

PRINCIPAL CHARACTERISTICS OF THE TAX REGIME APPLICABLE TO CONTRACTS - Germany

UPDATED ON
JANUARY 2020

If the Policyholder's country of tax residence is Germany

In general the Policyholder must fulfil all disclosure, declaration and payment requirements directly with the competent tax authority itself, except where an express, special and irrevocable proxy has been established between the Policyholder and the Company allowing the Company to handle the Policyholder's tax affairs directly or indirectly via a third party proxy designated by the Policyholder.

THE POLICYHOLDER'S ATTENTION IS DRAWN TO THE FACT THAT:

- these tax information notes set out the principal characteristics of the tax regime applicable to the contract only in general terms and in relation to the legal situation at the above-mentioned date,
- Once the Company knows the Policyholder's country of tax residence, it undertakes, subject to its possibilities, to provide him/her with the appropriate version of these tax information notes, which shall cancel and replace this version, prior to subscription and as soon as possible.

If the Company is not able to provide these tax information notes, the Policyholder is invited to consult a qualified tax advisor with full knowledge of the tax regime applicable to the contract in the Policyholder's, the Life-assured's and the Beneficiary's country of tax residence.

- The principal characteristics of the tax regime applicable to the contract are likely to change during the lifetime of the contract.

- The information about the principal characteristics of the contract's tax regime (i) is provided subject to reservations concerning future changes (sometimes even with retrospective or retroactive effect) in the regulatory and legislative provisions in effect, and (ii) has no contractual value.

This information is provided for indicative and information purposes only,

- The Company strongly recommends to the Policyholder that before taking out the insurance and during the term of the contract he/she should obtain advice from a qualified, accredited tax adviser in order to fully understand the tax regime of the contract and to obtain answers to questions about specific situations, as the explanations within these tax information notes cannot replace appropriate advice.

1. TAXATION OF LIFE INSURANCE CONTRACTS AND CAPITAL REDEMPTION POLICIES

For insurance companies established in a Member State of the European Economic Area the general principle is that tax treatment is in accordance with the tax regime of the Policyholder's country of residence.

Products related to life insurance and endowment life insurance policies taken out with insurance companies established in a different Member State of the European Economic Area to that of the Policyholder as well as the capital gains from such investments are subject to capital gains tax under the tax regime of the State in which the Policyholder is

The tax regime applicable to the contract as of the date of subscription of the contract is determined by the tax residence of the Policyholder. The principal characteristics of the German tax system applicable to the contract where the Policyholder is a natural person and subject to German tax law are set out in these information notes.

resident.

Taxation by the Policyholder's country of residence may be applicable for the following transactions: the taking out or redemption, in whole or in part, of the contract, its expiry in case of the Life-assured's survival or its performance in case of the Life-assured's death.

ARTICLE 1 - APPLICABLE PROVISIONS IF THE COUNTRY OF TAX RESIDENCE OF THE POLICYHOLDER, LIFE-ASSURED OR BENEFICIARY IS GERMANY

Since the tax regime applicable to the contract is that of the country of residence of the Policyholder (holding the life insurance as private property), the income from life insurance or capital redemption policies subscribed under the free exchange of services with insurance companies or similar organisations established in a Member State of the European Economic Area received by

Policyholders domiciled in Germany is taxable for income received within the framework of these contracts. However, these principal characteristics of the taxation of contracts in Germany are provided to you solely for general information purposes.

Article 1.1 - The term “tax residence”

The conditions for an individual being liable for tax in Germany depend on the one hand on his/her country of tax residence and on the other hand on the source of his/her income, regardless of his/her citizenship.

Article 1.2 - Tax filing obligations

The mere fact of taking out and holding a Luxembourg life insurance contract does not in itself give rise to a filing obligation in Germany.

If the income from the life insurance contract is taxable, it must be declared in the annual tax return in Germany; see below.

If the Policyholder wishes to obtain a tax deduction for life insurance premiums paid, he/she must disclose it in the annual German income tax return (“Anlage Vorsorgeaufwand”). However, the life insurance contract needs to fulfil certain requirements in order to be deductible for tax purposes (see Article 1.3).

If conditions are met, life insurance premiums paid can be deducted for income tax purposes as so-called “special expenses” (“außergewöhnliche Aufwendungen”). Starting from the 2018 tax assessment period, the deadline was extended until 31 July of the following year or the end of February of the year after next respectively (thus February 2021 for the 2019 tax return).

Article 1.3 - Tax treatment of life insurance contracts

Article 1.3.1 Tax deductibility of premiums

Article 1.3.1.1 Premiums paid in cash

With regard to the tax deductibility of premiums in Germany a distinction needs to be made between contracts taken out before 1 January 2005 (“old contracts”) and those taken out after 31 December 2004 (“new contracts”) as well as between contract types (cash value life insurance, term life insurance or unit-linked insurance). For old contracts, premiums are deductible in the case of an endowment policy with benefits in the event of survival and death, provided that special criteria are met.

For new contracts, premiums are deductible only if it is a permanent (i.e. not just a temporary) term life insurance policy.

Please note that there is a threshold up to which the premiums paid together with other so-called “special expenses” can be deducted for income tax purposes. The threshold depends on the tax status of the taxpayer (e.g. employed or self-employed). Typically this threshold is already covered by contributions paid by the Policyholder into other mandatory insurance policies (e.g. social security, health insurance contracts).

Article 1.3.2 Premiums paid via in-specie transfer

If premiums are paid via in-specie transfer, the above-mentioned tax deduction is not available.

Depending on the tax legislation in force, in-specie transfer may be subject to capital gains or income tax.

Article 1.4 - Income tax treatment of partial withdrawals or total surrenders

Article 1.4.1 Tax base

Partial withdrawals, capital payments or a total redemption of a life insurance contract may be taxable in Germany. The related tax base depends on the date of subscription of the contract. Income is considered to be capital investment income.

Contracts subscribed before 1 January 2005:

The withdrawal may remain tax-free if special conditions for life insurance contracts are fulfilled (minimum contract term 12 years, at least five years’ premiums paid, death benefit at least 60% of the total premiums paid). In the event of an early total redemption or withdrawal of the insurance, i.e. before the end of the minimum contract period of 12 years, the total redemption leads to a taxable event in Germany as the conditions for the tax exemption are not met.

In this case 100% of the tax base will be taxable. The tax base is determined as the amount of the withdrawal or total surrender less the amount of the premiums paid.

Contracts subscribed after 31 December 2004:

The tax base is determined as the amount of the withdrawal or total redemption less the amount of the premiums paid. Depending on the conditions of the contract either 50% or 100% of the tax base is taxable:

- Only 50% is taxable if:
 - the minimum contract term is 12 years
 - no withdrawals are made before the age of 60 (or before the age of 62 for contracts subscribed after 31 December 2012)
- In all other cases 100% of the tax base is taxable.

Contracts subscribed after 31 March 2009:

The tax base is determined as the amount of the withdrawal or total surrender less the amount of the premiums paid. Depending on the conditions of the contract either 50% or 100% of the tax base is taxable:

- 50% is taxable if, in addition to the above-mentioned conditions (minimum contract period of 12 years and no withdrawal made before the age of 60 (or the age of 62 for contracts subscribed after 31 December 2012)),
 - in case of regular premiums paid, at least 50% of the premiums paid can be allocated to death coverage and
 - in case of a single premium, the death benefit amounts to at least 110% of the premiums paid or actuarial reserve of the insurance.

The death cover has to start after 5 years at the latest; afterwards it can be reduced in equal steps to zero until the termination of the contract.

- In all other cases 100% of the tax base is taxable.

For unit-linked products 15% of the differential amount is exempt from tax and may not be deducted when calculating the income insofar as the differential amount derives from investment income.

Article 1.4.2 Tax rate

The tax rate depends on whether 50% or 100% of the tax base (see 1.4.1) is taxable.

- 100%: subject to flat-rate withholding tax ("Abgeltungssteuer") of 26.375% (income tax + solidarity surcharge) plus church tax, if applicable.
- 50%: application of the individual, progressive income tax rates, ranging from 14% to 45% (+ solidarity surcharge and church tax, if applicable).

The maximum tax rate would then be 47.475% (income tax + solidarity surcharge) plus church tax, if applicable.

Please be aware that the flat-rate withholding tax ("Abgeltungssteuer") on interest income is currently under discussion and its abolition is being considered. In addition the solidarity surcharge shall be abolished from 2021 for taxable income of up to EUR 61.717, Afterwards a so-called mitigation zone ("Milderungszone") applies. From EUR 96.409 the full amount of 5.5% solidarity surcharge will be levied. Married couples can benefit from double the amount.

Article 1.5 - Income tax treatment of fund switches

Article 1.5.1 Tax base

Whether a switch from one unit to another unit within a unit-linked contract, i.e. a fund switch, leads to a taxable event depends on whether or not the Policyholder is able to influence the switch.

It means that the Policyholder can have full control over the management of the underlying assets covered by the life insurance contract. This is typically the case if he/she transfers a portfolio to a life insurance contract.

If the Policyholder has no influence on the income generated at the level of the insurance contract, the income resulting from the switch is not subject to income tax within the framework of the non-transparent taxation.

If the Policyholder can exert influence on the investments of the insurance contract (a so-called "asset-managing insurance wrapper") the contract is primarily considered to be a capital investment. This means that the Policyholder is fully liable for tax on the interest, dividends and capital gains on an annual basis.

Please note the following:

The taxation of investment income from investment funds has changed

fundamentally from 1 January 2018. For public investment funds there is flat-rate taxation at 15% on certain income at the level of the investment fund. Where applicable, investors can claim a partial exemption. A flat-rate tax pre-payment ("Vorabpauschale") system is applicable for non-distributing funds.

Article 1.5.2 Tax rate

The applicable tax rate is 26.375% (flat-rate taxation, solidarity surcharge) plus church tax, if applicable.

Article 1.6 - Tax treatment of life annuities

Article 1.6.1 Tax base

If the Policyholder of life insurance receives a life annuity instead of a one-off payment at the end of the insurance contract the taxation is different to a one-off payment. In this case the profit share of the annuity (the so-called "Ertragsanteil") is subject to income tax. The income is considered to be other income, rather than investment income. The profit share of the annuity is a fixed percentage that depends on the age of the Policyholder at the start of the payout period (retirement age), i.e. for a retirement age of 60 the taxable profit share would be 22% and for a retirement age of 65 it would be 18%.

Article 1.6.2 Tax rate

The profit share of the annuity is taxed according to the individual income tax rates, which range from 14% to 45%. The maximum tax rate is therefore 47.475% (including the solidarity surcharge) plus church tax, if applicable.

Article 1.7 - Income tax treatment of the underlying investment yield

Article 1.7.1 Tax base

During the investment or contract term no taxes become due on the yield, unless payments are made to the

Policyholder. If the Policyholder can exert influence on the investments of the insurance contract (a so-called "asset-managing insurance wrapper") the contract is primarily considered to be a capital investment. This means that the Policyholder is fully liable for tax on the interest, dividends and capital gains on an annual basis.

Please note the following:

The taxation of investment income from investment funds has changed fundamentally from 1 January 2018. For public investment funds there is flat-rate taxation at 15% on certain income at the level of the investment fund. Where applicable, investors can claim a partial exemption. A flat-rate tax pre-payment ("Vorabpauschale") system is applicable for non-distributing funds.

Article 1.7.2 Tax rate

Repealed

In the event of an "asset-managing insurance wrapper" the applicable tax rate is 26.375% (flat-rate taxation + the solidarity surcharge) plus church tax, if applicable.

Article 1.8 - Taxation upon the death of the Life-assured (if the Life-insured is the same person as the Policyholder)

Article 1.8.1 Income tax treatment upon death

The benefit upon death prior to the maturity of the insurance is not taxable in Germany.

Article 1.8.2 Inheritance tax

Depending on how the policy is structured, the value of the life insurance contract at the time of death may have to be included in the estate of the Life-assured. If so, where an additional death benefit has been agreed, this would have to be included in the estate as well. If the Life-assured

or the Beneficiary of the insurance policy is tax resident in Germany from an inheritance tax perspective, German inheritance tax might become due. Tax rates as well as tax-free allowances depend on the blood relationship between the deceased and the beneficiary as well as the amount of the inheritance. Please note that tax residence for inheritance tax purposes may vary from tax residence for income tax purposes and may remain even in case of a relocation.

If neither the Life-assured nor the Beneficiary is tax resident in Germany, no German inheritance tax will become due.

Article 1.9 - Taxation of additional death benefits

Article 1.9.1 Income tax treatment

N/A

Article 1.9.2 Inheritance tax

Liability for German inheritance tax depends on who the Policyholder, the Life-assured and the Beneficiary are and how the contract was structured (see Article 1.8.2).

ARTICLE 2 - APPLICABLE PROVISIONS IF THE COUNTRY OF TAX RESIDENCE OF THE POLICYHOLDER, LIFE-ASSURED OR BENEFICIARY IS NOT GERMANY

Article 2.1 - Change of the country of tax residence during the term of the contract

The general principles set out in these information notes do not explain the tax regime applying to the contract in the particular country or countries of tax residence of the Policyholder(s) or the Life-assured(s) (if different from the Policyholder(s) or the stated Beneficiary/Beneficiaries) during the term of the contract.

If the tax residence of the Policyholder(s) or the Life-assured(s) (if different from the Policyholder(s) or the stated Beneficiary/Beneficiaries)

changes during the term of the contract to outside Germany, the Policyholder(s) is/are recommended to obtain specific information from a qualified and accredited tax advisor about the tax regime that is applicable to the contract as a result of this change of tax residence to outside Germany.

Article 2.2 - Insurance tax

Repealed

2. GENERAL PROVISIONS

ARTICLE 1 - WEALTH TAX

There is no wealth tax in Germany at the moment.

ARTICLE 2 - PROFESSIONAL CONFIDENTIALITY APPLYING TO INSURANCE CONTRACTS

The Company is obliged to comply with the provisions on professional confidentiality laid down by the Grand Duchy of Luxembourg in Article 300 of the Law of 7 December 2017.

Consequently information received in connection with the contract must be kept confidential. Otherwise the penalties provided for in Article 458 of the Luxembourg Criminal Code may be applied in the event of a breach. Based on these provisions the Company is authorised to pass confidential information it possesses in relation to the contract on to third parties only if the entity concerned has formally instructed it to do so beforehand. If this is not the case the Company will be in breach of the obligations regarding professional confidentiality set out in Article 458 of the Luxembourg Criminal Code.

The Company may, however, be obliged, on the basis of a law or international convention, to derogate from the provisions on confidentiality in relation to insurance contracts and to disclose confidential information that is has received in connection with the contract.

Thus, for example, under the double tax treaty concluded by Luxembourg in accordance with OECD standards the tax authorities might be authorised to request information within the framework of an exchange of information. Under the global standard for automatic exchanges of information on financial accounts (the Common Reporting Standard (CRS)), which entered into force on 01/01/2016, the Company is bound by the obligation regarding general exchanges of certain types of information.

In view of the obligations relating to professional confidentiality arising from Luxembourg law and in order to enable the Company to comply with the provisions of the tax regime applying to the contract, each

- Policyholder,
- Life-assured (if different from the Policyholder(s)) and

- accepting Beneficiary during the term of the contract or
- Beneficiary upon the death of the Life-assured

may be required, in accordance with the applicable tax regulations, to give the Company consent and the express, specific and irrevocable instruction (i) to submit each tax return and make each payment to the tax authority that is authorised to receive such information and that is the competent tax authority in respect of the contract, and (ii) to give the Beneficiary/Beneficiaries all the information that is necessary under the applicable tax regulations; all this may be done either directly or indirectly via a third-party representative appointed by the Company.

ARTICLE 3 - OFFSETTING OF ALL LEVIES OR TAXES ARISING FROM THE CONTRACT

All levies or taxes based on the contract that the Policyholder asks the Company to offset, enabling such offsetting by the issuance of an express, specific and irrevocable mandate, will be offset against the benefits becoming due under the contract.

I, the undersigned _____ recognise that I have read the above clauses.

Executed in _____ on ____ / ____ / _____

First Policyholder or sole Policyholder

Second Policyholder

Signature

Signature