general consist of two components, a best estimate liability and a risk margin. The best estimate liability is a probability-weighted average of future cashflows, discounted using a prescribed risk-free term structure of interest rates. The risk margin is an additional layer on top of the best estimate, determined using a cost of capital approach, and is intended to reflect the margin that would be required by a third party to take over the obligations of the insurer.

Eligible capital under Solvency II is referred to as Own Funds and is broadly split into two types, Basic Own Funds and Ancilliary Own Funds. Basic Own Funds comprise of the surplus of assets over liabilities and any subordinated liabilities, whilst Ancilliary Own Funds comprise of other loss-absorbing items, including unpaid share capital and letters of credit. Own funds are also separated into three tiers based on overall quality, with tier 1 being the highest quality and tier three the lowest. There are no limits applied to the tier 1 own funds, but the regime does specify quantitative limits with regard to how much of the capital used to cover the regulatory requirements can comprise of tier 2 and tier 3 own funds.

The capital requirements under Solvency II comprise of the Minimum Capital Requirement, or MCR, and the Solvency Capital Requirement, or SCR.

The SCR represents the capital required to meet quantifiable risks on the existing portfolio and is assessed by applying a series of instantaneous shocks to the balance sheet. The SCR is calibrated to a 99.5% value-at-risk and can be assessed using a standard formula published by the regulatory authorities, or through an internal model approach (with regulatory approval required to use this approach). The risks considered in the standard formula approach include market risks (such as interest rates, interest rate spreads, asset valuations and currency risks), life underwriting risks (such as lapse, expense, mortality and longevity risks), non-life underwriting risks (such as catastrophe risk and premium risk), credit risk and operational risk. Regulatory engagement is required if the level of available capital falls below the SCR.

The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, capital at risk,

the technical provisions, written premiums and administrative expenses. For insurance companies, the MCR has an absolute floor of €4.0m.

Pillar 2 focuses qualitatively on the governance and risk management systems in place and the supervision of these systems and controls. In particular, this includes a review of the SCR and the firm's Own Risk and Solvency Assessment ("ORSA"). The ORSA is an assessment of the firm's capital needs taking into account the specific risk profile and strategy of the firm. It analyses areas in which the SCR does not fully reflect this risk profile.

Pillar 3 involves disclosure of a firm's financial condition in order to improve transparency to outsiders and considers how information is disclosed to both regulators and the general public.

E Appendix: Glossary

Glossary of company names and other relevant bodies	
Term	Definition
FMA	the Austrian insurance Regulator
GAIDAC	Golden Arches insurance DAC
GAIL	Golden Arches Insurance Limited
FCA	Financial Conduct Authority, the JUK regulator for conduct of business
PRA	Prudential Regulatory Authority, the UK prudential Regulator
Central Bank	Central Bank of Ireland
SAI	Society of Actuaries in Ireland

Glossary of other terms used in the report	
Term	Definition
AFR	Actuarial Function Report, the actuarial report required under Solvency II
AOTP	Actuarial Report on Technical Provisions
ASP	Actuarial Standard of Practice of the SAI
BEL	Best Estimate Liability
Brexit	Term used to refer to the departure of the United Kingdom from the European Union
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
COO	Chief Operating Officer
CRO	Chief Risk Officer
ECM	Economic Capital Model
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
EU	European Union
FTE	Full Time Equivalents
HoAF	Head of Actuarial Function
IBT	Insurance business transfer
IFRS	International Financial Reporting Standards
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Assessment
Own Funds	Excess of Assets over Liabilities, both valued on a SII basis
Part VII	UK term for insurance portfolio transfer
PCF	Pre-Approval Controlled Function
PRE	Policyholders' Reasonable Expectations
QRT	Quantitative Reporting Template
Quota Share	A reinsurance arrangement that typically transfers a set percentage of claims (and premiums) to a reinsurer.
RAS	Risk Appetite statement
RM	Risk Management
RSR	Regular Supervisory Report
S.I.	Statutory Instrument

SAI	Society of Actuaries in Ireland
Scheme	The legal document that will be presented to the High Court, which details the insurance business transfer.
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SME	Small and Medium Enterprise
Solvency II	Risk based EU wide insurance directive which codifies and harmonises the EU insurance regulation. Discussed further in Appendix D.
TCF	Treating Customers Fairly
UK	the United Kingdom
YE	Year Ending

F Appendix: Compliance with PRA Policy

The PRA in the UK provide a useful checklist for IE expert reports. So although clearly compliance with this is not required in Ireland, I found this a useful checklist while compiling the report.

The table below indicates how I have complied with the provisions of the PRA Policy Statement (“The Prudential Regulation Authority’s approach to insurance business transfers”, dated January 2022, updating April 2015) that pertain to the form of the Report.

PRA Policy statement Reference	Requirement	Scheme Report Paragraph Reference
2.30 (1)	Who appointed the independent expert and who is bearing the costs of that appointment;	1.2
2.30 (2)	confirmation that the independent expert has been approved or nominated by the PRA; (in this case no objection from Central Bank!)	1.2
2.30 (3)	a statement of the independent expert’s professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	1.2, Appendix C
2.30 (4)	whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;	1.2
2.30 (5)	the scope of the report;	1.3
2.30 (6)	the purpose of the Scheme;	1.1
2.30 (7)	a summary of the terms of the Scheme in so far as they are relevant to the report;	1.1.3, 2.1, Section 5
2.30 (8)	what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;	Appendix A
2.30 (8A)	any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;	NA
2.30 (9)	the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others;	1.4
2.30 (10)	the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	6.2, 6.3 in particular and Chapter 6 more generally
2.30 (11)	their opinion of the likely effects of the Scheme on policyholders (this term is	Section 6

	defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified.	
2.30 (12)	their opinion on the likely effects of the Scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the Scheme;	Section 7
2.30 (12A)	their definition of 'material adverse' effect;	6.1
2.30 (13)	what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the Scheme;	NA
2.30 (14)	for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and	Section 6
2.30 (15)	an outline of permutations if a Scheme has concurrent or linked Schemes, and analysis of the likely effects of the permutations on policyholders.	5.2/3
2.32 (1)	The summary of the terms of the Scheme should include a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme;	Section 5
2.32 (2)	The summary of the terms of the Scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	5.4
2.33 (1)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include a comparison of the likely effects if it is or is not implemented;	7.11
2.33 (2)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	7.11
2.33 (2A)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should	

	<p>analyse and conclude on how groups of policyholders are affected differently by the Scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;</p>	Section 6
2.33 (3A)	<p>The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should</p> <p>include the independent expert's views on:</p> <p>the likely effect of the Scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing;</p>	<p>5.4 terms and conditions</p> <p>4.3.3</p> <p>NA</p>
2.33 (3AA)	<p>The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should</p> <p>include the independent expert's views on:</p> <p>transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets;</p>	Covered in Section 3 and 4 in details
2.33 (3AAA)	<p>The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should</p> <p>include the independent expert's views on:</p> <p>the likely effects of the Scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully</p>	6.3

	captured by the regulatory capital requirements;	
2.33 (3AAAA)	<p>The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should</p> <p>include the independent expert's views on:</p> <p>whether the transferee'(s)' existing (or proposed, where applicable) capital model would remain appropriate following the Scheme;</p>	6.3
2.33 (3B)	<p>The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should</p> <p>include the independent expert's views on:</p> <p>the likely effects of the Scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to:</p> <p>(i) the security of policyholders' contractual rights,</p> <p>(ii) levels of service provided to policyholders,</p> <p>(iii) for long-term insurance business, the reasonable expectations of policyholders;</p>	<p>All covered in Section 6</p> <p>Clearly long-term NA</p>
2.33 (3C)	<p>The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on:</p> <p>the likely cost and tax effects of the Scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and</p>	7.10
2.33 (3D)	<p>The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on:</p> <p>the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the Scheme or related transactions.</p>	6.5
2.34	<p>The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose</p>	OK



	contracts are entered into after the effective date of the transfer.	
2.35	For Mutual companies	OK
2.36	Long Term business	OK
2.37	If part of a wider chain of events	OK
2.38	If benefits are being reduced	NA
2.39/40	Relates to Supplementary Report	OK