SwissLife

Annual Accounts 2018

Swiss Life (Luxembourg) S.A.

Swiss Life (Luxembourg) S.A.
6 rue Eugène Ruppert
L-2453 Luxembourg

A limited company under Luxembourg law authorised by ministerial order on 2 May 1985
Trade Register Luxembourg section B no. 22663

Annual Accounts 2018

Management report for the financial year 2018 to the Annual General Meeting of 11 April 2019
Comments on the financial year 2018

1 General considerations

Swiss Life (Luxembourg) S.A. ("the Company") presents the result of the financial year 2018, with another record net profit of EUR 22.456 million (EUR 18.731 million in 2017). This confirms our robustness and stability in a challenging economic environment.

Maintaining our asset base and the respective fee level as well as a strict cost management led to this result. The low-interest environment still affects the evolution of the investment margin, as the regular interest income decreases faster than the level of the guarantees. However, the Company successfully preserved a strong net margin after policyholders' participation.

In 2018, a lot of efforts and resources have been put into our strategic projects to improve the efficiency. This will continue throughout 2019 as the regulatory changes on European level remain very demanding.

2 Analysis

The year 2018 has proven to be yet another exceptional financial year for the Company. The profit before tax increased by 11.96% to EUR 28.588 million (EUR 25.535 million in 2017) and the net profit increased at EUR 22.456 million (+ 20% compared to EUR 18.731 in 2017).

The Company's own portfolio totaled EUR 1 367 million on the balance sheet date, versus EUR 1 287 million for the previous year. This represents an increase of 6% and is explained by the premium income on the guaranteed rate insurance products. Focus has been set in 2018 on a prudent but constant diversification of the investments held in the portfolio, compensating for the low interest rate environment.

A close monitoring of the costs is vital for our margin management. The increase compared to 2017 (+13.1%) is mainly due to transfer of activity in Luxembourg, to cooperation with other Swiss Life carriers and to the adoption of the new regulations which entered into force, or will in the coming years, such as Solvency II (with its extensive asset reporting requirements), PRIIPS, MIFID II, and IDD.

The level of investments of the Company in its IT infrastructure and in the modernization of its processes has remained high.

2.1 Global Private Wealth business line

Gross Written Premiums decreased by 32.4% to EUR 1 078 million in 2018 and surrenders increased by 0.71 % up to EUR 788 million in 2018, resulting in a combined net inflow of EUR 290 million in 2018.

Technical provisions relating to unit-linked products, totaled EUR 11 788 million at the end of 2018, versus EUR 11 997 million in 2017, i.e., a decrease of 2% in 2018, due to the bearish stock markets in 2018 and especially in December.

2.2 Global Employee Benefits business line

Gross Written Premiums increased by 18.6% driven mainly by single premium, due to the onboarding of several important clients. The assets under control increased by 4% from EUR 1 455 to EUR 1 508 million in 2018.

3 Perspectives

Swiss Life Group continues to invest substantially in Swiss Life (Luxembourg) S.A. and the cross-boarder business. A significant competence has been built up in Luxembourg under the new brand Swiss Life Global Solutions. More than 200 experts worldwide are offering their skills to corporates and individuals. However, focus will always remain on growth and profitability.

Outlook for business related to Private Wealth

Our strategic decisions, measures and focus in 2018 will continue into 2019. The principles of growth, expertise, efficiency and compliance will drive business in our increasingly global and dynamic financial environment. We will continue to provide innovative insurance solutions that combine specialist expertise and market knowledge with greater emphasis on engaged partners. With key partners, we will enter into strategic agreements, to foster cooperation and provide know-how.

The need of the Global Private Wealth Solutions' clients in respect of inheritance planning and asset protection by combining life insurance with sophisticated asset management remains unbroken. The uncertain global economic and political situation forces the wealthy individuals to review their situation and to start engineering their wealth according to their needs.

On a proposition perspective, the Company will enhance its proposition offerings by combining a portfolio of assets with the option of substantial death cover, which should bring growth and profitability.

Outlook for the Pension business – Employee Benefits

The Company continued to confirm its position as group insurance leader in Luxembourg in 2018 with positive outlook in 2019.

With the migration of all contracts to the new contract management system, we are concentrating our efforts to new markets and products such Swiss Life Preferred Germany, a locally compliant solution for group risk benefits targeting German multinationals. Furthermore, we are launching a fully digital solution for group risk for international plans. With the support of Swiss Life Network, we will further benefit from growth opportunities in this segment and focus on our ability to capture new clients in the international market.

With the support of our contract management systems we aim in improving efficiency as well as the clients' experience.

4 Post-balance sheet events

There are no major post-balance sheet events to report that are likely to impact the Annual Accounts.

5 Acquisition of own shares

The Company did not acquire any of its own shares over the 2018 financial year.

6 Research and Development

The Company did not conduct any research and development activities over the 2018 financial year.

7 Branch

The Company had no branch over the 2018 financial year.

8 Description and management of main risks

The Risk Management functions are not isolated but an integral part of the overall management activities of Swiss Life (Luxembourg) S.A. as it is within Swiss Life Group. The Risk Management Function should not only analyze the developments of the past but should also provide the senior management with the analysis of future risk aspects. The Swiss Life Luxembourg Risk Management function is headed by the local Chief Risk Officer.

a) Competences

Risk monitoring (risk controlling) applies to all relevant risks and especially to the limits in place. Any limit breach requires the Company, in which the breach occurred, to immediately inform both the delegating unit or body and the risk functional line, including the Group Chief Risk Officer. The decision on further actions lies in the first place with the delegating unit or body.

b) Controls and reporting

Swiss Life (Luxembourg) S.A. has to report according to Internal Risk Reporting guideline.

c) Comprehensive system of limits

Swiss Life (Luxembourg) S.A. has set up a comprehensive system of limits to capture and reflect the nature of the underlying risks.

Quantitative risk

- The risk appetite is set on Board of Directors level and is expressed as Solvency II ratio limit for Swiss Life Luxembourg;
- Specific risk capital and exposure limits for units set by the Asset & Liability Committee (ALCO);
- For credit risk, rating-dependent exposure limits avoid concentration risk of counterparties.

Qualitative risk

- Strategic and operational risks have quantitative risk tolerance levels and thresholds.

Actuarial

- Insurance risk is managed through an underwriting process with limits and thresholds.

Product Management

- Profitability hurdle rates on unit and product level trough pricing policy;
- Local product developments exceeding certain thresholds are subject to a local and group approval process.

The main risks which are monitored by Swiss Life (Luxembourg) S.A. are:

Business / Strategic risk

Business or Strategic risk is the current and prospective impact on capital and earnings (various metrics) arising from the unintended risk that can result as a by-product of planning or executing the strategy such as:

- Inadequate assessment of strategic plans;
- Improper implementation of strategic plans;
- Assumptions underlying the strategic plans do not materialize including changing business environments.

Strategic risks are potentially risks combining drivers from various risk categories (i.e. overarching risks) which might have a substantial impact on the achievement of strategic goals.

Market risk

Market risk refers to the risk of a loss due to changes in the financial position, which, directly or indirectly, arise from fluctuations in the level and/or volatility of market prices for assets, liabilities or financial instruments. Market risk includes the risk of currency rate changes.

Credit risk

Credit risk is the risk due to the uncertainty in counterparty's ability to meet its contractual obligations.

Liquidity risk

Liquidity risk means the risk that Swiss Life (Luxembourg) S.A. is unable to realise investments and other assets in order to settle their financial obligations when they fall due.

Insurance risk

Insurance risk refers to the risk of a loss based on deviation between the expected costs for claims and benefits and the actual costs as a result of accident, error or change of circumstances.

Concentration risk

Concentration risk describes the risk of a loss caused by assuming single or highly correlated risks with significant loss exposure or potential defaults.

Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes Outsourcing and Legal Risks.

Reputational risk

Reputational risk is the risk of a perceived reduction in Swiss Life (Luxembourg) S.A.'s ability to generate future profits due to a loss of credibility leading to a negative impact on shareholders' value. Reputational damage can be a consequence of internal or external events.

Emerging risk

Emerging risks are newly occurring or altering existing risks. By nature, Emerging Risks are difficult to quantify at an early stage and may have a major impact on the Swiss Life (Luxembourg) S.A. Generally, Emerging Risks are more important to reinsurance or liability insurance companies than to life insurance companies.

Alternative risk Categorisation

In addition to the above described risk categories, Swiss Life distinguishes between quantitative and qualitative risks. Quantitative risks comprise market risk, credit risk, liquidity risk, insurance risk and concentration risk. Qualitative risks comprise operational risk, strategic risk, reputational risk and emerging risk.

The risk management framework in place at Swiss Life (Luxembourg) S.A. refers to:

- The ALCO monitoring role;
- The monthly financial risk management reports;
- The elaboration of half-yearly market consistent embedded value appraisals;
- The tenue of Underwriting and compliance committees (CBAC);
- The adherence of Luxembourg regulatory requirements;

– The maintenance of Business Continuity Plan in the event of unavailability of serious IT and/or building failures.

Finally, the Company did not use derivatives during the financial year 2018.

9 Profit for the financial year and proposed allocation

The financial year under review resulted in a post-tax profit of EUR 22.456 million.

In view of the zero balance brought forward from financial year 2017, the balance available to the General Meeting totals EUR 22.456 million.

We propose the following allocation of this amount:

	EUR
– Allocation to legal reserve:	0
– Allocation to free reserves:	6 955 650
– Allocation to reserve unavailable for tax reasons (*):	0
– Undistributable reserve brought forward for tax purposes (**):	0
– Dividend payable to shareholders:	15 500 000
– Balance carried forward:	0

(*) In accordance with article 174 bis of the Income Tax Law allowing net wealth tax to be charged to its base.

(**) Clawback of due allocation to undistributable reserve for tax purposes (undistributable reserve retained for five fiscal years following the year in which the request to establish the reserve was made) and transfer to the free reserve.

Acknowledgements

We once again thank our clients for the trust and loyalty they have shown the Company over many years.

This 2018 annual report also gives us the opportunity to warmly thank the Company's employees for their support, dedication and energy in serving the ambitions and excellent results of Swiss Life (Luxembourg) S.A. over the last 33 years.

The Board of Directors

Luxembourg, 4 April 2019

Audit report

To the Shareholder of
SWISS LIFE (LUXEMBOURG)

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of SWISS LIFE (LUXEMBOURG) (the "Company") as at 31 December 2018, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Company's annual accounts comprise:

- the balance sheet as at 31 December 2018;
- the profit and loss account for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Company and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 20 to the annual accounts.

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R.C.S. Luxembourg B 65 477 - TVA LU25482518

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
1 - Valuation of unit-linked assets - Unquoted investments	
Management estimates the market value of certain categories of assets in the absence of readily available market price. As at 31 December 2018, the unquoted investments included in the unit-linked assets represent 1,489 million EUR (see Note 24). Reliable information as well as adequate valuation methods are required for Management to ensure that these assets are valued in accordance with the accounting principle described under Note 3 (h) to the annual accounts. This process requires Management to exercise their judgement to: • assess reliability of the underlying source information, including challenging independent experts involved in the valuation exercise; • select appropriate valuation models and techniques.	We have gained an understanding of the process implemented by the Company with respect to the valuation of these unquoted assets. We have performed the following procedures on the market value derived from supporting documentation such as external valuation reports and/or audited financial statements of the underlying assets, or others alternative approaches: • Challenged Management's assessment of the reliability and independence of the experts involved; • Assessed the adequacy of the accounting framework and related disclosures; • Challenged the methodology and valuation model used. Additionally, we have recomputed the market value based on the source information and the selected valuation models.

2 - Valuation of certain technical provisions Life insurance provisions amounting to 1,410 million EUR as at 31 December 2018 are valued in accordance with the accounting principle as described in the Note 3 (k) to the annual accounts. Their valuation requires some level of judgment from Management when selecting methodologies and assumptions. Due to the size of the life insurance provisions, inappropriate methodologies and/or inadequate assumptions setting may result in significant impact on their valuation. Additionally, inaccurate or incomplete data used in the process of computation could also result in misstatements in the valuation.	We have assessed and tested the key controls over the actuarial processes (mainly data collection and roll-forward of technical provisions) put in place by Management with respect to the valuation of the life insurance provisions. We have complemented our work by procedures which included the following: • Involving our internal actuarial experts to challenge Management's methodology, methods and assumptions taking into consideration industry available studies and benchmark, as well as recognised actuarial and market practices; • Assessing the consistency of the actuarial methods used compared to prior year; • Independently calculating technical reserves for a sample of insurance policies; • Testing the completeness and the accuracy of a sample of data through a reconciliation with the source documentation.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the management report but does not include the annual accounts and our audit report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Company by the General Meeting of the Shareholders on 12 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 24 years.

PricewaterhouseCoopers, Société coopérative — Luxembourg, 4 April 2019
Represented by

Sylvia Pucar

Annual Accounts

Balance sheet as at 31 December 2018

(expressed in euros)

	Notes	31.12.2018	31.12.2017
ASSETS			
Subscribed capital unpaid	11	**6 000 000**	6 000 000
Intangible assets	3(b), 4	**6 522 692**	7 330 137
Other financial investments	3(e), 6		
Shares and other variable yield transferable securities and units in unit trusts	3(f)	**97 451 150**	83 375 456
Debt securities and other fixed income transferable securities	3(g)	**1 166 363 184**	1 104 377 532
Other loans	7	**76 691**	71 998
Deposits with credit institutions		**740 557**	740 575
Investments		**1 264 631 582**	1 188 565 561
Investments for the benefit of life insurance policyholders who bear the investment risk	3(h),24	**11 972 868 635**	12 185 442 805
Reinsurer' share of technical provisions			
Life insurance provision		**282 984 106**	267 769 230
Provision for bonuses and rebates		**4 504 335**	4 811 653
Technical provisions for life insurance contracts where the investment risk is borne by the policyholders		**94 835 833**	91 400 480
Debtors arising out of direct insurance operations			
Policyholders	9	**22 153 363**	21 044 179
Intermediaries		**772 455**	–82 856
Debtors arising out of reinsurance operations			
other debtors		**2 441 446**	1 064 502
Other debtors	8	**15 408 009**	6 748 564
Debtors	3(i), 8	**40 775 273**	28 774 389
Tangible assets and stocks	3(c), 5	**1 819 009**	2 023 033
Cash at bank and in hand		**102 965 535**	98 395 674
Other assets		**104 784 544**	100 418 707
Accrued interest and rent		**17 264 012**	16 569 424
Deferred acquisition costs	3(j), 10	**343 525**	398 626
Other prepayments and accrued income		**914 626**	848 314
Prepayments and accrued income		**18 522 163**	17 816 364
TOTAL ASSETS		**13 796 429 163**	13 898 329 325

The accompanying notes form an integral part of these Annual Accounts.

Balance sheet as at 31 December 2018

(expressed in euros)

	Notes	31.12.2018	31.12.2017
LIABILITIES			
Subscribed capital		**23 000 000**	23 000 000
Reserves			
Legal reserve	12	**2 300 000**	2 300 000
Other reserves		**100 744 360**	95 013 450
Profits brought forward		**0**	0
Profit for the financial year		**22 455 650**	18 730 910
Capital and reserves	11	**148 500 010**	139 044 360
Technical provisions	3(k), 13		
Provision for unearned premiums		**5 905 527**	3 315 608
Life insurance provision		**1 409 854 759**	1 331 702 154
Claims outstanding		**15 100 017**	14 056 698
Provision for bonuses and rebates		**30 840 959**	34 944 053
Technical provisions		**1 461 701 262**	1 384 018 513
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	3(k), 13, 22	**12 067 704 468**	12 276 843 285
Provisions for taxation		**29 566**	29 566
Other provisions		**551 939**	479 097
Provisions for other risks and charges	3(l)	**581 505**	508 663
Creditors arising out of direct insurance operations	9	**13 608 927**	20 400 588
Creditors arising out of reinsurance operations		**5 308 876**	6 886 525
Other creditors, including tax and social security	14	**98 256 750**	70 103 610
Creditors	3(m), 8	**117 174 553**	97 390 723
Accruals and deferred income	3(n)	**767 365**	523 781
TOTAL LIABILITIES		**13 796 429 163**	13 898 329 325

The accompanying notes form an integral part of these Annual Accounts.

Profit and loss account for the year ended 31 December 2018

(expressed in euros)

	Notes	31.12.2018	31.12.2017
TECHNICAL ACCOUNT – LIFE INSURANCE BUSINESS	15		
Gross premiums written	16	**1 355 643 043**	1 827 403 186
Outward reinsurance premiums	15	**–111 216 191**	–175 155 856
Change in the provision for unearned premiums, net of reinsurance		**–2 589 919**	4 273 470
Earned premiums, net of reinsurance		**1 241 836 933**	**1 656 520 800**
Income from other investments		**34 862 824**	34 727 496
Gains on the realisation of investments		**340 794 319**	87 590 518
Investment income		**375 657 143**	**122 318 014**
Unrealised gains on investments	3(h)	**958 679 447**	606 902 268
Other technical income, net of reinsurance		**5 536 214**	4 226 931
Claims paid			
Gross amount		**–1 000 690 211**	–935 374 942
Reinsurers' share	15	**85 093 583**	104 771 567
Changes in the provision for claims			
Gross amount		**-1 043 319**	8 185 382
Claims incurred, net of reinsurance		**–916 639 947**	**–822 417 993**
Life insurance provision			
Gross amount		**153 165 612**	–1 096 883 426
Reinsurers' share	15	**18 342 911**	72 534 977
Changes in other technical provisions, net of reinsurance		**171 508 523**	**–1 024 348 449**
Bonuses and rebates, net of resinsurance		**–18 076 306**	–23 872 933
Acquisition costs	17	**–8 222 935**	–12 688 933
Change in deferred acquisition costs	10	**–55 101**	–71 787
Administrative expenses	3(p)	**–39 054 051**	–28 678 081
Reinsurance commissions and profit participation	15	**3 388 567**	2 590 846
Net operating expenses		**–43 943 520**	**–38 847 955**
Investment management charges, including interest		**–7 166 459**	–8 135 527
Value adjustments on investments	3(q)	**–227 548**	–299 576
Losses on the realisation of investments		**–171 678 052**	–37 046 075
Investment charges		**–179 072 059**	**–45 481 178**
Unrealised losses on investments	3(h)	**–1 566 310 568**	–408 674 596
Other technical charges, net of reinsurance		**–588 308**	–136 928
Allocated investment return transferred to the non-technical account	3(o)	**–1 335 351**	–1 971 284
BALANCE ON THE TECHNICAL ACCOUNT – LIFE INSURANCE BUSINESS		**27 252 201**	**24 216 697**

The accompanying notes form an integral part of these Annual Accounts.

Profit and loss account for the year ended 31 December 2018

(expressed in euros)

	Notes	31.12.2018	31.12.2017
NON-TECHNICAL ACCOUNT			
Balance on the technical account – life insurance business		**27 252 201**	24 216 697
Allocated investment return transferred from the life insurance technical account	3(o)	1 335 351	1 971 284
Other Income		0	245 515
Other charges, including value adjustments		0	–898 957
Tax on profit or loss on ordinary activities		**–6 095 122**	–6 796 233
PROFIT ON ORDINARY ACTIVITIES AFTER TAX	23	**22 492 430**	**18 738 306**
Other taxes, not shown under the preceding items	23	**–36 780**	–7 396
PROFIT FOR THE FINANCIAL YEAR		**22 455 650**	**18 730 910**

The accompanying notes form an integral part of these Annual Accounts.

Notes to the Annual Accounts
1 General

Swiss Life (Luxembourg) S.A. („the company”) is an insurance company incorporated in the Grand Duchy of Luxembourg on 27 March 1985, as a limited liability company (société anonyme). The purpose of the company is to engage in any insurance and reinsurance business in the „life” branch, both in the Grand Duchy of Luxembourg and abroad, on its own behalf and on behalf of third parties, as follows:

1. Insurance operations
– in case of death
– in case of life, with or without reinsurance
– combined
– regarding complementary covers providing non-indemnity benefits in the event of sickness or accident, in particular in the event of disability.

2. Capitalisation operations

3. Management of collective pension funds, and more generally, any financial, asset and real estate transactions directly connected with the objects above.

The company may also acquire any interests and shareholdings in any other companies or insurance companies which can further contribute to the company’s business, and more particularly by establishing special purpose companies, investments, mergers, subscribing for and purchasing shares, bonds and other securities, purchasing interests in companies and by any partnership or other agreements of any kind whatsoever.

2 Presentation of the financial statements

Basis of preparation

These Annual Accounts have been prepared in conformity with the law of 8 December 1994, as amended, on Annual Accounts with respect to insurance and reinsurance undertakings, and with the significant accounting policies generally accepted within the insurance industry in the Grand Duchy of Luxembourg.

The accounting policies and the valuation rules apart from those defined by the law or the Commissariat aux Assurances are determined and applied by the Board of Directors.

The preparation of the Annual Accounts requires management and Board of Directors to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. Actual results could differ significantly from these estimates.

3 Summary of significant accounting policies

The significant accounting policies applied by the company are as follows:

(a) Translation of items expressed in foreign currencies

The assets and liabilities, expressed in foreign currencies, are translated into euros (EUR) at the exchange rates prevailing at the balance sheet date.

Transactions during the accounting period, expressed in foreign currencies, are translated into euros (EUR) at the exchange rates prevailing at the balance sheet date.

These transactions are translated into euros (EUR) in the profit and loss accounts with the monthly rate prevailing at the transaction date.

(b) Intangible assets

The intangible assets are valued at historical acquisition cost including incidental expenses.

Intangible assets are amortised on a straight line basis at the following rates:

Formation Expenses	33.3%
Software	16.67%–50%
Goodwill	10%

Where the Company considers that intangible fixed assets have suffered a durable decline in value in excess of the accumulated amortization recognized, an additional write-down is recorded to reflect this impairment. These value adjustments are reversed if the reasons for which the value adjustments were made have ceased to apply.

(c) Tangible fixed assets

Land and buildings and tangible assets, are valued at historical acquisition cost. The acquisition cost includes expenses incidental to the purchase.

Buildings and tangible assets with limited useful economic lives are amortised on a straight line basis at the following rates:

Technical installations	10%–33.3%
Machines	20%–33.3%
Office furniture	10%–33.3%
Room fitting	10%–33.3%

(d) Shares in affiliated undertakings and participating interests

Affiliated undertakings are considered to be the undertakings between which the company or the parent company exercises a dominant influence either directly or indirectly. Participating interests refer to rights contained in the capital of other undertakings which, when creating a durable link with those undertakings, are intended to contribute to the company's activities.

Shares in affiliated undertakings and participating interests are valued at historical acquisition cost which includes expenses incidental to the purchase.

If an impairment in value is of a permanent nature, the shares in affiliated undertakings and participating interests are valued at the lower value to be attributed to them at the balance sheet date.

These value adjustments should no longer continue when the reasons for which they were made cease to apply.

(e) Other financial investments

Other financial investments are valued at historical acquisition cost which includes incidental purchase expenses.

If the directors expect the impairment in value to be permanent in nature, the other financial investments are valued at the lower value to be attributed to them at the balance sheet date. These value adjustments may not be carried when the reasons for which they were made cease to apply.

(f) Shares and other variable yield transferable securities and units in unit trusts

Shares and other variable yield transferable securities and units in unit trusts are valued at the lower of historical acquisition cost and realisable value. The acquisition cost includes expenses incidental to the purchase. The value adjustments which correspond to the difference between the realisable value and the acquisition cost are maintained even if the reasons for which they were made cease to apply.

(g) Debt securities and other fixed income transferable securities

Debt securities and other fixed income securities are valued at historical acquisition cost, or redemption value, taking into account the following elements:

- a positive difference between the acquisition cost and redemption value is written off in instalments over the duration of the holding of the security;
- a negative difference between the acquisition cost and redemption value is released to income in instalments over the period remaining to repayment.

If the Directors expect the impairment in value to be permanent in nature, debt securities and other fixed income transferable securities are valued at the lower value to be attributed to them at the balance sheet date. These value adjustments may not be carried when the reasons for which they were made cease to apply.

(h) Investments for the benefit of life insurance policyholders who bear the investment risk

Investments for the benefit of life insurance policyholders who bear the investment risk are valued at the market value at the balance sheet date and any difference between this value and the acquisition cost is disclosed in the technical account for life insurance in the unrealised gains or losses on investments line items.

The market value shall refer to the last available value at the balance sheet date quoted on a stock exchange or the value at which the investment could be sold, or the value resulting from generally accepted valuation models and techniques (such as last available third party external report for private equity investment) subject to management estimates, when no quoted price on a stock exchange is available.

(i) Debtors

Debtors are valued at the lower of their nominal and their probable realisable value. Value adjustments shall be made when recoverability is questionable, either in part or entirely. These value adjustments shall no longer be carried when the reasons for which they were made cease to apply.

(j) Deferred acquisition costs

Deferred acquisition costs directly related to life insurance contracts, disclosed as an asset, are based on the calculation of the life insurance provision.

(k) Technical provisions

Sufficient technical provisions are set up in order that the company can meet, as far as can be reasonably foreseen, any liabilities arising from insurance contracts.

Provision for unearned premiums

Written premiums include all the amounts received or receivable with respect to insurance contracts concluded prior to the end of the accounting period.

That part of written premiums which is to be allocated to one or more subsequent financial years is deferred by way of the provision for unearned premiums, computed separately for each contract on a prorata basis.

Life insurance provision
The life insurance provision, which consists of the actuarial value of the company's liabilities net of future premiums, is calculated separately for each contract.

The technical basis and methods applied for computing the balance sheets' life insurance provision are specified in the annual actuarial report communicated to the supervisory authority.

Provision for claims outstanding
The provision for claims outstanding corresponds to the total estimated cost (including claims settlement costs) for settling all claims arising from events which have occurred up to the end of the financial year.

The provision for claims outstanding is computed separately for each claim known by the company. Claims occurred but not declared as at balance sheet date are assessed globally on a flat-rate basis.

Provision for bonuses and rebates
This provision consists of amounts intended for policyholders or contract beneficiaries to the extent that such amounts represent an allocation of surplus or profit arising on business, or a partial refund of premium made based on the performance of the contracts.

Technical provisions for life insurance contracts where the investment risk is borne by the policyholders
This item shall comprise technical provisions set up to cover liabilities relating to investments in the context of life insurance contracts whose value or return is determined by reference to an index or to investments for which the policyholder bears the risk.

(l) Provisions for other risks and charges

Provisions for other risks and charges are intended to cover losses or debts whose nature is clearly defined but are, at the balance sheet date, either likely or certain to be incurred but amounts or timing are indeterminable.

The liabilities for the employees' pension fund are included under the technical provisions item.

(m) Creditors

Creditors are included in liabilities at settlement value.

If the amount payable is greater than the amount received, the difference is charged to the profit and loss account at the date when the debt is recognised.

If the amount payable is lower than the amount received, the difference is released to income in instalments over the remaining period of the contract.

(n) Accruals and deferred income

This item consists of both income receivable before the balance sheet date but relating to a subsequent financial year and charges that relate to the current financial year but payable in a subsequent financial year.

(o) Allocated investment return transferred to the non-technical account

The allocated investment return transferred from the technical account to the non-technical account represents the income relating to assets being part of the company's free assets.

(p) Administrative expenses

Administrative expenses specifically consist of costs arising from premium collection, portfolio administration, handling of bonuses and rebates and inward and outward reinsurance. In particular they include staff costs and depreciation provisions in respect of office furniture and equipment in so far as these need not to be shown under acquisition costs, claims incurred or investment charges.

(q) Value adjustments

Value adjustments are deducted directly from the related individual asset.

4 *Intangible assets*

The movements in intangible assets incurred during the financial year are summarised as follows:

EUR	Formation expenses	Capital increase costs	Software	Goodwill	Total
Gross Book value 01/01/2018	0	0	19 407 372	0	19 407 372
Additions during the year			1 718 551		1 718 551
Disposals during the year					0
Gross Book value 31/12/2018	0	0	21 125 923	0	21 125 923
Accumulated depreciation 01/01/2018	0	0	–12 077 235	0	–12 077 235
Depreciation during the year			–2 525 996		–2 525 996
Accumulated depreciation 31/12/2018	0	0	–14 603 231	0	–14 603 231
Net book value 31/12/2018	**0**	**0**	**6 522 692**	**0**	**6 522 692**
Net book value 31/12/2017	0	0	7 330 137	0	7 330 137

5 Tangible assets

The movements during the financial year in respect of tangible assets are as follows:

EUR	Technical Installations	Machines	Office Furniture	Room Fitting	Total
Gross Book value 01/01/2018	666 595	449 519	1 526 190	1 095 925	3 738 229
Additions during the year	0	0	2 332	5 329	7 661
Disposals during the year	0	0	0	0	0
Gross Book value 31/12/2018	666 595	449 519	1 528 522	1 101 254	3 745 890
Accumulated depreciation 01/01/2018	–193 702	–425 153	–721 601	–374 740	–1 715 196
Depreciation during the year	–20 660	–11 271	–100 236	–79 518	–211 685
Accumulated depreciation 31/12/2018	–214 362	–436 424	–821 837	–454 258	–1 926 881
Net book value 31/12/2018	**452 233**	**13 095**	**706 685**	**646 996**	**1 819 009**
Net book value 31/12/2017	472 893	24 366	804 589	721 185	2 023 033

6 Other financial investments

The current value of the items “Shares and other variable yield transferable securities” and “Debt securities and other fixed income transferable securities” as at 31 December 2018 was EUR 100 267 146 and EUR 1 243 842 067 respectively (2017: EUR 85 190 374 and EUR 1 204 237 836 respectively).

The current value of the investment portfolio has been determined by the following methods:
– transferable securities which are admitted to official listing on a stock exchange or dealt in on another regulated market are valued on the basis of the last available price;
– transferable securities not admitted to official listing on a stock exchange or not dealt in on another regulated market and transferable securities admitted to official listing on a stock exchange or dealt in on another regulated market for which the last available price is not representative are valued on the basis of their reasonably foreseeable sales price determined with prudence and good faith by the Board of Directors.

The depreciation of the positive and negative differences between the acquisition cost and the redemption value (agio/disagio) in the financial year 2018 stands at EUR 5 903 010 (2017: EUR 5 382 501) and EUR 532 967 (2017: EUR 623 039) respectively.

The balance as at 31 December 2018 for discount depreciation remaining unamortised stands at EUR -4 900 988 (2017: EUR -5 563 741) and for premium depreciation remaining unamortised stands at EUR 67 635 380 (2017: EUR 51 861 450).

7 Other loans

Other loans are secured by insurance policies taken out by the borrower.

8 Amounts owed by or to affiliated undertakings or undertakings with which the company is linked by virtue of a participating interest

The items may be broken down as follows:

EUR	Affiliated undertakings	
	2018	2017
DEBTORS		
Debtors arising of reinsurance operations	**2 298 358**	1 058 059
Other debtors	**14 342 496**	5 851 315
CREDITORS		
Creditors arising out of reinsurance operations	**5 308 876**	6 886 525
Other creditors	**29 711 626**	23 224 739

The significant increase of other debtors (+145% compared to 2017) and other creditors (+28% compared to 2017) is still explained by the development of the Global Employee Benefits Network activity.

9 Debtors, creditors arising out of direct insurance operations

Debtors and creditors arising out of direct insurance operations represent amounts open as at balance sheet date and are mainly related to insurance operations which occurred close to the end of the financial period.

10 Deferred acquisition costs

The movements in deferred acquisition costs during the financial year can be summarised as follows:

EUR	2018	2017
Net acquisition costs, opening balance	**398 626**	470 413
Conversion differences (net)	**79**	–241
Net difference in additions/depreciation during the year	**–55 179**	–71 547
Net acquisition costs, closing balance	**343 525**	398 626

11 Capital and reserves

The movements during the financial year in respect of capital and reserves may be broken down as follows:

EUR		Subscribed capital	Legal reserve	Other reserves	Profit brought forward	Profit for the year
As at 31/12/2017		23 000 000	2 300 000	95 013 450	0	18 730 910
Allocation of result 2017				18 730 910		–18 730 910
Dividend paid to shareholders				–13 000 000		
Movements during the year 2018						22 455 650
As at 31/12/2018		**23 000 000**	**2 300 000**	**100 744 360**	**0**	**22 455 650**

As at 31 December 2018 and 31 December 2017, the subscribed capital amounting to EUR 23 000 000, is represented by 23 000 shares with no nominal value; the paid up capital amounts to EUR 17 000 000.

12 Legal reserve

The company must allocate 5% of its net profit for each financial year in order to comply with Luxembourg company law requirements. This allocation ceases to be compulsory once the legal reserve balance reaches 10% of the issued share capital.

The legal reserve is not available for distribution to shareholders, except upon the dissolution of the company.

13 Technical provisions

EUR	Provision for unearned premiums	Life insurance provision	Provision for claims outstanding	Provision for bonuses	Technical provisions[1]	Total
Closing balance 31/12/2017	3 315 608	1 331 702 154	14 056 698	34 944 053	12 276 843 285	13 660 861 798
Conversion Difference	58 921	7 131 993	43 256	52 829	92 450 452	99 737 451
Opening balance 01/01/2018	3 374 529	1 338 834 147	14 099 954	34 996 882	12 369 293 737	13 760 599 249
Movements during financial year 2018	2 530 998	71 020 612	1 000 063	–4 155 923	–301 589 269	–231 193 519
Closing balance 31/12/2018	**5 905 527**	**1 409 854 759**	**15 100 017**	**30 840 959**	**12 067 704 468**	**13 529 405 730**

[1] relating to life insurance where investment risks are borne by the policyholder.

14 Other creditors, including tax and social security

The significant amount of other creditors, including tax and social security is mainly explained by:

- some significant disinvestment transactions amounted to EUR 47,779 million, initiated before the end of the period and finalized only in 2019 (2017: EUR 41,979 million);
- the transfer of tax liabilities from the caption "Provision for taxation" to the caption "other creditors, including tax and social security" totaled EUR 26,843 million (2017: EUR 20,748 million), to take into account that even though Swiss Life (Luxembourg) S.A. is supporting the charge of its income tax, the liability is to be recognized towards its parent company, as this is the one liable towards the tax administration in the scope of the tax unity in place.

15 Results from the life insurance business

The principal results of the life insurance business may be broken down as follows:

EUR	Life Insurance	
	2018	2017
Individual premiums	**1 083 149 851**	1 598 650 772
Premiums under group contracts	**272 493 192**	228 752 414
Periodic premiums	**188 365 722**	186 969 702
Single premiums	**1 167 277 321**	1 640 433 484
Premiums for non-bonus contracts	**443 887**	492 572
Premiums for bonus contracts	**258 738 170**	266 287 528
Premiums from contracts where the investment risks are borne by the policyholders	**1 096 460 986**	1 560 623 086
Reinsurance balance	**–4 391 130**	4 741 534

16 Geographical breakdown of written premiums

Gross direct insurance premiums amounting to EUR 1 355 643 043 (2017: EUR 1 827 403 186), may be broken down into geographic zones according to where the contracts have been concluded:

EUR	Life Insurance	
	2018	2017
Contracts concluded in the Grand Duchy of Luxembourg	**194 261 036**	173 691 290
Contracts concluded in other countries of the EEA	**815 393 709**	1 217 629 239
Contracts concluded in other countries outside the EEA	**345 988 298**	436 082 657

17 Commissions

Commissions paid to insurance intermediaries relating to direct insurance amount to EUR 14 490 466 (2017: EUR 13 657 411), and are included in the acquisition costs item.

18 Personnel employed during the year

The average number of persons employed during the financial year 2018 amounts to 137 (2017: 128) and may be broken down in the following categories:

Category	Number of persons	
	2018	2017
Management	8	7
Executives	55	53
Salaried employees	74	68

EUR	2018	2017
Wages and salaries	12 242 837	10 955 716
Social securities costs	1 536 918	1 441 443
of which pensions	1 316 354	1 213 635

19 Remuneration granted to members of the Board of Directors and to Management

Directors' fees or other remuneration to members of the Board of Directors amount to Euro 0, including employer charges (2017: EUR 0).

Remuneration granted to the company's Management amount to EUR 2 022 584 (2017: EUR 1 582 126) including employer charges.

20 Fees of the Independent Auditor

The fees of the independent auditor for the years ending 31 December 2018 and 31 December 2017 are broken down as follows:

EUR	2018	2017
Legal audit fees	277 601	376 134
Other assurance services (related to Solvency II and MCEV reviews)	25 560	24 937
Tax related services	14 144	14 367

21 Off balance sheet commitments

At 31 December 2018 and 31 December 2017, the company has the following commitments:

EUR	2018	2017
Leasing of hardware	**151 160**	226 740
Leasing of vehicles	**737 036**	1 081 879
Building's lease agreement	**5 195 607**	6 525 989
Infrastructure fund	**19 446 807**	6 208 934
Real Estate fund	**8 443 374**	8 459 142
Other contingencies	**770 092**	779 646

The other contingencies included in the above table concern the engagement of the company towards our IT infrastructure provider.

Swiss Life (Luxembourg) S.A. has an uncalled commitment amount of EUR 19 446 807 (2017: EUR 6 208 934) in two infrastructure funds which are Luxembourg common limited funds and has a commitment in two real estate funds amount to EUR 8 443 374.

Finally, the Building lease agreement is due to the move of the company to its new premises in the Cloche d'Or, effective 1 January 2017, and the related lease agreement signed.

22 Collective pension funds

EUR	2018	2017
Investments		
Investments for the benefit of life insurance policyholders who bear the investment risk		
Shares and other variable yields transferable securities and units in unit trusts	**4 302 845**	4 587 275
Debt securities and other fixed income transferable securities	**0**	0
Other assets		
Cash at bank and in hand	**149 091**	19 144
ASSETS	**4 451 936**	4 606 419
Technical provisions		
Technical provisions for lilfe insurance contracts where the investment risk is borne by the policyholders	**4 451 936**	4 606 419
LIABILITIES	**4 451 936**	4 606 419

The collective pension fund above concerned one single contract which has been invested since the 7th January 2015.

23 Tax status

Swiss Life (Luxembourg) S.A. is subject to the tax legislation in force in the Grand Duchy of Luxembourg and included in a tax unity with its parent company.

24 Investments for the benefit of life insurance policyholders who bear the investment risk

The investments for the benefit of life insurance policyholders who bear the investment risk amount to EUR 11 973 million as at 31 December 2018.

This caption also includes private equity type vehicles for a total amount of EUR 1 489 million.

The Company determines the best estimate of the fair value based on the type of inputs available at the time of preparation of the Annual Accounts, as follows:

- Level 1: The fair value is based on independent external experts valuation reports.
- Level 2: The fair value is determined using valuation techniques that maximize the use of recent audited financial statements and other reliable financial information and rely as little as possible on entity specific estimates.
- Level 3: Typically, when one or more of the significant inputs is not based on recent audited financial statements and data, specific management assumptions are used.

As at 31 December 2018, these investments can be split as follows:

Million EUR	2018
Level 1	365
Level 2	946
Level 3	178
Total	1 489

25 Information concerning consolidated companies

Swiss Life (Luxembourg) S.A. is included in the consolidated Annual Accounts prepared by Swiss Life Holding, a société anonyme under Swiss law, whose registered office is at CH-8022 Zurich, General-Guisan-Quai 40 (Switzerland), being the largest group of companies to which the company belongs as a subsidiary.

The consolidated accounts are available from the head office of Swiss Life (Luxembourg) S.A.

Caution regarding forward-looking statements

This Annual Report contains forward-looking statements about Swiss Life (Luxembourg) S.A. which involve certain risks and uncertainties. The reader should be aware that such statements represent projections which could differ materially from actual outcomes and results. All forward looking statements are based on the data available to Swiss Life at the time this Annual Report was compiled.

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