JOINT MANAGEMENT REPORT

In addition to the MLP Group, the following joint management report also encompasses MLP SE.

The values disclosed in the following have been rounded to one decimal place. As a result, differences to reported total amounts may arise when adding up the individual values. The previous year's figures are given in brackets.

FUNDAMENTAL PRINCIPLES OF THE GROUP

Business model

The MLP Group – The partner for all financial matters

Broad range of services

The MLP Group (MLP) is the partner for all financial matters – for private clients, companies and institutional investors. Four brands, each of which enjoys a leading position in their respective markets, are used to offer a broad range of services:

- MLP: The dialogue partner for all financial matters
- FERI: The investment expert for institutional investors and high net-worth individuals
- DOMCURA: The underwriting agency focusing on private and commercial non-life insurance products
- TPC: The specialist in occupational pension provision management for companies

Client requirements in focus

Since it was founded by Manfred Lautenschläger and Eicke Marschollek in 1971, the MLP Group has consistently striven to establish long-term relationships with its clients. This requires profound understanding of their individual requirements. Each of our approximately 1,900 consultants in the private client business therefore focuses on one professional group. MLP's clients primarily include physicians, economists, engineers and lawyers. We support these clients in all financial matters – from old-age provision and wealth management, through health and non-life insurance to loans and mortgages, real estate brokerage and banking business.

The views and expectations of our clients always represent the starting point in each of these fields. Building on this, we then present them with suitable options in a comprehensible way so that they can make the right financial decisions themselves. In terms of implementation, we examine the offers of all relevant product providers in the market. Our products are selected and rated on the basis of scientifically substantiated market and product analyses.

Transparent partner and product selection process

MLP places great emphasis on the use of objective and transparent criteria when selecting partners and products. An analysis and quality check of the providers in the market, as well as their respective products, are performed on the basis of client requirements. The product selection process is continually improved and optimised.

Further training of key importance

Qualifications and further training of our employees and clients play an important part in our Company's ability to ensure sustainably high-quality consulting services. You can find more detailed information on this in the chapter entitled → "Employees and self-employed client consultants".

MLP Banking AG

MLP Banking AG combines the features of a direct bank with consulting services, which are provided by our consultants. It offers typical banking services to both private and business clients – including everything from accounts, cards and loans to wealth management. MLP Banking AG role within the MLP Group entails:

- Combining direct bank services with face-to-face consulting
- Offering part of a comprehensive financial consulting service provided by MLP consultants
- Providing regular account and securities account models, as well as other banking services
- Providing special expertise in the areas of wealth management and loans and mortgages

As a financial institution, MLP Banking AG is supervised by the Federal Financial Supervisory Authority (BaFin) and represents the controlling company of the Financial Holding Group in terms of the supervisory regulations.

MLP Finanzberatung SE

The business activities of MLP Finanzberatung SE focus on providing advisory services to both private and corporate clients on financial issues, as well as brokerage of corresponding products. These are closely intertwined and complement each other. Consulting services include the areas of old-age provision, health insurance, non-life insurance and real estate brokerage.

As an insurance broker, MLP Finanzberatung SE is also committed to selecting the most suitable product options for clients from the broad scope of offers available on the market. These products clearly set us apart from the majority of players in the market, that either only offer their own products or a very limited selection of third-party products.

DOMCURA – The non-life insurance specialist

As an underwriting agency, DOMCURA AG provides extensive coverage products for private and commercial clients in the non-life insurance area. DOMCURA offers special expertise in the development and administration of residential building concepts. Its products are currently used by approximately 5,000 insurance brokers and insurance sales agents.

nordias – Focussing on commercial and industrial insurance products

nordias GmbH Versicherungsmakler is home to specialist brokers for commercial and industrial insurance products.

As an investment house for institutional investors, high net-worth families and foundations, the FERI Group (FERI) offers services in the fields of investment research, investment management and investment consulting. The FERI Cognitive Finance Institute acts as a strategic research centre within the FERI Group with a focus on analyses and method development for long-term economic and capital market research.

FERI – Wealth management with independent research

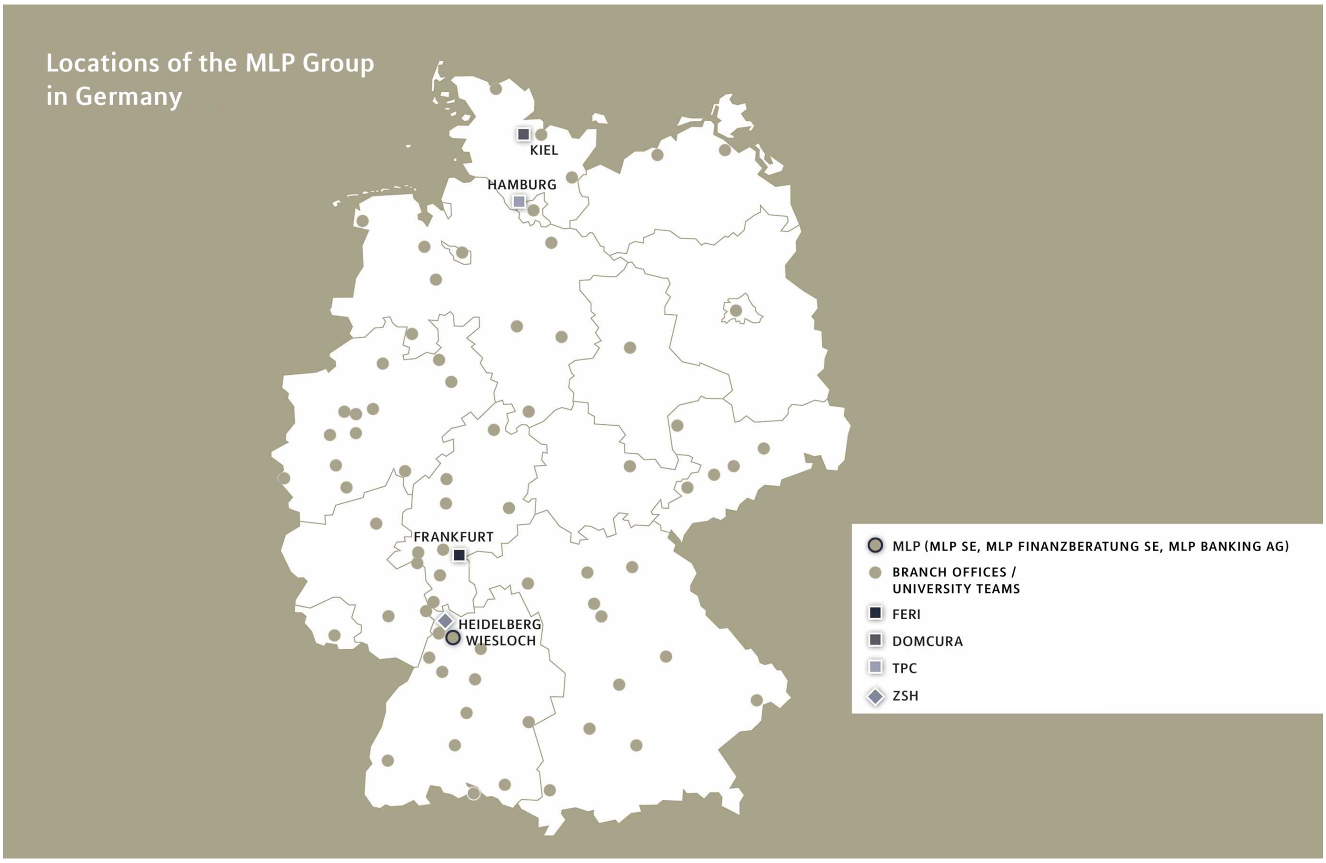
In the Investment Management business area, FERI Trust GmbH offers a broad spectrum of wealth management services in all asset classes. These services range from the development and implementation of individual investment strategies, right through to quantitative risk spreading and control. Investment consulting involves long-term advisory services to institutional investors and the provision of family office services to high net-worth families. Investment Research draws up economic forecasts and individual asset allocation analyses, which provide an important basis for the investment strategies.

As a specialist in occupational old-age provision management, TPC GmbH (TPC) offers companies and associations consultancy services covering all issues relating to occupational pension provision and remuneration – from requirements analysis, individual concept development and implementation, to continuous review of existing company old-age provision systems. The key focus here is on providing consulting services to small and medium-sized companies from various sectors, as well as employer consulting services to tax advisers, auditors, solicitors, physicians and architects. In addition to this, a digital service is set to be established in 2019 in the form of the TPC Portal, which employers can then use to provide information on their entire portfolio and also advise clients with the support of MLP. Employees will also have dedicated access to their contracts via this portal.

TPC – Sector concepts for occupational pension provision management

The registered office of MLP SE as the holding company, as well as MLP Finanzberatung SE and MLP Banking AG is in Wiesloch, Germany, where all internal divisions are centralised. In addition to this, we are represented by our client consultants, branch offices and university teams in all German urban centres, including all important university locations. DOMCURA and nordias have their headquarters in Kiel, while TPC operates out of Hamburg. Alongside its HQ in Bad Homburg vor der Höhe, Germany, FERI maintains offices in Düsseldorf, Munich, Luxembourg, Vienna and Zurich.

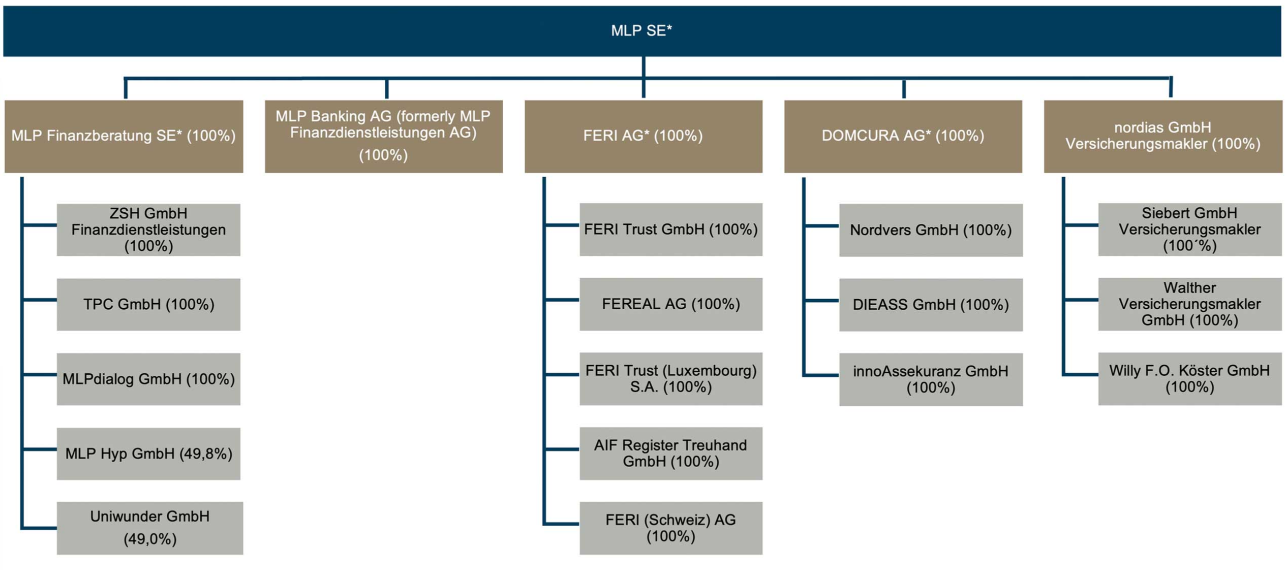
Represented throughout Germany



Legal corporate structure and executive bodies

MLP is organised as a holding company, in which central management duties are performed by the Group's parent company, MLP SE. The five subsidiaries MLP Finanzberatung SE, MLP Banking AG, FERI AG, DOMCURA AG and nordias GmbH are arranged below this (see chart). The business divisions each carry end-to-end accountability for results. This organisation reflects the Group's strategic goals and client requirements.

Current Group structure of operating companies



* Plus further direct and indirect subsidiaries

MLP Finanzberatung SE is registered as an insurance broker for the brokerage of insurance products. MLP Finanzberatung SE includes TPC GmbH in Hamburg, ZSH GmbH Finanzdienstleistungen (ZSH) in Heidelberg, MLPdialog GmbH in Wiesloch. Another holding is MLP Hyp GmbH, Wiesloch, which we operate together with the mortgage lending broker Interhyp AG in Munich.

MLP Banking AG holds a banking licence and bundles all banking services for both private and corporate clients.

The business conducted by FERI AG revolves around investment research, investment management and investment consulting for institutional investors, high net-worth families and foundations. These are anchored in FERI Trust GmbH, Bad Homburg v.d.H. FEREAL AG acts as a capital management company for alternative asset classes, such as real estate, private equity and infrastructure. FERI (Switzerland) AG offers investment solutions for private and institutional investors outside the eurozone from its Zurich location. As fund administrator, FERI Trust (Luxembourg) S.A. coordinates the entire fund structuring and fund floating process.

DOMCURA AG specialises in designing, developing and implementing comprehensive coverage solutions in the non-life insurance area for both private and commercial clients. nordias GmbH Versicherungsmakler is home to specialist brokers for commercial and industrial insurance products.

Changes in corporate structure

There were no changes to the corporate structure and the scope of consolidation in the reporting period.

Factors affecting business development

Economic developments in Germany have a significant impact on the business model of the MLP Group, as the Company generates almost all of its revenue in this country. Particularly important non-financial performance indicators in this regard are economic growth, developments on the employment market, salary levels and the general savings rate. They are described in further detail in the chapter entitled → "Economic report – Overall economic climate".

The results of operations are influenced even more acutely by market conditions in the consultancy areas of old-age provision, wealth management, non-life insurance, health insurance, real estate as well as loans and mortgages, which we analyse in the corresponding chapters of the → "Economic report and forecast". Another important factor is the regulatory environment, which is examined in more detail in the chapters → "Economic report and forecast – regulation and competition".

Organisation and administration

The Executive Board at MLP SE comprises three members. The positions on the Board continue to be held by Dr. Uwe Schroeder-Wildberg (Chairman of the Executive Board), Manfred Bauer (Products and Services) and Reinhard Loose (Finance). In the last year, the Supervisory Board at MLP SE unanimously voted to extend the contract of Chief Financial Officer Reinhard Loose, which expired on January 31, 2019, by five more years to 2024. The Chief Financial Officer at MLP SE is responsible for Compliance, Controlling, Purchasing, IT, Human Resources, Accounting, and Legal and Risk Management. In his role, he also holds a position on the Executive Board at the two subsidiaries MLP Finanzberatung SE and MLP Banking AG.

The Supervisory Board, which is required to monitor the Executive Board under German law, comprises six members. Maximilian Lautenschläger, second son of Company founder Manfred Lautenschläger, joined the Group's supervisory bodies in 2018. He has been a member of the Supervisory Board at MLP Finanzberatung SE since March 2018. Matthias Lautenschläger had already been a member of the Supervisory Board at the former MLP Finanzdienstleistungen AG since August 2015. This office ended in May 2018. He was elected to the Supervisory Board of MLP SE at the Annual General Meeting held on June 14, 2018. The other members of the Supervisory Board at MLP SE were also re-elected or appointed by the employees of the MLP Group during the Annual General Meeting. The Supervisory Board at MLP SE therefore comprises the following members: Dr. Peter Lütke-Bornefeld (Chairman), Dr. Claus-Michael Dill, Matthias Lautenschläger and Tina Müller as representatives of the shareholders, as well as Alexander Beer and Burkhard Schlingermann as employee representatives. In addition to this, the Supervisory Board at MLP SE appointed Company founder Manfred Lautenschläger as its Honorary Chairman.

Carsten Hermann became a member of the Executive Board at FEREAL AG, which is part of the FERI Group, on January 1, 2018. His predecessor, Marcel Renné, joined the Supervisory Board at the start of H2 2018. At the same time, Arnd Thorn stepped down from the Supervisory Board at FEREAL AG.

Control system

The MLP Group employs comprehensive planning and control systems. Starting from our strategy and the estimates regarding future external framework conditions, we draw up target values for key controlling figures in the strategic and operating planning process. Any deviations from our targets then become transparent within the scope of ongoing controlling processes. Based on these developments, we then derive actions for our corporate management. We also continually monitor developments in the market and the competitive environment.

Corporate management

EBIT and revenue as the most crucial key performance indicators

The Executive Board at MLP SE assesses the performance of the various business segments and makes decisions regarding resource allocation on this basis. Earnings before interest and taxes (EBIT) and total revenue (sales revenue) are the central benchmark at MLP for overall business development in the individual business segments. The Executive Board also receives regular information on the macroeconomic, political and legislative factors that influence developments in the individual consulting fields. Analysis of the old-age provision, wealth management, non-life insurance, health insurance, loans and mortgages and real estate brokerage consulting fields is carried out with the objective of explaining the performance of the business segments in the past, anticipating changes in the environment and exerting targeted influence on the future development of the segments. In line with MLP's comprehensive consulting approach, which focuses on the client's views and expectations, the Executive Board manages the Group – however not on the basis of the contribution margin of the individual consulting fields.

The following overview clarifies which fields of consulting contribute to the development of revenue in the respective business segments.

	Financial consulting	Banking	FERI	DOMCURA
Old-age provision	x			
Wealth management		x	x	
Non-life insurance	x			x
Health insurance	x			
Loans and mortgages	x			
Real estate brokerage	x			

In addition to the revenues from wealth management, interest income also plays an important part in the banking segment.

We require profitable growth and sustainable development of earnings in order to achieve a sustainable increase in Company value and to expand our market position.

Beside the important key performance indicators of EBIT and revenue, other KPIs include administration costs (defined as the sum of personnel expenses, other operating expenses, as well as depreciation and impairments), the return on equity, assets under management, brokered new business in the old-age provision area, the existing non-life insurance policy portfolio and the number and turnover rate of consultants.

The objective of our corporate management is for all consultants and employees to actively support MLP's strategic goals and to pledge to meet our service commitment. Our established central, strategic control instrument is the so-called "ISA" (Integrated Strategic Agenda). Group objectives are therefore broken down across all Group companies and the key segments, thereby allowing each business unit to make its own contribution to meeting the defined targets. This ensures end-to-end incorporation of all organisational units and integration into the planning and management process. The ISA grants all business segments the opportunity to get actively involved in planning targets. This promotes motivation among everyone involved and increases planning quality throughout the organisation. At the end of the obligatory ISA process (applied consistently throughout the Group), the target achievement level of each unit is defined through our established planning and reporting processes. The ISA provides the Executive Board with a high degree of transparency in the value-added process.

Risk management: Important management and control element

The Executive Board at MLP SE and MLP Banking AG has specified a risk strategy that is consistent with the business strategy and the risks resulting from it. The risk strategy encompasses the objectives of risk management for key business activities, as well as the measures for achieving these objectives. To this end, risk management is permanently anchored in MLP's corporate management strategy. The members of the Executive Board, general managers of Group companies and departmental heads are responsible for detecting and classifying risks as quickly as possible. Since ISA managers also bear risk and cost responsibility, we are able to establish a practical link between risk management and controlling. You can find further information on risk management in the chapter entitled → "Risk report".

Key figures and early indicators used by corporate controlling

We regularly use simulation scenarios to assess the success of our business. Important early indicators include assets under management, which reflect developments in the wealth management segment, brokered new business in old-age provision, and the portfolio of non-life insurance contracts, as these three areas represent a significant portion of commission income.

Keeping consultant turnover low

Our objective is not only to win over the best consultants in the industry to our business model, but also to ensure their long-term loyalty to the Company. We therefore continually monitor our employee turnover rate and aim for an annual turnover rate for self-employed consultants of around 10%.

You can find further information on this in the chapters → "Employees and self-employed client consultants" and → "Anticipated business development".

Research and development

Since our consulting firm is a service provider, we are not engaged in any research or development in the classic sense. We also make other resources available, for example to develop our own software or refine acquired software. The FERI Cognitive Finance Institute also operates as a strategic research centre and creative think tank within the FERI Group, with a clear focus on long-term aspects of economic and capital market research, as well as asset protection.

ECONOMIC REPORT

Overall economic climate

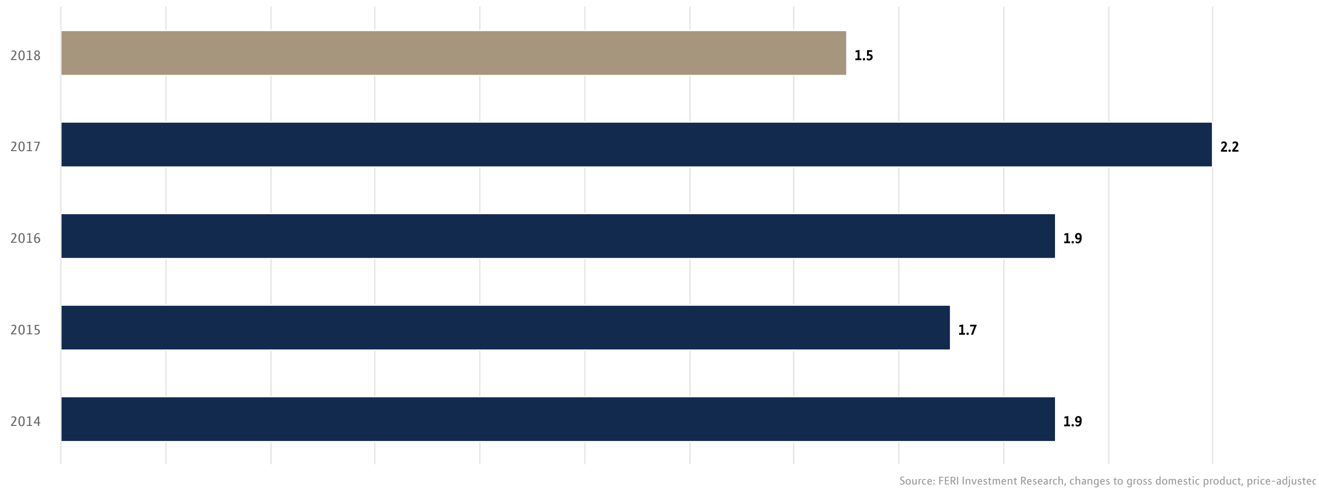
Overall economic situation

The economy in the eurozone displayed weaker growth in the reporting year. In particular, the unfavourable external environment had a negative impact on dynamics. The ongoing international trade disputes with the US and the risk of a disorderly Brexit were perhaps the most important disruptive factors in this regard. According to estimates provided by FERI Investment Research, economic growth for the eurozone was 1.9% (2017: 2.3%).

German economic growth slowing down

The German economy also lost some of its growth dynamics in 2018. Just like the rest of the eurozone, Germany's economy was negatively impacted by the unfavourable framework conditions for foreign trade, while domestic demand remained robust. This was primarily bolstered by positive employment market developments, which led to notable increases in wages and salaries. According to calculations performed by FERI, inflation-adjusted gross domestic product (GDP) in Germany was only 1.5% in 2018.

Economic growth in Germany (in %)



Consumer sentiment of German citizens dampened slightly

Towards the end of the reporting year, the weak economic phase also affected consumer sentiment in Germany. As a result of this, the Consumer Sentiment Index of the German Consumer Research Association (GfK) declined slightly to 10.4 points in December 2018 – descending from its soaring level (previous year: 10.7 points). The sentiment among German company bosses also displayed similar development. The ifo Business Climate Index declined to 102.0 points in November 2018 – from a level of 105.1 points in January 2018. It continued to fall to a level of 101.0 points in December.

Ongoing recovery on the employment market

The upward trend in the German employment market continued. According to data published by Germany's Federal Employment Agency, the annual average number of registered jobseekers fell by 193,000 year-on-year to approximately 2.24 million in 2018. This corresponds to an unemployment rate of 5.2% (2017: 5.7%), which marks the lowest level since German reunification.

According to estimates provided by the Institute for Employment Research of the German Federal Employment Agency (IAB), the number of those in gainful employment displayed a year-on-year average increase of 600,000 in 2018 – to just under 45 million. This increase is primarily based on an increase in jobs subject to compulsory social security contributions.

The prospects for university graduates in particular remained excellent in the German employment market. According to the latest data from Germany's Federal Employment Agency, the unemployment rate among academics remains at a very low level of just 2.3%.

Increasing salaries and wages

The economic situation of private households in Germany remained good. According to data published by the Working Group on Tax Revenue Projection, gross wages and salaries increased by 4.7% in the reporting year, while the disposable income of private households increased by 3.6% according to the 2019 Financial Report of the German government. The savings rate in Germany increased slightly in the last financial year, reaching 10.3% (2017: 9.9%).

ECONOMIC REPORT

Industry situation and competitive environment

Traditionally, the vast majority of MLP's total revenue is generated from the following four core fields of consultancy: old-age provision, wealth management, non-life insurance and health insurance. In the financial year 2018, they made up 93% of total revenue. Revenues in the fields of old-age provision and health insurance are generated in the financial consulting segment. Wealth management revenue is generated in the FERI and banking segments. Alongside the DOMCURA segment, revenue in non-life insurance is also generated at MLP Finanzberatung SE.

The main factors that had a particular influence on the market environment and the results of operations in the aforementioned consulting fields in 2018 are described below.

Old-age provision

In the past year, the market environment in the old-age provision business continued to indicate low interest rates, ongoing reservations on the part of consumers to sign up for long-term policies, as well as the ongoing political discussion regarding reforms to the old-age provision system. In addition to this, there was still a pronounced lack of transparency in terms of the anticipated total pay-outs from statutory and supplementary pension schemes.

Low saving rates and lack of trust

According to the ERGO Risk Report, only one in five Germans know exactly how much pension they will actually receive in retirement. Just under 70% of respondents expect the pension level to decline further in the next ten years. One in two Germans believe that they will need to live a more restricted life following retirement. According to the survey, some 42% of Germans are saving nothing or less than € 50 per month towards their old-age.

Low interest rates

The ongoing period of low interest rates is having a negative impact on German savers. According to the Wealth Barometer 2018 of the Deutscher Sparkassen- und Giroverband Financial Group, one in three Germans (32%) list the European Central Bank's monetary policy as their primary source of concern when saving.

The product landscape in the old-age provision area has undergone radical change as a result of the low interest rate environment. According to data published by the German Insurance Association (GDV e.V.), half of all newly signed old-age provision products are now policies with alternative guarantee solutions. Ratings agency Assekurata expects classic life and pension insurance policies to continue their decline and only account for one quarter of all new business in 2018.

Product landscape undergoing change

The difficult framework conditions described were reflected in the market trend of the various old-age provision products in the reporting year, with the exception of occupational pension provision. The state is offering citizens various incentives in the form of tax breaks and allowances to encourage them to save for their old age.

Difficult framework conditions discernible in all three tiers

State subsidies/allowances in Germany are presented in the so-called 3-tier model:

- Basic provision: Statutory pension and basic pension
- Supplementary pension provision: Riester pension and occupational pension provision
- Additional private pension provision: Pension and life insurances, capital market products

Alongside the statutory pension, basic provision (1st tier) also includes the basic pension, the premiums for which can be offset against income tax. Apart from employees, the basic pension is primarily aimed at self-employed persons and freelancers that are not obliged to pay into the statutory pension insurance fund. The maximum tax-deductible amount in 2018 was € 23,712 for single persons (€ 47,424 for married couples). In 2018, taxpayers were able to offset 86% of the capital they paid in as special expenses for basic provision.

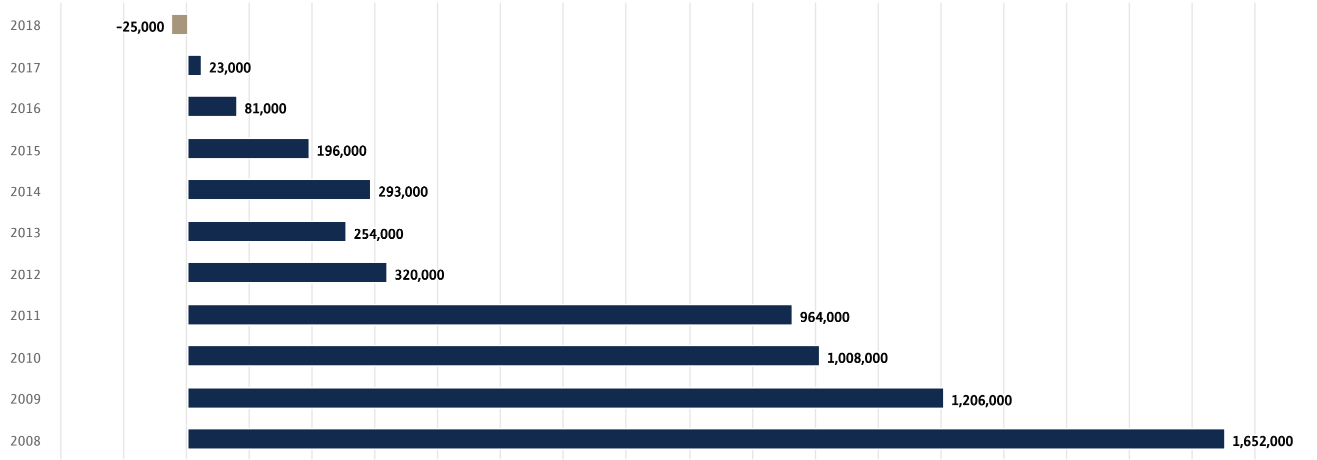
Improved incentives for basic pension not having any impact

Despite this significant tax incentive, data published by the German Insurance Association (GDV) indicates that only 76,200 new basic annuity contracts had been concluded throughout the market by the reporting date on December 31, 2018 (2017: 81,000). This corresponds to a decline of 6.2%.

The supplementary pension provision (2nd tier) essentially comprises the Riester pension and occupational pension provision. The legislation on strengthening occupational pension provision in Germany (BRSG), which came into force on January 1, 2018, sets a higher basic allowance of € 175 per year for the Riester pension (previously: € 154). Despite this improved support, which makes the Riester pension more attractive than ever as an option for supplementary old-age provision, the number of new contracts actually declined in the reporting year. According to the German Federal Ministry of Labour and Social Affairs, the total number of Riester contracts in place at the end of the Q3 2018 was 16.57 million – which represents 25,000 fewer contracts than on December 31, 2017. As had already been the case in previous years, there was a clear focus on "Wohn-Riester" home annuity policies and investment fund policies among new contract signings. The number of insurance policies, on the other hand, displayed a pronounced downward trend.

Growth only in investment funds and "Wohn-Riester" (home annuity policies)

Development Riester pension contracts (2008 to 2018)



Date: September 30, 2018, Source: German Federal Ministry of Labour and Social Affairs

Occupational pension provision: Greater support by law

As a result of the legislation to strengthen occupational pension provision in Germany (BSRG), which came into force on January 1, 2018, there is now greater focus on occupational pension provision among both employers and policyholders. According to a survey carried out by consultancy company Willis Towers Watson, three quarters (74%) of employees would like their employer to assume a leading role in the field of old-age provision. A survey undertaken by Generali Versicherungen AG also indicates that one in four (24%) small and medium-sized companies in Germany is currently keen to extend its occupational pension provision to take advantage of the options provided by the BRSG legislation. Just under half of all small and medium-sized companies (49%) are still undecided as to how they should proceed.

The Forecast section provides further information on the improved state subsidies/allowances that apply from 2019 onwards on the basis of the legislation on strengthening occupational pension provision in Germany (BSRG).

Life and pension insurance policies less in demand

The 3rd tier is continuing to display rather stifled development, above all in terms of classic life and pension insurance policies. According to the German Insurance Association (GDV e.V.), the number of new contracts was below the previous year's level (-19.2%).

Total market showed slightly positive developments

Despite the difficult market environment described and ongoing public reservations in regard to signing long-term contracts, provisional figures provided by the German Insurance Association (GDV e.V.) indicate that the brokered premium sum of new business in the reporting year was € 149.9 billion, which is only slightly above the previous year's low figure in the mid-term comparison (€ 144.2 billion).

Wealth management

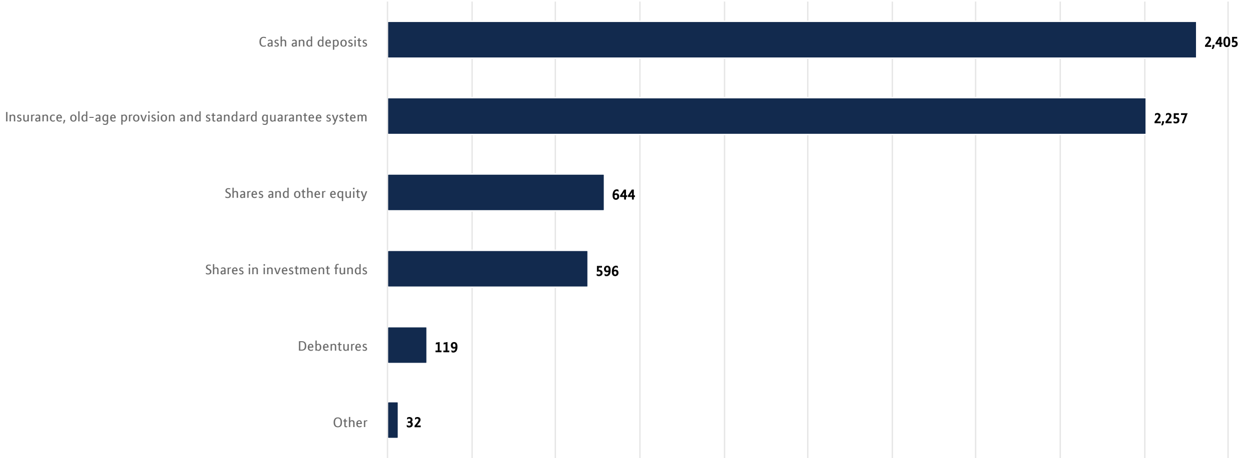
In the reporting year, the market environment in the wealth management area was characterised by the ongoing period of low interest rates and at times high volatility on the stock markets. Having displayed very positive development in the last ten years, the period of continuous upward movement in the stock markets came to an end in the reporting period. This was due to the global slowdown in economic growth, a retreat from the expansive monetary policy by numerous central banks, the impending escalation in the trade disputes between the US and China, geopolitical conflicts, as well as increasing tensions in the eurozone.

According to the Global Wealth Report 2018 of the Boston Consulting Group, global private financial assets rose by 7.1% in 2017 on a currency-adjusted basis. In Germany, private assets displayed significantly lower growth of just 4.3% in the same time period.

Private households wealthier than ever before

According to data published by the Deutsche Bundesbank, the monetary assets of private households in Germany surpassed the € 6 trillion mark for the first time. Indeed, the figure rose to € 6.053 billion in the third quarter of 2018. Despite pronounced inflows into shares and investment fund shares, private households therefore still prefer liquid investments or those regarded as low-risk.

Private monetary assets of German citizens (all figures in € billion)

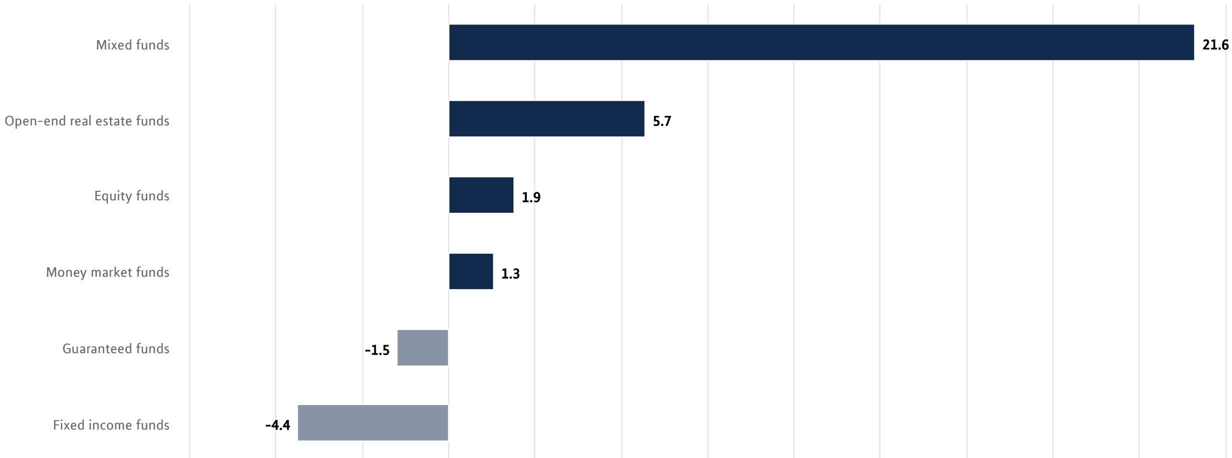


Source: Deutsche Bundesbank as at September 30, 2018

Mixed funds head the sales list

A net total of € 100.7 billion flowed into the German fund industry by the end of November 2018. The sales list of open mutual funds is headed by mixed funds at a volume of € 21.6 billion. With new inflows of € 5.7 billion, asset-based funds take second place, followed by mutual equity funds at € 1.9 billion. Investors withdrew a total of € 4.4 billion from fixed income funds. The fund industry in Germany manages total assets in excess of € 3 trillion.

Cash inflows and outflows of various types of mutual funds in Germany from January to November 2018 (in € billion)



Source: German Association of Investment and Asset Management e. V. (BVI)

According to the Wealth Barometer 2018 of the DSGV (German Savings Bank Association), Germans are more satisfied than ever with their financial situation. Based on this, almost two thirds of respondents rate their own financial situation as "good" or even "very good". Only 8% stated that they are "unhappy" or "very unhappy“ with their financial situation. The findings of the survey suggest that Germans are becoming increasingly carefree when it comes to saving. Despite the ongoing period of low interest rates, a growing percentage – now almost 40% – are not worried about saving (previous year: 25%).

Germans are satisfied with their financial situation

The market for providing consulting and asset management services to high net-worth individuals, in which the MLP Group is active through FERI, has become more complex and fiercely contested since the financial and economic crisis. The competitive environment indicates ongoing consolidation in wealth management and in private banking in particular. At the same time, the continuing low interest rate environment in the market is also leading to keener price awareness among clients.

Ongoing consolidation in private banking and wealth management

As a result of the ongoing low interest rate environment and the rising risks on the stock markets, institutional investors are showing increasing interest in alternative investments, an area in which FERI has extensive expertise. A survey conducted by the German Association of Alternative Investments (BAI) indicates that the majority of institutional investors increased their activities in regard to alternative investments in the reporting period. In most cases, the intention was to further diversify portfolio holdings. Yet the desire for greater returns also played a part. In terms of alternative investments, institutional investors focused primarily on real estate, infrastructure and private equity according to the German Association of Alternative Investments (BAI).

Institutional investors show increased commitment to alternative investments

Non-life insurance

The non-life insurance business has become more important for independent brokers in the last few years. According to a survey conducted by AssCompact, in 2018 three quarters (75%) of brokers surveyed assigned high or very high importance to the private non-life insurance business. In 2015, this figure was just 40%. From a brokerage perspective, the non-life insurance business makes a key overall contribution to securing and expanding the portfolio base. Almost a third of respondents stated the revised broker's commission in the life insurance business as a key reason for this development.

In particular, household contents and liability insurance policies continue to be reliable sources of revenue in the private client business thanks to legacy portfolios. The topic of smart homes is becoming increasingly important in the household contents and residential building segment.

Based on estimates provided by Assekurata, providers are also increasingly focusing on the commercial insurance segment. Indeed, they are currently developing numerous new product strategies to reposition themselves in the commercial market and benefit from the existing growth potential. The portfolio of industry solutions is therefore growing accordingly. Assekurata is currently observing two key trends in the commercial market. The first is a focus on the target group of small and medium-sized companies (SMES), while the second revolves around greater digital support for brokers.

Commercial insurance policies coming into focus among providers

Germans continue to display a high degree of willingness to switch car insurers. According to the latest survey conducted by market research institute YouGov, more than one in five motor vehicle policyholders (20.8%) in Germany has already considered switching car insurance providers. This corresponds to some 9.15 million motor vehicle policyholders willing to make the switch.

High degree of willingness to switch vehicle insurance policies

Natural hazards, such as storms, hail, flooding and heavy rain, caused damage with a total value of € 2.9 billion in the non-life and vehicle insurance segments in 2017. The German Insurance Association (GDV e.V.) is anticipating a similar development for 2018. According to the "Natural Hazards Report 2018", the damage to residential buildings due to storms, hail and heavy rain amounted to € 1.3 billion in the first six months of 2018, a level normally expected for the year as a whole.

Costly damage caused by forces of nature

The costs associated with flood damage to residential buildings and their contents are only covered by insurance companies when an extended insurance policy covering natural hazards or elemental damage is in place. According to the German Insurance Association (GDV e.V.), however, only 41% of buildings throughout Germany are currently insured against such damage.

Based on provisional figures of the German Insurance Association (GDV), growth in the property and casualty insurance segment remained stable in the reporting year. For 2018, the GDV is anticipating an increase in premium income of 3.3%.

Non-life insurance business continues along its positive growth path

Health insurance

Health insurance continued to face a difficult market environment in the financial year 2018 – particularly in the case of comprehensive private insurance. According to data published by the Association of Private Health Insurers (PKV), the number of persons holding comprehensive health insurance policies has been in decline since 2011. Based on provisional figures as at December 31, 2018, the number of policyholders (8,74 million) was down by around 13,000 (-0.15%) compared to the previous year. Notwithstanding this, according to the "Continentale Survey 2018" around 89% of those with private insurance are satisfied with the performance of their current provider and 75% are satisfied with the price of their current provider.

Fewer holders of comprehensive health insurance policies in Germany

The average premium rate for statutory health insurance was 15.6% in 2018. Alongside the statutory contribution rate of 14.6%, the healthcare funds add an average additional premium of 1.0%, which until now always had to be paid in full by the employees. However, this will change in the coming year. You can read more on this in the Health Insurance Forecast.

Out-of-pocket payments and co-payments for individual healthcare services have long since been standard for those with statutory health insurance. According to the latest report of the Medical Service of the Health Funds (MDK), half of all policyholders are offered individual healthcare services that they must finance themselves when visiting the doctor. Indeed, statutory insurance policyholders together pay around € 1 billion every year at German medical practices for services of this kind.

Statutory health insurance policyholders pay extra

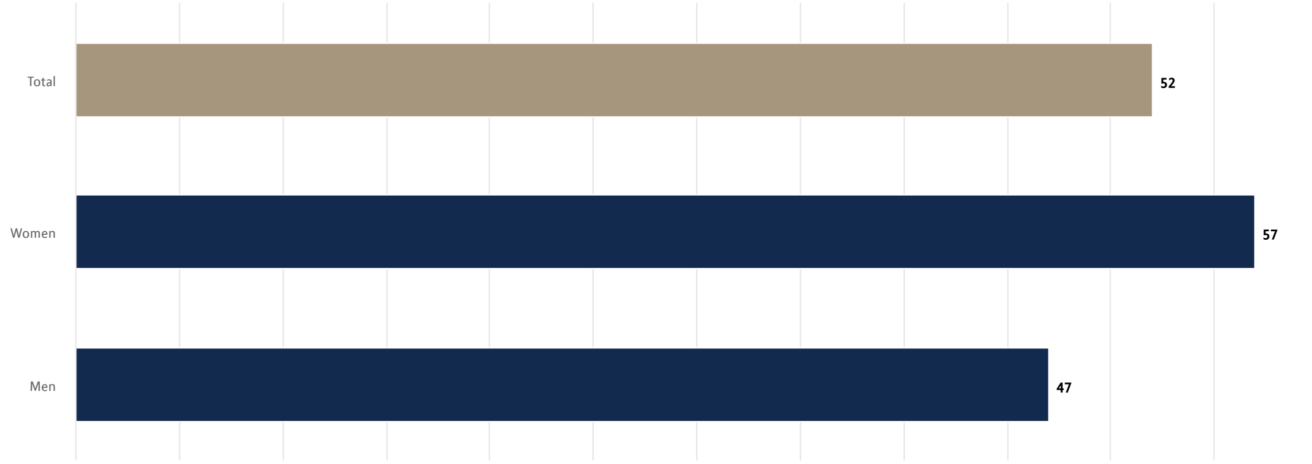
More and more policyholders are continuing to take out private supplementary insurance policies as a way of topping up the scope of services covered by the statutory health insurance system. According to provisional figures provided by the Association of Private Health Insurers (PKV-Verband), the number of policies rose to 25.82 million in 2018. This corresponds to a growth rate of 1.18% relative to 2017. With just under 15.7 million policies in place at the end of 2017, dental plans are by far the most popular supplementary insurance policies brokered. The number of these policies increased by 1.9% in 2017.

Supplementary insurance policies on the rise

Supplementary long-term care insurance was another growth driver in the sector. However, the net increase in terms of both state-supported ("Pflege-Bahr“ private long term-care insurance with daily cash benefits) and unsubsidised supplementary long-term care insurance policies was approximately halved in 2017. According to estimates provided by Assekurata, one reason for this could be that many providers did not increase their premiums as part of the Second Act to Strengthen Long-term Care. The number of tax-privileged policies increased by 56,800 in 2017 (7.3 %) to around 834,000 contracts. The number of unsubsidised supplementary long-term care insurance policies rose by 56,100 (2.1 %) to 2.73 million. A recent survey undertaken by R+V-Versicherung shows that the topic of care is an important issue. Based on this survey, half of all German citizens are worried about needing long-term care in their old age.

Increase in private long-term care insurance policies

The percentage of Germans stating that they are very worried about needing long-term care in their old age



Source: Study of R+V Versicherung survey, 2018

Real estate

The real estate market in Germany enjoyed very positive growth, primarily due to the ongoing period of low interest rates observed in the last few years. Real estate became increasingly important both as an investment and for owner-use. According to the Wealth Barometer 2018, almost a third (31%) of German citizens believe that real estate is the most suitable form of capital accumulation.

Rising property prices

The price level of real estate presents a challenge. According to data published by the Association of German Pfandbrief Banks (vdp), the prices for freehold apartments have seen double-digit percentage rises, especially in the big cities. The survey indicates that Berlin heads the list, as apartments have increased by an average of 15.6%, followed by Frankfurt am Main (12.5%) and Hamburg (11.4%). Taking the average throughout Germany, purchasers would have had to pay around 7% more for freehold apartments at the end of 2017 than was the case one year previously.

High demand for micro-apartments in major cities

The rents for micro-apartments, such as those used by students, have increased by up to 67% over the last eight years, as highlighted in a recent survey by the German Institute for Economic Research (DIW). The increase was particularly pronounced in major cities such as Munich, Berlin, Heidelberg, Cologne and Frankfurt. The survey goes on to state that this can be attributed to the general influx into the cities and the resultant scramble for living space among students, young professionals, commuters and senior citizens.

Apartment construction remains on growth trajectory

The growing demand for apartments saw construction work increase in Germany in the reporting year. According to data published by the German Federal Statistical Office, around 233,100 new-build apartments were approved throughout Germany in the first nine months of 2018. This represented 3.2% or 7,200 apartments more than in the same period of the previous year. Above all, building licences for apartments in blocks saw an increase (+8.3%).

According to experts from the German Institute for Economic Research (DIW), however, the overall economic risks of the current property boom are still fairly low, as German banks are very risk-conscious in their lending policies, financing of property purchases is solid and private debt is low in Germany. Please refer to the chapter entitled → "Economic report on loans and mortgages" for further information on this.

Loans and mortgages

The mortgage lending rates in the last three years are the lowest seen for forty years. This is because the European Central Bank (ECB) has held the prime rate steady at 0% since March 2016, despite announcing an exit from the quantitative easing programme in the reporting period. Although the interest rates for 10-year property loans have risen slightly since their historic low in the autumn of 2016, they remain at a very low level.

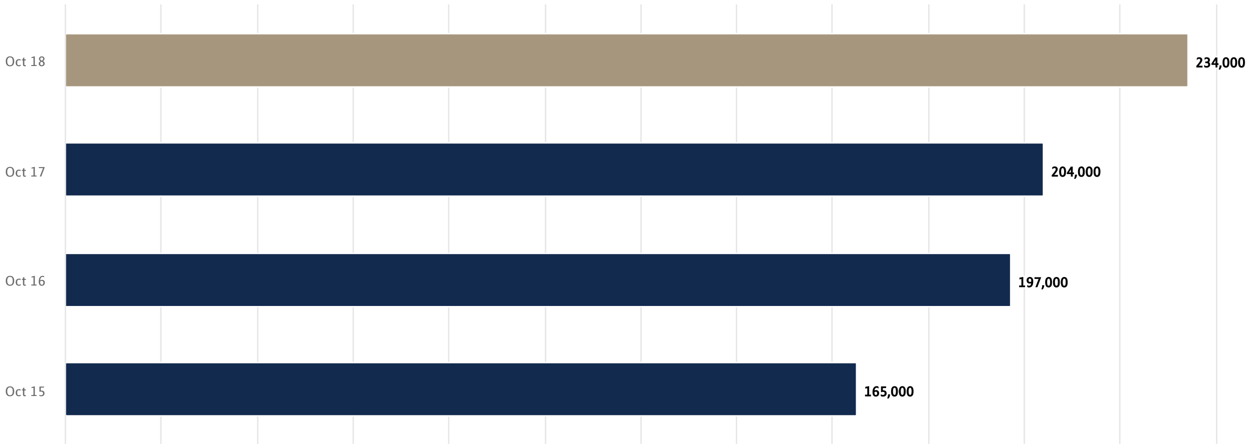
The loans issued to companies and self-employed persons in Germany increased significantly in the third quarter of 2018. According to data provided by the experts at Deutsche Bank Research, the lending business increased by € 15.2 billion or 1.2% between July and September 2018. Compared with the corresponding basis from the previous year, the increase was 5.4%. This kind of dynamic lending growth was last seen almost 20 years ago.

Level of property financing enjoys sharp increase

As a result of the low interest rates and increased property prices in Germany, the average amount borrowed by property purchasers to finance their own home or their investment rose sharply. According to data provided within the scope of the Dr Klein Trend Indicator for Mortgage Lending (DTB), the average mortgage in October 2018 was € 234,000 – and therefore € 30,000 or 14.7% higher than in the previous year. It has actually increased by around 42% overall in the last three years (see chart).

Mortgage amounts at record level

Average mortgage amount in €



Source: Dr. Klein Trend Indicator for Mortgage Lending (DTB

Average age of mortgage applicants lower

Borrowers taking on their first mortgage are becoming younger and younger. Indeed, the average age throughout Germany fell from 48 to 39 in the last ten years, as shown by research undertaken by Dr. Klein Privatkunden AG.

Family housing grant ("Baukindergeld") for home buyers

The German government introduced the "Baukindergeld" family housing grant scheme on September 18, 2018. The objective here is to help young families purchase or build their own home. Families whose total income is below the € 90,000 per year threshold and have one child qualify for this new scheme. This threshold is increased by € 15,000 per child. The state pays an annual grant of € 1,200 per child over a period of up to 10 years.

You can find more detailed information on this in the "Loans and mortgages" forecast.

Competition and regulation

The competitive situation in the German market for financial services did not change significantly for the MLP Group in 2018 compared to the previous year. The sector remains very heterogeneous and is characterised by consolidation trends. The providers include numerous financial service providers, single agents, banks, insurance companies and free finance brokers. However, the quality of consulting provided by these companies can vary quite markedly.

Start-up dynamics starting to wane at fintechs

In addition to this, competitive pressure is growing throughout the entire sector as a result of direct sales and fintechs. However, the start-up dynamics have waned significantly according to the "Comdirect FinTech Survey 2018". In 2018, only 42 newly founded companies had been established by the end of the 3rd quarter, compared with 96 in the entire previous year. The highest number recorded was 160 in 2015. Many German fintechs have now entered into cooperations with companies from the banking or insurance sectors. Based on a survey undertaken by PricewaterhouseCoopers (PwC), there are currently more than 850 such cooperations in place.

Regulatory requirements have increased

Over the last few years the legislator has exerted major influence on the market for financial services and therefore also on MLP's market by imposing regulations such as the Financial Instruments Directive II (MiFID II), the Insurance Distribution Directive (IDD), the 4th EU Money Laundering Directive, the Investor Protection Act, the Financial Investment Broker Act, the Fee-Based Investment Advice Act, the Life Insurance Reform Act (LVRG) and the EU Mortgage Credit Directive. The legislator's objective is to protect consumer interests and prevent both money laundering and financing of terrorist activities. Among other things, it sets out comprehensive further training, documentation, qualification and transparency requirements for brokers of financial products. These measures mean that the provision of consulting services takes longer, which in turn puts pressure on product margins. Regulations in the field of product development and selection (product governance), the introduction of product information sheets for packaged investment products, as well as further information, clarification and record-keeping requirements are increasing the complexity of the consultancy and brokerage business. Implementation of uniform and efficient consultancy, application and documentation processes now represents an important competitive factor in the sector.

Effects of the Life Insurance Reform Act (LVRG) on the test bench

Changes relevant for MLP already came into force in 2015 with the Life Insurance Reform Act (LVRG). The effects of these could also be felt in the reporting year. The paramount objective of the Life Insurance Reform Act (LVRG) was to secure stable and fair benefits for life insurance policyholders. This was checked by the Federal Ministry of Finance (BMF) within the scope of a regular evaluation as of January 1, 2018. The initial conclusions in the evaluation report are positive. However, the BMF still sees a need for further improvement with regard to the level of acquisition costs, determination of the actual costs, as well as profit and loss transfer agreements. Life insurers are still being expected to make further efforts to reduce their costs, despite the fact that the BMF is stipulating a reduction in acquisition commission and measures already implemented such as the extended cancellation liability periods have not yet taken full effect. Capping of acquisition commission is listed as a suitable action in the evaluation report – albeit without giving any specific details. The political discussion on this is ongoing. A draft bill of the German Federal Ministry of Finance (BMF) is anticipated around the spring of 2019 and will then be subjected to the parliamentary process. However, official introduction of any potential legislation is not expected before 2020. You can find more detailed information on this in the section → "Forecast on regulation".

MLP actually welcomes the requirement to disclose effective costs, as well as the fact that no flat-rate cap has yet been introduced for acquisition commissions. A drop in acquisition commissions was already observed throughout the market in both 2015 and 2016, indicating that margin pressure is increasing overall. This continues to primarily affect small providers and those with little focus on quality. MLP benefits from high-quality consulting in the target group which, among other things, leads to lower cancellation rates. Margin pressure can also be felt at MLP, albeit to a lesser extent thanks to the high-quality consulting on offer.

In June 2017, the German Bundestag passed the legislation on strengthening occupational pension provision in Germany (BRSG), which could provide positive stimulus for this segment. The BSRG legislation has also made occupational pension provision more attractive for small and medium-sized employers, as well as their employees. The key aspects of the legislation focus on a compulsory employer's contribution to new deferred compensation from January 1, 2019, as well as increasing the tax subsidy base from 4% to 8% of the income threshold and a direct state subsidy contribution for low earners. You can find more detailed information on this in the → "Forecast" section under regulation.

Legislation to strengthen occupational pension provision in Germany (BSRG) is having the desired effect

The Markets in Financial Instruments Directive II (MiFID II) was introduced on January 3, 2018. Alongside direct application of numerous new European provisions, this also harmonised existing national provisions with European law. The amendments of the MiFID II regulations have fundamental effects on the business model of securities service enterprises.

Greater transparency and better investor protection in focus

Existing processes were therefore reviewed in the reporting year and adapted to the new requirements, which proved quite costly in certain areas. This was particularly true of consultancy and product structures. In some cases, products had to be formally redeveloped and IT processes implemented to comply with the new provisions. This has led to and will continue to lead to significant implementation costs for MLP. Thanks to its position and the preparatory work undertaken, MLP was able to comply with the key requirements very effectively.

The German Bundesrat already formally approved transposition of the IDD into German law in 2017. The legislation then came into effect on February 23, 2018. It provides new rules for greater transparency and improved consumer protection in insurance sales. Implementation of the IDD also requires insurance brokers to attend 15 hours of further training each year. No major effects on MLP's business model are to be anticipated, as continuous further training of consultants has always been a key aspect of operations at MLP. Yet despite this, MLP – just like all other market members – had to implement comprehensive, process-based adjustments to comply with the IDD provisions.

New Insurance Distribution Directive (IDD) has come into force

As of August 1, 2018, the new law for introduction of a professional licencing scheme for commercial estate agents and residential property managers came into force on August 1, 2018. This will be the first time that property managers have had to comply with such professional licencing requirements. In addition to the existing licencing requirement already in place, estate agents must now also comply with a duty to attend further training. Starting in the reporting year, property managers and brokers must be able to prove that they have attended 20 hours of further training within the last three years.

Duty to attend further training for estate agents

The Investment Tax Reform Act (InvStRefG) came into force on January 1, 2018. Alongside the provisions under European law on equal treatment of domestic and foreign investment funds, its objective is primarily to simplify the taxation of mutual funds at investor level. This took effect for the first time at the start of 2019.

As was already the case in previous years, clarification of details regarding implementation of Basel III and IV in the European Union (EU) continued to occupy the banking world in Europe during the reporting year. As an institution with a banking licence, MLP Banking AG is also affected by this.

Stricter banking regulations in Europe

The second phase of transposing the 4th EU Money Laundering Directive into national legislation led to further key regulatory requirements for MLP in 2018.

As of May 25, 2018, the regulations for processing personal data have been harmonised throughout the EU and the data protection requirements for both private companies and public sector institutions significantly extended with the introduction of the General Data Protection Regulation (GDPR). This has led to a wide range of new requirements for MLP with regard to reporting processes, statements of accounts, protective measures, information disclosure requirements, process documentation, as well as a significantly extended sanctions regime in the event of infringements. The implementation costs, in particular those relating to IT, will also continue in 2019.

Regulatory environment remains challenging

The regulatory developments certainly represent a challenge overall. After all, the aforementioned combination of generally declining commission income per contract and increasing unit and administration costs – together with increased price sensitivity among clients – can also negatively impact the profitability of MLP's business model. Irrespective of this, MLP is very well-positioned in relative comparison with other market actors.

Demand for independent consulting services remains high

According to the latest sales channel survey conducted by corporate consultant Towers Watson, independent brokers were the second most important consulting sector in the industry in terms of life insurance policy sales. Their market share of brokered new business was 29.3%. Tied agents, which represent just one company, took 1st place with 32.5%, while the banks came in third with 28.4%.

The latest figures from Towers Watson indicate that independent consultants such as MLP also continue to play a key role in the brokerage of private health insurance policies. With a market share of 37%, they are the second most important consultant group after the tied agents (49%).

Business performance

The MLP Group ended the financial year 2018 on a successful note and met its targets. Total revenue increased by 6.0% over the previous year. We were also able to increase sales revenues in all fields of consulting.

We have expanded the wealth management area into a key revenue pillar of the MLP Group over the last few years. FERI continued its successful course of the last few years in the reporting period and reinforced its position as a leading independent investment company. Despite operating in volatile markets, FERI recorded generic growth in all core business areas for the fifth year in succession. FERI was able to win new mandates and expand existing business relations among both private and institutional clients. The consulting and service portfolio was consistently expanded, above all in the areas of investment management, alternative assets and real assets (for example private equity and real estate). FERI also strengthened its presence in Switzerland in the reporting period. The subsidiary Michel & Cortesi Asset Management AG in Zurich was renamed FERI (Switzerland) AG with this objective in mind.

Total revenue generated by FERI in the wealth management area was above the previous year's level. We also recorded a significant increase in revenue in the wealth management area in MLP's private client business. The total assets under management throughout the Group are above the previous year's level.

In the old-age provision area, the ongoing period of low interest rates and critical media reports on life insurers were the principal factors that continued to lead to pronounced reservations in regard to signing long-term contracts. MLP was quick to adapt to the growing importance of new guarantee products, which clients are requesting increasingly often as alternatives to conventional products. Indeed, these guarantee products already accounted for 76% of all newly concluded contracts at MLP in the past financial year. The occupational pension provision business also provided positive stimulus here, primarily due to the new legislation on strengthening occupational pension provision in Germany (BRSG). You can also find further information on the legal amendments in the chapter entitled "Regulation".

Contrary to the trend in the industry, the total revenue generated in the old-age provision area in the financial year 2018 was actually above the previous year's level. This sub-proportional revenue development in comparison with new business can essentially be attributed to effects resulting from the new IFRS 15 accounting standard, which has been in force since January 1, 2018. Although the initial adoption effect to be recognised in shareholders' equity actually led to an increase in shareholders' equity, the new standard had a negative impact on revenue, particularly in the first half of the year.

As anticipated, we were able to increase revenue in the non-life insurance area in 2018 over the previous year following successful completion of the DOMCURA integration. Among other things, positive stimulus was provided here by our already established product bundles, which we further optimised and adapted to market conditions in the reporting year, as well as a new building insurance policy for single-family homes offered by DOMUCRA. In addition to this, DOMCURA successfully launched an innovative insurance product on the basis of blockchain technology in the form of "digital luggage insurance". We went on promoting the integration and interaction between MLP and DOMCURA in 2018. At the same time, the business of DOMCURA with other market actors continued to develop positively.

In the health insurance area, we continued to encounter reservations throughout the market in terms of signing new comprehensive private insurance policies. Factors such as premium increases in the segment and critical media coverage contributed to this development. Private supplementary insurance policies, on the other hand, performed very well, in particular supplemental dental and care policies. Despite the difficult framework conditions, our revenue in the health insurance segment was above the previous year's level.

As anticipated, we were able to increase our revenue in the real estate brokerage area significantly in 2018 compared to the previous year. The main reasons for this positive development were the systematic expansion and ongoing diversification of our real estate portfolio. Alongside the listed buildings sector, we also significantly extended our portfolio of new buildings, as well as existing and concept-driven properties (microliving, properties with nursing care) in the financial year 2018.

In the property financing area, we were able to increase our revenue once again over the already high level recorded in the previous year – primarily as a result of the low interest rate environment.

Diversification of revenue streams is progressing

In the course of diversifying our business model and integrating the DOMCURA Group, we have been able to expand the wealth management and the non-life insurance business into key revenue pillars in the last few years. We also made significant progress in the real estate brokerage and loans and mortgages.

Number of clients showing pleasing development

New client acquisition developed very positively in the reporting year. MLP was able to acquire 18,266 new family clients in 2018 (19,800). Around 29% of these new clients were acquired online. As of December 31, 2018, the MLP Group served 541,150 family clients (529,100) and 20,892 corporate and institutional clients (19,800).

Establishing a digital culture

Digitalisation of all divisions in the MLP Group is making good progress and will also play an important strategic role over the course of the next few years. The needs of clients, as well as consultants and employees are crucial for developing our digital offering. To promote digital workflows throughout the MLP Group and gradually establish a digital culture, we launched a Digital Board with a Digital Officer and a Digital Task Force in the reporting year. An IT mission was also drawn up for the year 2022 in the last financial year. Above all, this includes provision of innovative IT products and services for clients, as well as consultants and employees at the Company HQ. You can find further information on this in the section entitled → "Anticipated business development".

New client acquisition via the web

Within the scope of its digitalisation strategy, MLP continued to expand and intensify its presence on the web and social media platforms such as Facebook, Instagram, YouTube und Twitter in 2018. To further strengthen its online acquisition activities, MLP intensified its cooperation with Uniwunder GmbH in the reporting year and increased its holding in the start-up to 49%. Uniwunder has a great deal of expertise in the field of performance marketing and helps ensure that our seminar offers reach the right target group. Indeed, thanks largely to this, MLP was able to attract around 29% of its new clients online in 2018.

Digital support for consultants

In terms of client acquisition via online channels, consultants receive comprehensive support from a lead management tool that we also launched in 2018. This is used to record seminars and contacts directly and organise the scheduling of further appointments. Central and partially automated management of contacts helps lighten the load on consultants.

In addition to this, we set up a new telephone system in 2018, with which our client consultants can also be contacted via an app or smartphone. We also simplified important workflows for our consultants, for example via further digitalisation of brokerage post, expansion of electronic signatures to include securities orders, as well as portfolio transfers via app.

Online client portal being extended in stages

We gradually extended our online client portal, which was redesigned in April 2017, throughout the last financial year. The portal offers clients all financial information at a glance and provides them with a clearly structured overview of their income and expenditure, for example in a personal budget book. A further step-by-step expansion of the functionality is planned for the next few years. You can find further information on this in the section entitled → "Anticipated business development".

Realignment of the university segment

Recruiting new consultants was a key priority in 2018. The focus on the university segment, which was established in 2017, provided positive dynamics for recruiting new consultants. In 2018, MLP recorded net growth in consultant numbers for the first time in more than ten years. Thanks to measures designed to accompany and support this, such as a modular training programme or increased online recruitment, we were able to recruit additional young consultants and new clients in this field. You can find further information on this in the section entitled → "Employees and self-employed client consultants".

Consistent efficiency management programme supports growth strategy

Since 2016, MLP has implemented comprehensive efficiency measures to reduce the cost base significantly. We consider the level that has now been reached to provide the basis in the coming years for a consistent cost management.

Results of operations

Development of total revenue

Despite the tough market conditions already described, the MLP Group was able to increase total revenue in the last financial year by 6.0% to € 666.0 million (€ 628.2 million). Total revenue therefore reached its highest level in the Group structure since we sold our own insurers. MLP benefited from the significant diversification of its revenue basis over the course of the last few years and recorded gains in all consulting segments. This growth was primarily driven by the increase in commission income from € 589.9 million to € 624.8 million. As a result of the ongoing low interest rate environment, revenue from the interest rate business remained below the previous year's figure at € 17.3 million (€ 18.9 million).

Total revenue increased

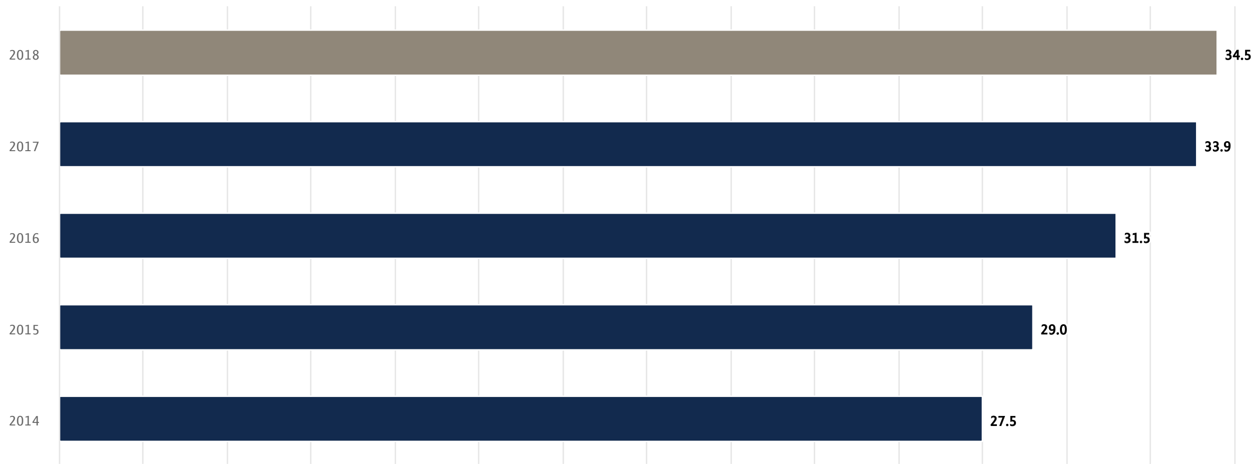
Despite market conditions that remain challenging, we were able to increase revenue in the old-age provision area by 2.0% to € 212.3 million (€ 208.1 million). This increase can be attributed to growing new business, whose premium sum rose by 6.0% from € 3,408.8 million to € 3,614.1 million. Occupational pension provision enjoyed positive proportional development, representing 15.4% (15.0%) of the premium sum at the end of the year. MLP is continuing to play a pioneering role in the transition to new guarantees. Pension insurance policies with classic guaranteed interest rates now account for just 4.0% of newly brokered contracts at MLP. The proportion of new guarantees was 76.0%, while purely unit-linked contracts accounted for 20.0%.

Growth once again recorded in the old-age provision area

The MLP Group was once again able to record gains in the wealth management area, with revenue rising by 6.0% to € 202.0 million (€ 190.6 million). Assets under management rose to € 34.5 billion (€ 33.9 billion). This reflects gains both at our subsidiary FERI and in MLP's private client business, despite operating in weak markets.

Wealth management sets new record

Development of assets under management (all figures in € billion)



Revenue in the non-life insurance area increased again in the last financial year. It rose by 9.5% to € 120.3 million (€ 109.9 million). The portfolio of non-life insurance policies enjoyed positive growth. The premium volume received through the MLP Group rose to € 385.6 million (€ 360.1 million).

Non-life insurance enjoys continued growth

Revenue in the health insurance area increased to € 47.7 million (€ 45.9 million), which represents an increase of 3.9% compared to the previous year. MLP therefore enjoyed positive growth, despite widespread reservations in the market about taking out fully comprehensive private health insurance policies.

Health insurance above previous year

We were also able to record significant growth in the real estate brokerage area, which we have been expanding since 2014. Revenue increased by 43.6% to € 20.1 million (€ 14.0 million) in this area.

Real estate brokerage displaying strong growth

We also reached a new record level in the brokerage of loans and mortgages. Revenue here improved to € 17.8 million (€ 17.0 million). At € 1,806.0 million, the brokered financing volume reached a new record level (€ 1,728.4 million).

Loans and mortgages remain positive

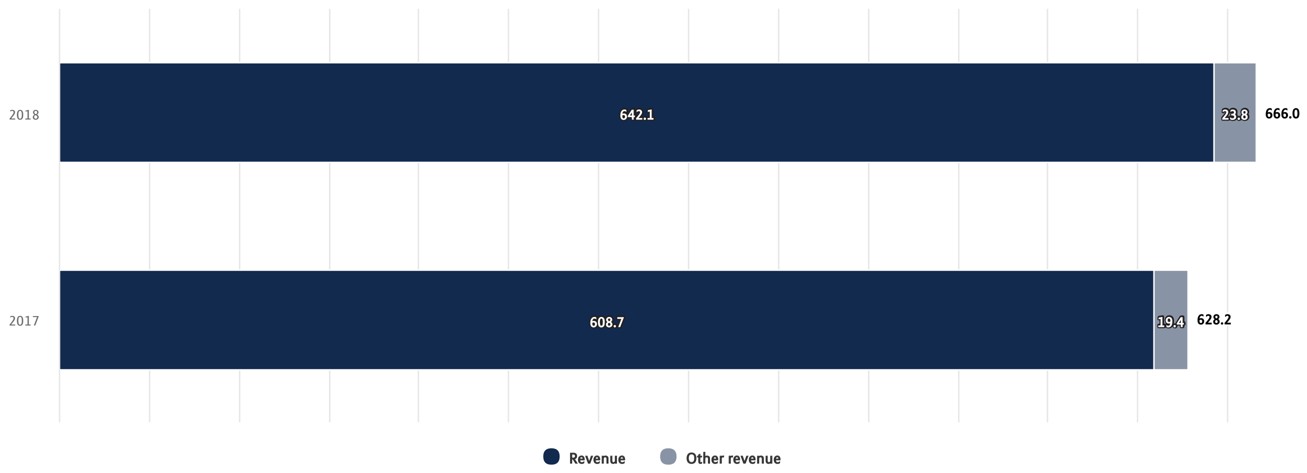
Despite ongoing capital expenditure to further strengthen our university segment, and thereby to boost future sales revenue and earnings potential, our EBIT was € 46.4 million (€ 37.6 million). This means that we have reached our target of stable development relative to previous year's operating EBIT (€ 46.7 million). The previous year's figure also included one-off expenses of € 9.1 million in connection with further optimisation of the Group structure.

Forecast met

Analysis of the revenue performance

Sales revenue increased to € 642.1 million (€ 608.7 million) in the reporting period. Commission income, which rose from € 589.9 million to € 624.8 million, played a key part in this. This increase was supported by all consulting fields, but in particular by real estate brokerage, non-life insurance and wealth management. Other revenue increased to € 23.8 million (€ 19.4 million). The increase can essentially be attributed to one-off higher income from VAT refunds that were accrued in the banking segment. This is offset by an item in other operating expenses in the Holding segment. This is essentially due to subsequent recognition of the VAT unity within the MLP Group. Total revenue rose to € 666.0 million (€ 628.2 million).

Development of total revenue (all figures in € million)



Interest income declined to € 17.3 million in the last financial year due to the ongoing period of low interest rates (€ 18.9 million). The old-age provision area continued to make the greatest contribution in terms of commission income. In light of the successful diversification of the revenue basis, this was still 34.0% (35.3%), closely followed by the wealth management area at 32.3% (32.3%) and non-life insurance at 19.3% (18.6%). The following table provides a detailed overview.

Real estate brokerage displaying significant growth

Breakdown of revenue

All figures in € million	Share in %	2018	Share in %	2017	Change in %
Old-age provision	34%	212.3	35%	208.1	2.0%
Wealth management	32%	202.0	32%	190.6	6.0%
Non-life insurance	19%	120.3	19%	109.9	9.5%
Health insurance	8%	47.7	8%	45.9	3.9%
Real estate brokerage	3%	20.1	2%	14.0	43.6%
Loans and mortgages	3%	17.8	3%	17.0	4.7%
Other commission and fees	1%	4.6	1%	4.4	4.5%
Total commission income		**624.8**		**589.9**	**5.9%**
Interest income		17.3		18.9	-8.5%
Total		**642.1**		**608.7**	**5.5%**

Analysis of expenses

Commission income above the previous year

Commission expenses primarily comprise performance-linked commission payments to our MLP consultants. They represent the largest item under expenses. This item also includes the commissions paid in the DOMCURA segment. The variable expenses result from the compensation of brokerage services in the non-life insurance business. Added to these are the commissions paid in the FERI segment, which in particular result from the activities in the field of fund administration. In this business area, they are primarily accrued due to compensation of the depository bank and fund sales. Against a backdrop of increased commission income, commissions paid were slightly above the previous year at € 332.5 million (€ 309.3 million). Net commission income therefore rose to € 292.3 million (€ 280.6 million).

Interest expenses fell to € 0.6 million (€ 1.1 million) due to the ongoing low interest rate environment. Net interest was € 16.7 million (€ 17.8 million) in total.

Gross profit (defined as total revenue less commission expenses and interest expenses) improved to € 332.9 million (€ 317.8 million).

Administration costs marginally increased

Administrative expenses (defined as the sum of personnel expenses, depreciation/amortisation and impairment, as well as other operating expenses) were at € 289.5 million in the reporting period (€ 282.1 million). This figure includes expenses for VAT back-payments that were accrued in the Holding segment. It is also important to note that the previous year's figure included one-off expenses of € 9.1 million.

Personnel expenses increased to € 128.0 million (€ 123.2 million), largely influenced by the announced strengthening of the university segment and a slightly higher overall number of employees. Personnel expenses include, for example, € 110.4 million for salaries and wages (€ 106.7 million), € 14.7 million for social security contributions (€ 14.0 million) and employer-based old-age provision allowances of € 2.9 million (€ 2.6 million). Depreciation/amortisation and impairment totalled € 16.0 million (€ 15.3 million) and therefore remained at a stable level. At € 145.5 million, other operating expenses also remained at virtually the same level as in the previous year (€ 143.6 million). As mentioned above, this figure included VAT back-payments of € 5.2 million.

Breakdown of expenses

All figures in € million	2018	in % of total expenses	2017	in % of total expenses	Change in %
Commission expenses	332.5	53.4%	309.3	52.2%	7.5%
Interest expenses	0.6	0.1%	1.1	0.2%	-45.5%
Personnel expenses	128.0	20.5%	123.2	20.8%	3.9%
Depreciation and impairment	16.0	2.6%	15.3	2.6%	4.6%
Other operating expenses	145.5	23.4%	143.6	24.2%	1.3%
Total	**622.6**	**100.0%**	**592.5**	**100.0%**	**5.1%**

MLP Hyp GmbH once again recorded a very pleasing business performance in the financial year. We hold a 49.8% stake in this company, which is operated as a joint venture together with mortgage lending broker Interhyp. The earnings allocated to us from this company remained at the previous year's positive level of € 2.5 million (€ 2.5 million). This is reflected in the income statement under the item "Earnings from investments accounted for using the equity method".

Significant increase in EBIT

The EBIT of the MLP Group rose by 23.4% to € 46.4 million in the last financial year (€ 37.6 million). The previous year's figure included one-off expenses of € 9.1 million. In comparison with the previous year's operating EBIT (€ 46.7 million) – excluding one-off expenses – we met our target of stable development.

The finance cost increased to € -0.6 million (€ -1.2 million) in the last financial year.

The following table provides an overview of the earnings structure, as well as the development of earnings and margins:

All figures in € million	2018	2017	Change in %
Total revenue	666.0	628.2	6.0%
Gross profit [1]	332.9	317.8	4.7%
Gross profit margin (%)	50.0%	50.6%	—
EBIT	46.4	37.6	23.4%
EBIT margin (%)	7.0%	6.0%	—
Operating EBIT [2]	46.4	46.7	-0.6%
Operating EBIT margin (%)	7.0%	7.4%	—
Finance cost	-0.6	-1.2	-50.0%
EBT	45.8	36.4	25.8%
EBT margin (%)	6.9%	5.8%	—
Income taxes	-11.3	-8.6	31.4%
Net profit	34.5	27.8	24.1%
Net margin (%)	5.2%	4.4%	—

[1] Definition: Gross profit results from total revenues less commission expenses and interest expenses
[2] before one-off expenses

Group net profit increased by 24.1% overall to € 34.5 million (€ 27.8 million). This was essentially due to higher commission income in the reporting period, as well as one-off expenses that impacted the previous year's earnings.

Earnings per share increased significantly

Net profit

All figures in € million	2018	2017	Change in %
Continuing operations	34.5	27.8	24.1%
GROUP	**34.5**	**27.8**	**24.1%**
Earnings per share in € (basic)	0.32	0.25	28.0%
Earnings per share in € (diluted)	0.32	0.25	28.0%
Number of shares in millions (basic)	109.2	109.3	—
Number of shares in millions (diluted)	109.3	109.3	—

Appropriation of profits

Our dividend policy is to pay 50% to 70% of Group net profit to our shareholders in the form of dividends. MLP paid out a dividend of 20 cents per share for the financial year 2017. 16 cents of this are attributable to Group net profit. In addition to this, MLP compensated the one-off expenses accrued in the course of separating the banking and brokerage activities for its shareholders with 4 cents per share. The total dividend paid was therefore € 21.9 million.

We have announced that we will be continuing our dividend policy for the financial year 2018. On this basis, the Executive Board and Supervisory Board will propose a dividend of € 0.20 per share at the Annual General Meeting on May 29, 2019. This corresponds to a distribution rate of around 63% of operating net profit.

Financial position

Aims of financial management

The financial management of the MLP Group is performed by the central Treasury department in cooperation with the Controlling and Risk Management departments. Our primary objective here is to secure the liquidity of the Group at all times, control the risks involved using the various financial instruments and optimise Group-wide cash management. To this end, we employ a system of rolling liquidity planning with a time frame of 15 to 18 months.

No liabilities or receivables in foreign currencies

There were no significant liabilities or receivables in foreign currencies during the reporting period, as we generate almost 100% of total income in the eurozone. It is therefore not necessary for us to hedge net items in foreign currencies by means of hedging instruments. You can find details on the financial risks in the notes to the consolidated financial statements in the → "Financial risk management" chapter.

Financing analysis

Equity ratio at 17.5%

The Group's equity capital backing and liquidity remain good. As of the balance sheet date, shareholders' equity amounted to € 424.8 million and was therefore above the previous year's level (€ 404.9 million). The Group net profit of € 34.5 million for the financial year 2018 had a significant effect on this. However, this was counteracted by the dividend payment of € 21.9 million for the financial year 2017. Due to the higher balance sheet total, the equity ratio declined from 18.7% to 17.5%. The regulatory core capital ratio was 19.6% (20.0%) on the balance sheet date. Even with today's group structure, MLP still expects increased capital requirements for the next few years in order to meet the revised definition of equity and stricter requirements of Basel III.

At present, we are not using any borrowed funds to finance the Group. Our non-current assets are financed in part by non-current liabilities. Current liabilities due to clients and banks in the banking business represent further refinancing funds that are generally available to us in the long term. Total liabilities due to clients and financial institutions in the banking business of € 1,720.5 million (€ 1,501.2 million) essentially comprise client deposits, which have no financing function for the Group. These liabilities are offset on the assets side of the balance sheet by € 1,455.2 million (€ 1,336.2 million) in receivables from clients and financial institutions in the banking business.

Since provisions only account for 3.9% (4.1%) of the balance sheet total, they have no significant financing function for the Group. Other liabilities increased to € 165.8 million (€ 154.9 million) on the balance sheet date, while current liabilities reduced to € 141.9 million (€ 149.1 million). These are essentially liabilities from operating activities. Current liabilities are offset on the assets side by cash and cash equivalents of € 385.9 million (€ 301.0 million), which are attributable to higher deposits at the Deutsche Bundesbank, and financial investments of € 165.3 million (€ 158.5 million), as well as other current assets of € 112.1 million (€ 111.1 million).

On the balance sheet date of December 31, 2018, there were financial commitments from rental and leasing agreements amounting to € 14.0 million (€ 13.7 million). These mainly constitute liabilities from the renting of our branch offices, as well as leasing of motor vehicles and office equipment. They can result in potential total liabilities of € 62.3 million (€ 67.6 million) by the year 2024.

Liquidity analysis

Cash flow from operating activities increased to € 141.2 compared to € 115.5 million in the same period of the previous year. Here, significant cash flows result from the deposit business with our clients and from the investment of these funds.

Cash flow from investing activities changed from € -2.6 million to € -34.5 million. Compared to the same period of the previous year, investments in intangible assets and property plant and equipment were higher.

Condensed cash flow statement

All figures in € million	2018	2017
Cash and cash equivalents at beginning of period	**301.0**	**184.8**
Cash flow from operating activities	141.2	115.5
Cash flow from investing activities	-34.5	-2.6
Cash flow from financing activities	-21.9	-8.7
Change in cash and cash equivalents	**84.9**	**104.2**
Adjustments from demerger operations	**–**	**12.0**
Cash and cash equivalents at end of period	**385.9**	**301.0**

As of the balance sheet date, December 31, 2018, the MLP Group has access to cash holdings of around € 436 million. A good level of liquid funds therefore remains available. There are sufficient cash reserves available to the MLP Group. Alongside cash holdings, free lines of credit are also in place.

Capital expenditure analysis

MLP generally finances capital expenditures from cash flow. The total investment volume in intangible assets, as well as property, plant and equipment in the past financial year rose to € 26.6 million. The vast majority of investments were made in property, plant and equipment. Investments in operating and office equipment, as well as software and IT represented another focus. By increasing our free equity capital in 2017 within the scope of further optimising the corporate structure, we also significantly extended our entrepreneurial and economic room for manoeuvre - for example to make investments.

Capital expenditure

All figures in € million	2018	2017	2016	2015	2014
Intangible assets	**4.4**	**3.4**	**13.7**	**7.9**	**8.9**
Goodwill	—	—	—	—	—
Software (developed in house)	0.2	0.2	0.3	0.4	0.4
Software (purchased)	0.9	1.0	2.5	0.4	1.1
Other intangible assets	—	—	—	—	—
Payments on account and assets under construction	3.3	2.1	11.0	7.1	7.4
Property, plant and equipment	**22.2**	**3.9**	**4.7**	**4.8**	**6.6**
Land, leasehold rights and buildings	16.2	0.3	0.5	0.7	0.4
Other fixtures, fittings and office equipment	3.4	2.6	3.0	3.1	4.2
Payments on account and assets under construction	2.6	1.0	1.2	1.0	2.0
Total capital expenditures	**26.6**	**7.3**	**18.4**	**12.8**	**15.4**

At € 15.4 million, the vast majority of investments were made in the FERI segment. This significant increase is attributable to the purchase of the previously rented business premises by FERI AG in the third quarter of 2018. Investments in operating & office equipment, as well as IT systems to support sales represented another focus in the financial consulting segment. We invested a total of € 8.1 million in the financial consulting segment. This investment contributes to the continuous improvement of consulting support and client service. Alongside these capitalisable investments, we also use other intensive resources for these projects which are recognised as expenses in the income statement. The investment volume in the banking segment was € 0.7 million. Software and IT were the primary focuses of investment here. Investments in the DOMCURA segment amounted to € 1.1 million, with a focus on investments in operating & office equipment.

Capital expenditures by segment

	Total capital expenditures		Change in %
All figures in € million	2018	2017	
Financial consulting	8.1	1.3	>100%
Banking	0.7	3.7	-81.1%
FERI	15.4	0.5	>100%
DOMCURA	1.1	1.5	-26.7%
Holding	1.3	0.3	>100%
Total	**26.6**	**7.3**	**>100%**

Net assets

Further increase in balance sheet total

The balance sheet total of the MLP Group increased to € 2,421.0 million as of December 31, 2018 (€ 2,169.5 million).

Intangible assets – essentially including the client base, brand and goodwill – decreased to € 155.9 million (€ 161.8 million) as of the balance sheet date. This decline can essentially be attributed to amortisation of software. Property, plant and equipment increased to € 78.3 million as a result of acquiring the business premises of FERI (€ 61.9 million).

Receivables from clients in the banking business increased to € 761.0 million (€ 702.0 million). This can essentially be attributed to the increase in promissory note bonds and own-resource loans, as well as a higher investment volume in promotional loans directly passed on to our clients. Receivables from banks in the banking business also increased to € 694.2 million (€ 634.2 million) as a result of higher investments in fixed-term deposits, as well as higher promissory note bonds. Around 51% of receivables from banks and clients have a remaining term of less than one year.

At € 165.3 million, financial investments were slightly a below the previous year's level (€ 158.5 million). Tax refund claims amounted to € 12.8 million and therefore also remained at the previous year’s level (€ 12.3 million).

Other receivables and assets increased to € 158.1 million (€ 125.7 million). This item essentially comprises commission receivables from insurers resulting from the brokerage of insurance products. In the course of initial adoption of the new IFRS 15 accounting standard, there were additional effects that served to increase this item.

Cash and cash equivalents rose to € 385.9 million (€ 301.0 million). This increase can be attributed to a greater deposit volume at the Deutsche Bundesbank. At the same time, the profit transfers of FERI AG, DOMCURA AG and MLP Banking AG added to the increase. Among other factors, the dividend payment to our shareholders had the opposite effect. You can find detailed information on the change in cash and cash equivalents in the chapter entitled → "Financial position".

Significant increase in return on equity

The equity capital backing of the MLP Group remains good. As of December 31, 2018, shareholders' equity was € 424.8 million (€ 404.9 million). Due to the higher balance sheet total, the equity ratio was 17.5% (18.7%). Based on Group net profit of €34.5 million (€ 27.8 million), we therefore achieved a return on equity of 8.5% (7.3%).

Provisions of € 94.5 million (€ 88.7 million) were slightly above the previous year's level. This slight rise is essentially due to increased allocations to provisions for bonus schemes.

The deposits of our clients, which are recorded under "Liabilities due to clients in the banking business" increased to € 1,638.9 million (€ 1,439.8 million) at the end of the reporting period. This increase is primarily attributable to short-term deposits held in bank accounts and instant access savings accounts. Liabilities due to banks in the banking business rose to € 81.6 million (€ 61.4 million). This increase can mainly be attributed to a higher volume of promotional loans being passed on to our clients. This item includes the refinancing funds from funding institutions.

Despite a significant improvement in earnings, tax liabilities declined to € 5.2 million (€ 10.2 million). This was essentially due to higher VAT receivables than in the previous year. Other liabilities amounted to € 165.8 million (€ 154.9 million). This item essentially comprises current liabilities due to our consultants and office managers in connection with open commission claims (please also refer to the section entitled → "Financial position").

General statement on the economic situation

The corporate management still considers the Group's economic situation to be positive, both at the end of the reporting period and at the time of preparing the Group management report. This also applies to our financial position. Liquidity remains at a good level. The equity capital backing also remains good.

Comparison of actual and forecast development of business

At the start of the financial year, we expected EBIT to be significantly higher in 2018 than in 2017 and operating EBIT to be at the same level as recorded in 2017, in the light of the successful implementation of efficiency measures and the elimination of one-off expenses.

At the start of the year, we also issued a qualitative estimate regarding revenue development, which we then defined more closely in the report for the first nine months of 2018.

We expected revenues to increase slightly in the old-age provision area. With growth of 2.0%, we were within the corridor of our specified expectations at the end of the reporting year. With slightly increased revenue, the wealth management area developed as anticipated after nine months. The non-life insurance area also enjoyed a minor increase and was therefore in line with our expectations. As anticipated, revenue in the health insurance area remained stable. The real estate brokerage business saw a significant increase in the last financial year and surpassed our expectations both at the beginning of the year and after publishing a refined forecast after the first nine months. In the loans and mortgages business, our expectation that revenue would remain stable also proved accurate.

We expected stable development in terms of administration costs. Including ongoing investments in the future - in particular for recruiting young consultants within the scope of strengthening the university statement, for which we spent € 6.7 million in the last financial year - and the described VAT back payment, developments were within the scope of our expectations with an increase of 2.6%.

With EBIT of € 46.4 million, we significantly surpassed the previous year's EBIT Level and remained at around the same level in terms of operating EBIT. We therefore reached our targets for the year.

Segment report

In the reporting period of the previous year, the brokerage branch of activity was spun off from MLP Banking AG with retroactive effect from October 1, 2017. With this step, all regulated banking activities, including investment advisory services, were bundled at MLP Banking AG, while all other consulting services are now provided by the new MLP Finanzberatung SE. The results recorded by these segments therefore offer only limited or indeed no comparability with the results from previous years. You can find further details on this in the chapter → "Fundamental principles of the Group".

The financial consulting segment includes revenue from all fields of consulting – i.e. old-age provision, health and non-life insurance, as well as loans & mortgages and real estate brokerage. The banking segment brings together all banking services for both private and corporate clients – from wealth management, accounts and cards, through to the interest rate business.

The FERI segment primarily generates revenue from the wealth management field of consulting, while the DOMCURA segment generates most of its revenue from the non-life insurance business. The industry situation for the Group described in the individual fields of consulting applies accordingly to the segments.

The Holding segment does not have active operations.

Financial consulting segment

When examining the figures provided from the previous year, it is important to note that they only represent the 4th quarter of the previous year, which is traditionally the most important in the brokerage business. Total revenue in the reporting period was € 367.4 million (€ 133.2 million). This figure is essentially made up of commission income from the consulting fields of old-age provision, health insurance, non-life insurance, loans and mortgages, real estate brokerage, as well as other commission and fees. They have developed in line with the general development of the Group. Revenue amounted to € 347.2 million (€ 126.8 million). Other revenue totalled € 20.3 million (€ 6.4 million).

Commission expenses amounted to € 171.7 million (€ 58.5 million). Personnel expenses totalled to € 66.1 million (€ 21.5 million). Depreciation/amortisation and impairment were € 11.7 million (€ 3.7 million). Other operating expenses were € 103.3 million (€ 27.2 million).

Earnings before interest and taxes (EBIT) amounted to € 17.9 million in the reporting year (€ 24.9 million). With finance cost of € -0.2 million (€ -0.2 million), earnings before taxes (EBT) stood at € 17.7 million (€ 24.7 million).

Banking segment

When examining the figures provided from the previous year, it is important to note that these include the spun-off brokerage business generated in the period from January 1, 2017 to September 30, 2017, while in the period from October 1, 2017 to December 31, 2017 earnings do not include those of the spun-off brokerage business. Revenue is primarily generated in this segment from the wealth management field of consulting. Interest income represents another revenue source.

Total revenue in the reporting period was € 88.5 million (€ 290.0 million). Sales revenue was € 75.8 million (€ 278.3 million) and other revenue stood at € 12.8 million (€ 11.6 million). As a result of the ongoing low interest rate level, revenue from the interest rate business remained below the previous year's figure at € 17.5 million (€ 20.1 million).

Commission expenses amounted to € 31.0 million (€ 129.0 million). In the light of continuingly low interest rates, interest expenses of € 0.6 million were generated (€ 1.1 million).

Personnel expenses stood at € 10.8 million (€ 53.2 million). Depreciation/amortisation and impairment were € 0.1 million (€ 7.5 million). Other operating expenses were € 33.9 million (€ 103.3 million).

Earnings before interest and taxes (EBIT) totalled € 12.5 million (€ -4.6 million). The finance cost rose to € 2.5 million (€ -0.5 million). This figure in particular includes interest on reimbursements from VAT refunds. Accordingly, earnings before taxes (EBT) rose to € 15.1 million (€ -5.0 million).

FERI segment

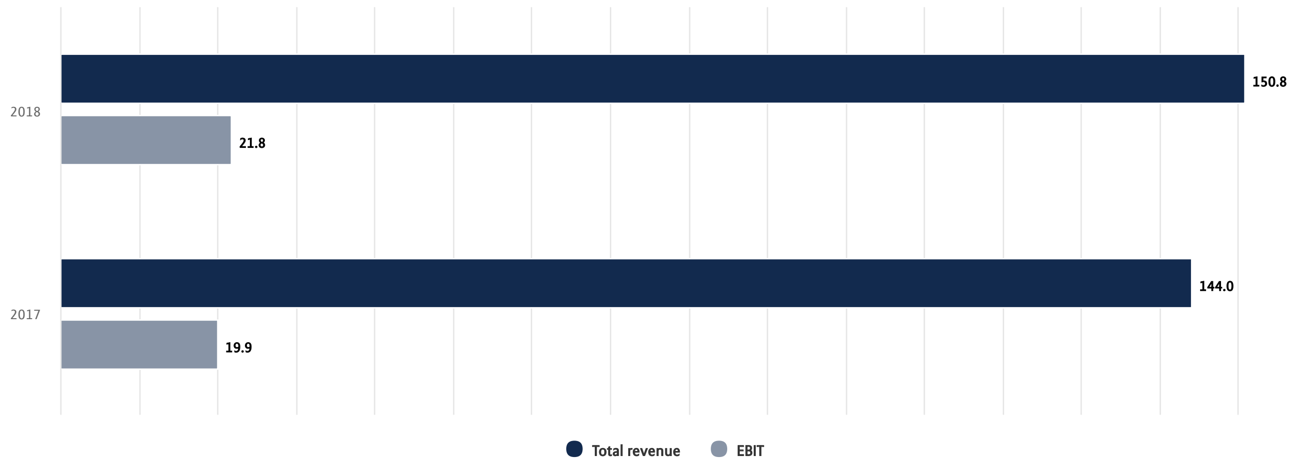
The FERI segment represents the activities of the FERI Group. Revenue is primarily generated in this segment from the wealth management field of consulting.

Total revenue rose by 4.7% to a new record level of € 150.8 million (€ 144.0 million), although higher performance fees were collected in the same period of the previous year than in the reporting period. Revenue rose to € 146.2 million (€ 139.7 million). Other revenue amounted to € 4.7 million (€ 4.3 million).

As a result of higher revenue, commission expenses also rose to € 85.3 million (€ 81.8 million). Personnel expenses rose to € 32.2 million (€ 30.5 million). This was essentially due to an increased number of employees and also redundancy payments. At € 1.3 million, depreciation/amortisation and impairment remained at the previous year's level (€ 1.2 million). Other operating expenses decreased to € 9.8 million (€ 10.6 million).

As a result of higher revenue, EBIT rose to € 21.8 million (€ 19.9 million). The EBIT margin improved to 14.5% (13.8%). The finance cost amounted to € -0.4 million (€ -0.2 million). EBT therefore reached € 21.4 million (€ 19.7 million).

Total revenue and EBIT in the FERI segment (all figures in € million)



DOMCURA segment

At DOMCURA, revenues are primarily generated in the non-life insurance consulting fields. DOMCURA's business model indicates a high degree of seasonality. Accordingly, the subsidiary records high revenue and comparably high earnings in the first quarter of each year. This is then typically followed by a loss from Q2 to Q4.

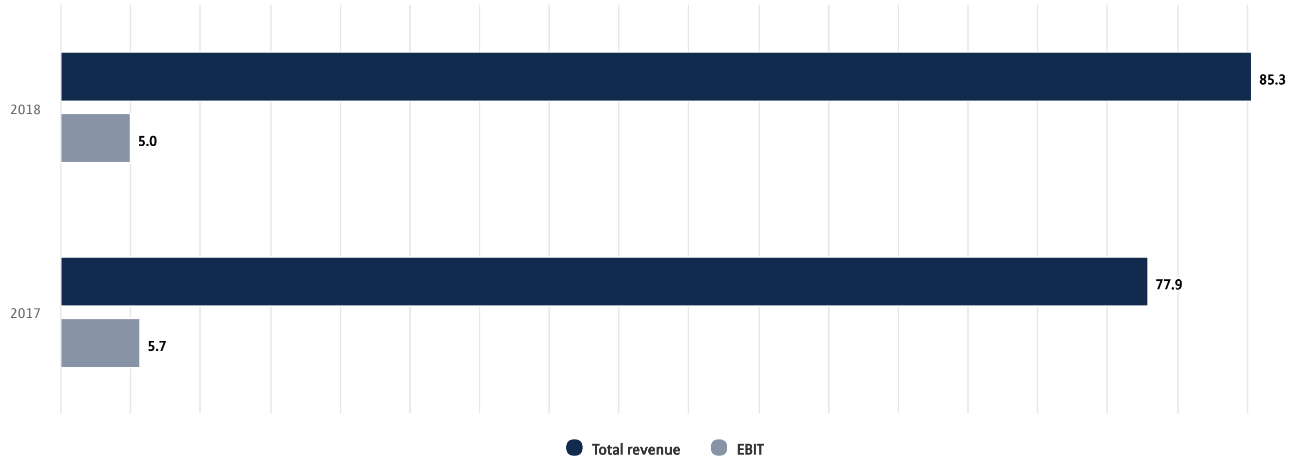
DOMCURA generated revenue of € 83.4 million in the reporting year (€ 73.3 million). Other revenue was € 1.9 million (€ 4.6 million). The previous year's higher figure was essentially due to the settlement of expiring contracts with insurers for which virtually no expenses were incurred. Accordingly, total revenue was € 85.3 million (€ 77.9 million).

Commission expenses increased to € 54.6 million (€ 48.3 million), largely as a result of higher sales revenue. These are essentially accrued as variable compensation for brokerage services.

Administration costs were € 25.6 million (€ 23.9 million), of which € 14.9 million (€ 14.3 million) were attributable to personnel expenses. At € 1.3 million (€ 1.3 million), depreciation/amortisation and impairment remained unchanged. As illustrated, other operating expenses rose to € 9.4 million (€ 8.3 million).

EBIT was € 5.0 million (€ 5.7 million). With finance cost of € 0.0 million (€ 0.0 million), EBT was € 5.0 million (€ 5.7 million).

Total revenue and EBIT in the DOMCURA segment (all figures in € million)



Holding segment

The Holding segment does not have active operations. At € 9.2 million, administrative expenses remained virtually unchanged (€ 9.6 million).

Personnel expenses totalled € 4.1 million (€ 3.8 million). Depreciation/amortisation and impairment amounted to € 1.6 million (€ 1.7 million). Other operating expenses rose to € 14.1 million (€ 12.6 million). This increase can essentially be attributed to VAT back-payments for previous years.

EBIT declined to € -10.6 million (€ -8.4 million). The finance cost fell to € -2.8 million (€ -0.4 million). This drop is largely due to the interest payments associated with VAT back-payments. EBT was therefore € -13.4 million (€ -8.8 million).

Employees and self-employed client consultants

As MLP is a knowledge-based service provider, qualified and motivated employees and self-employed client consultants represent the most important foundation for sustainable company success. Continuous development and refinement of personnel work for employees, as well as the recruitment and training of new consultants therefore remained key focuses in 2018.

Low staff turnover rate

The number of employees in the MLP Group increased slightly in the last financial year. An average of 1,722 employees worked for MLP in the reporting year 2018. This increase is essentially the result of new recruitments, as well as staff returning to work following parental leave. At 7.2%, the staff turnover rate within the Group remained at a low level in 2018 (2017: HQ: 6.4%). The average age of the employees is currently 43.

The following table shows the development of average employee numbers in the individual business units over the last few years:

Development of the average number of employees by segment (excluding MLP consultants)

Segment	2018	2017	2016	2015	2014
Financial services [1]	–	1,198	1,275	1,300	1,303
Financial consulting [2] [3]	1,055	1,047	–	–	–
Banking [2]	179	163	–	–	–
FERI	223	224	223	232	232
DOMCURA	260	254	264	261	–
Holding	6	6	7	7	7
Total	**1,722**	**1,686**	**1,768**	**1,802**	**1,542**

Date: December 31, 2018
[1] This segment existed until September 30, 2017
[2] The average values stated for 2017 refer solely to the fourth quarter of 2017
[3] including TPC, ZSH and MLPdialog

Development programmes for junior staff and managers

MLP offers development opportunities for employees at all levels. In 2019, a new group of participants will begin our well-established "Top Talents" programme for junior staff. The objective of this programme is to systematically identify talented junior staff from within our ranks and then provide these with targeted and sustainable development opportunities for future specialist and management duties within the MLP Group. Participation in our modular management programme has been compulsory for all new managers since 2018. Young managers are trained in relevant areas and receive guidance and support in their new role.

New works agreements introduced

Several new works agreements were reached in the reporting year. These include regulations regarding occupational pension provision, mobile working, as well as an extension of the compensation system. Within the scope of the 2018 salary review, we introduced a shopping card for our employees on January 1, 2019. This is regularly topped up by the employer with tax-free and social security-free salary components. Employees can then use the card to pay for items at partner companies.

We also initiated a comprehensive employee and consultant survey in the reporting year. We will use the results to derive and implement concrete measures in 2019.

Digitalisation of personnel work successfully continued

The ongoing digitalisation of personnel work remained a focus of activity in 2018. The digital personnel file has now been rolled out for all employees. The payroll digitalisation process has also been completed. In the course of this process, we have established a new and transparent compensation system that we will continue to refine. We have also been holding online-based assessment and feedback meetings with employees since 2018.

Recruitment of new consultants further expedited

As in previous years, recruiting new consultants remained a key topic in 2018. The strengthening of the university segment, which was started in 2017, was successfully advanced in the reporting year.

The objective here is to be even more present at universities and thereby win over more new clients and young consultants. As of December 2018, we had 77 university team leaders in place. We are keen to continue and expand these activities further in 2019. Our goal is to achieve significant net growth in consultants.

We have developed some very attractive models which, for example, recognise previously acquired qualifications and offer additional financial incentives. The purpose of this is also make it increasingly easy for experienced consultants to join the MLP Group.

Internship programme and dual-study programme established

74 school-leavers and students took the opportunity to attend our internship programme in the reporting year in order to learn about the everyday working life of an MLP consultant. Our "Sales" dual-study course, which helps students at the field offices prepare for a career as consultants, represents another successful recruiting instrument. We are currently further developing the curriculum contents to cater for the requirements of the newly established university segment. At the end of 2018, 9 dual-study students and 22 trainees were active at the branch offices (previous year: 14 and 26), while 13 dual-study course students and 18 trainees were working at the Company HQ (previous year: 18 and 17).

We were awarded the "Best Training Company in Germany" award by business magazine Capital in the reporting year for our commitment to training junior staff.

Consultant turnover at a low level

As of December 31, 2018, MLP operated 131 representative branch offices with a total of 1,928 consultants (2017: 1,909), who work as self-employed commercial agents. In addition to this, the reporting year saw the establishment of 77 new university teams. The average age of consultants is currently 44. The loyalty displayed by existing consultants remains very high, as underlined by our employee turnover rate. This figure was 8.0% in 2018 – and thereby well below the target figure of around 10%.

Comprehensive range of training offers are the key to success

As a consultancy covering all financial questions and issues, MLP operates in a complex and constantly changing market and competitive environment and must be capable of repeatedly convincing its clientele of the benefits associated with its services.

A high-quality range of training courses provide the necessary basis for achieving this. At the heart of the development of the training programme for consultants, office managers and the heads of university teams lies the MLP Corporate University (CU) which is based in Wiesloch. The CU has already been accredited by the Financial Planning Standards Board Deutschland e.V. (FPSB Deutschland) for training to the Certified Financial Planner (CFP) standard since 2012. Since then, more than 150 consultants have successfully gained their CFP certification and further consultants are already preparing for this.

In 2018, the CU went through a recertification procedure at the Foundation for International Business Administration Accreditation (FIBAA) and received positive feedback in February 2019. The training offered by the CU therefore complies with the international requirements of the European Credit Transfer and Accumulation System (ECTS), which simplifies cooperation with state universities.

Training offer extended and modularised

In 2018, around 25,000 individual events (including online seminars) were held at the CU. Not only did we significantly extend and modularise our training provision in the reporting period, we also introduced a points system for further training. By taking this step, we are implementing the regulatory requirements of the IDD with regard to the required documentation of further training measures, while at the same time further systematising our training on offer. With an average of 70 further training points per consultant, which correspond to 70 hours of further training, we are going far beyond the legally stipulated requirements and what is customary in the industry.

Large sections of the training offered at the CU also count towards the extra-occupational "Master of Financial Planning and Management (M.Sc.)" programme that MLP consultants can complete at the Steinbeis School of Management and Innovation (SMI). The extra-occupational master's course is aimed both at experienced MLP consultants and those working for MLP after completing their bachelor's degree. It therefore represents a valuable recruiting instrument and offers our consultants an additional opportunity to gain further qualifications.

Within the scope of the "Financial Planning Power Days", consultants had the opportunity to learn more about current specialist and consulting topics in various modules in the summer of 2018. The event was also open to external participants.

In the course of realigning the university segment, the CU also significantly further optimised its offers, thereby creating greater flexibility for new consultants.

Total expenditure for our comprehensive qualification and training programme amounted to € 7.5 million in the last financial year and was therefore above the previous year's level.

Thanks to all MLP staff

The Executive Board would like to take this opportunity to express its sincere thanks to all employees and consultants for the trust, cooperation and excellent commitment they showed in the past financial year. We would also like to thank the works council for its constructive collaboration which, among other things, is documented by the signing of four works agreements. The key now is to maintain this open and responsible dialogue as effectively as possible in future for the benefit of all employees. The Executive Board would also like to thank the numerous consultants, office managers and university team leaders for their commitment in a large number of forums and workgroups.

Compensation report

Compensation policy

The Supervisory Board of MLP SE has approved the following compensation policy for members of the MLP SE Executive Board.

The compensation for the Executive Board at MLP SE should include both fixed and variable components.

The fixed component comprises a basic salary, a company car that can also be used privately and occupational pension provision. The variable component takes the form of an EBIT-based profit-sharing payment.

The ratio between fixed and variable compensation should be set in such a way that members of the Executive Board are not significantly dependent on the variable compensation component, but that this component still offers an effective incentive.

The ratio between fixed and variable compensation on the reporting date of December 31, 2018 is shown in the table below:

Executive Board member	Proportion of fixed component	Proportion of variable component
Dr. Uwe Schroeder-Wildberg	55.16%	44.84%
Manfred Bauer	55.05%	44.95%
Reinhard Loose	54.56%	45.55%

Please refer to the compensation report in the Annual Report for details.

The key strategic objective is to bring about profitable growth. Profitability, which essentially results from the correlation of revenue and expenses, is reflected in EBIT – and EBIT-based variable compensation is therefore a suitable measure for supporting this strategy. Splitting the variable compensation into immediate and deferred payments gives variable compensation a multi-year basis for assessment. This ensures that the focus is not only on short-term success, but also on the Company's long-term performance.

Since the profit-sharing payment is exclusively EBIT-based, it is fundamentally independent of the individual performance of individual members of the Executive Board. The Supervisory Board, however, still has the contractual option to adjust the variable compensation both upwards and downwards at its discretion on the basis of the individual performance of a member of the Executive Board, as well as in light of any general market influences on the operating results that cannot be attributed to the members of the Executive Board within a contractually stipulated framework.

A contractual arrangement on recovering variable portions of compensation already paid out that goes beyond the legal regulations is not considered necessary, and is therefore also not currently agreed with the members of the Executive Board.

When specifying compensation for the Executive Board or a member of the Executive Board, the Supervisory Board takes into account the ratio relative to average compensation of the upper management level within the MLP Group, as well as the ratio relative to average compensation among the remaining workforce. This applies both to the average compensation within a year and to the development of compensation over multiple years. Care is taken to ensure that the compensation of Executive Board members is at an appropriate level relative to the compensation of the workforce.

The compensation policy is specified by the Supervisory Board and endorsed by the Annual General Meeting. The Supervisory Board reviews the compensation policy annually, and puts any significant revisions to the Annual General Meeting for its endorsement.

Principles of Executive Board compensation

The effective compensation system provides for a fixed basic annual salary plus variable compensation in the form of a bonus (see table). The basic figure for the bonus payment is determined on the basis of the income statement of the MLP Group in accordance with the (international) accounting standards applied in the Group. The EBIT of the MLP Group in the past financial year for which the bonus is to be paid forms the basis of this assessment. The key figure is therefore the earnings before taxes (EBT) that would result without the deduction of profit-sharing payments. If continuing operations and discontinued operations were to be recognised in the financial year, the basis of assessment is formed by the total of the EBITs of operations to be continued and discontinued respectively. No costs and income directly related to the discontinuation/sale of business segments are included in the basis of assessment. If the employment contract begins or ends in the course of the financial year, the basic bonus figure is reduced pro rata temporis.

45% of the bonus thus calculated is paid as an immediate payment following presentation of the Company's adopted financial statements, and the remaining 55% is only to be paid as a "deferred payment" after presentation of the financial statements for the financial year two years after the year of the immediate payment. The level of deferred payment effectively to be made to members of the Executive Board is also subject to upwards or downwards adjustment, based on the ratio of the average EBIT recorded in the base year and the three subsequent years to the EBIT in the base year.

In contractually more closely specified boundaries, the immediate payment and the deferred payment are also subject to an adjustment right, which can be used at the discretion of the Supervisory Board. Here the Supervisory Board is authorised, at its reasonable discretion, to increase or reduce the immediate payment by up to 30% and the deferred payment by up to 10% based on its assessment of the individual performance of the member of the Executive Board or extraordinary developments.

In addition, the service contract provides for a cap of the immediate payment and the deferred payment in euros. For both bonus parts a maximum of 150% of the basic figure is stipulated as the cap with an assumed EBIT of € 100 million.

Under the compensation system, members of the Executive Board are entitled to the unrestricted use of a company car and payments from a life and disability insurance policy.

The Chief Executive Officer, Dr. Uwe Schroeder-Wildberg, also has an individual occupational benefit plan entitlement. An olg-age retirement pension on reaching the age of 62, a disability pension, a widow's pension and orphans' benefits are guaranteed. The benefit entitlement for the old-age pension is specified separately in an addendum to the employment contract. The disability pension and widow's pension is 60% of the contractually agreed retirement or disability pension. The level of orphan's benefit payable per eligible child is calculated on a case-by-case basis. The total of the widow's pension and orphans' benefits of all entitled persons together must not exceed 100% of the old-age pension. Executive Board members Manfred Bauer and Reinhard Loose, however, receive employer-financed defined contribution benefits in an occupational pension scheme.

The service contracts of all members of the Group Executive Board include change-of-control clauses granting the right to termination for cause in the event that:

- the Company's share of voting rights changes in accordance with §§ 21, 22 of the German Securities Trading Act
- the Company is reorganised in line with the provisions of the German Reorganisation of Companies Act (UmwG). This does not apply to changes in the Company's corporate form, outsourcings in line with § 123 (3) of the German Reorganisation of Companies Act or mergers in accordance with the provisions of the Reorganisation of Companies Act in which the Company is the incorporating legal entity.

If a member of the Executive Board resigns on the basis of these conditions he is entitled to compensation of no more than two annual salaries, on condition that the termination takes place more than two years before the end of his contract. After that the regulations apply pro rata temporis.

To comply with the relevant supervisory requirements, the service contracts of all members of the Executive Board also include the following provisions:

- In the event of negative performance or misconduct on the part of the Executive Board member in question within the meaning of § 5 of the Ordinance on the Supervisory Requirements for Institutions' Compensation Systems (InstitutsVergV), the Supervisory Board is entitled to reduce the benefits to which the member is entitled at its discretion when the member resigns from his position voluntarily.
- The members of the Executive Board undertake not to engage in any personal hedging or other counter-measures as a way of eliminating or even limiting the risk-orientation of compensation.
- Pursuant to § 25a (5) of the German Banking Act (KWG) the variable compensation component must not exceed 200% of the fixed compensation component for each member of the Executive Board. An AGM resolution that proposes increasing the variable compensation cap from 100% to 200% of the fixed compensation component, and thereby deviates from § 25a (5) Sentence 2 of the German Banking Act (KWG), has been submitted.

In accordance with the recommendation of the German Corporate Governance Code, individualised Executive Board compensation is disclosed on the basis of the specimen tables provided as appendices to the Code.

Individualised Executive Board compensation in line with the German Corporate Governance Code (DCGK)

Allocation	Dr. Uwe Schroeder-Wildberg		Reinhard Loose		Manfred Bauer		Muhyddin Suleiman	
	Chief Executive Officer		Chief Financial Officer		Member of the Board for Products and Services		Member of the Board for Sales	
	since Jan 1, 2003		since Feb 1, 2011		since May 1, 2010		until March 31, 2014	
All figures in €'000	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
Fixed compensation	550	550	360	360	360	360	0	0
Fringe benefits	31	33	17	17	27	27	0	0
Total fixed compensation	**581**	**583**	**377**	**377**	**387**	**387**	**0**	**0**
One-year variable compensation	130	243	86	162	86	162	0	0
Multi-year variable compensation	229	231	134	152	153	154	153	0
2013 bonus (2013-2016)	229	0	134	0	153	0	153	0
2014 bonus (2014-2017)	0	231	0	152	0	154	0	0
Other	0	0	0	0	0	0	0	0
Total fixed and variable compensation	**940**	**1,057**	**597**	**692**	**626**	**703**	**153**	**0**
Pension benefits	266	261	140	140	150	150	0	0
Total compensation (in accordance with the German Corporate Governance Code (DCGK))	**1,206**	**1,318**	**737**	**832**	**776**	**853**	**153**	**0**

Granted benefits

Benefits granted	Dr. Uwe Schroeder-Wildberg				Reinhard Loose			
	Chief Executive Officer				Chief Financial Officer			
	since Jan 1, 2003				since Feb 1, 2011			
All figures in €'000	**2017**	**2018**	**2018 (min.)**	**2018 (max.)**	**2017**	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	550	550	550	550	360	360	360	360
Fringe benefits	31	33	33	33	17	17	17	17
Total fixed compensation	**581**	**583**	**583**	**583**	**377**	**377**	**377**	**377**
One-year variable compensation	244	296	207	384	163	197	138	256
Multi-year variable compensation	367	421	0	990	244	281	0	660
2017 bonus (2017-2020)	367	0	0	0	244	0	0	0
2018 bonus (2018-2021)	0	421	0	990	0	281	0	660
Total fixed and variable compensation	**1,192**	**1,299**	**790**	**1,957**	**784**	**855**	**515**	**1,293**
Pension benefits	266	261	261	261	140	140	140	140
Total compensation (in accordance with the German Corporate Governance Code (DCGK))	**1,458**	**1,560**	**1,051**	**2,218**	**924**	**995**	**655**	**1,433**

Benefits granted	Manfred Bauer			
	Member of the Board for Products and Services			
	since May 1, 2010			
All figures in €'000	**2017**	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	360	360	360	360
Fringe benefits	27	27	27	27
Total fixed compensation	**387**	**387**	**387**	**387**
One-year variable compensation	163	197	138	256
Multi-year variable compensation	244	281	0	660
Bonus 2017 (2017-2020)	244	0	0	0
Bonus 2018 (2018-2021)	0	281	0	660
Total fixed and variable compensation	**794**	**865**	**525**	**1,303**
Pension benefits	150	150	150	150
Total compensation (in accordance with the German Corporate Governance Code (DCGK))	**944**	**1,015**	**675**	**1,453**

As of December 31, 2018 pension provisions of € 17.1 million (€ 16.9 million) were in place for former members of the Executive Board.

Compensation of the members of the Supervisory Board

In addition to compensation for their expenses for the financial year, members of the Supervisory Board receive fixed annual compensation of € 40,000 in accordance with the Articles of Association. The Chairman of the Supervisory Board receives twice this amount, his deputy one-and-a-half times. Special additional compensation is paid for work on the Audit Committee and the Personnel Committee: € 25,000 for the Audit Committee and € 15,000 for the Personnel Committee. The chairmen of the committees receive twice the stated level of compensation. The fixed portion of compensation is paid after the end of the financial year. No member of the Supervisory Board receives any variable or share-based compensation components.

Individualised Supervisory Board compensation

All figures in €'000 (without tax)	Compensation 2018	Compensation 2017 (I)**	Compensation 2017 (II)*
Dr. Peter Lütke-Bornefeld (Chairman)	135	98	37
Dr. h. c. Manfred Lautenschläger***	45	72	28
Dr. Claus-Michael Dill (Vice Chairman****)	101	65	25
Tina Müller	55	40	15
Matthias Lautenschläger*****	44	-	-
Burkhard Schlingermann	55	40	15
Alexander Beer	65	47	18
Total	**500**	**362**	**138**

*until September 21, 2017 for MLP AG
**from September 21, 2017 for MLP SE (see details below)
*** until June 14, 2018, until which time also Vice Chairman
****as of June 14, 2018 Vice Chairman
*****as of June 14, 2018

The term of office of the members of the Supervisory Board of MLP AG ended when the change in corporate form from MLP AG to MLP SE came into force on September 21, 2017. The term of office of all members of the first Supervisory Board of MLP SE ended with the conclusion of the Annual General Meeting on June 14, 2018. Pursuant to § 113 (2) of the German Stock Corporation Act (AktG) the compensation for members of the first Supervisory Board can only be approved by the Annual General Meeting. The resolution could only be passed in the Annual General Meeting that formally ratifies the actions of the members of the first Supervisory Board. This was the Annual General Meeting on June 14, 2018.

In the financial year 2018 € 20 thousand (previous year: € 18 thousand) was paid as compensation for expenses.

RISK AND OPPORTUNITY REPORT

Risk report

Risk management system

MLP considers risk management to be the use of a comprehensive array of instruments for managing risks in line with the strategy set out by the Executive Board and the risk-bearing ability process. Because of the potential growth and extra earnings they can offer, risks should be addressed and taken in a conscious and controlled manner within the scope of internal control/monitoring procedures.

The operational and organisational structure and the risk management and controlling processes, as well as the special Risk Controlling, Compliance and Internal Audit functions, represent key components of the Group-wide risk management system.

Group-wide risk management

MLP SE, Wiesloch; MLP Banking AG, Wiesloch; MLP Finanzberatung SE, Wiesloch; MLPdialog GmbH, Wiesloch; FERI AG, Bad Homburg v. d. Höhe; FERI Trust GmbH, Bad Homburg v. d. Höhe; FEREAL AG, Bad Homburg v. d. Höhe; FERI Trust (Luxembourg) S.A., Luxembourg; as well as DOMCURA AG, Kiel; NORDVERS GmbH, Kiel; and nordias GmbH Versicherungsmakler, Kiel are included in the Group-wide risk management (scope of consolidation pursuant to § 25a of the German Banking Act (KWG) – Germany's "MaRisk consolidation scope").

Scopes of consolidation – difference between the IFRS and MaRisk scope of consolidation

Segment	Company		IFRS scope of consolidation	MaRisk scope of consolidation (§25a German Banking Act, KWG)
Holding	MLP SE		X	X
Banking	MLP Banking AG		X	X
	MLP Finanzberatung SE		X	X
		TPC GmbH	X	
		ZSH GmbH	X	
		MLPdialog GmbH	X	X
Financial consulting		MLP Hyp GmbH *	X	
	FERI AG		X	X
		FERI Trust GmbH	X	X
		FEREAL AG	X	X
FERI		FERI Trust (Luxembourg) S.A.	X	X
		DOMCURA AG	X	X
		NORDVERS GmbH	X	X
		Nordias GmbH Versicherungsmakler	X	X
		Willy F. O. Köster GmbH	X	
DOMCURA		Siebert GmbH Versicherungsmakler	X	

*accounted for using the equity method

Within the meaning of § 25a (3) of the German Banking Act (KWG) and in conjunction with Section 4.5 of Germany's Minimum Requirements for Risk Management (MaRisk), the Executive Board of MLP Banking AG, which as per Article 11 of the Capital Requirements Regulation (CRR) is the controlling body of the MLP Financial Holding Group (MLP FHG) as the depository institution, ensured appropriate control and monitoring of the significant risks at Group level through suitable processes. This approach encompasses in particular

- defining Group-wide strategies
- securing the Group's risk-bearing ability
- establishing structural and organisational regulations for the Group
- implementing Group-wide risk management and controlling processes
- setting up an Internal Audit department that will operate throughout the Group.

In the context of the strategy process and the risk inventory, MLP Banking AG, acting as a controlling company of the Financial Holding Group, obtains an overview of Group risks on a regular and ad hoc basis. Based on the risks identified in the individual companies and their relative weighting, the "MaRisk scope of consolidation" is formed, which defines the scope of the Group-wide risk management system. In principle all risks identified as significant within the Group by the controlling company are taken into account. Group-wide regulations and policies for establishing Group-wide risk management at the MLP Financial Holding Group are defined taking into account the type, scope, complexity and risk content and the different application options provided by company law on an individual basis.

Risk policies

The Executive Board of the controlling company defines the business strategy and a consistent risk strategy for the MLP Financial Holding Group. Group-wide risk propensity is derived from the risk strategy, taking risk-bearing ability into account. On this basis framework conditions for risk management in the MLP Financial Holding Group are then defined. The readiness to take risks is regularly checked and adjusted as necessary.

The following basic principles are consistent with the business strategy and describe the central framework conditions for risk management at the MLP Financial Holding Group:

The Executive Board is responsible for the proper organisation of the business and its further development:

This responsibility includes defining appropriate strategies and setting up appropriate internal control procedures in particular, thereby assuming responsibility for all significant elements of risk management. The task of defining the business and risk strategy cannot be delegated. It is the responsibility of the Executive Board to implement strategies, assess the risks associated with them and also put in place and monitor measures to ensure that these risks are limited. These also include the development, promotion and integration of an appropriate risk culture.

The Executive Board bears responsibility for the risk strategy:

The Executive Board of the controlling company defines the risk strategy for the MLP Financial Holding Group, including the significant elements and assumptions on risk-bearing ability. The risk strategy reflects risk propensity or risk tolerance based on the targeted risk/earnings ratio. The Executive Board ensures that a comprehensive approach, incorporating all key risk types, is incorporated in the companies and that suitable steps are taken to implement the risk strategy.

MLP promotes a strong awareness of risks and a pronounced risk culture:

An appropriate risk culture is critical for effective risk management. MLP sees its risk culture as the way in which employees handle risks within the performance of their duties. The objective of our risk culture is to promote the identification and conscious handling of risks, while ensuring that decision-making processes lead to results that are also balanced in terms of risk criteria. Our risk culture is characterised by the clear commitment of the Executive Board to risk-appropriate conduct, strict observance by all employees of the risk appetite communicated by the Executive Board, and the facilitation and promotion of transparent and open dialogue on risk-relevant questions within the Group. A strong awareness of risks across all divisions that goes beyond each employee's own area of responsibility and a corresponding risk culture are encouraged through appropriate organisational and incentive structures. The appropriateness of the risk management and controlling system is continuously monitored, and any adjustments that become necessary are implemented as quickly as possible. Appropriate quality standards are established and subjected to continuous checks.

MLP pursues a strategy of comprehensive risk communication and risk reporting:

Detected risks are reported to the responsible management levels openly and without restriction. The Executive Board is informed in a comprehensive and timely manner (ad hoc if necessary) of the risk profile of the relevant risks, and profit and losses at the MLP Financial Holding Group. The Supervisory Board receives the information required to meet its legal obligations. Internal risk communication and risk reporting is supplemented by comprehensive external publications that cater to the interests of MLP SE shareholders and the capital market and also comply with supervisory requirements.

Objective

Entrepreneurial activity invariably involves taking risks. For the MLP Financial Holding Group, “risk” means the danger of possible losses or lost profits. This danger can be attributable to internal or external factors. Since it will not be possible to eliminate all risks, a risk that is commensurate with the expected return must be targeted. The aim is to identify risks as early as possible in order to react to them quickly and appropriately.

Appropriate identification, assessment, control, monitoring and communication of the key risks is guaranteed with the help of and on the basis of Group-wide risk management at MLP. Risk management is a key component of the value-driven management and planning system in the MLP Financial Holding Group. Moreover the Group's risk culture is continuously consolidated, and efforts are made to communicate information relevant to risk across all business segments.

Risk capital management, liquidity management and stress tests

Risk capital management – risk-bearing ability

Risk capital management is an integral part of the Group management system in the MLP Financial Holding Group. Active control to provide sufficient financial capital, in compliance with supervisory requirements, ensures that risk-taking is always in line with capital backing.

Risks are only accepted within limits derived from aspects of the risk-bearing ability to achieve adequate returns, taking into account risk/earning factors. In particular this prevents risks that could threaten the continuity of the business model.

The Executive Board defines the risk capital based on business policy targets and controls the risk profile in an appropriate ratio to the risk coverage fund. The focus is on key risks for the MLP Financial Holding Group, which are identified at least once a year within the scope of a risk inventory (risk profile) conducted throughout the Group. The Group-wide risk profile represents the basis for both risk capital management and the risk management and controlling processes. With reference to the minimum requirements of risk management systems (MaRisk), we take into account the proportionality principle with regard to the implementation of § 25a of the German Banking Act (KWG).

The key risk types of counterparty default, market price, liquidity and operational risks are in particular quantified within the scope of the Group's risk-bearing ability. General business and reputation risks (other risks) also represent significant risk types, although they are currently not quantified. Amongst other things, these are taken into account in calculating risk-bearing ability in the form of additional buffers.

In addition to managing financial risk capital, the minimum regulatory capital adequacy requirements (as per the Capital Requirements Regulation (CRR)) represent supplementary conditions which must be strictly adhered to.

Pursuant to the minimum risk management requirements of the German Federal Financial Supervisory Authority ("MaRisk"), we primarily pursue the objective of safeguarding the continued existence of the MLP Financial Holding Group in the normal scenario (going-concern approach) in our internal process for securing our Risk-bearing ability. In addition the protection of the providers of debt capital and its owners is examined from an economic perspective within the scope of the liquidation approach. Among other things this is applied in the form of stress scenarios.

Furthermore MLP has implemented a process for planning future capital requirements. This instrument supports MLP in identifying and planning future capital requirements, as well as in implementing suitable measures to cover them. Unlike the one-year review period of the risk-bearing capacity concept, this is based on a multi-year time frame. This component, which stretches further into the future, is intended to supplement the risk-bearing capacity concept in a sensible way to ensure the early identification of any necessary capital increases.

At 41.0%, the Banking segment accounts for the largest portion of the risk coverage fund in the MLP Financial Holding Group. This is because of the risk inherent to the banking business.

Liquidity capacity

Securing appropriate liquidity capacity is based on the idea of establishing an appropriate risk-return structure, while at the same time ensuring the solvency of the companies in the MLP FHG at all times. The concept of and compliance with the liquidity capacity is also derived from Pillar 2 of the Basel Accord.

Stress tests

Stress tests are conducted on a regular and ad hoc basis for the special analysis of the effects of unusual yet still plausible events. Comprehensive analyses have therefore been implemented, both at the level of the individual risk types and across all risk types. The effects of potential risk concentration are also taken into account.

When conducting the standardised stress tests, the key risk drivers are scaled in such a way that they reflect disproportionately negative economic situations. The stress tests implemented can then be used to check whether the MLP Financial Holding Group's risk-bearing ability can still be secured even in unfavourable economic framework conditions. The market-value effects on the financial situation, the liquidity situation and the results of operations are also investigated in this connection.

Organisation

The Executive Board is responsible for establishing an appropriate and effective risk management system in the MLP Financial Holding Group. Set against this background, operational and organisational precautions are put in place.

Functional separation

Our risk management concept follows clearly defined basic principles that are applied as binding throughout the entire Group, compliance with which is continuously checked. A crucial element of these principles is a clear organisational and operational distinction between the individual functions and activities of risk management.

The operational and organisational structure is regularly checked and assessed through internal audits and adapted to internal and external developments as they happen.

Group Risk Manager

The Group Risk Manager is responsible for the risk monitoring and control activities in the MLP Financial Holding Group. He is kept continuously informed of the risk situation in the Financial Holding Group and gives regular reports on this to the entire Executive and Supervisory Boards.

Risk controlling function

An independent risk controlling function has been set up at MLP to address risk topics at an early stage and sustainably throughout the Group, while also increasing risk awareness. This function is responsible for the independent monitoring and communication of risks.

Risk management and controlling processes

Risk management in the MLP Financial Holding Group and its local operating implementation in the business units is conducted on the basis of the risk strategy. The units responsible for risk management reach decisions for the conscious acceptance, reduction, transfer or avoidance of risks, observing the framework conditions specified centrally.

The Risk Controlling unit in particular is responsible for the identification and assessment of risks, as well as for monitoring defined limits. It reports risks to the Executive Board and the business units that control the risks. Suitable early detection systems support risk monitoring, identify potential problems at an early stage and thereby permit the prompt planning of measures.

Appropriate guidelines and an efficient monitoring process also ensure that the regulatory requirements for risk management and controlling are met by the principal Group companies.

The methods used at the MLP Financial Holding Group to assess risks are in line with the current level of knowledge, and are aligned with practices in the banking sector as well as recommendations of the Federal Financial Supervisory Authority. The results determined through the risk models for controlling risks and the underlying quantification methods are subject to regular reviews by risk controlling, as well as internal and external audits. Despite careful model development and regular checks, however, it is conceivable for circumstances to occur that lead to greater losses than those predicted by the risk models.

Controlling monitors earnings trends

Controlling is responsible for planning processes and continuously monitoring trends in earnings. The planning process is broken down into short-term and medium-term planning horizons with varying degrees of detail.

To monitor planned and target variables the revenue and earnings figures actually achieved are compared against the corresponding plan figures within the scope of daily, weekly and monthly reporting. This provides continuous transparency for Management.

Internal controlling system in the accounting process

With regard to the accounting and management reporting processes, the Internal Control System (ICS) is used to provide an accurate picture of actual conditions in terms of the net assets, financial position and results of operations at MLP Banking AG and the MLP Group. The objective of the ICS is to secure the complete and accurate recording, processing and documentation of all business transactions in accordance with the regulations, standards and guidelines of applicable legislation and the Company's Articles of Association.

MLP’s organisational, corporate and control structures are outstandingly clear. All units involved in the accounting process comply with their respective quantitative and qualitative requirements. The employees tasked with conducting the accounting process receive regular training. Group Accounting is the central point of contact for all questions in connection with accounting issues.

The checks in the accounting process aim to ensure that the individual and consolidated financial statements are drafted in line with the provisions of German commercial law and the International Financial Reporting Standards (IFRS), as well as proper and timely internal and external financial reporting. The scope of the checks and responsibilities integrated into the procedures is clearly regulated.

In addition, financial and risk data, which itself is subject to a comparable internal monitoring system, is also incorporated in the management report.

Functional separation, the dual-control principle and the audit activities of the Internal Audit department represent key control instruments for all accounting-related processes. The processes of the accounting-based ICS are documented and specified in work instructions that are regularly updated and published in the organisation manual.

The bank's separate financial statements and the consolidated financial statements are generally prepared using standard software. Group Accounting ensures the completeness and accuracy of the relevant disclosures on the basis of the information provided.

The adequacy and effectiveness of the accounting-based ICS are regularly checked and monitored.

Compliance function

The Executive Board has also set up a compliance function, the duties of which include identifying and monitoring key legal provisions and requirements, non-compliance with which can potentially jeopardise the assets of the MLP Financial Holding Group.

Internal audits

The main duty of the internal audit department at MLP Banking AG is to assess the effectiveness and appropriateness of risk management in general and of the internal control system in particular. Audit tasks are conducted throughout the Group on the basis of service level agreements and outsourcing contracts with key Group companies, as well as the function of MLP Banking AG as a controlling company pursuant to § 10a (2) of the German Banking Act (KWG). The focus is on compliance with legislative requirements, supervisory requirements, guidelines, regulations and internal provisions for business processes. To this end, audit procedures are conducted using a systematic and targeted approach on the basis of the COSO model to assess the effectiveness and appropriateness of risk management, the controls and the management and monitoring processes. Risk-oriented audits are conducted at regular intervals and the results are reported. The internal audit department monitors the rectification of any issues detected. In addition, it provides independent advisory services with a view to creating added value and improving business processes.

The minimum requirements for risk management governing the internal audit function are complied with throughout the Group. The internal audit department operates in an independent capacity throughout the Group on behalf of the Executive Board.

Risk reporting

A substantial risk reporting scheme forms the basis for appropriate and successful corporate management. This is complemented by an extensive system of internal reporting, which provides key decision-makers with prompt information on the current risk situation. Risk reports are generated at fixed intervals (monthly or quarterly) or produced if and when necessary. In addition, planning, simulation and control instruments highlight possible positive and negative implications for the most important value and controlling parameters of the business model and their effect on the net assets, financial position and results of operations.

Risk reports are submitted to the controlling units, the Executive Board and the Supervisory Board. Prompt and comprehensive information is provided on any changes to relevant influential factors.

Statement of risks

The MLP Financial Holding Group is exposed to various financial risks, especially counterparty default risk, market price risk and liquidity risks. As well as financial risks there are also operational and other risks, such as general business risks and reputation risks. The risks are mitigated by risk-reducing measures such as insurance policies.

The key risk types in the various segments are presented below:

Segments	Default risks	Market price risks	Liquidity risks	Operational risks	Other risks
Holding	x		x	x	x
Banking	x	x	x	x	x
Financial consulting	x		x	x	x
FERI	x	x	x	x	x
DOMCURA	x			x	x

Counterparty default risks

The counterparty default risk is the risk of a loss due to the defaulting of or deterioration in creditworthiness of a business partner. As well as credit risk, the counterparty default risk encompasses the contracting party risk (re-covering risk, as well as performance and counterparty settlement risk), issuer risk, investment risk and risks relating to specific countries, although the latter are only of secondary importance to the MLP Financial Holding Group.

The counterparty default risks of the MLP Financial Holding Group are essentially made up of the client credit business under the Company's own liability, the Company's own business and the commission receivables against our product partners. There are no significant risks related to specific countries, since the majority of lending (more than 95%) is limited to borrowers domiciled in the Federal Republic of Germany.

Concentration of risk

The identification of potential concentrations of risks constitutes another key component of credit risk management. Those risks which come about because of an uneven distribution of business partners in credit relations or other business relations, or which are caused by sectoral/geographical business focuses and are capable of generating such great losses that the solvency of an institution may be threatened, are classed as concentrations of risk in the credit portfolio. To be able to identify concentrations of risk in the lending business at an early stage, the portfolio is analysed using various approaches, such as investigations based on sector, size and risk classes or security categories. Concentrations of risk are also given special consideration in the stress tests specific to the risk types.

To minimise potential concentrations of risk in the proprietary business before they can even occur, the MLP Financial Holding Group follows a strategy of diversification. Investments are diversified into bonds, debentures and other financial instruments across various sectors. We have defined binding investment limits for the individual sectors and issuers via our capital investment directive. These limits were observed at all times over the course of the year.

In the private client business, potential concentrations in ratings classes with high failure rates should be avoided. This is achieved by focusing on retail products of credit cards and accounts in connection with the targeted client segments. In addition, the minimisation of large individual risks with a low credit rating is a further central component of the credit policy in place at the MLP Financial Holding Group. Focusing on specific professional groups enables an attractive earnings margin to be achieved thanks to relatively low default risks.

Credit management

Responsibilities in the credit business, from application through authorisation to completion, and including regular monitoring with regular creditworthiness analyses, have been defined and documented in the organisational guidelines. Decision-making authority is laid down in the authority regulations, which themselves are based on the risk content of the transactions.

Loan approval, in particular in the client credit business, takes the form of credit limits being granted for the individual borrower or borrower unit. Individual credit decisions are reached by specialised employees following clearly defined guidelines based on the size, creditworthiness and collateral of the borrower. A special scoring process allows quick decisions to be made, in particular for credit cards and accounts in the retail lending business, while also securing consistently high quality.

The basis of our credit decisions is always the creditworthiness of the borrower. Collateral does not have any influence on the borrower's rating. Depending on the structure of a transaction, however, collateral can be of significance for the risk assessment of a commitment.

All forms of traditional loan collateral are essentially used throughout. This specifically includes mortgages on residential and commercial property, warranties, sureties, life insurance policies, financial collateral and assigned receivables.

In addition to these risks in the client credit business there is an issuer risk from the bonds, debentures and other financial instruments acquired. We reduce the risk of default among issuers whose securities we have acquired within the scope of capital investment management through the specified creditworthiness requirements of our capital investment directive. Where available, the MLP Financial Holding Group also bases its decisions in the field of financial investments on external ratings.

The credit value at risk is approximated on the basis of the capital adequacy requirements as per CRR for calculating the economic counterparty default risk, and for the purpose of internally controlling the counterparty default risks. Various methods are available for this in accordance with the CRR. In terms of the calculation methods, a distinction is drawn between the standardised approach to credit risk (CRSA) and the approach based on internal ratings (IRBA). Depending on the rating status of receivables due to the MLP Financial Holding Group, the internal control system is based on the various supervisory calculation methods.

Market price risks

The MLP Financial Holding Group understands market price risks as the uncertainty regarding changes in market prices and rates (including interest rates, share prices, exchange rates and raw material prices), the correlations between them and their volatility. Besides interest rate and share price risks, there are also spread risks on proprietary investments. There are currently only very minor open risk items in foreign currency and commodities. There was no speculative use of financial instruments with a view to making profits in the short term in the year under review, nor is it envisaged for the future. MLP Banking AG continues to hold the status of a non-trading book institution. The subcategory of market price risk, which is important for us, represents the general interest risk.

Interest rate risks

Interest rate risks essentially come about from incomplete congruency of interest rate agreements between the loans granted and the business on own account as well as their refinancing. These maturity transformation risks are continuously monitored and assessed in compliance with supervisory requirements, by means of stress scenarios, among other things.

Within the scope of the risk-bearing capacity assessment, a simulation is conducted in which the net interest for interest-bearing and interest-sensitive items is determined for the interest risk in the event of an ad hoc change in interest rates.

Possible effects of different interest development scenarios are portrayed via planning and simulation calculations. The risks and their effects are made transparent based on assumptions of multilayer interest scenarios. In this context, changes in the cash value of all items in the asset ledger are shown in relation to the equity, with the application of the changes in interest rates prescribed by the Federal Financial Supervisory Authority. The simulation is conducted by automated means for all interest-bearing and interest-sensitive items. This is how interest risk is controlled.

The change in value determined in the reporting period always remained significantly below the threshold of 20% of equity.

Interest rate risks of the MLP Financial Holding Group

Amount in € million	Interest rate shock/parallel shift			
	Change in value + 200 BP		Change in value – 200 BP	
	2018	2017	2018	2017
Total	–0.1	–3.5	–0.4	0.8

Liquidity risks

The MLP Financial Holding Group understands liquidity risks to mean uncertainty in terms of the availability of funds to meet payment obligations or reduce risk items that are either insufficient or can only be secured by accepting higher rates. Liquidity risks can result from both internal and external risk factors.

The fundamental principles of liquidity control and planning are defined in the internal guidelines. We employ two different approaches to control liquidity risk: discretionary and structural.

Operational liquidity control

Within the scope of strategic or short-term liquidity control at Group level, the liquidity risk is assessed and controlled in particular using the KPI from the Liquidity Directive and the Liquidity Coverage Ratio (LCR). The LCR represents a stress scenario from the supervisory perspective with a review period of 30 days, during which the interbank market no longer functions. In addition, the volume of daily net cash inflows and outflows is observed and incorporated into the risk assessment based on the liquidity at risk (LaR) within the scope of liquidity control. The LaR describes the anticipated cash payment surplus (net funding requirement) which will not be exceeded at a defined level of probability within a given period of time. Additionally an expected shortfall is monitored for the assessment of any outliers. Sufficient funds were available to cover short-term liquidity requirements at any time.

Structural liquidity control

Structural (medium- to long-term) liquidity control of the Group is conducted on the basis of liquidity gap analyses, which highlight the anticipated development of liquidity over various time horizons. In addition, the effects of various cash flow scenarios, and thereby also on the liquidity situation of MLP, are analysed using the funding matrix. Additional Monitoring Metrics for Liquidity Reporting (AMM) provide information additional to the Net Stable Funding Ratio (NSFR), particularly with regard to concentrations.

The liquidity value at risk (LVaR), which indicates the additional refinancing costs required to close open liquidity items, represents a key instrument of structural liquidity control and is also used in risk capital management. When determining the LVaR as of December 31, 2018, net cash inflows for the year were in line with forecasts and no additional refinancing costs are thus expected to occur.

If, contrary to expectations, net cash outflows should occur, sufficient cash reserves are available. The liquidity risk in the MLP Financial Holding Group results primarily from MLP Banking AG as the deposit-taking bank. The refinancing structure is based largely on client deposits. Appropriate short- and medium-term credit lines have also been agreed to safeguard against a possible short-term liquidity shortfall.

Alongside the assumed development in standard scenarios, we have also defined stress scenarios to simulate potential increases in liquidity requirements as a result of a negative change in the market environment. These enable us to introduce any countermeasures deemed necessary in good time.

MLP Banking AG has established a simple system to allow the internal allocation of liquidity costs, liquidity benefits and liquidity risks to be monitored and controlled.

Operational risks

The management of operational risks is based on the definition of Article 4 of the Capital Requirements Regulation (CRR). As such, operational risk is the risk of losses caused by the inadequacy or failure of internal procedures and systems, people or by external events. This definition includes legal risks.

Operational risks are identified and assessed locally throughout the Group in the individual organisational units. To this end, an operational risks inventory is conducted at least once a year. Experts from all specialist departments examine and assess operational risks on the basis of self-assessments. They are broken down into an assessment of risk potential for identification and evaluation of the main risks and suggested measures derived from this.

The probability of the occurrence and potential extent of damages presented by the risk scenario being examined are determined when assessing an identified operational risk. Both empirical values and projections for the upcoming period of one year are applied. The risks identified are managed using risk control strategies.

In addition, any loss/damage occurring at the MLP Financial Holding Group is continuously recorded and analysed. By collecting damage data, loss events can be detected and analysed in order to identify trends and any concentration of operational risks. The results are collated and checked for feasibility by risk controlling, and then made available to the Executive Board and the controlling units.

Risks from internal procedures

The operational and organisational structure of the MLP Financial Holding Group is comprehensively documented and set out in internal organisation guidelines and the organisation manual. Operational risks arising from internal processes are primarily managed through the continuous improvement of business processes and the expansion of the internal control/monitoring system. Further safeguarding measures include risk transfer through the conclusion of insurance policies, and the conscious avoidance of risky products. In order to secure the continuation of business operations, comprehensive emergency and business continuity plans are also in place for the most important areas and processes.

A Business Impact Analysis (BIA), conducted within the scope of Business Continuity Management (BCM), is used to identify critical company processes whose disruption or failure can have a significant influence on the Group's business activities. To this end, suitable measures are defined in the form of alternative actions. In the event of an emergency, these measures allow business operations to continue, albeit with reduced performance. Critical processes and the effectiveness of the defined measures are subject to regular monitoring and continuous development. The BCM is documented in the organisation manual and is thus available to the business segments and employees.

Within the scope of defined adjustment processes in the event of changes to operational processes or structures, acquisitions and mergers, as well as the process for introducing new products – or rather when expanding activities to include new markets or via new sales channels – safeguards are in place to ensure that all affected staff at MLP are involved, potential key risks are identified and a corresponding concept is drawn up prior to the implementation of planned measures.

Risks from human errors and employee availability

The MLP Financial Holding Group places great value on having qualified employees and managers. Nevertheless, human error cannot be completely ruled out. In this context we employ an open culture of constructive criticism with the objective of detecting mistakes at an early stage, continuously improving our processes and strengthening our innovative capacity. Staff resources and necessary qualification/training of employees are secured by the responsible specialist departments. We reduce the risk of staff shortages through appropriate personnel allocation measures.

Employees working with confidential information undertake to observe the relevant regulations and handle the information responsibly. A clear separation of management and control functions restricts the risk of breaching internal and external regulations. Defined substitute and successor regulations secure our business and decision-making processes.

A possible error in client consulting, investment and acquisition brokerage or finance portfolio management and associated claims for damages can present a consulting and liability risk. We minimise potential consulting risks by maintaining consistently high-quality consulting, for example with IT-supported consulting tools. Consultations with our clients and their results are comprehensively documented. Our own Corporate University ensures a high standard of consultant training. Indeed, each consultant attends extra-occupational training to become a Financial Consultant and then later a Senior Financial Consultant.

IT risks

The MLP Financial Holding Group operates a comprehensive information security management system for the effective management of IT-related risks.

In terms of our software strategy we typically rely on sector-specific standard software from well-known providers, though we bring in qualified specialists for business-specific proprietary IT applications. Prior to commissioning, new IT systems and software components are checked to ensure their correct functioning. The availability and consistency of the data is secured by distributing data processing operations across multiple locations, backup and recovery processes and a business continuity management system. In addition we use leading service providers to operate our systems. We protect our IT systems from unauthorised access through a system of authorisation management, comprehensive malware protection and security measures at network level in order to secure the confidentiality, authenticity and integrity of our data.

Risks from external events

Companies operating in the financial services sector focus on their core competencies, i.e. financial services products, support and information services, specialist consulting and sales expertise. In this market environment, the MLP Financial Holding Group makes use of external partners for activities that are not part of its core business. Based on Germany's "MaRisk" minimum risk management requirements, key outsourcing activities are incorporated into risk management within the standard scope of risk controlling and management processes with continuous risk identification, assessment, control and reporting (outsourcing analysis).

The MLP Financial Holding Group operates a central system of outsourcing management. Responsibilities for outsourced processes are clearly defined. This ensures that any potential organisational, structural or process-based risks that may occur because of outsourced business activities are closely controlled.

In addition, insurance policies have been concluded where appropriate to minimise risks from external events such as fraud, burglary, theft or damage due to force majeure.

Internal security measures are also used to thwart fraudulent activities, where possible before they even occur.

Potential risks arising for the MLP Financial Holding Group from fraudulent or other criminal conduct are identified and regularly assessed within the scope of the risk analysis conducted to identify potential hazards caused by criminal conduct (both internally and externally). Both the risk assessment and the individual measures implemented to avoid criminal conduct are conducted by the relevant section at company HQ pursuant to § 25h of the German Banking Act (KWG), and they are also incorporated in the operational risk inventory process.

In 2013 the significant legal provisions and stipulations for the MLP Financial Holding Group were identified within the scope of the requirements of the Compliance function in line with Section 4.4.2 of Germany's "MaRisk" minimum risk management requirements. Failure to comply with these provisions and requirements could pose a considerable threat to the assets of the MLP Group. As per Germany's "MaRisk" minimum risk management requirements, the Compliance function works towards implementing effective procedures in addition to control measures by the competent departments in order to comply with the significant legal stipulations and internal regulations, submitting regular reports on its activities, including ad hoc reports when necessary, to the Executive Board and the Supervisory Board.

Legal risks

Our legal department controls legal risks. In addition to consulting on corporate decisions and designing business processes, its tasks include following and assessing current legal disputes. Possible legal risks are detected at an early stage and possible solutions for minimising, limiting or preventing such risks are proposed. The legal department coordinates the commissioning and integration of external lawyers. Within the scope of risk mitigation the legal department, in cooperation with product management, checks and monitors the existing insurance coverage for economic loss and initiates any necessary adjustments. According to our review, the pending or threatening legal proceedings against the MLP Financial Holding Group do not represent risks which could endanger the Group's continued existence.

Taxation risks

Changes that emerge in tax law are continually checked and reviewed with regard to their potential effects on the Group. Compliance with the fiscal requirements of the controlling company, MLP SE, is checked by internal and external experts in accordance with the tax regulations and all accompanying documentation issued by the fiscal authority. Corresponding provisions are formed for subsequent payments to be anticipated.

Capital charge according to the basic indicator approach

The MLP Financial Holding Group currently uses the basic indicator approach in line with sections 315 and 316 of the Capital Requirements Regulation (CRR). On this basis the capital charge is 15% of the average gross proceeds of the last three financial years, whereby only positive gross proceeds are taken into account.

Other risks

Other risks include reputation risks and general business risks (including strategic risks). These also include potential step-in risks for a non-consolidated company, insofar as support is provided without contractual obligation.

Reputation risks

Reputation is defined as the reputation of MLP as a whole or of individual Group companies in terms of expertise, integrity and trustworthiness that results from the perception of different stakeholder groups. Examples of stakeholders are clients, employees, consultants and office managers, shareholders and creditors, other institutions, ratings agencies, the press and the world of politics. Reputation risk is understood to mean an existing or future risk regarding income, equity or liquidity as a result of reputation damage.

The management of reputation risks in the MLP Financial Holding Group is always conducted decentrally within the scope of a defined regulatory cycle following the principle of managing operational risks. Besides reactive control directly after the occurrence of a damage event, preventive risk management is particularly important here.

The potential risk of mistakes made while providing consulting services to our clients also impacting our reputation is minimised by ensuring that consulting is of consistently high quality. The instruments used to secure this high level of consulting include IT-based consulting tools, and consultations with clients are comprehensively documented.

General business risks

General business risks arise as a result of altered framework conditions. These include, for example, the market environment, client behaviour, sustainability risks and technical progress. Achieving the planned results can potentially be jeopardised as a result of the inadequate alignment of the Company to a business environment that may have changed abruptly. Risks of this kind can in particular occur as a result of an inadequate strategic decision-making process, unforeseeable discontinuities in the market, products that have not been properly matched to the market or poor implementation of the chosen strategy.

General business risks are predominantly controlled by the Controlling department. Within the scope of environmental analyses, regular checks are also conducted to detect and analyse all changes to economic factors or the industry and competitive situation. This results in impulses for the strategic alignment of the MLP Financial Holding Group.

The ongoing period of low interest rates and the potential effects of amendments to the Life Insurance Reform Act (LVRG) are leading to a degree of uncertainty. In addition, the continuing expansion of supervisory requirements presents a challenge to profitability in the banking and financial services sectors overall. We are still observing a great deal of competitive pressure in the German market for financial services, also from new and digitally oriented market players (fintechs).

You can find more detailed information on the environment, sector and competitive situation in the section entitled "Economic report and forecast".

No quantification of other risks is currently conducted within the scope of internal risk management. To cater for the risks resulting from this, a corresponding buffer is maintained in the risk-bearing ability. This is regularly validated within the scope of backtesting and adjusted as and when necessary.

Results of the analysis of risk-bearing ability

The risk-bearing capacity concept ensures that the risks incurred are offset against sufficient risk coverage potential at all times. Within the scope of the risk-bearing capacity concept, the MLP Financial Holding Group primarily pursues a going-concern approach with a confidence level of 97% when controlling risks. This is based on the protection of the minimum capital backing required by law and thereby the continuation of the business operations of the MLP Financial Holding Group. Free equity capital that is available after meeting the regulatory ratios for minimum capitalisation and an additional buffer are in place to serve as risk coverage potential.

In 2018 the Executive Board made a risk coverage fund available based on the risk coverage potential (sum of free supervisory equity and plan EBT) up to an upper threshold of € 100 million to cover the following risk types that MLP categorises as significant: counterparty default risk, market price risk, liquidity risk, operational and other risks.

With shares of 53.9% and 37.8% respectively, counterparty default risks and operational risks account for most of the risk coverage fund available.

The risks incurred are covered by the assigned limits in line with the risk coverage potential. Consistent surplus coverage is in place.

Risk-bearing ability of the MLP Financial Holding Group

Risk bearing ability	2018 Utilisation (in %)	2017 Utilisation (in %)
Risk and capital commitment	74.6	76.0
thereof:		
Counterparty default risk	73.4	79.0
Market price risk	53.4	60.9
Operational risk	83.4	78.0
Liquidity risk	0.0	0.0

The backing of risk assets with eligible own funds for tier 1 capital generally requires a minimum ratio of 4.5%. As in the previous year, these requirements have not changed during the financial year 2018.

Capital adequacy requirements under banking supervisory law

As per Article 25 et seq. of the CRR, the Group's Tier 1 capital includes the following equity items of IFRS capital: share capital, capital reserves, statutory reserve and retained earnings. Among other factors, intangible assets, treasury stock and goodwill reduce Tier 1 capital.

As was also the case in the previous year, the MLP Financial Holding Group fulfilled all legal requirements relating to minimum capital adequacy throughout the financial year 2018. The relationship between risk assets and equity capital on the balance sheet date is illustrated below.

Supervisory KPIs

Shareholders' equity (in € million)	2018	2017
Tier 1 common capital	288.9	291.0
Tier 1 additional capital	–	–
Tier 2 capital	–	–
Eligible own funds	288.9	291.0
Capital adequacy requirements for counterparty default risks	77.6	73.8
Capital adequacy requirements for operational risk	40.1	42.4
Core capital ratio (in %)	19.64	20.02
Tier 1 common capital ratio (in %)	19.64	20.02

Summary

MLP's business development is essentially influenced by financial risks, operational risks, reputation and general business risks. We use our risk management system for the identification, assessment, control, monitoring and communication of our key risks in terms of both current and future developments. The information provided ensured the prompt introduction and prioritisation of risk management measures without exception.

Both the MLP Financial Holding Group as a whole and the business segments always acted within the scope of their financial risk-bearing ability in 2018.

Our Business Continuity Management also ensures regulated business operations in the event of any disruptions. Our risk monitoring and control systems and the consistent alignment of our business model to our risk-bearing ability enable us to ensure that the risks taken in our business activities are backed with adequate risk capital.

The risk management system is subject to continuous further development, in particular with regard to developing the volume and complexity of our business. The effectiveness of our risk management system and its supervisory implementation are also checked cyclically by both external and internal auditors.

The aforementioned risks, and such risks as are not yet known to us or are currently considered insignificant, could have a negative impact on our forecasts detailed in the outlook.

There are currently no discernible risks that could threaten MLP's continued existence, and we do not expect any negative development in the coming year. No appreciable risks that could have a significant influence on the continued existence of the MLP Financial Holding Group occurred at MLP after the balance sheet date.

Opportunity report

Opportunity management

The objective of the integrated opportunity management approach employed by the MLP Group is to secure the systematic and early identification of opportunities and their assessment.

This takes place within the scope of a standardised business strategy process that is conducted by the Executive Board once a year. To this end, assumptions made about relevant influential factors for future development are subject to an ad hoc check. Such reasons can, for example, include major acquisitions, regulatory changes or changes in the market environment. MLP's corporate strategy, and the opportunities associated with this, are derived from its corporate mission, which is examined and updated by the Executive Board on an annual basis. The current internal and external framework conditions and influential factors are then analysed and summarised using established processes. A comprehensive analysis of the current environment always forms the basis of this process. Among other things, this includes the macroeconomic and regulatory framework conditions, developments in the product area and also the competition. With regard to client and sales potential, we also use available market data in addition to our own assessments. The analysis culminates in a comprehensive SWOT analysis (strengths, weaknesses, opportunities, threats).

Within the scope of MLP's opportunity management, the market and competitive environment is continuously monitored from different company perspectives. This process is organised locally in the responsible departments, which regularly report their findings to the responsible member of the Executive Board. Product Management is a key player here, as it determines opportunities through intensive contact with product providers and industry experts, mostly in the form of product innovations. In addition Customer Management undertakes extensive market research. Other important protagonists in terms of opportunity management are Controlling, which examines the market to detect potential acquisition opportunities, and the organisational units of Risk Management and Compliance, which examine potential regulatory changes at an early stage.

Opportunities

The opportunities in terms of the future business development can be subject to both external and internal influences.

Opportunities from changing framework conditions

Economic forecasts for the year 2019 suggest only limited opportunities for MLP. Economic experts are still predicting that Germany will enjoy further growth, albeit with significantly waning dynamics. The aforementioned reservations on the part of clients when it comes to signing long-term savings contracts will hinder progress. In the medium to long term, however, the greater need for private and also occupational pension provision is likely to increase demand for these two products significantly again – particularly among MLP's target groups. Should the German economy enjoy better development than assumed in our forecast, this will only have an indirect influence on short-term operating developments.

The ever-stricter regulation of the financial services sector in Germany, with the objective of stabilising the financial system and increasing investor protection, presents both challenges and opportunities for MLP. Stricter regulatory requirements will initially lead to additional costs and reduced productivity, as administrative costs increase and processes in the Company have to be adapted. However, regulation also tightens the quality standards required of market players. This will accelerate the consolidation of the market, as individual brokers will not be able to comply with the stricter requirements. The overall number of providers is likely to reduce. At the same time, this development could lead to qualified brokers from other market players displaying a stronger desire to work for MLP. With our consulting approach, which focuses on clients and their financial affairs, we are able to clearly differentiate ourselves in the marketplace. In addition, we were quick to align our operations to the new framework conditions over the last few years, which will enable us to benefit from this development in the medium term.

Corporate strategy opportunities

We see corporate strategy opportunities primarily in MLP's positioning as a partner for all financial matters, a position which has been particularly strengthened over the last few years. In addition to support for private clients, we are now increasingly focusing on our business with corporate clients and institutional investors. In cooperation with our Group companies TPC, DOMCURA, nordias and FERI, we will further expand our portfolio of corporate clients and institutional investors in the areas of occupational pension provision, non-life insurance, wealth management and risk management.

Interlinking these areas with one another and with the private client business will furthermore enable us to create corresponding revenue potential. In the private client business itself, MLP's broad positioning gives us an important USP. Further developing these opportunities offers important potential for the next few years. Additional increases are also possible, particularly in the wealth management area, in which MLP clearly sets itself apart from the market through its highly transparent price model, yet also in the non-life insurance area, in which MLP is developing the business of its subsidiary DOMCURA.

Within the scope of opportunity management, MLP examines the market for potential acquisitions. In the event of an acquisition, opportunities can arise which can increase revenue potential.

Business performance opportunities

As we are a pure service provider, our operational tasks comprise sales, product purchasing/product selection and sales support.

In the field of sales, our potential in the private client business will increase even further over the course of the next few years. The need for well-trained employees in Germany is increasing, which in turn improves the basic conditions for our graduate target group. The number of graduates capable of and seeking employment is set to rise in the medium term, which will lead to greater new client potential for MLP.

More targeted penetration of our client base, particularly in the wealth management and non-life insurance areas, will also help us to achieve further growth. Since our clients are generally highly qualified and therefore have excellent income prospects, they also have a continuous need for sound financial advice and hold corresponding revenue potential.

The private client business is not the only area in which we see opportunities for winning and supporting new clients. There is also a high demand for independent, professional consulting in the business with corporate and institutional clients, which we have now bundled at our FERI subsidiary. Particularly for institutional investors and high net-worth families, the need for consulting services is on the rise, above all in the field of alternative investments. DOMCURA is the service provider for agents and other brokers in the non-life insurance area, providing comprehensive solutions for both private and commercial business – in part with a high degree of individualisation.

Over the last few years we have implemented various measures to increase the productivity of our consultants. These include the further development of our consulting applications, even greater support for our consultants – for example in product selection – and even more effective service from the back office in Wiesloch. Furthermore, the ongoing development of the training programme offered at our Corporate University to our self-employed client consultants, which thanks to its perfectly tailored modules fulfils the individual training requirements of the consultants even more effectively, as well as the realignment of the university segment with a clear focus on the recruitment of young consultants, also contribute to this. Should we be more successful in recruiting new consultants than anticipated in our current planning, this could also lead to additional potential. The service centre of our subsidiary MLPdialog also plays a key part. As an underwriting agency, the DOMCURA Group has also extended the added value chain of the MLP Group for standard products in the non-life insurance business with its processes and expertise, and it will continue to do so in future. The goal of these measures is to allow our consultants to focus even more on their core task, namely advising and supporting their clients. This provides important revenue potential for the future.

Opportunities from the development of asset and risk positions

Positive business/market developments with lasting effects on earnings can be beneficial for the capital/financial situation of MLP and facilitate greater scope for action in terms of business model and risk profile. In addition to the opportunities already mentioned arising from changing framework conditions, corporate strategy and business performance, further opportunities could also arise from interest rate developments or lower loan-loss provisions due to economic developments.

In the banking segment MLP also engages in current account and credit card business as well as classic lending. Focusing on cross-selling, these business activities are subject to the acceptance of counterparty default risks. Special profit opportunities arise for MLP through its preferred clientele and their predominantly good credit ratings. In addition, positive developments in the economic situation in Germany could present opportunities for improved portfolio quality, thereby keeping the need for value adjustments at a low level. Opportunities could also present themselves through a possible expansion of the banking business. However, these can also be associated with risks.

Interest rate developments also have an influence on MLP's portfolio. Depending on the positioning/alignment and interest rate development, they could potentially lead to both risks and opportunities. Regardless of this, MLP manages its interest rate book with the objective of continuing to secure a healthy liquidity situation.

Summary

MLP sees several significant opportunities. These affect multiple fields, in particular corporate strategy and business performance factors as well as the asset and risk position. We believe that changing framework conditions will present only limited opportunities.

FORECAST

Future overall economic development

The economy in the eurozone is likely to enjoy moderate growth in 2019. This development will primarily be supported by solid domestic demand, which in turn is being driven by falling unemployment figures and an expansive fiscal policy. Trade disputes and the anticipated downturn in the US economy could have negative effects. FERI Investment Research is therefore anticipating growth of only 1.6% in the eurozone for 2019.

Economy set to cool off further in 2019

The German economy will continue to lose momentum in 2019 as a result of foreign trade issues. Germany is significantly more dependent on exports to the US and China than other countries in the eurozone. Potentially weaker demand in those countries could hit exports. However, domestic demand is likely to remain the key driving force for the German economy. In particular the sustained boom in the building sector and the healthy situation in most service sectors are having a stabilising effect. FERI Investment Research is forecasting economic growth of 1.2% for Germany in 2019.

Employment market prospects remain favourable

Based on estimates of the Institute for Employment Research of the German Federal Employment Agency (IAB), the employment market in Germany is likely to continue its good development. With regard to the annual average for 2019, unemployment is expected to drop by a further 120,000 to 2.23 million people. In terms of gainful employment, the experts from the IAB are forecasting a slight increase of 220,000 people. However, the growth in gainful employment will in future be limited by demographic developments.

The employment market is also likely to remain dynamic in the long term, especially for specialists. Basel-based research institute Prognos estimates that the shortfall of skilled workers, engineers, researchers and healthcare professionals could reach 3 million by 2030 and 3.3 million by 2040.

Increasing salaries and wages to be anticipated

The healthy situation on the employment market and the significant increase in gross wages and salaries are contributing to the ongoing increase in disposable incomes of private households in Germany. The Working Group on Tax Revenue Projection is forecasting a 4.2% increase in gross salaries and wages for 2019. FERI Investment Research is anticipating a savings rate of 10.4% in Germany for 2019 (2018: 10.3%).

Future industry situation and competitive environment

The aforementioned influence of the individual fields of consulting on the operating business segments also applies to the future industry situation and the competitive environment.

Old-age provision

With the exception of occupational pension provision, the old-age provision sector will continue to operate in a difficult market environment, in which reluctance to sign long-term contracts is likely to continue – despite state subsidies/allowances for both private and occupational pension provision, the falling pension level and increasing life expectancy. The market potential remains promising, however, in particular among MLP's clientele, because of the growing pension shortfall.

In future, private and occupational pension provision is likely to assume an increasingly important role in Germany. In its 2018 Pension Insurance Report, the German government stressed that the decline in the level of the statutory pension can only be compensated through supplementary provision and use of state subsidies/allowances.

German citizens are not saving enough

Yet despite this, as stated in the ERGO Risk Report 2018, most German citizens are saving too little for their retirement. According to data provided in the report, some 42% of Germans are saving nothing or less than € 50 per month towards their old-age provision. As such, half of all Germans believe that they will need to live a more restricted lifestyle after retiring. One in four is even fearful of poverty in old age.

Statutory pension only to be strengthened up to 2025

According to the latest Pension Insurance Report published by the German government, the standard pension level is currently only 48%. Within the scope of the German government's pension package, which came into force on January 1, 2019, it is to be maintained at that current level of 48% up to 2025. The premiums are also set to be kept below 20% of gross income until that time. However, the package of reforms contains no commitments for the time after 2025. Based on the current legal situation, the pension level may decline to 43% by 2030, while the premium rate may increase to up to 22%.

You can read more about this in the Forecast section under → “Competition and Regulation”.

Gap in provision likely to increase

Over the course of the next few years, the gap in provision for the aged in Germany is likely to increase dramatically. According to the Institute for Old-Age Provision and Financial Planning (IVFP), the gap could reach around 40% by 2040, and it is likely to be even higher among the self-employed and freelancers. Based on a survey conducted by the German Institute for Economic Research (DIW Berlin), more than half of those in gainful employment aged between 55 and 65 would not be able to cover their consumption solely from their entitlements to statutory or occupational pension provision payments. On average they would have a gap in provision of around € 700 per month.

The results of the latest Provision Atlas Germany by Union Investment also indicate that the young generation in particular must take action if it wishes to maintain its standard of living when reaching retirement age. According to the survey, those who are aged between 20 and 34 today will on average require an additional € 800 per month for their retirement. The gap in provision is even greater among higher earners.

The state supports supplementary old-age provision in Germany. In 2019, the maximum tax-deductible amount in Tier 1 is to increase from € 23,712 to € 24,305 for single persons. At the same time the percentage of premiums paid that is taken into account by the tax authorities is set to increase from 86% to 88%. These figures are doubled for married couples.

Greater support for basic and Riester pension from 2019 onwards

The legislation on strengthening occupational pension provision in Germany (BRSG), which came into force on January 1, 2018, encompasses a comprehensive package of measures aimed at achieving greater market penetration for occupational pension provision. A compulsory employer's contribution was introduced on January 1, 2019 for new contracts within the scope of the legislation on strengthening occupational pension provision in Germany (BSRG). If employees pay part of their salary into a pension fund, a pension scheme or a direct insurance policy, the employer is then obliged to pay a further 15% of the converted premium to the occupational pension provision as an employer's contribution if they themselves then pay less in social security contributions as a result of the deferred compensation. You can find further information on this in the forecast section under → "Competition and regulation".

Attractiveness of occupational pension provision growing

A survey undertaken by Deloitte also indicates that there is still a significant need to catch up in the field of occupational pension provision. Based on the survey, 45% of employees do not receive any occupational pension provision financed by their employer. This figure increases even further to 60% among young employees aged 25 and under. Yet the importance of occupational pension provision has increased in terms of acquiring and motivating employees, as well as keeping them loyal to their employer. Indeed, some 55% of employees pay close attention to the occupational pension provision on offer when switching jobs and rate this as extremely important.

According to a survey conducted by Mercer, two thirds of companies would like to establish a digital information platform for their employees that presents their provision status as well as supplementary benefits in a clear and logical structure as a way of reducing the amount of administration associated with occupational pension provision. The importance of the occupational pension provision business is also growing from the perspective of brokers. According to the "2018 AssCompact Market Survey of Occupational Pension Provision", around two thirds of brokers (68%) are currently expecting occupational pension provision to become very important in the brokerage business in the next five years.

Digital employer portals in demand for occupational pension provision

Assekurata takes the view that the ongoing low-interest-rate environment is leading to a situation in which the importance of classic life and pension insurance policies offering what has now become a very low guaranteed interest rate will continue to decline – and that their market volume will therefore fall further by 2020. The importance of unit-linked policies, on the other hand, is set to increase.

Sector facing major challenges

For 2019 the Insurance Markets Commission at the German Insurance Association (GDV e.V.) is anticipating an overall growth corridor of between -1.1% and +1.5% for the life insurance business.

Wealth management

FERI is of the opinion that the market environment in the wealth management area is in the middle of a pronounced cyclical change, which can potentially present serious challenges for the financial markets. Accordingly the future scenario is likely to be characterised by a weaker economic environment, a rather more restrictive overall monetary policy and geopolitical risks. According to FERI, world trade is set to virtually stagnate in 2019. The likelihood of politically motivated earnings risks is also set to increase further, which could lead to erratic market movements. In Europe the ultimate outcome of Brexit remains unclear, while the potential threat posed by Italy to the EU, EMU and the euro currency is an uncertainty that needs to be taken seriously. However, FERI also expects the basic scenario for asset allocation to present opportunities – above all if stock markets and other risk investments adapt to the new scenario relatively quickly.

The need for high-quality wealth management services is set to increase in the long term because of the constantly growing number of high-net-worth individuals. According to the Global Wealth Report published by Credit Suisse, worldwide wealth is likely to increase by just under 26% to US$ 399 trillion by 2023. The number of millionaires is also set to increase quite significantly in the next five years, reaching a record number of 55 million.

Increasing demand

A survey undertaken by the German Institute for Economic Research (DIW) indicates that the actual value of inherited wealth is likely to be higher than previously anticipated over the course of the next few years. According to information provided by the survey authors, this is because previous estimates were based solely on assets and did not take into account factors such as regular savings or potential increases in value. According to figures from the German Institute for Economic Research (DIW), total inherited wealth in Germany is therefore likely to reach a level of just under € 400 billion per year by 2024.

Inherited wealth rises to € 400 billion per year

Despite the ongoing low-interest-rate environment, German citizens are still putting a large proportion of their savings in short-term investments that deliver scarcely any return. According to a survey conducted by the "Aktion pro Aktie" initiative, this could be due to unrealistic return expectations: those who put their money into savings accounts or overnight deposits still expect to receive a better return than is actually achievable in many cases. German investors expect to receive an average annual return of 3.5% from investment funds on the stock exchange. Yet despite this, only one in five has invested in these investment products.

Investment behaviour characterised by unrealistic return expectations

The trend towards alternative investments is continuing among institutional investors. According to the Alternative Investor Survey 2018 of the German Association of Alternative Investments (BAI), the investors surveyed are keen to expand their commitments in the fields of private debt, infrastructure, real estate and private equity within the next three to five years – i.e. precisely those areas in which they have already invested heavily in the past according to the survey.

Institutional investors keen to expand their commitment to alternative investments

In light of a weaker economic environment, low interest rates and geopolitical risks, the capital market environment is likely to be characterised by pronounced volatility and remain challenging in the financial year 2019. In view of the above, we still expect to see an increased need for consulting services in the professional wealth management area among all of the Group's target client groups in the long-term.

Non-life insurance

Non-life insurance will play an increasingly important part in the market in future. Independent brokers in particular are also expecting the growth trend observed in the last few years to continue. According to a survey among insurance brokers conducted by AssCompact, 80% of respondents believe that the private non-life insurance business will be highly relevant in the next five years. They expect the greatest positive revenue trend in the field of residential building and legal expenses insurance policies. The areas of liability, accident and household contents insurance are also predicted to enjoy positive development.

Alongside the established private non-life insurance business, many brokers are increasingly expanding their focus to include the commercial arena. According to the AssCompact survey "Commercial Damage/Accident Business 2018", just under 60% of independent brokers consider commercial business to be very important and are expecting further forward momentum here in future. Above all, brokers see great growth potential in cyber insurance policies. Indeed, 87% expect to see better or much better revenue development here in the next one to three years.

Commercial non-life insurance business holds potential

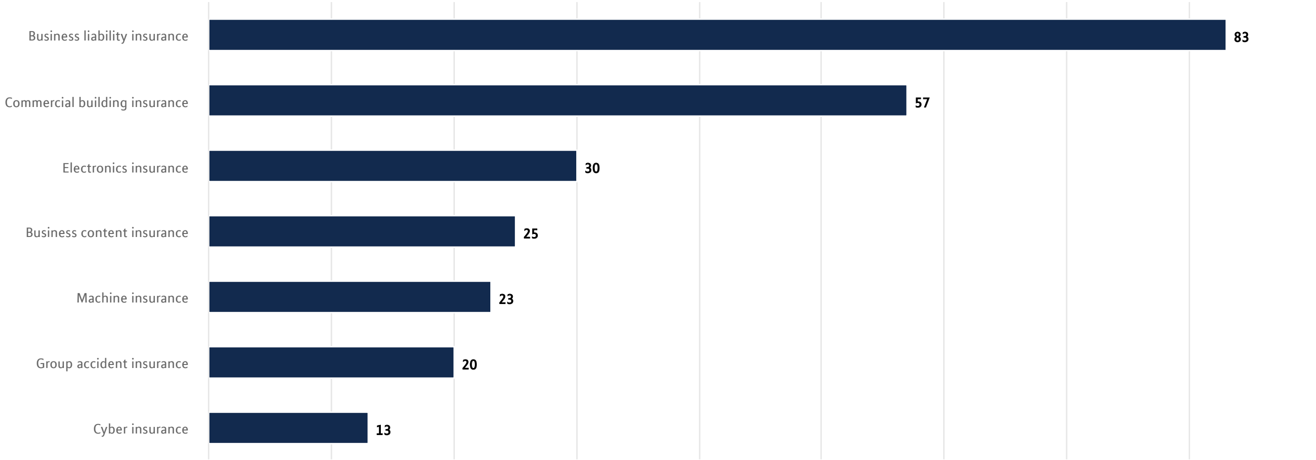
Based on estimates by ratings agency Assekurata, the focus in the commercial non-life insurance business is likely to shift towards the target group of small and medium-sized enterprises (SMEs) in future. Based on its size alone, this target group offers great growth potential. According to data published by the German Federal Statistical Office, there are around 2.4 million SMEs in Germany – representing 99.3% of all companies in the country.

SMEs with large backlog

In addition there is an enormous backlog demand for insurance cover from SMEs, as underlined by a survey conducted by Gothaer. Based on this, 45% of companies only have up to three insurance policies, while a further third has fewer than six policies in place. More than half of the companies (58%) fail to review their own insurance cover on an annual basis.

In terms of the type of insurance, business liability insurance is the dominant area with 83% of all policies. However, there is still considerable potential for all other commercial insurance policies. According to the Gothaer's "SME Survey 2018", only around half (57%) of companies have commercial buildings insurance and just under a third (30%) have taken out electronics insurance policies.

The insurance policies currently in place at SMEs (in %):



Source: Gothaer SME Survey 2018

Growth market of cyber insurance

Increasing digital networking is also placing an ever-greater focus on the topic of cyber insurance among German damage insurers. Based on estimates provided by Assekurata, SMEs in particular have a lot of catching up to do in this area. As per the Gothaer SME Survey 2018, 40% of SMEs in Germany consider cyber risks, such as hacker attacks or data theft, as one of the greatest hazards to their operations. This figure was considerably lower one year previously at just 32%. However, only 13% of respondents to the survey currently have a cyber insurance policy in place.

Online policy sales in demand, particularly for basic products

The market potential for online insurance policy sales is great. Indeed, every second German citizen (57%) would have no problem signing up for an insurance policy online. The favourites in terms of online sales are basic insurance policies such as vehicle, liability and household contents insurance. These were the results of the "Digital Insurance 2018" survey conducted by software producer Adcubum.

Strong demand for face-to-face consulting still present for commercial insurance policies

For commercial insurance policies, on the other hand, classic sales channels are maintaining their dominance. Face-to-face consulting remains the top priority for commercial clients, as underlined by the survey entitled "Commercial Insurance 2018 – What Clients Really Want". Although digital channels are indeed playing an increasingly important part in terms of research and information procurement, commercial clients still consider a trusting relationship with their broker a particularly important criterion when taking out new policies.

Ratings agency Assekurata still expects stable, positive results of operations overall for the non-life insurance business. However, insurers are facing the challenge of being seen as "replaceable" risk bearers by clients, while at the same time maintaining close client relationships in order to achieve long-term client loyalty.

Overall, the German Insurance Association (GDV e.V.) anticipates a further increase in premium income of between 2.0% and 3.5% for 2019 in the property and casualty insurance business.

Health insurance

Further reforms are to be expected in the German healthcare system over the course of the next few years. The industry is currently focusing much of its attention on the Statutory Health Insurance Contribution Relief Act (GKV-VEG). This legislation states that the premiums for statutory health insurance are once again to be shared absolutely equally by employers and employees as of January 1, 2019. In future, self-employed persons with a low income can also expect to pay lower premiums if they willingly sign up to a statutory health insurance fund. You can find further information on this in the forecast section under → "Competition and regulation".

Statutory Health Insurance Contribution Relief Act (GKV-VEG) weakening the competitive position of comprehensive insurance

Based on estimates provided by the experts at ratings agency Assekurata, the competitive position of comprehensive private insurance providers is likely to be further compromised in 2019 as a result of this legislation – primarily because the minimum premium for the statutory health insurance system is set to be halved for self-employed persons and freelancers. This will make the statutory health insurance system significantly more affordable for this target group as of January 1, 2019 and thereby make it more attractive for them to remain in the statutory system. The planned return to equal premium sharing could also reduce the desire of employees voluntarily paying into statutory insurance policies to change over to private insurance. Nevertheless, for many in this group the better benefits offered by private health insurance policies could still represent a powerful argument in favour of making the switch.

Access to private health insurance will also be further restricted in 2019 as a result of the increase in the statutory insurance limit from € 59,400 to € 60,750 per year. Only employees with incomes above this threshold will have the opportunity to switch over to private insurance. Anyone earning less than the threshold is subject to compulsory insurance in the statutory health insurance system.

Statutory health insurance funds: premiums will increase

Even if, as the German Health Ministry has reported, the average additional premium is reduced by 0.1 percentage points to 0.9% in 2019 because of the good current revenue situation of the statutory health insurance funds, statutory health insurance policy holders must still expect significant increases to premiums in the long term. Based on calculations conducted by the German Association of Actuaries (DAV), the premium rate in the statutory health insurance system could rise to 25% and in long-term care insurance to 8.5% by 2060. The main reason behind this is the demographic shift in Germany.

Trust in private health provision remains solid

As highlighted by the "Continentale Survey 2018", the vast majority of those paying into statutory funds are worried about the future of the healthcare system in Germany. Indeed, 80% are worried that good health provision is costing or will in future cost a lot of money on top of the statutory health insurance premiums. Many consider private provision to be the right solution here. Three quarters of respondents that pay into the statutory health insurance system (73%) believe that good cover will only be possible with private provision.

Statutory long-term care insurance not sufficient

A recent YouGov survey indicated the vast majority of German citizens feel as though they are poorly prepared from a financial perspective should they require long-term care. According to the survey, more than three quarters (77%) are worried that the benefits of statutory long-term care insurance will not be sufficient to cover their needs. Yet despite this, only a small number (15%) have actually concluded a private care policy. Those surveyed stated budgetary issues are the main reason for their lack of cover. Indeed, just under two thirds (63%) of respondents stated that they simply could not afford private long-term care insurance at the present time, while 20% believe that they do not know enough about what makes good insurance cover to be able to reach a well-founded decision.

A survey conducted by AssCompact therefore rates the future of private supplementary and long-term care insurance policies as positive. Some 60% of brokers believe that these insurance areas will be very important in the next five years. Ratings agency Assekurata sees enormous sales potential, above all in the supplementary long-term care insurance business, as only one third of those with supplementary long-term care insurance are younger than 40.

The occupational health insurance area is making slow progress in Germany. According to the Association of Private Health Insurers, some 672,500 people had occupational health insurance provision in place as at December 31, 2017 (+10.8%). The number of employers offering occupational health insurance increased by 23.8% over the previous year to 6,057. A survey conducted by the German Consumer Research Association (GfK) highlighted just how much potential there is here. According to the survey, 91% of companies in Germany are still not offering anything in this field. The survey goes on to state that this kind of coverage represents an ideal way of both acquiring the right staff and keeping them loyal to the Company. In fact, 70% of employees with occupational health insurance consider this a special kind of appreciation by their boss and some 92% of employees are so impressed by their occupational health insurance that they tell their friends about it.

Occupational health insurance still offers great potential

Depending on the level of premium adjustments and development of net new business in the comprehensive insurance area, the Insurance Markets Commission of the Economics Committee at the German Insurance Association (GDV e.V.) is anticipating an increase in premiums of between 2% and 4% for 2019 in the market for health and long-term care insurance.

Real estate

According to the "Wealth Barometer 2018", one third of all 20- to 50-year-olds are planning to purchase property in future. In 2017 this figure was just 23%. This applies in particular to young people, as the group of 20- to 29-year-olds represent 55%, which is significantly above the average. In 2017 only 38% of people in this age group were looking to purchase property. Purchasing an owner-occupied home is particularly popular: almost half (46%) of potential purchasers aged between 20 and 50 are keen to purchase an owner-occupied property, while 22% are looking for a buy-to-let investment and 30% plan to purchase both a buy-to-let and an owner-occupied property.

Young people in particular are planning a property purchase

Properties with nursing care are becoming increasingly popular as an investment. The need for compact dwellings with nursing care will increase in future as a result of the demographic shift. Indeed, the number of people requiring nursing care in Germany is set to rise within 20 years from around 2.9 million in 2015 to 3.8 million by 2035. Around a third of these will require a place in a nursing home. These are the results of the "Nursing Home Atlas Germany 2018" survey conducted by real estate consulting firm Wüest Partner Germany. The survey forecasts that around 230,000 new inpatient nursing care places will be required by 2035, most of them in Berlin (10,400) and Hamburg (3,600).

Nursing care properties as an investment

Demographic developments in Germany could lead to a significant increase in demand for micro-apartments, thereby also increasing the value of this type of property. According to estimates provided by the German Federal Statistical Office, the trend towards smaller households is set to continue in future. Indeed, the proportion of single-person and two-person households in Germany will rise to 80% by 2035. Around four out of every five households in Germany will be home to just one or two people in future. The proportion of small households is particularly high in the cities of Berlin, Hamburg and Bremen, where the proportion of single-person households is set to increase to an average of 55.5%.

Demand for micro-apartments set to rise

The boom currently being experienced in the cities is reinforcing this trend. Based on a survey undertaken by the Institute of the German Economy (IW), more than 4 million people will be living in Berlin by 2035, while Munich will be home to 1.66 million people and Frankfurt/Main will have 813,000 residents.

Cities are booming

Although property prices have already seen pronounced rises in many areas over the last few years, further increases are to be expected. This is the conclusion of the Postbank "Residential Atlas 2018" survey. In more than half (55%) of German administrative districts and cities, property owners can expect their house or apartment to increase in value until at least 2030. The prices for real estate are set to keep rising – primarily in urban centres, yet also in popular rural regions.

Prices continuing to rise in urban centres

Investors are therefore taking a rather optimistic overall view of the German real estate market. According to a survey undertaken by auditing firm PwC, two thirds (68%) of investors surveyed expect to see rising returns in the next five years.

Loans and mortgages

High degree of willingness to take on debt

Based on information provided in the "Wealth Barometer 2018" of the Deutsche Sparkassen- und Giroverband (DSGV), some 82% of potential property purchasers aged between 20 and 50 would be willing to take on debt in order to finance their own homes. The WB also states that 43% would be willing to sign up for a mortgage to finance as much as 60% of the purchase price, while 28% would even finance up to 80% of the purchase price through borrowing.

Impetus through "Baukindergeld" family housing grant scheme

Based on information provided in a survey, additional impetus should also be expected from the "Baukindergeld" family housing grant scheme introduced in 2018. According to a model calculation of Berlin-based property research institute Empirica, the "Baukindergeld" scheme will help an additional 58,000 young families purchase their own home. The number of young tenant households with children that qualify for home ownership on the basis of their income and equity situation will thereby increase by 32% from 181,000 to 239,000 households.

Consumer lending remains stable

According to the "Consumer Credit Index 2018/2019" of the Professional Banking Association (Bankenfachverband e.V.), demand for consumer lending remains stable. The willingness to sign up for loans is therefore likely to increase slightly, although according to forecasts this effect will be equalised by consumer purchase planning remaining at around the same level.

Ongoing low-interest-rate environment

FERI does not expect to see any increase to the prime rate by the European Central Bank until the second half of 2019 at the earliest. The prime rate has been stagnating at zero since March 2016.

Further growth is anticipated overall in the loans and mortgages area, primarily driven by property loans.

Competition and regulation

Consolidation of intermediaries ongoing

The market for financial services and the insurance sector is facing consolidation. Germany is considered to be the market with the greatest potential in Europe, in which both national and international service providers are competing. Because of stricter regulations, pressure is in particular mounting on low-level providers, which will lead to a further reduction in the number of market players. According to current figures provided by the Association of German Chambers of Industry and Commerce (DIHK), the number of registered insurance brokers declined by around 19,200 to some 201,600 in the period from January to December 2018 alone. Accordingly, there are now almost a quarter fewer registered insurance intermediaries than in 2011.

Long-term effects of the Life Insurance Reform Act (LVRG) still unclear

In 2018 the German Federal Ministry of Finance (BMF) published an evaluation report on the Life Insurance Reform Act (LVRG). Although its conclusions are largely positive, the capping of acquisition commission is listed as a potential measure in the report – albeit without any further details to date. The political discussion on this is ongoing. A draft bill is expected from the German Federal Ministry of Finance (BMF) around spring 2019, and it will then be subjected to the parliamentary process. No direct effects on the operating business of MLP in the old-age provision area are therefore to be expected for 2019.

Commission cap depressing the overall mood

Should the German Federal Ministry of Finance (BMF) introduce a commission cap, a survey conducted by AssCompact suggests that many free intermediaries and brokers should be worried about their future. Indeed, around 70% of brokers surveyed feel certain that any form of commission capping would have negative effects on their brokerage business. If the commission cap is applied to all life insurance products (including biometric products), the brokers estimate that up to 50% of free intermediaries could struggle to survive.

Legislation to strengthen occupational pension provision in Germany (BSRG) is having the desired effect

As of 2019 a compulsory employer's contribution was introduced in the occupational pension provision area within the scope of the legislation on strengthening occupational pension provision in Germany (BRSG), which came into force in 2018. If employees pay part of their salary into a pension fund, a pension scheme or a direct insurance policy, as of January 2019 the employer is then obliged to pay a further 15% of the converted premium into the occupational pension provision as an employer's contribution if they themselves then pay less in social security contributions as a result of the deferred compensation. This applies to all deferred compensation agreements concluded from 2019 onwards. For those deferred compensation agreements already concluded or in place before this time, the allowance will only be paid as of 2022.

Statutory pension level set to be stabilised

The legislation designed to improve service and stabilise the statutory pension came into force on January 1, 2019. In future the pension level before taxes should be at least 48%, while the premium rate is set to rise to a maximum of 20%. However, this "belt and braces" approach will only apply provisionally up to 2025. The legislature has not yet given any information as to what may happen after 2025. Experts are already issuing warnings about the heavy costs associated with the new legislation.

Changes to statutory health insurance

The new Statutory Health Insurance Contribution Relief Act (GKV-VEG) came into force on January 1, 2019. This stipulates that the premiums paid into statutory health insurance are once again to be split completely equally between employers and employees from 2019 onwards. Unlike in the past, this now applies not only to the general premium rate but also to the individual additional premium that each healthcare fund determines itself. In future, self-employed persons with a low income can also expect to pay lower premiums if they willingly sign up to a statutory health insurance fund.

Further regulation to be anticipated

Over the next few years regulatory bodies are likely to continue work on ways to make the costs associated with financial products more comparable for clients, while clients themselves are likely to become more conscious of costs and consulting quality overall. Issues that could also contribute to this include the fact that the legislature has already taken action with binding stipulation of an effective cost ratio both in Germany in the form of the Old-Age Provision Product Contact Point (PiA) and at European level with the Key Information Documents (KIDs) for Packaged Retail and Insurance-Based Investment Products (PRIIPS), which have been stipulated since January 1, 2018, as well as the new PRIIP-KIDs for UCITS funds which apply from January 1, 2019 onwards. However, even these most recent regulatory steps have not even come close to securing sufficient comparability of the products or their costs. In addition, clients are becoming increasingly aware of the differences between the various groups of consultants (brokers, etc.).

It is in principle true that the world of politics continues to pursue a strategy aimed at strengthening the field of fee-based consulting. Yet the Fee-Based Investment Advisory Service Act (HAnlBG) which came into force in 2014 – referring solely to the field of investment consulting – has not delivered any appreciable effects to date because of regulations affecting existing contracts that prove to be out of step with the market. Should any further market potential actually materialise, however, MLP is well prepared to handle it, as new business in the wealth management area is already remunerated on a fee-like basis at MLP.

Fee-based consulting remains a topic of discussion in the world of politics

The draft of the IDD Implementation Act initially presented by the German government also stipulated that insurance brokers could only have their work remunerated by insurance companies. With a de facto commission ruling, the German legislature clearly opposed the possibility of fee-based consulting or mixed models provided in Article 19 of the IDD. Following severe criticism, this legal text was amended again so that private clients can continue to receive fee-based consulting.

MLP has already implemented numerous requirements that will become binding law in future. Implementation expertise is required in order to comply with the legal documentation, qualification and transparency obligations. MLP believes it is well prepared for this. But irrespective of this, the regulatory developments will certainly represent a challenge overall and lead to additional implementation costs.

Well equipped to handle new regulatory requirements

Anticipated business development

Over the course of the next few years, we generally expect to see an increased need for consulting services in the field of professional wealth management among all the Group's target client groups. More and more clients of MLP Banking AG are approaching the age at which financial investments become significantly more important to them, not least because of their increasing personal wealth. Above all we see significant growth opportunities through the massive potential of this consulting field among our client base at MLP. FERI continues to benefit from its comprehensive expertise in alternative forms of investment. In light of low interest rates, a weaker economic environment and an overall rather restrictive monetary policy, however, the capital market environment is likely to be characterised by pronounced volatility and remain challenging in the financial year 2019. It is therefore safe to assume that both private and institutional investors will continue to display risk-averse behaviour. Volume-based and performance-based compensation could also decline. The MLP Group anticipates a slight overall increase in revenue in this consulting field.

In the old-age provision area MLP expects the reluctance to sign long-term provision contracts to continue throughout the market, primarily because of the ongoing period of low interest rates. The product landscape in the old-age provision area is continuing to change as a result of this. Alternative guarantee concepts are enjoying ever-increasing demand and gaining ground throughout the market. MLP has already assumed a pioneering role in the brokerage of these concepts, and we are increasingly benefiting from this. Exactly what concrete actions the German government is likely to take in future because of the evaluation report of the Life Insurance Reform Act (LVRG) currently remains unclear, leading to uncertainty in the life insurance sector. However we are not yet anticipating any direct effects of a potential commission cap in the life insurance sector in 2019.

On the other hand, the legislation to strengthen occupational pension provision in Germany, which came into force in 2018, is likely to continue providing positive stimulus for the occupational pension provision sector. To this end, MLP is planning to introduce a digital occupational pension provision portal for small and medium-sized companies in 2019. The objective here is to make it easier for employers to manage their occupational pension provision contracts, while providing employees with clearly structured and compact information on their company's occupational pension provision offers.

We are anticipating overall new business in the old-age provision area to be slightly above the previous year's level in the financial year 2019. Following the increase in 2018, we expect revenue to be at the same level as the previous year for the anticipated revenue mix.

In the non-life insurance area, we continue to see growth potential both on the concept side (DOMCURA) and from a sales perspective (MLP Finanzberatung). Following the successful introduction of product bundles in the private client arena by DOMCURA and the introduction of luggage insurance on the basis of blockchain technology, further target group concepts (e.g. product bundles for students and young employees and medical malpractice insurance) are planned for 2019. There is also further growth potential in MLP's customer base in terms of catering even more comprehensively for existing requirements in the non-life insurance area. Overall we therefore expect a slight increase in revenue in the non-life insurance area for 2019.

Market conditions in the field of health insurance are unlikely to display any significant improvement in the short term. The Statutory Health Insurance Contribution Relief Act (GKV-VEG), which came into force on January 1, 2019, will not improve the competitive position of comprehensive private insurance providers. The supplementary insurance area holds growth potential. We also believe that the occupational health insurance business has a promising future. Overall we expect revenues in the field of health insurance in 2019 to be at the previous year's level.

Within the scope of the holistic investment strategy and in light of the low interest rates, we currently see real estate as one of the most popular investment opportunities for our target group. Indeed, we see particularly great growth potential in the brokerage of new buildings and concept-driven properties (microliving, property with nursing care). We are therefore expecting to broker significantly more real estate in 2019 than in the previous year and accordingly anticipate sales revenue to increase quite strongly. In addition, we are expecting a strong increase in revenue in the loans and mortgages business.

However, a degree of uncertainty remains in all consulting fields because of the overall challenging market environment.

Revenue estimates: 2019 (in comparison with the previous year)

2019	
Revenue from old-age provision	Unchanged
Revenue from wealth management	Slight increase
Revenue from non-life insurance	Slight increase
Revenue from health insurance	Unchanged
Revenue from real estate	Strong increase
Revenue from loans and mortgages	Strong increase

Continuation of the growth initiatives

In order to maintain this earnings level in spite of the ongoing difficult market conditions in the old-age provision area, MLP will continue to drive forward the strategic further development of the previous years. Growth activities already successfully initiated will be continued to this end.

Greater focus on physicians

For 2019 we are planning to focus our activities even more keenly on the physician market, among other things by developing the target group area of entrepreneurial physicians, through diversification of activities in the field of classic practices, expansion of association work and cooperations, as well as the intensification of the qualification measures for MLP consultants.

Further acquisitions possible

Consolidation is taking place in the market of MLP Finanzberatung SE's line of business. Horizontal acquisitions are to be reviewed in detail, as the structure and culture of these companies must suit MLP. There are also opportunities for vertical acquisitions, i.e. for extending or strengthening the added value chain, in MLP Finanzberatung SE's line of business. Acquisitions and joint ventures are generally also possible in the markets of FERI and DOMCURA, facilitating profitable inorganic growth and strengthening of the business models.

Driving forward digitalisation, establishing a digital culture

MLP also strives to be the dialogue partner for all financial matters on the web and on social media. We are keen to anchor these principles as a programme in order to promote digital workflows throughout the MLP Group and gradually establish a digital culture. To this end, we launched a Digital Board with a Digital Officer and a Digital Task Force in 2018. Its primary task is to record central topics in all areas and promote digital working throughout the Group.

Future digital MLP Group projects will be broken down into three clusters: digital services for existing and potential customers (e.g. mlp.de, mlp-financify.de, MLP client portal), digital services for consultants (e.g. lead management system, MLP PolicyScan) and internal process improvements within the MLP Group.

The digitalisation strategy is closely linked to the new IT strategy and the new IT mission which was launched in 2018. This will lead to numerous measures over the course of the next few years, which in turn will lead to closer cooperation in cross-functional teams and be promoted through agile working models and project methodologies. For example we are planning to supplement our current IT world, which is based on operating our own data centres, with a cloud-based IT infrastructure and generally optimise our IT structures and processes. We will employ various approaches to achieve this in 2019, including the gradual introduction of new IT architecture and new working models. We will also start work on adapting existing consultant applications to the new requirements.

IT strategy as the basis for innovations

The MLP online client portal is to be extended in 2019, among other things to include an overview of all insurance policies. There are also plans for a mailbox offering secure communication between clients and consultants. Both facilities were previously already available to our clients via a separate module, but they will now be integrated into the client portal. In addition we are keen to apply the e-signature to all securities applications in the wealth management area with a view to making it possible for all business processes in the wealth management area to go paperless by the end of the year.

Online client portal being extended

Other focuses for MLP in 2019 include the continuous further development of its online presence and e-mail marketing and the expansion of the lead management system. By taking these steps we are keen to further improve the conversion rate of leads to actual clients. We have already established an app for policy scans in 2018 which, above all, makes portfolio transfers easier in the non-life insurance business. We will develop this further in 2019.

The continuous increase in the number of people with academic qualifications in gainful employment offers encouraging potential for MLP. This trend is likely to continue over the course of the next few years in light of the increasing numbers of students and graduates, as the unemployment rate among graduates is at a very low level. However, this also presents a challenge in terms of recruiting new consultants for MLP. The competition for graduates has intensified in the last few years, and good graduates typically have a choice between several attractive entry-level career offers. However, the realignment of our university segment in 2017 has placed our focus on the recruitment of new consultants, and we were already able to record the first positive results in the past year. We will consistently maintain and continue to drive forward this focus in 2019.

Number of prospective clients constantly on the rise

Recruiting new consultants therefore remains a focus topic in 2019. By pooling all of MLP's cross-location activities in the university segment we have established the necessary prerequisites to be successful here. The young consultants have successful and experienced consultants at their side in the form of regional managers and "university team leaders". In addition, we have optimised the training and qualification offers for this group of consultants. The process for joining MLP has also been significantly optimised for consultants with professional experience, making it even easier to make the switch to MLP. With these greater investments, we will create the basis for stronger future growth in terms of consultants, revenue and income.

Realignment of the university segment at MLP

To this end, we will strengthen our recruiting activities via our online presence (including expanding active sourcing activities). We are anticipating a net increase in the number of our consultants for 2019. Our overall assessment is based on the assumption that annual employee turnover will not exceed the target limit of around 10%.

We believe that the high quality of our basic and further training programme will continue to be the key to success. Indeed, we offer our consultants a programme that far surpasses the legally stipulated level. Modularising and expanding our training facilities should help us to slightly increase the number of central training days (including online seminars) at our Corporate University compared with the last financial year. This also applies to the total budget for qualifications and further training. We are anticipating expenses of around € 9.7 million for this in 2019.

We see the cost level that has currently been achieved as the basis for the next few years. Expenses will primarily be accrued within the scope of investments in the future, such as the recruitment of young consultants in the course of strengthening the university segment, as well as in IT for the ongoing implementation of our digitalisation strategy.

Consistent efficiency management programme supports growth strategy

Forecast

A consistent cost management approach is one of the pillars for continuously growing profitability. Despite additional investments in our own future, above all in the university segment, administration costs remained at a low level in 2018. The efficiency measures implemented in the past are bearing fruit.

Administration costs largely stable

We will continue to develop and optimise MLP in 2019. The forecast administration costs therefore still include expenses for investments in the future, in particular for recruiting young consultants within the scope of strengthening the university segment. Expenses incurred in this connection in 2018 were around € 6.7 million. On the basis of the successes already achieved in 2018 we will continue along this path, and further intensify our investments in strengthening the university segment in 2019. We are also anticipating additional expenses of around € 8 million for this in 2019. Although this may limit our growth in earnings in the short term, it will significantly increase our future profit potential in the long term. Added to this are further investments, in particular in IT, which are necessary for further implementation of our digitalisation strategy.

Alongside administration expenses, the costs of sales (primarily commission expenses) are also relevant for our cost structure. Since 2015, MLP has been offering a training allowance for new consultants to support them in their start to self-employment. These costs are also recognised under commissions paid. In 2019, we expect to record a comparable overall ratio of commission income to commissions paid as in the reporting year.

Following loan loss provisions of € +0.5 million in the reporting year 2018, we expect to maintain the previous year's level in the coming year.

Based on our estimates regarding revenue and costs, we are expecting a slight increase in EBIT for the financial year 2019 compared to the previous year – despite markets that remain challenging and substantial investments, mainly in our university segment but also in the ongoing implementation of our digitalisation strategy. This forecast is based on the assumption that the framework conditions in our core markets will not become significantly worse.

Forecast: slight increase in EBIT anticipated

As in the previous year, we once again expect the finance cost to be slightly negative. The tax rate in 2018 was 24.7%. For 2019 we are anticipating a slightly higher tax rate.

MLP's objective is to enable our shareholders to participate fairly in the Company's success, as well as to pay an attractive and reliable dividend corresponding to our dividend policy, determined by the Company's financial and earnings position and its future liquidity requirements. Since MLP employs a comparatively non-capital-intensive business model, we intend to maintain an attractive and consistent dividend policy for the future. At the same time, we will retain some profit to further strengthen the business model. We have been paying out between 50% and 70% of Group net profit as dividends since the financial year 2014.

Dividends of € 0.20 per share

Group net profit increased significantly in the last financial year. In comparison with the previous year's Group operating profit (assessment basis for the 2017 dividends) – i.e. earnings before one-off expenses for further development of the corporate structure – the development was stable.

On this basis, the Executive and Supervisory Boards will propose a dividend of € 0.20 per share at the Annual General Meeting on May 29, 2019, representing around 63% of Group net profit. We are keen to continue paying out between 50% and 70% of Group net profit in future.

Planned financing activities and investments

The MLP Group held sufficient shareholders' equity and cash holdings as of the balance sheet date. Our business model is not very capital intensive and generates high cash flows. From today's perspective this provides sufficient internal financing capacity for the forecast period, minimising our reliance on developments in the capital markets. Even rising interest rates or more restrictive lending by banks would not have a negative effect on our financing options or liquidity. We will use our cash flow to allow shareholders to participate in the Company's success, to strengthen the Group's financial power and for investments.

Our investment volume in the last financial year was € 26.6 million, which was above the level originally anticipated. This increase can be attributed to the acquisition of the business premises of FERI AG in Bad Homburg. In addition, IT remained the primary focus of investments. You can find more detailed information on this in the chapter entitled → "Economic report – Business performance". We will continue to make investments in future, above all in our IT systems. These essentially focus on the continuing implementation of our digitalisation strategy, in which we invested around € 4.4 million in the last financial year – and we estimate an additional investment volume of around € 25 million over the next two years. This means that we are anticipating a significantly lower overall investment volume for 2019 than in the previous year. Excluding investments for acquisition of the aforementioned business premises, we expect an investment volume above the previous year's level as measures for the implementation of our digital strategy are rolled out and/or intensified. Within our projects we use further funds that will flow directly into our income statement as expenses. We expect to be able to finance all investments from cash flow.

Slight increase in return on equity anticipated

Return on equity increased from 7.3% to 8.5% in the financial year 2018. Assuming unchanged shareholders' equity, we are anticipating a slight increase in return on equity for 2019.

The Group's liquidity rose from € 354 million to around € 436 million in the financial year 2018, and the overall liquidity situation remains good. Liquidity will be reduced by the intended dividend payment of € 21.9 million for the financial year 2018. It will increase again in the second half of 2019 thanks to the typical year-end business. Acquisitions which we finance with cash holdings would also have a negative effect on the Group's liquidity and capital adequacy. We are not anticipating any liquidity squeezes for the coming financial year.

General statement by corporate management on the expected development of the Group

MLP anticipates that the challenging market conditions will continue throughout the financial year 2019. In terms of EBIT, we are anticipating a slight increase over the 2018 figure. We therefore expect to see a positive overall development within the Group. We enjoy a sound financial standing, which we are keen to use to further extend our strong market position.

Prognoses

This documentation includes certain prognoses and information on future developments based on the beliefs of MLP SE's Executive Board, as well as on assumptions and information currently available to MLP SE. Terms such as "expect", "anticipate", "estimate", "assume", "intend", "plan", "should", "could", "might", "project" and any other phrases used in reference to the Company describe prognoses based on certain factors subject to uncertainty.

Many factors can contribute to the actual results of the MLP Group differing significantly from the prognoses made in such statements.

MLP SE accepts no liability to the general public for updating or correcting prognoses. All prognoses and predictions are subject to different kinds of risks and uncertainties, which can lead to the actual results deviating from expectations. The prognoses reflect points of view at the time when they were made.

SUPPLEMENTARY DATA FOR MLP SE (DISCLOSURES BASED ON HGB)

In contrast to the consolidated financial statements, the financial statements of MLP SE are not prepared to International Financial Reporting Standards (IFRS), but rather to the rules of the German Commercial Code (HGB).

Business and general conditions

General company situation

MLP SE is the holding company for the MLP Group. The Company's primary role is to manage the Corporate Group. It defines strategic goals and ensures coordinated and aligned corporate policy within the Group. MLP SE is not actively involved in operations. Any revenue generated at MLP SE is essentially a result of letting buildings to affiliated companies.

Five key subsidiaries are arranged under the umbrella of MLP SE. The brokerage business is now under one roof at MLP Finanzberatung SE, the Group's consulting company for private and corporate clients, a registered insurance broker. MLP Banking AG, a financial institution supervised by the Federal Financial Supervisory Authority (BaFin), offers banking services to both private and business clients – from accounts and cards to loans, mortgages and wealth management. As an underwriting agency, DOMCURA designs, develops and implements extensive coverage concepts for private and commercial clients in non-life areas. With the acquisition of the DOMCURA Group in 2015, MLP also acquired several brokers in the commercial non-life insurance business as well as the primary underwriting agent business. As the parent company of further brokerage firms, nordias GmbH Versicherungsmakler is home to further brokers in commercial non-life insurance. You can find more information on this in the chapter entitled → "Business performance" in the joint management report of the MLP Group.

Business performance at MLP SE

Because of the profit/loss transfer agreements in place, business performance at MLP SE is largely determined by the economic development of its investments, the performance of which is also described in the Group report.

In light of the above, the economic framework conditions, the industry situation and the competitive environment are essentially the same as those of the MLP Group and are described in detail in the sections entitled → "Overall economic climate" and → "Industry situation and competitive environment".

Results of operations

At € 5.3 million, sales revenues remained at the previous year's level (€ 5.6 million). Revenue essentially comprises rental income from affiliated companies. At € 3.8 million, other operating income remained at the previous year's level (€ 4.0 million).

Personnel expenses rose to € 6.3 million in the last financial year (€ 5.0 million), largely as a result of greater allocations to pension provisions. Amortisation of intangible assets remained virtually unchanged at € 2.5 million (€ 2.6 million). Other operating expenses decreased significantly to € 14.0 million (€ 28.8 million). The previous year's higher figure was essentially due to a merger loss resulting from the merger of SFH Schwarzer Familienholding GmbH (SFH) with MLP SE, as well as one-off expenses within the scope of further refining the corporate structure. At the same time, this item was negatively impacted in the reporting year by VAT expenses from previous years. These extra expenses can essentially be attributed to subsequent recognition of the VAT unity within the MLP Group, which had initially not been granted within the scope of the tax audit for the years 2008 to 2012. The tax allowances granted to the Company in 2016 as a result of this circumstance have now been imposed again. Earnings before interest and taxes were € -13.6 million (€ -26.8 million) and were therefore significantly above the previous year's level.

Business developments at its subsidiaries have a significant impact on the results of operations of MLP SE. Profit/loss transfer agreements are in place with MLP Banking AG, FERI AG, DOMCURA AG and nordias GmbH Versicherungsmakler. These are reflected in the finance cost.

The finance cost increased significantly in the reporting year to € 32.6 million (€ 18.0 million). This was primarily due to a sharp increase in income from profit/loss transfer agreements to € 35.7 million (€ 22.1 million). Higher interest and other expenses, which rose from € 0.8 million to € 2.9 million, served to offset this effect. The increase can be attributed to interest on arrears incurred because of VAT backpayments for previous years. Following the deduction of income taxes of € 3.5 million (€ +0.5 million), this resulted in net profit of € 15.4 million (€ -8.4 million). Unappropriated profit was € 21.9 million (€ 21.9 million).

Net assets

The balance sheet total of MLP SE was € 397.6 million (€ 401.1 million) on December 31, 2018.

On the assets side of the balance sheet, "Property, plant and equipment" declined slightly to € 32.8 million (€ 34.0 million). This was essentially due to depreciation and amortisation expenses. Financial assets remained unchanged at € 242.3 million (€ 242.3 million). Receivables and other assets increased to € 44.2 million (€ 34.9 million). This is essentially due to an increase in receivables from affiliated companies to € 33.4 million (€ 22.1 million). This increase is primarily attributable to receivables due from subsidiaries of MLP SE, resulting from profit/loss transfer agreements in place with these companies. Other assets fell slightly to € 10.7 million (€ 12.8 million).

"Cash on hand and on deposit with the Deutsche Bundesbank, bank deposits and cheques" reduced to € 76.9 million (€ 87.1 million). The decline can essentially be attributed to the payment of dividends to our shareholders and the VAT backpayments for previous years. This was offset by profit transfers from subsidiaries.

On the liabilities side of the balance sheet, shareholders' equity declined slightly to € 369.1 million (€ 375.6 million). The share capital and capital reserves remained unaltered at € 109.3 million (€ 109.3 million) and € 139.1 million (€ 139.1 million) respectively. Retained earnings also remained at the previous year's level of € 105.3 million (€ 105.3 million). Unappropriated profit was € 21.9 million, following € 21.9 million in the previous year.

Provisions increased to € 21.5 million (€ 17.8 million), with pension provisions and similar obligations rising slightly to € 12.1 million (€ 11.3 million). Provisions for taxes rose to € 4.4 million (€ 2.6 million). Other provisions increased to € 5.0 million (€ 3.9 million). Liabilities decreased to € 6.9 million (€ 7.7 million), largely owing to a decline in liabilities due to affiliated companies to € 2.2 million (€ 6.6 million). Other liabilities increased to € 4.2 million (€ 0.7 million), essentially because of tax liabilities that rose to € 3.4 million (€ 0.1 million). This increase can essentially be attributed to VAT liabilities from previous years.

Financial position and dividends

As of the balance sheet date, December 31, 2018, MLP SE had cash holdings (cash on hand and on deposit with the Deutsche Bundesbank, bank deposits and cheques) of € 76.9 million (€ 87.1 million). This item was reduced by the dividend payout to our shareholders at € 0.20 per share and a total volume of € 21.9 million. The profit transfers of our subsidiaries had a positive effect, while VAT backpayments for previous years had the opposite effect.

At 92.8% (93.6%), the equity ratio remained virtually constant. MLP SE therefore continues to enjoy good equity capital backing.

The liabilities of MLP SE decreased to € 6.9 million (€ 7.7 million), largely as a result of a drop from € 6.6 million to € 2.2 million in liabilities due to affiliated companies from the assumption of losses. These were offset by higher other liabilities of € 4.2 million (€ 0.7 million). The liabilities at MLP SE are all current liabilities. Cash and cash equivalents therefore exceed current liabilities several times over.

The dividend payments of MLP SE are made in accordance with the financial and profit situation and future liquidity requirements. As announced, the distribution rate for the financial year will be between 50% and 70% of the MLP Group’s net operating profit. The Executive and Supervisory Boards will propose a dividend of € 0.20 per share at the Annual General Meeting on May 29, 2019. This corresponds to a distribution rate of 63% of the Group's operating net profit.

Comparison of actual and forecast development of business

Business performance at MLP SE is essentially dependent on the business performance of the MLP Group. We therefore refer to the comparison with the forecast business performance of the MLP Group. We also refer to the withdrawal from other retained earnings conducted in the previous year. As such, the development of MLP SE deviates from the development of the MLP Group.

Despite market conditions that generally remained difficult for its subsidiaries in 2018, MLP SE was overall able to meet its own objectives and expectations – without taking into account the divergent withdrawal from other retained earnings.

Research and development

In its role as the holding company, MLP SE is not actively involved in operations. As a holding company, MLP SE does not engage in any research or development in the classic sense.

Employees

As was the case the previous year, MLP SE had an average of 6 employees in the last financial year.

Stipulations for promoting equal participation of women in management positions pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act (AktG) apply equally to MLP SE and the MLP Group. We refer to stipulations of the MLP Group for promoting equal participation of women in management positions pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act (AktG) in this regard. Details of this can be found in the corporate governance report of the MLP Group.

Compensation report of MLP SE

The basic structure and design of the compensation system at MLP SE are the same as those of the MLP Group. We therefore refer to the compensation report of the MLP Group.

Risks and opportunities at MLP SE

The risks and opportunities at MLP SE are essentially the same as the risks and opportunities of the MLP Group. We therefore refer to the risk report and opportunity report of the MLP Group.

As the parent company of the MLP Group, MLP SE is incorporated in the Group-wide risk management system. You can find further information on this in the section of the MLP Group's risk report entitled "Risk management".

The description of the internal monitoring and risk management system with regard to the accounting process of MLP SE is also the same as that of the MLP Group. We therefore also refer to the → MLP Group's risk report here.

For further information with regard to financial instruments and their deployment, we also refer to the MLP Group's risk report and accompanying notes.

Forecast for MLP SE

The development of MLP SE in its role as the holding company is largely dependent on the development and profit transfer of its investments. Set against this background, we refer to the forecast for the MLP Group.

Explanatory report on the disclosures pursuant to § 176 (1) of the German Stock Corporation Act (AktG), § 289a (1), § 315a (1) of the German Commercial Code (HGB)

The explanatory report on acquisition-relevant disclosures applies equally to MLP SE and the MLP Group. Therefore, reference is made to the MLP Group's explanatory report on the disclosures pursuant to § 176 (1) of the German Stock Corporation Act (AktG), § 289a (1) and § 315a (1) of the German Commercial Code (HGB).

Declaration on corporate governance pursuant to § 289f of the German Commercial Code (HGB)

The declaration on corporate governance applies equally to MLP SE and the MLP Group. We therefore refer to the MLP Group's declaration on corporate governance.

Explanatory report on disclosures pursuant to § 176 (1) of the German Stock Corporation Act (AktG), § 289a (1) and § 315a (1) of the German Commercial Code (HGB)

Composition of capital

As of December 31, 2018, the Company's share capital amounts to € 109,334,686 and is divided into 109,334,686 ordinary bearer shares with a nominal value of € 1 per share.

Restrictions on voting rights or on the transfer of shares

There are no restrictions on voting rights or on the transfer of MLP SE's shares.

Capital stakes

The German Securities Trading Act (WpHG) requires any investor whose share of voting rights reaches, exceeds or falls below certain thresholds as the result of purchases, disposals or otherwise, to notify the company and the German Federal Financial Supervisory Authority (BaFin). The lowest threshold for the duty of notification to apply is 3%. Any stakes that reach or exceed 10% of voting rights must be recorded in this explanatory report. MLP SE has been notified of three shareholders who directly or indirectly exceeded 10% of the voting rights:

	Number of shares*	Shareholding*
Dr. h. c. Manfred Lautenschläger, Gaiberg[1]	298,833,731[1]	27.33%[1]
Angelika Lautenschläger, Gaiberg[2]	318,833,732[2]	29.16%[2]
Angelika Lautenschläger Beteiligungen Verwaltungs GmbH, Gaiberg	22,796,771	20.85%

* Status known to MLP SE as of December 31, 2018

1) Based on information provided by Dr. h.c. Manfred Lautenschläger there is a voting trust and pooling agreement as per § 34 (2) of the German Securities Trading Act (WpHG) between Dr. h. c. Manfred Lautenschläger (2.37% of voting rights), the company controlled by him, Angelika Lautenschläger Beteiligungen Verwaltungs GmbH (20.85% of voting rights) and Manfred Lautenschläger Stiftung GmbH (4.11% of voting rights, controlled by his wife Angelika Lautenschläger). Of the 27.33% of voting rights, Mr Lautenschläger is therefore attributed the voting rights of Manfred Lautenschläger Stiftung GmbH and Angelika Lautenschläger Beteiligungen Verwaltungs GmbH as per § 34 (2) of the German Securities Trading Act (WpHG).

2) As per § 34 (1) No. 1 of the German Securities Trading Act (WpHG) and according to information provided by Ms Lautenschläger herself, of the 29.16% of voting rights, Ms Lautenschläger is attributed 0.05% of the voting rights held by M.L. Stiftung gemeinnützige GmbH, which in turn are attributed 4.11% of the voting rights of Manfred Lautenschläger Stiftung GmbH as per § 34 (1) No. 1 of the German Securities Trading Act (WpHG). Based on information provided by Angelika Lautenschläger there is a voting trust and pooling agreement as per § 34 (2) of the German Securities Trading Act (WpHG) between Manfred Lautenschläger Stiftung GmbH (4.11% of voting rights), the husband of Angelika Lautenschläger, Dr. h. c. Manfred Lautenschläger (2.37% of voting rights) and Angelika Lautenschläger Beteiligungen Verwaltungs GmbH, controlled by him (20.85% of voting rights). The voting rights of Dr. Manfred Lautenschläger and those of Angelika Lautenschläger Beteiligungen Verwaltungs GmbH that are attributable to Manfred Lautenschläger Stiftung GmbH as per § 34 (2) are therefore attributed to Ms Angelika Lautenschläger.

Shares with special control rights

No shares conferring special control rights have been issued.

System of control of any employee share scheme where the control rights are not exercised directly by the employees

Where MLP SE has in the past issued shares to employees as part of its employee participation programme, these shares were transferred to the employees directly. These employees can or could then exercise the control rights granted by the shares issued directly in line with the legal requirements and the Company's Articles of Association.

Legal stipulations and provisions of the Articles of Association regarding the appointment and replacement of members of the Executive Board

The prerequisites for appointing and dismissing members of the Executive Board and amending the Company's Articles of Association are based on the relevant provisions of applicable European and German law, including EC Regulation No. 2157/2001 regarding the Statute for a European Company ("SE Regulation") and the German Stock Corporation Act. The appointment and dismissal of members of the Executive Board are in particular governed by Art. 46 et seq. of the SE Regulation and Art. 9 of the SE Regulation in conjunction with § 84 and § 85 of the German Stock Corporation Act (AktG). The Company's Articles of Association specify that the Executive Board must comprise at least two people. Members of the Executive Board are appointed for a maximum of five years. A further appointment or extension of the time in office, each for a maximum of five years, is permitted. The Supervisory Board can revoke the appointment of members of the Board before their time in office expires for major cause, such as a gross breach of duty, inability to manage the Company properly or a vote of no confidence by the Annual General Meeting. The Supervisory Board decides on the number of Executive Board members, their appointment and the revocation of their appointment as well as the conclusion, amendment and termination of the employment contracts with Executive Board members. The Supervisory Board may appoint a Chairman and one or more Vice-Chairmen (Chairman's deputies).

Amendments to the Company's Articles of Association

Pursuant to Art. 59 of the SE Regulation in conjunction with § 179 (1) and (2) p. 1 of the German Stock Corporation Act (AktG), any amendment to the Company's Articles of Association requires a resolution of the Annual General Meeting with a majority of at least three quarters of the valid votes cast. When making amendments to the Company's Articles of Association for which only a simple majority is required for stock corporations incorporated under German law (AG), § 19 (4) of the Company's Articles of Association, notwithstanding § 179 (2) Sentence 1 of the German Stock Corporation Act (AktG), provides that resolutions seeking to amend the Company's Articles of Association by the Annual General Meeting can be passed with a simple majority of the share capital votes entitled to vote on the resolution, unless mandatory legal provisions require a greater majority, provided that at least half of the share capital is represented, otherwise a majority of two thirds of the votes cast. The Supervisory Board is authorised pursuant to § 23 of the Company's Articles of Association, however, to make amendments to the Company's Articles of Association that relate to their formulation.

Authority of the Executive Board to issue or buy back shares

A resolution passed by the Annual General Meeting on June 14, 2018 authorised the Executive Board to increase the Company's share capital by up to € 21.5 million by issuing new ordinary bearer shares in exchange for cash or non-cash contributions, and with the Supervisory Board's approval to exclude shareholders' rights to subscribe for shares in exchange for non-cash contributions on one or more occasions until June 13, 2023.

If the share capital is increased in return for cash contributions, shareholders must be granted subscription rights. However, the Executive Board has been authorised, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders if the issue price does not fall significantly short of the stock market price of company shares with the same structure. However, this authorisation is subject to the condition that shares issued in exclusion of subscription rights as per § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG) do not exceed 10% of the share capital, either at the time of coming into effect or at the time they are exercised (authorised capital).

As per the resolution of the Annual General Meeting from June 29, 2017, the Company is also authorised, pursuant to § 71 (1) No. 8 of the German Stock Corporation Act (AktG), to purchase up to € 10,933,468 – i.e. slightly less than 10% of the share capital – during the authorisation period up to June 28, 2022. Based on this authorisation, MLP Finanzberatung SE – a wholly-owned subsidiary of MLP SE – acquired 382,000 shares up to February 28, 2018 following authorisation by the Annual General Meeting on the basis of an Executive Board resolution and with the consent of the Supervisory Board of MLP SE. It then issued 377,876 of these shares to commercial agents working for MLP Finanzberatung SE as part of a participation programme. On the basis of this Annual General Meeting, MLP Finanzberatung SE then acquired a further 163,900 shares in December 2018 in accordance with the Executive Board resolution and with the consent of the Supervisory Board of MLP SE. MLP Finanzberatung SE held 168,024 shares on the reporting date of December 31, 2018. These shares and further bought-back shares are now to be issued to the commercial agents working for MLP Finanzberatung SE as part of a participation programme. This is likely to take place in the second quarter of 2019.

Significant agreements to which the Company is a party that take effect in the event of a change of control of the Company following a takeover bid

There are no significant agreements that take effect in the event of a change of control of the Company following a takeover bid.

Settlement agreements between the Company and Executive Board or employees in the event of a takeover bid

The contracts of employment between the Company and the Chairman of the Board, Dr. Uwe Schroeder-Wildberg, and Executive Board members Manfred Bauer and Reinhard Loose contain a clause stating that these members are entitled to terminate their contracts with a notice period of one month in the event that a third party who had a share in MLP of less than 10% at the time at which the contracts were concluded acquires a share of at least 50% of the voting rights. If any of these Executive Board members chooses to exercise this right to terminate, MLP is obliged to pay the member compensation corresponding to four times (4x) fixed annual salary if the contract has not been terminated as a result of the change in control, provided that the contract is terminated more than two years before it reaches its normal termination date. For all members of the Executive Board the compensation to be paid in the event of a "change of control" corresponds to no more than twice the average compensation, based on the total compensation of the last full financial year prior to termination of their contract and the total anticipated compensation for the year still in progress when their contract is terminated. The service contract of Dr. Schroeder-Wildberg is set to run until December 31, 2022, that of Mr. Bauer is set to run until April 30, 2020 and that of Mr. Reinhard Loose is set to run until January 31, 2024. In the event of contract termination within two years of the scheduled termination date, the severance payment will only be paid pro rata temporis.

Report on compensation transparency – appendix to the management report

You can find detailed information in our report on compensation transparency for 2017. We therefore refer to the statements in the 2017 Annual Report. Within the scope of legal requirements in line with the stipulations of § 22 of the Transparency of Pay Act, we will update this report in the annual report for 2020.

NON-FINANCIAL ASPECTS OF BUSINESS ACTIVITIES

Within the scope of our 2018 Sustainability Report we report on the non-financial aspects of our business activities. The focuses of our sustainability reporting in terms of content result from the materiality analysis performed in 2017, on the basis of which we identified the key aspects for our company. These remain valid.

To ensure our sustainability activities have a comparable and transparent framework at all times, we have aligned our reporting with the reporting standard of the German Sustainability Code (DNK). Please refer to the Declaration of Compliance with the German Sustainability Code for further information and details of our sustainability management. We publish this Declaration of Compliance and our sustainability report on our website at ↗ https://mlp-se.com/company-profile/sustainability. You can also find the → sustainability report as part of this Annual Report.