ECONOMIC REPORT

Overall economic climate

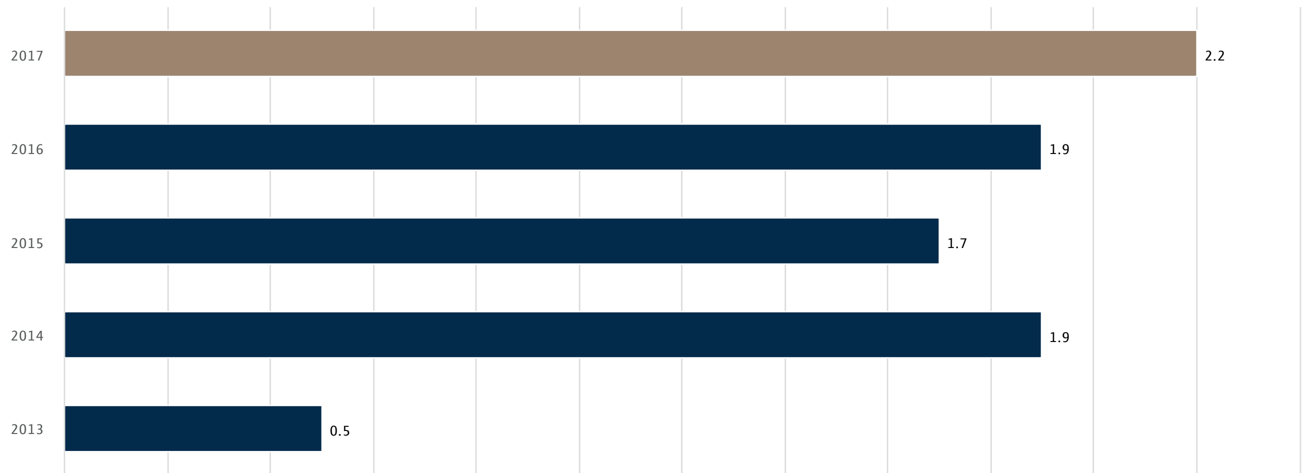
Overall economic situation

The economy in the eurozone displayed strength in the reporting year. Virtually all countries were on a growth course, which led to a reduction in political risks. According to estimates provided by FERI Investment Research, economic growth for the eurozone was 2.3% in 2017 (2016: 1.5%).

German economy displaying robust growth

Economic activity in Germany gained both dynamism and breadth in the last financial year and remains on a growth course. Alongside several years of stable domestic demand, in its autumn outlook the German government noted the upturn in the eurozone and the recovery in the global economy, which has injected new life into exports, as the reasons behind this. According to calculations performed by FERI Investment Research, inflation-adjusted gross domestic product (GDP) in Germany increased considerably by 2.2% in 2017.

Economic growth in Germany (in%)



Source: FERI Investment Research, changes to gross domestic product, price-adjusted

Consumer sentiment unchanged among German citizens

Private consumption, which benefited from the positive situation in the labour market, remained the key growth driver in the reporting year. These framework conditions were expressed in highly positive consumer confidence, as underlined by the Consumer Sentiment Index of the German Consumer Research Association (GfK), which came in at 10.7 points in November 2017, an increase from just 9.7 points in November 2016.

The mood at German companies is also excellent. In November 2017 the ifo business climate index increased to a new record of 117.5 points – having risen from 110.1 points in January 2017. In December 2017 it then slipped slightly to 117.2 points. However, the companies actually rate their current business situation as better than in the previous month.

Excellent prospects in the labour market

The upward trend in the German labour market continued. According to data published by Germany's Federal Employment Agency, the annual average number of registered unemployed persons fell by 158,000 year-on-year to approximately 2.53 million in 2017. This corresponds to an unemployment rate of 5.7% (2016: 6.1%), which is the lowest level in 25 years.

In particular, the prospects for university graduates remained excellent in the German labour 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%.

The economic situation of private households was markedly positive in 2017. According to the German Federal Statistical Office, gross wages and salaries increased by 4.4%, while the disposable income of private households increased by 3.9%. The savings rate in Germany remained unchanged in the past financial year, reaching 9.7% in 2017.

ECONOMIC REPORT

Industry situation and competitive environment

The vast majority of MLP's total revenue is generated from the following four fields of consultancy: old-age provision, wealth management, non-life insurance and health insurance. In the 2017 financial year these fields together represented around 94% 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 at the FERI and banking segments. Alongside the DOMCURA segment, revenue in the non-life insurance area is also generated at MLP Finanzberatung SE.

The main factors that had a particular influence in the market environment and the results of operations in the four aforementioned consulting area in 2017 are described below.

Old-age provision

The old-age provision sector once again faced major challenges in 2017. The ongoing period of low interest rates and the reservations displayed by many consumers when it comes to signing long-term agreements have had a lasting negative impact on the market environment in the old-age provision area in Germany. This situation was compounded further by a reduction in the maximum actuarial interest rate from 1.25% to 0.90% on January 1, 2017, which not only affected the attractiveness of life insurance policies. In fact, this reduction also led to higher premiums for term life, funeral costs, long-term care pension and, above all, occupational disability insurance policies. Based on estimates of the Assekurata ratings agency, this development comes at an unfavourable time for life insurers, who are increasingly focusing on occupational disability insurance as one of the few attractive growth areas.

Product landscape undergoing change

Life insurers are addressing the described challenge with innovations in the product landscape and are increasingly electing to offer their old-age provision products with a flexible interest rate or without any guaranteed interest rate. According to a survey performed by Assekurata, classic life and pension insurance policies have become a niche product for life insurers. As a result of the positive performance in the stock markets, they are more interested in unit-linked policies and biometric products, such as occupational disability insurance.

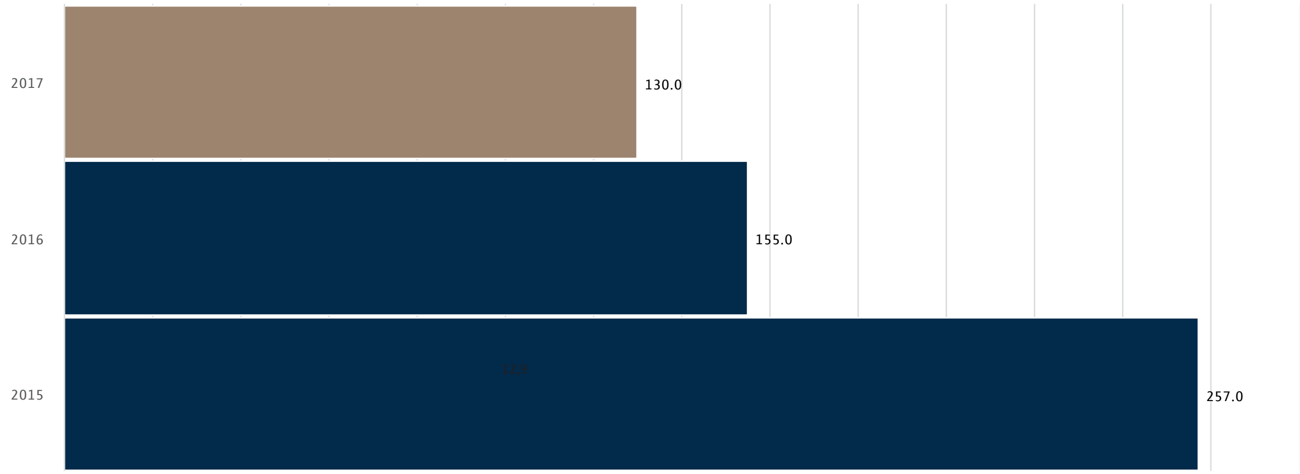
Low interest rate phase leaving German citizens at a loss

The low interest rate phase is generating considerable concerns among German savers: according to the 2017 Wealth Barometer of the Deutsche Sparkassen- und Giroverband Financial Group, more than one in two Germans (53%) are worried about the European Central Bank's interest rate policy. Just under a third (31%) are at a loss as to how they can achieve their own old-age pension provision goals in light of the ongoing period of low interest rates.

Falling saving rates

According to the 2017 AXA Germany Report, 61% of German citizens no longer consider themselves to be adequately covered for their retirement, primarily due to low interest rates. In addition to this, more than half (56%) of those in active employment now expect their quality of life to deteriorate in their old age, which represents a considerable increase from 40% one year previously. Although 79% of those in gainful employment consider financial insurance coverage in their old age as one of their three most important life objectives, German citizens are only saving an average of € 130 per month for their old-age provision according to the AXA Report. This represents 16% fewer than one year previously (2016: € 155). The most frequent reason for inadequate provision, stated by 57% of respondents, is "insufficient income and assets". The second most common reason given was "inadequate support regarding the topic, for example in the form of state subsidies/incentives" (21%). A "lack of knowledge or clarification on the topic" was the third most common reason (11%).

Development of the saving rates of German citizens for old-age provision (all figures in €)



Source: AXA Germany Report Saving Rates of German Citizens – Development

Holiday more important than old-age provision

According to a survey published in 2017 by market research institute Forsa, most German citizens prefer to save for their next holiday than for their private old-age provision. Indeed, 57% would rather set aside money for a trip than for their retirement. Almost a third of respondents are willing to dip into other savings or financial reserves rather than having to skip holidays altogether. According to Forsa, German households spent an average of € 4,307 on all holiday travel in 2016.

Difficult framework conditions discernible in all three tiers

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

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

- Basic pension provision: statutory pension and basic pension
- Supplementary pension provision: Riester pension and occupational pension provision
- Other supplementary pension provision: pension and life insurances, capital market products

Alongside the statutory pension, basic pension provision (1st tier) also includes the basic or Rürup pension, whose premiums can be deducted from income tax. Alongside salaried staff, the basic pension is also open to freelancers and self-employed persons who are not obligated to pay into the statutory pension insurance fund. Starting in 2015, the German government supplemented and injected dynamism into the former funding framework for the basic pension to make it more attractive. The maximum tax-deductible amount in 2017 was € 23,362 for single persons (€ 46,724 for married couples). In 2017 taxpayers were able to deduct 84% of capital invested in a basic provision policy over the course of the year from income tax as extraordinary expenses.

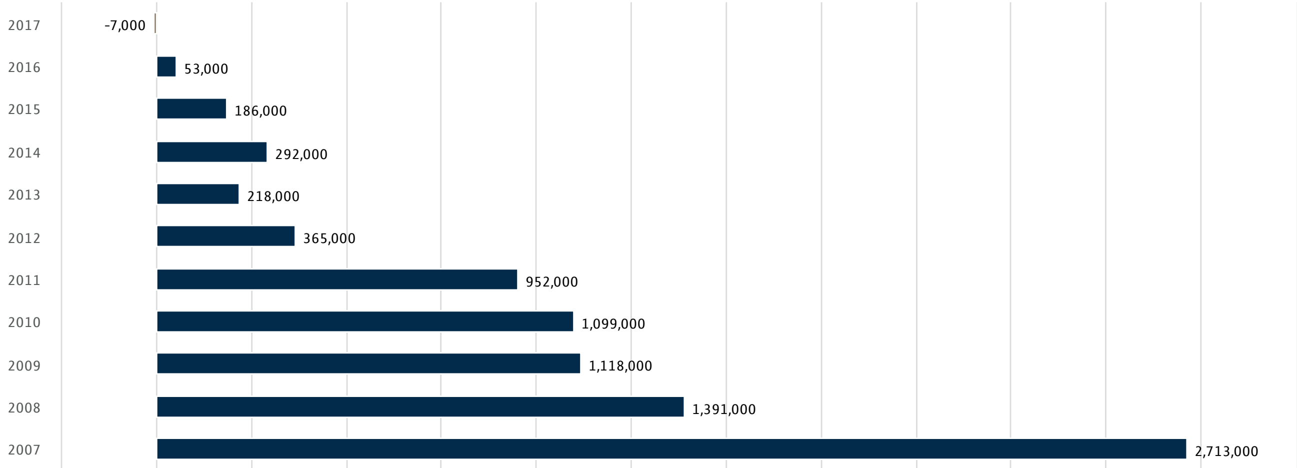
Improved incentives for basic pension not having any impact

Despite this significant tax incentive, data published by the German Insurance Association (GDV) indicates that only 81,000 new basic pension agreements had been concluded throughout the market by the reporting date on December 31, 2017 (2016: 96,000). This corresponds to a decline of 15%.

The supplementary pension provision (2nd tier) essentially comprises the Riester pension and occupational pension provision. The sector-wide downward trend in the sale of new Riester contracts continued in the reporting year. According to the German Federal Ministry of Labour and Social Affairs, the total number of Riester contracts in place fell to 16.53 million at the end of Q3 2017 – which represents a drop of 7,000 contracts compared to the figure as at December 31, 2016. As had already been the case in previous years, the clear focus on "Wohn-Riester" home annuity policies and "investment fund" polices with regard to signing new contracts continued in the reporting year. However, the number of "Riester" pension contracts displayed a sharp downward trend.

Growth only in Wohn-Riester home annuity policies

Development Riester pension contracts (2007 until 2017)



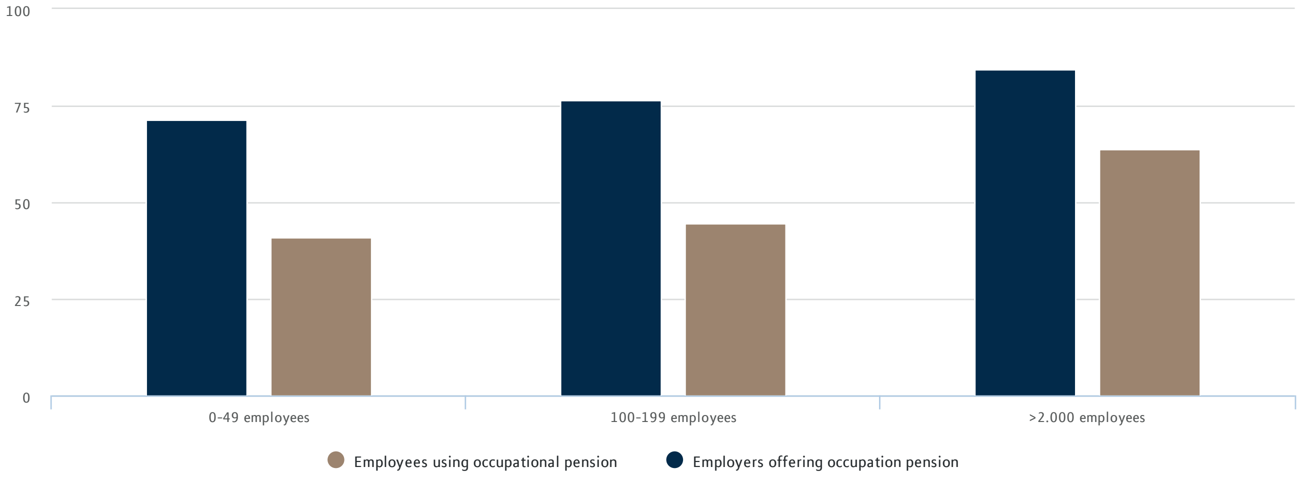
*Date: September 30, 2017, Source: German Federal Ministry of Labour and Social Affairs

The overall significance of occupational pension provision as a further component of 2nd tier provision is fundamentally considerable. According to a survey conducted by the German Consumer Research Association (GfK), 42% of German citizens already consider occupational pension provision to be one of the most attractive forms of saving. Indeed, with 76% the only investment more popular than this is the purchase of real estate.

Occupational pension provision: Greater support by law

Differences can, in particular, be found in terms of company size here. Indeed, virtually 90% of large enterprises with more than 2,000 employees today offer their workforce occupational pension provision. However, only around two thirds of these employees actually have occupational pension provision in place. The potential is even greater at small and medium-sized enterprises. Only 71.5% of small enterprises offer their workforce occupational pension provision and only 41.1% of these employees are currently taking up the offer. Only 76.4% of enterprises with up to around 200 employees offer such a concept, which is taken up by just 44.7% of employees.

Level of occupational pension provision coverage at companies (all figures in%)



Source: Hans Böckler foundation / WSI 2016

Occupational pension provision in Germany enjoys both tax and social security subsidies. At the start of June 2017, the German Bundestag passed legislation to strengthen occupational pension provision in Germany, which could provide positive stimulus to this area. The key points of the new legislation focus, in particular, on increasing the tax subsidy to 8% (previously 4%) of the income threshold per year, as well as a direct financial contribution for low earners. Anyone earning up to € 2,200 gross per month will then receive up to € 144 in state subsidies for an employer's contribution of up to € 480 per year. You can find further details on this in the → forecast section under Competition and regulation.

Life and pension insurance policies less in demand

The 3rd tier is continuing to display rather restrained 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 once again declined to below the previous year's already low level (-5.2%). In terms of new business, 50% can be attributed to new guarantee products, following 46% in 2016 and 37% in 2015.

Slight downward trend in the overall market

As described above, the market environment remains difficult and the population is still displaying reservations when it comes to signing long-term contracts. At € 144.7 billion according to provisional figures provided by the German Insurance Association (GDV e.V.), the brokered premium sum of new business in the reporting year is therefore slightly (-2.4%) below the previous year's figure (€ 148.3 billion), which was already low in the long-term perspective.

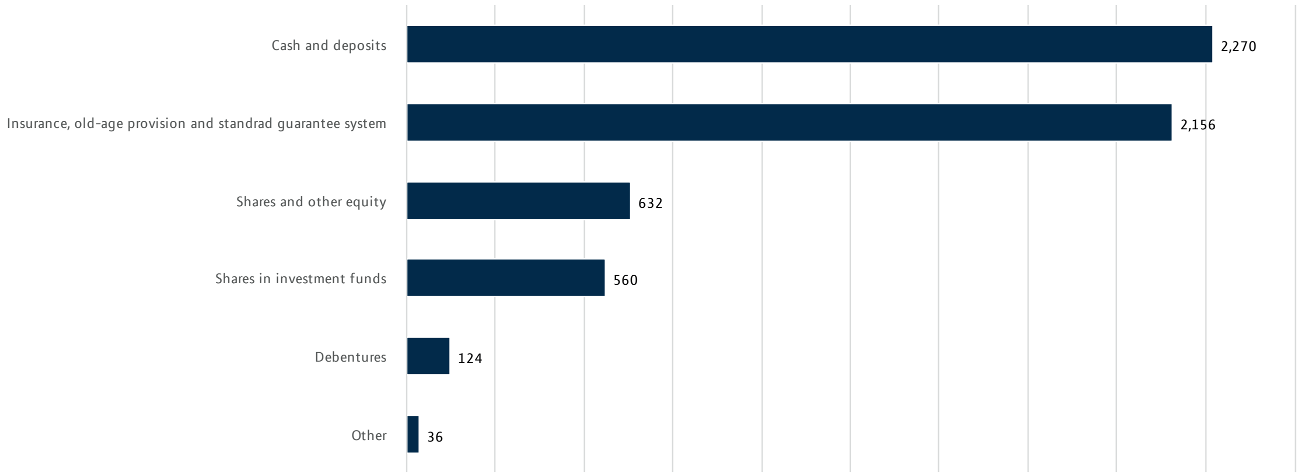
Wealth management

In the reporting year, the market environment in the wealth management area continued to be characterised by the ongoing period of low interest rates and at times high volatility in stock markets. However, a global economy displaying robust overall growth and profit growth, coupled with low interest rates and a friendly monetary policy, provided good stimulus to global stock markets. In the reporting period, the strategic picture in financial markets was primarily characterised by the political, monetary and economic "regime change". The gradual phasing-out of the ultra-expansionary monetary policy by major central banks, the separatist tendencies observed and the shift to the political right in Europe, as well as the unclear consequences of Brexit all contributed to a sense of uncertainty.

According to the Global Wealth Report 2017 of the Boston Consulting Group (BCG), the financial assets of German citizens increased by 3.7% to a total of USD 6.3 trillion in the 2016 reporting period, while global financial assets totalled USD 166.5 trillion. In terms of the wealthiest countries according to the survey, Germany is in fifth place – behind the US, China, Japan and Great Britain. In terms of the total number of millionaire households, Germany is in sixth place.

Overall, private households in Germany are actually richer than ever before. According to data published by the German Bundesbank, their monetary assets increased to a record level of around € 5,778.6 billion by the end of the third quarter of 2017. The Bundesbank also states that private households are continuing to display a preference for liquid and low-risk forms of investment.

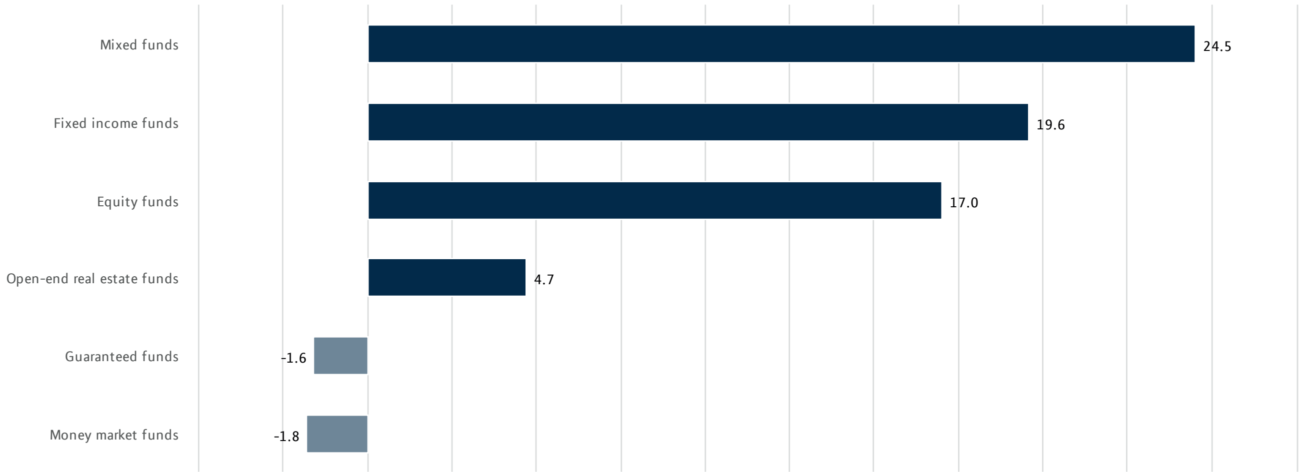
Private monetary assets of German citizens (all figures in € billion)



Source: German Bundesbank as at September 30, 2017

A total of € 138.8 billion net had been invested in the German fund industry by the end of November 2017, which represents a 6.9% increase in the volume of funds under management. The highest percentage gains were recorded by equity funds, which rose by 14.9%, followed by mixed funds, which rose by 13.9%. Fixed income funds recorded an increase of 9.5% in the first eleven months of the reporting year.

Cash inflows and outflows of various types of mutual funds in Germany from January to November 2017 (in € billion)



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

According to the Wealth Barometer published by the Deutsche Sparkassen- und Giroverband Financial Group, the majority of German citizens (59%) are satisfied with their financial situation. This is the highest value for ten years. However, half of the respondents are worried about the low interest rate and/or the European Central Bank's monetary policy. Just under two thirds consider a turnaround on interest rates in the near future as important or very important.

In an environment characterised by low returns and geopolitical risks, institutional investors throughout the world are increasingly turning to alternative forms of investment as a way of diversifying their portfolios. This is the conclusion of the annual RiskMonitor survey undertaken by Allianz Global Investors (AllianzGI). Indeed, seven out of every ten investors surveyed worldwide stated that they have invested in alternatives. According to RiskMonitor, institutional investors focused increasingly on risk management in the reporting period and adjusted their yield expectations down. Despite the fact that stock markets rose sharply in the reporting period, institutional investors are therefore still facing a risk-return problem, as well as the question of whether all risks are factored-in within the markets.

Institutional investors focusing on alternative investments

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

Ongoing consolidation in private banking and wealth management

Non-life insurance

Non-life insurance business has become more important for independent brokers in the past few years. According to a survey performed by AssCompact, in 2017 just under three quarters (70%) of brokers surveyed consider the private non-life insurance business to be highly relevant. In two-year comparison (2015) this figure was just 40%.

Set against the background of the tense and uncertain framework conditions in the life and health insurance areas and as a result of Solvency II taking effect, the very solid overall development of the non-life insurance area is playing a special part for the industry according to rating agency Assekurata. The household contents, accident and liability insurance fields are the main reliable sources of revenue here – particularly in the private client business. In addition to this, Assekurata is observing a more pronounced product-based focus on standardised commercial client business for handicraft businesses or small and medium-sized enterprises (SMEs). Based on the AssCompact AWARD – Commercial Damage / Accident Business 2017 survey, virtually all companies surveyed are currently brokering commercial liability and non-life insurance policies. Commercial insurance policies to cover legal expenses are offered by 87% of brokers, followed by technical insurance policies (74%), vehicle fleet insurance policies (66%), transport insurance policies (55%) and cyber insurance policies (40%). A third of independent brokers are pursuing a sector or target group-based strategy here, focusing on trades, service providers (e.g. estate agents, IT service providers, management consultants), as well as freelancers (e.g. solicitors, doctors, tax advisers).

Non-life insurance as a solid pillar of the business model

German citizens are now displaying a greater degree of willingness to switch car insurers. According to the results of the most recent study conducted by market research institute YouGov at the end of 2016, a fifth (21.4%) of all motor vehicle insurance policy holders in Germany are generally willing to make the switch. When extrapolated, this corresponds to some 9.4 million motor vehicle policy holders. The trend towards switching providers that was observed in the previous years has therefore continued; in 2010 only 13.1% of respondents indicated a willingness to switch.

Ongoing trend to switch vehicle insurance providers

In 2016 storms and heavy rain caused almost ten times more damage covered by insurance than one year previously. Indeed, claims for flood damage totalling € 940 million were submitted, following just € 100 million in 2015. 2016 therefore saw the third highest level of flood damage since 1999. This is one of the findings from the Natural Hazard Report 2017 produced by the German Insurance Association (GDV e.V.).

Risks due to forces of nature increasing

The costs associated with flood damage to residential buildings and their contents are only covered by insurance companies when an extended natural hazard insurance policy is in place. As indicated by the German Insurance Association (GDV e.V.), however, many homeowners in Germany do not have this additional module in their building insurance policy. Indeed, only around 40% of residential dwellings throughout Germany have this additional protection. Yet despite this, some 99% of buildings in Germany qualify for insurance coverage to protect against flooding and heavy rain, as they are not classed as being at risk based on the German zoning system (ZÜRS).

Non-life insurance business continues along its positive growth path

Based on estimates of the German Insurance Association (GDV e. V.), growth in the property and casualty insurance area remained stable in the reporting year. For 2017, the GDV is anticipating an increase in premium income of 2.9%. The ongoing strong increase in premiums in the non-life insurance area can essentially be attributed to the regular premium adjustments in both new and existing business, for example in the residential building insurance and legal expenses insurance areas. The growth in all branches of the non-life insurance area is generally based on rising insured amounts, and partially also extensions in coverage, however not on an increasing number of insurable risks.

Health insurance

Ever fewer holders of comprehensive health insurance policies in Germany

Health insurance continued to face a challenging market environment in the financial year 2017 – 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 for 5 years in succession. At 8.77 million policy holders on December 31, 2016, the figure was 17,300 (-0.2%) below 2015. According to industry experts, this trend also continued in 2017.

Statutory health insurance getting more expensive

Since 2015, statutory health insurances are entitled to charge an additional premium alongside the general premium rate of 14.6%. The average additional premium was 1.1% in 2017. In addition to this, out-of-pocket payments and co-payments for individual healthcare services have long since become standard for those with statutory health insurance. As the 2017, as Continentale's study shows, 90% of respondents had paid for healthcare services out of their own pocket in the last twelve months – most frequently at the pharmacy (75%) or the dentist (59%). On average, each statutory insurance policy holder paid € 448 during the year for healthcare services in addition to the regular premiums paid into the statutory health insurance system. This represents € 104 or 30% more than in 2012. Older respondents aged 60 or over faced particularly high costs of € 577, followed by high-income earners with costs of € 541. Yet despite this, the number of policy holders making the switch from private health insurance to the statutory health insurance system was still higher in 2016 than the number of those making the opposite switch, i.e. from the statutory health insurance to a private health insurance policy.

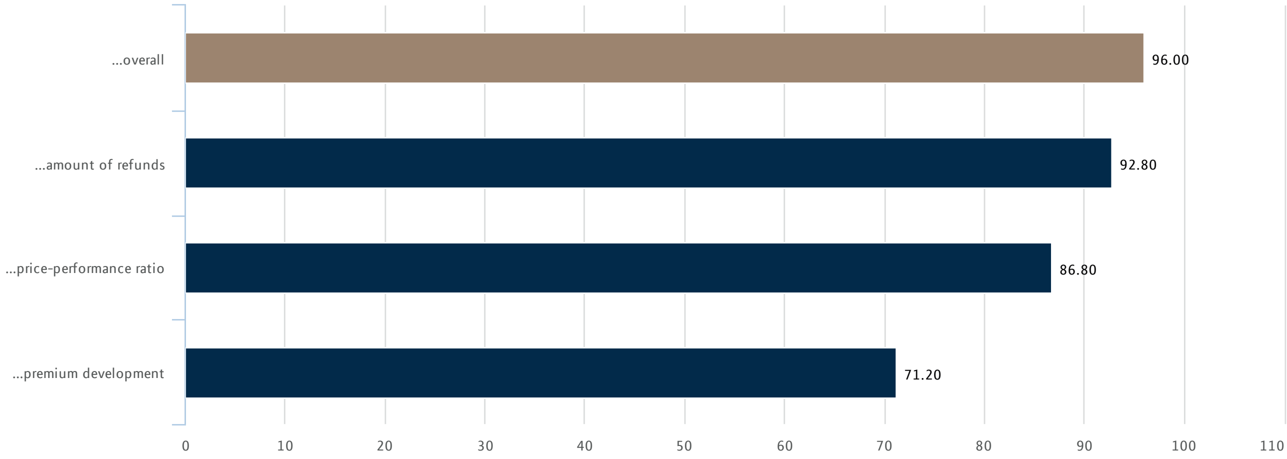
In the course of the German parliamentary elections in 2017 and the subsequent exploratory negotiations among the parties, the public discussion regarding the possible introduction of "citizens insurance" led to uncertainty among German citizens. Even after the elections, the SPD, the Green Party and The Left, in particular, are pressing to move away from the dual system with private and statutory health insurance offers. The SPD was unable to assert its position on this topic in the now completed coalition negotiations.

Irrespective of the discussions around the future of private health insurance, most clients are satisfied, very satisfied or even completely satisfied with their private health policies. These are the results of a survey conducted by rating agency Assekurata Assekuranz, according to which 96% of holders of comprehensive health insurance are satisfied overall with their private health coverage and 71.2% even state they are happy with the premium increases.

Holders of private insurance satisfied with services and premiums

Satisfaction of insurees in comprehensive health insurance with....(in %)

*satisfied, very or completely satisfied



Source: Assekurata Market Outlook 2017

The trend towards private healthcare as a way of supplementing the range of cover provided by the statutory health insurance system continued. According to the latest figures published by the Association of Private Health Insurers, the number of supplementary insurance policies increased by 1.3% in 2016 to 25.1 million contracts.

Supplementary insurance policies on the rise

According to the latest available figures from 2016, dental plans are by far the most popular supplementary insurance option, with around 15.5 million policies currently in place. The number of these policies increased by 1.3%. Supplementary long-term care insurance is another growth driver in the supplementary insurance policy area. The number of state-supported supplementary long-term care insurance policies (Pflege-Bahr) increased by 13.7% to around 777,000 contracts in 2016. The number of unsubsidised supplementary long-term care insurance policies rose by 4.5% to just under € 2.7 million.

A representative survey undertaken by the German Centre for Quality of Nursing Care (ZQP) serves to underline the importance of nursing care. According to information provided by respondents in this survey, almost half (43%) of all German citizens rated the life situation of older citizens and those requiring nursing care as very important when reaching their decision as to how to vote in the German parliamentary elections. This figure rose further to 53% in the particularly relevant age group of 50+, representing the largest group of voters.

Nursing care is an important future topic

Real estate

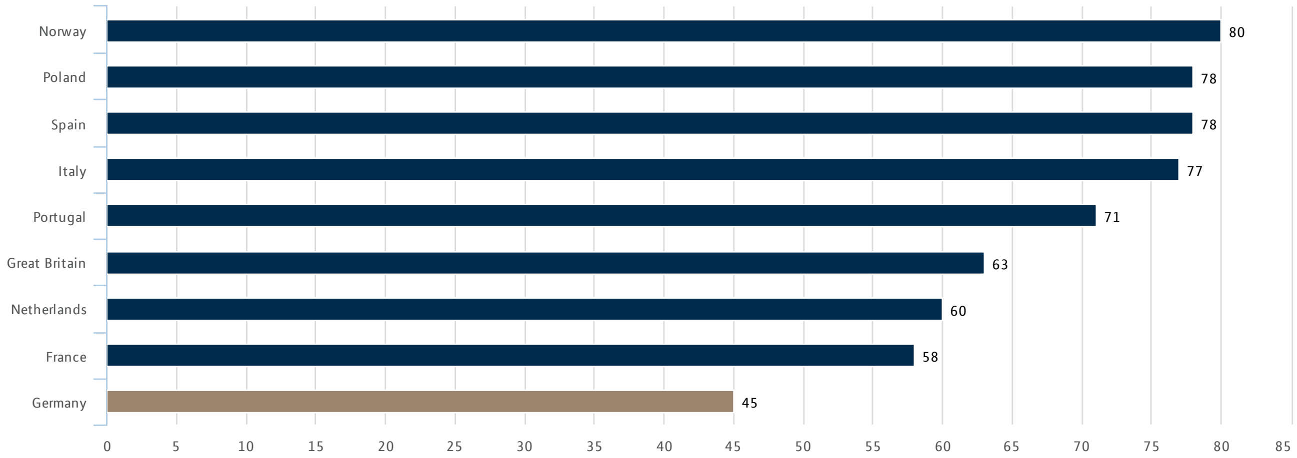
In the light of persistently low interest rates, investments in both owner-occupied and investment properties are becoming increasingly important with a view to long-term capital accumulation. According to the 2017 Wealth Barometer of the Deutsche Sparkassen- und Giroverband Financial Group, 54% of German citizens consider owner-occupied property to be the most suitable form of investment for this purpose - a rise of nine percentage points compared to 2010, while 27% prefer to invest in investment properties for capital accumulation.

Lowest home ownership level in Europe

In terms of owning their own homes, German citizens bring up the rear when compared to the rest of Europe. While the home ownership level in many European countries such as Norway, Spain and Italy is over 70%, only 45% of residences are owner-occupied in Germany (see chart).

Comparison of owner-occupied residence ratios throughout Europe

in %



Source: Euroconstruct/ifo, 2016

High demand for micro-apartments in major cities

Especially the rents for micro-apartments, such as those used by students, have increased by up to 70% over the past seven years. These are the results of a survey undertaken by the Institute of the German Economy (IW). The survey goes on to state that this can be attributed to the general influx into cities, the low amount of housing on offer and the resultant scramble for living space associated with this.

Loans and mortgages

According to the 2017 Wealth Barometer, three quarters of the German population are generally willing to enter into debt to buy and then live in their own property. This figure increases further to 88% among young families. Based on a survey performed by vdp Research, German citizens finance 78% of the construction costs for their home via the bank and invest the rest from equity.

Competition and regulation

The competitive situation in the German market for financial services did not change significantly for the MLP Group in 2017 compared to the previous year. The sector remains very heterogeneous and is characterised by consolidation trends. The providers include numerous banks, insurance companies and free finance brokers. However, the quality of consulting provided by them can vary quite markedly. In addition to this, the entire sector is facing competitive pressure from the new, innovative market actors (fintechs).

Based on information provided in a survey by comdirect, there are currently 699 fintech startups in Germany. However, the speed at which the sector is growing is slowing significantly. While in 2016 a total of 141 startups were established, only 30 were founded in the first nine months of 2017, as highlighted by the comdirect survey. In comparison, 49 new companies had already been registered by the same time in the previous year. Growth is also slowing in terms of the investment volume, as the percentage increase in 2017 was significantly below the previous year's figure of 40%. Despite this slower growth, the challenge faced by established companies due to the large number of fintechs already in the market remains – although opportunities for cooperation are increasingly opening up.

Fintech sector continues to grow – albeit with less momentum

To sustainably increase the degree of transparency and consulting quality in the market, the legislator has already implemented various regulatory changes in recent years. These continued to impact the market conditions in the past financial year and will continue to drive consolidation.

Altered framework conditions drive consolidation

The German Bundestag approved implementation of the Markets in Financial Instruments Directive (MiFID II) in March 2017. Large sections of this legislation will come into effect on January 3, 2018 and will adapt national regulations governing financial market supervision to numerous new European stipulations. The planned changes associated with the MiFID II system of rules and standards have fundamental effects on the business models of the sector participants. Existing processes need to be reviewed and adapted to the new requirements, which could prove quite effortful in certain areas. This is particularly true of the IT processes and product structures. In some cases, products will need to be redeveloped and IT processes implemented to comply with the new stipulations. You can find further details on this in the → forecast section under Competition and regulation.

Focus on greater transparency and better investor protection

In July 2017 the German Bundesrat formally approved transposition of the Insurance Distribution Directive (IDD) into German law; the legislation is set to be introduced on February 23, 2018. It provides new rules for greater transparency and improved consumer protection in insurance sales (further information on this can be found in the forecast under Competition and regulation). The IDD also stipulates that insurance brokers must attend at least 15 hours of further training per year.

Insurance sector busy with IDD implementation

In 2017 the insurance sector and its brokers focused on preparing for the new regulatory requirements associated with the IDD. MLP – just like all other market actors – has to implement extensive process-based adjustments to comply with the IDD stipulations. However, no major effects on MLP's business model are to be expected.

The Life Insurance Reform Act (LVRG), which already came into force in 2015, also had an impact on the market in the reporting year: according to a survey conducted by cosultancy Willis Towers Watson, the Life Insurance Reform Act (LVRG) led to significantly lower insurance brokerage remuneration in 2017. Indeed, the life insurers operating in Germany reduced their acquisition commission rates by 1.5 to 7.0 permille depending on the sales channel.

Life Insurance Reform Act (LVRG) showing effects in the market

As was already the case in previous years, clarification of details regarding implementation of Basel III 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 regulation in Europe

In addition to this, on October 27, 2017 the Federal Financial Supervisory Authority (BaFin) published the latest amendment to the minimum requirements of risk management at credit institutions (MaRisk BA). Here, the Federal Financial Supervisory Authority (BaFin) and the German Bundesbank have revised the minimum requirements to comply with new European and international stipulations. In addition to this, experience gained by BaFin and the German Bundesbank in the course of their daily supervisory duties and during audits has been incorporated in the amendment. Important new content affects the areas of data aggregation and risk reporting, risk culture and outsourcing. The new version of Germany's MaRisk minimum risk management requirements came into force with its publication. The implementation deadline for new requirements is October 31, 2018.

On June 22, 2017 the Bundestag passed the law for introduction of a professional licensing scheme for commercial estate agents and residential property managers. The new law will come into force on August 1, 2018. This will represent the first time that property managers have had to comply with such professional licensing requirements. In addition to the existing licensing authorisation, estate agents must also comply with an obligation to attend further training. You can find further details on this in the → forecast section under Competition and regulation.

Obligation to attend further training also for estate agents

The transitional period within the scope of the EU Mortgage Credit Directive (WIKR) ended on March 21, 2017. Under § 34i of the German Trade Regulation Act (GewO), consultants without authorisation had time to produce a corresponding certificate of proficiency by this cut-off date. In March 2016 the Mortgage Credit Directive (WIKR) transposed an EU directive into German law. Market actors are anticipating market consolidation as a result of the consultant qualification requirements. Thanks to corresponding internal training measures, MLP consultants are prepared for this.

In the summer of 2017, the EU Commission presented its draft of a system of rules for a Pan-European Personal Pension Product – PEPP). As an element of capital market union, the goal is to use PEPP in order to facilitate private old-age provision offers throughout Europe and drive the concept forwards. From the perspective of rating agency Assekurata, the proposed uniform standards within Europe would generally be welcomed in terms of transparency. However, with the current scope of the PEPP, experts are not anticipating any massive growth stimuli, especially for the German insurance sector.

Initial steps towards a "European pension"

The second part of the Care Enhancement Act (PSG II) came into force on January 1, 2017. In place of the three previous care levels, there are now five degrees of care. To finance this, premiums for care insurance increased by a further 0.2 percentage points from 2017 onwards. However, statutory long-term care insurance only offers partial financial security. Good advisory services on private care coverage are therefore becoming increasingly important.

New definition of "need for care" as of 2017

MLP considers itself to be generally well prepared in terms of compliance with the legal documentation, qualification and transparency obligations. But irrespective of this, the regulatory developments will certainly represent a challenge and put pressure on the profitability of all market actors.

According to the latest surveys, independent financial consultants, i.e. providers such as MLP that do not offer any of their own products, continue to play a leading role in the brokerage of old-age provision products in Germany. According to the 2017 Sales Channel Survey performed by corporate consultancy Willis Towers Watson, independent brokers represented the leading sales channel in the industry in terms of life insurance policy sales. Their market share of brokered new business was 28.7% (previous year: 26.3%). Banks came second at 28.6%, while tied agents, who represent just one single company, took third place with 27.2%.

Demand for independent consulting services remains high

The latest figures from Willis Towers Watson indicate that independent consultants also continue to play a key role in the brokerage of private health insurance policies. With a market share of 33.9%, they represent the second most important consultant group after the tied agents (48.5%). The same applies to the non-life insurance area. Here, independent brokers also represented the second most important sales channel at 26.1% after the tied agents (45.4%).

The number of insurance brokers has been in permanent decline for years. According to current figures provided by the Association of German Chambers of Industry and Commerce (DIHK), the number of brokers on the insurance broker register fell by 4,000 to 224,462 between the start of the year and October 2017. In comparison with 2011, when 263,452 brokers were registered, the decline is around 15%.

Consolidation of brokers ongoing

Business performance

Together with our subsidiary FERI, we have expanded the wealth management segment into a key revenue pillar in recent years. FERI continued its successful course of the past few years in the reporting period and reinforced its position as a leading independent investment company. Despite operating in volatile markets, the company recorded primary growth in all core business areas for the fourth 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). Total revenue generated by FERI in the wealth management area was significantly above the previous year's level. MLP also recorded a significant increase in revenue in the wealth management area in its classic 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 insurances were the main factors that led to continued pronounced restraints in terms of signing long-term contracts. However, MLP was able to gain an advantage in this area by being quick to recognise and adapt to the growing significance of new guarantee products, which are proving a popular alternative to classic concepts among clients. Indeed, these guarantee products already represented 75.5% of all newly concluded contracts at MLP in 2017. The Riester pension also provided positive stimulus, bucking the industry trend in the reporting year and recording gains at MLP. Due to the continued difficult market environment total revenue in the old-age provision area generated in the reporting year was slightly below the previous year's level.

As anticipated, the successful integration of DOMCURA stimulated an increase in revenue in the non-life insurance area in the 2017 financial year compared to the previous year. Among other things, positive impetus was provided by the pooling concepts, which were launched in 2016 and which were further refined and adapted to market conditions throughout the reporting year. In addition to this, in the form of the DOMCURA special inventory policy, we have developed and successfully established a new product solution in the market that is aimed specifically at physicians and physiotherapists.

In the health insurance area, we continued to encounter reservations in terms of taking out new comprehensive private insurance policies. Premium increases in the private health insurance sector and critical media coverage were the main factors contributing to this development. In the run-up to the 2017 German parliamentary elections and during the subsequent exploratory negotiations among the parties, the public discussion regarding the potential introduction of "citizens insurance" led to uncertainty among consumers. Despite these difficult framework conditions, our revenue in the health insurance segment was only slightly below the previous year's level.

As anticipated, we were able to slightly increase our revenue in the property financing area in 2017 over the previous year. Other commission and fees, in particular for the brokerage of real estate objects, were significantly above the previous year's level. The main reasons for the positive development were the systematic expansion and successful diversification of our real estate portfolio. Alongside the listed buildings sector, MLP also significantly extended its portfolio of new buildings, as well as existing and concept-driven properties (micro-living, properties with nursing care) in the 2017 financial year.

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 areas into key revenue pillars in the past few years. We have also made substantial progress in the property brokerage area.

Diversification of revenue base is progressing

New client acquisition developed very pleasingly in the reporting year. MLP was able to acquire 19,800 (20,500) new family clients in 2017. Around 12% of these new clients were acquired online.

Number of clients showing pleasing development

As of December 31, 2017, the MLP Group served 529,100 family clients (519,800) and 19,800 corporate and institutional clients (19,200).

Within the scope of its digitalisation strategy, MLP continued to expand and intensify its presence on social media platforms such as Facebook, YouTube and Twitter in the 2017 financial year. In the reporting year, MLP acquired over 12% of new family clients via online sales of basic insurance products such as travel health insurance policies.

Social media activities as a way of acquiring new clients

To further strengthen its online acquisition activities, MLP acquired a 25.1% stake in Uniwunder GmbH in March 2017. The startup has a great deal of expertise in the field of performance marketing. In the university segment, one of the various approaches to acquiring potential clients is via partners such as Hochschulinitiative e. V. or the Spitzenstudent platform. To demonstrate its expertise and present itself as a dialogue partner for all financial matters, MLP offers a range of seminars for students. To promote innovative startup models, MLP also cooperates with the incubator Innospire from Dresden.

In April 2017 the new online client portal entered its first expansion stage. It offers clients all financial information at a glance, accompanied by a personal budget book, which presents income and expenditure in a clearly structured way according to categories. A further step-by-step expansion is envisaged for the next few years. You can find further information on this in the section entitled → Anticipated business development.

New client portal successfully launched

Our new consultant applications (Budget guide and Budget guide easy for young clients) support our continuously refined consulting approach. The roll-out and the accompanying further training measures gained significant ground in the reporting year and are set to continue in the coming year.

New consultant applications developed

The extensive roll-out of the new e-signature was started as planned in summer 2017 and is currently being used in the banking business (account and credit card applications).

Acquiring new consultants was a key topic in 2017. To further strengthen the university segment, MLP completely realigned it in the reporting year. As part of this realignment, MLP also appointed an additional divisional board member, who holds responsibility across all locations for MLP's presence in the university segment. The objective here is to further expand the acquisition of new clients and especially young consultants. With this initiative, MLP is preparing the basis for future growth in revenue. You can find further information on this in the section entitled → Employees and self-employed client consultants.

Realignment of the university segment

We also engaged in intensive cost management in the reporting year. At the same time, previously announced one-off expenses of around € 9.1 million were accrued in the 2017 reporting year for the demerger of MLP Finanzdienstleistungen AG into banking operations and the brokerage business.

Consistent efficiency management programme supports growth strategy

Non-life insurance segment strengthened for commercial clients

With the acquisition of the DOMCURA Group in 2015, MLP also acquired several brokers in the commercial non-life insurance area alongside the primary underwriting agent business. These companies were further refined and then brought together in mid-2017 under the umbrella of nordias GmbH Versicherungsmakler as a subsidiary of MLP SE, which is also home to key activities and services of the MLP Group for commercial non-life insurance products. By pooling our activities in the commercial non-life insurance area, we are strengthening this business area and further utilising the potential resulting from the acquisition of the DOMCURA Group.

Changes in corporate structure

In 2017 Holding MLP AG was converted into a European stock corporation (SE). This new legal status means that the Supervisory Board can permanently maintain its current size and composition. In addition to this, the SE form is more attractive for foreign investors.

Besides the merger of the intermediate holding company Schwarzer Familienholding GmbH (SFH) (acquired through the purchase of the DOMCURA Group) with MLP SE, the spin-off of the brokerage branch of activity from MLP Banking AG into MLP Finanzberatung SE represented another focus. MLP Finanzdienstleistungen AG, which held a full banking licence, was renamed MLP Banking AG in the course of this process and now incorporates the entire regulated banking business, including investment consulting. The brokerage business, as well as all other consulting services are now run via the new company MLP Finanzberatung SE.

In the course of this further optimisation of the Group structure, various assets and debts were transferred under German commercial law to MLP Finanzberatung SE with effect from October 1, 2017. These are essentially shares in affiliated companies, intangible assets as well as property, plant and equipment. Therefore income from the shares will in future no longer be included in the earnings of MLP Banking AG. On the liabilities side of the balance sheet, in particular the provisions for cancellation risks are transferred to MLP Finanzberatung SE. The commission income and expenses from the old-age provision, non-life insurance, health insurance and finance brokerage consulting areas, as well as other commission and fees are transferred to MLP Finanzberatung SE and will therefore have an impact on the respective income statement. Commission income and expenses from the wealth management area, as well as net interest income will remain at MLP Banking AG.

Furthermore, the supervisory scope of consolidation was narrowed down in the reporting year. As a result of this step and the demerger measures free regulatory equity capital should be significantly increased by the end of 2021. The first step was already implemented in the first quarter of 2017: DOMCURA AG, ZSH GmbH Finanzdienstleistungen and TPC GmbH were classified as "other companies" and have no longer been part of the supervisory scope of consolidation since this time. This increased free equity capital at Group level by € 27 million to around € 240 million. A further € 25 million of regulatory equity capital was then released in the fourth quarter of 2017 as a result of the demerger of MLP Finanzdienstleistungen AG. Set against the background of the applied waiver structure, various factors including these measures led to the equity ratio of the MLP Group increasing gradually to 20.0% by the end of the financial year (December 31, 2016: 14.3%). The objective is to significantly increase financial leeway, primarily for investments and acquisitions, yet also for dividend payouts.

Results of operations

Development of total revenue

Total revenue increased

In the past financial year, MLP was able to increase total revenue by 2.9% to € 628.2 million (€ 610.4 million) – the highest level since the outbreak of the global financial crisis in 2008. MLP benefited from the significant diversification of its revenue basis over the course of the past few years and recorded gains in all consulting areas with the exception of old-age provision. This growth was primarily driven by the increase in commission income from € 570.1 million to € 589.9 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 € 18.9 million (€ 20.5 million).

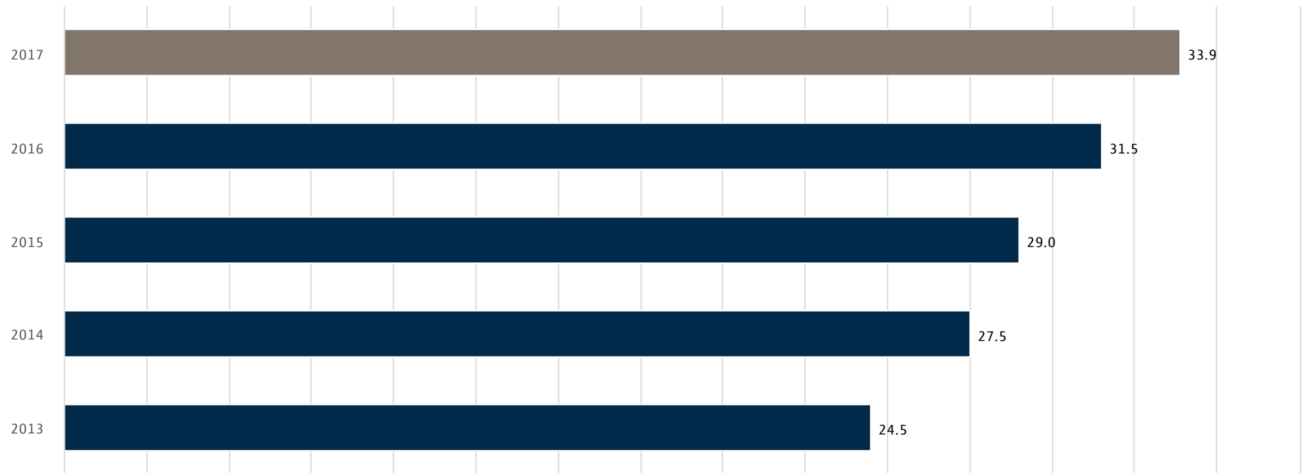
Old-age provision below the previous year due to market conditions

Due to market conditions, the old-age provision area remained below the previous year at € 208.1 million (€ 221.5 million). The premium sum of new business declined to € 3,408.8 million (€ 3,688.6 million). However, occupational pension provision enjoyed positive development and represented 15.0% of the premium sum at the end of the year, compared with 13.1% in the previous year. MLP is continuing to play a pioneering role in the transition to new guarantees. While life and pension insurance policies with classic guaranteed interest rate continue to account for a large proportion of all policies in the market, currently around 40%, only around 5% of newly brokered contracts at MLP are in this field. The proportion of new guarantees was 76%, while purely unit-linked contracts represented 19%.

Wealth management at new record level

The MLP Group recorded significant gains in the wealth management area with revenue rising by 14.5% to € 190.6 million (€ 166.4 million). Assets under management rose to € 33.9 billion (September 30, 2017: € 32.7 billion). This reflects significant gains both at our subsidiary FERI and in MLP's private client business.

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



Non-life insurance enjoys continued growth

The non-life insurance area was once again able to record growth in 2017. At the end of the year, revenue was € 109.9 million (€ 105.6 million). The portfolio of non-life insurance policies also enjoyed positive development. The premium volume received through the MLP Group rose to € 360.1 million (€ 350.2 million).

Health insurance at the previous year's level

At € 45.9 million (€ 45.8 million), revenue in the health insurance area remained at the same level as the previous year. MLP therefore recorded stable development, despite the reservations displayed by many citizens in terms of signing up for comprehensive private health insurance policies.

Real estate brokerage displaying the strongest growth

In the loans and mortgages area, revenue increased by 10.4% to € 17.0 million (€ 15.4 million) and thereby surpassed the record level of € 16.2 million recorded in 2015.

The real estate brokerage area, which has been developed since 2014, recorded the highest growth rates. This is included under Other commission and fees, which increased by 19.5% to € 18.4 million (€ 15.4 million).

Further optimisation of corporate structure successfully completed

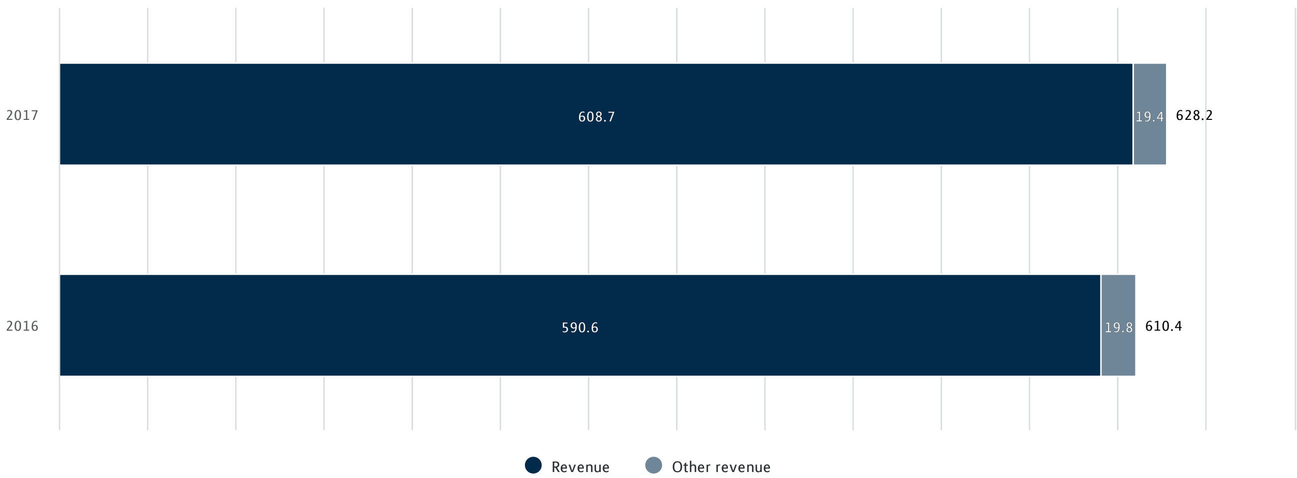
In the past financial year, MLP completed the announced optimisation of its corporate structure. This led to one-off expenses of € 9.1 million. Administration costs (defined as the sum of personnel expenses, amortisation expenses and impairments, as well as other operating expenses) which also comprise the above one-off expenses this year, were € 282.1 million (€ 290.9 million).

Operating EBIT (before one-off expenses) increased by 33.0% to € 46.7 million (€ 35.1 million). Set against the background of one-off expenses, EBIT was € 37.6 million (€ 19.7 million). One-off expenses also had an effect on Group net profit, which was € 27.8 million (€ 14.7 million). The operating net profit, on the basis of which the Executive Board and Supervisory Board will submit their dividend proposal to the Annual General Meeting, was € 36.9 million.

Analysis of the revenue performance

Revenue increased to € 608.7 million in the reporting year (€ 590.6 million), mainly due to the increase in commission income from € 570.1 million to € 589.9 million which was substantially influenced by the rise in revenue in the wealth management area. Other revenue was € 19.4 million (€ 19.8 million). Following € 610.4 million in the previous year, total revenue rose to € 628.2 million.

Development of total revenue (all figures in € million)



At € 18.9 million, interest income remained slightly below the previous year (€ 20.5 million). This was due to the ongoing period of low interest rates. The old-age provision area continued to make the greatest contribution in terms of commission income with a share of 35.3% (38.9%), followed by the wealth management with 32.3% (29.2%) and non-life insurance with 18.6% (18.5%). The following table provides a detailed overview of this:

Wealth management enjoys significant growth

Distribution of revenue

All figures in € million	Share in %	2017	Share in %	2016	Change in %
Old-age provision	35%	208.1	39%	221.5	-6.0%
Wealth management	32%	190.6	29%	166.4	14.5%
Non-life insurance	19%	109.9	19%	105.6	4.1%
Health insurance	8%	45.9	8%	45.8	0.2%
Loans and mortgages	3%	17.0	3%	15.4	10.4%
Other commission and fees	3%	18.4	3%	15.4	19.5%
Total commission income		589.9		570.1	3.5%
Interest income		18.9		20.5	-7.8%
Total		**608.7**		**590.6**	**3.1%**

Analysis of expenses

Commission expenses primarily comprise performance-linked commission payments to our 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 remuneration of brokerage services in the non-life insurance business. Added to these are the commissions paid in the FERI segment, which result from the activities in the field of fund administration in particular. In this business field, they are primarily accrued due to remuneration of the depository bank and fund sales. Against a backdrop of increased commission income, commissions paid were slightly above the previous year at € 309.3 million (€ 298.5 million). Net commission income therefore rose to € 280.6 million (€ 271.6 million).

Commission income above the previous year

Interest expenses fell to € 1.1 million (€ 1.7 million) due to the ongoing low interest rate environment. Net interest was € 17.8 million (€ 18.8 million) in total.

Gross profit (defined as total revenue less commission expenses and interest expenses) improved to € 317.8 million (€ 310.2 million).

The administration costs of the MLP Group were € 282.1 million in the reporting year (€ 290.9 million). It is important to note that this figure includes one-off expenses accrued both in 2017 and in the previous year. Adjusted for these one-off expenses of € 9.1 million (€ 15.4 million), the administration costs amounted to € 273.0 million in the past financial year (€ 275.5 million). A significant percentage of the one-off expenses accrued in 2017 is recorded under the item Other operating expenses.

Reduction in administration costs before one-off expenses

One-off expenses for further optimising the corporate structure by segment (all figures in € million)

Segment	
Financial consulting	0.2
Banking	5.4
Holding	3.6
Total	**9.1**

At € 123.2 million (€ 121.8 million), personnel expenses remained virtually constant. Among other things, these include € 106.7 million (€ 105.0 million) for salaries and wages, € 14.0 million (€ 14.3 million) for social security contributions and employer-based old-age provision allowances of € 2.6 million (€ 2.5 million). This item comprises a one-off expense of € 0.6 million. Scheduled depreciation and impairments fell to € 15.3 million (€ 24.0 million). The previous year's figure was largely influenced by one-off expenses. At € 143.6 million (€ 145.1 million), other operating expenses were below the previous year's level. This item includes around € 8.4 million in one-off expenses.

Breakdown of expenses

All figures in € million	2017	in % of total expenses	2016	in % of total expenses	Change in %
Commission expenses	309.3	52.2%	298.5	50.5%	3.6%
Interest expenses	1.1	0.2%	1.7	0.3%	-35.3%
Personnel expenses	123.2	20.8%	121.8	20.6%	1.1%
Depreciation and impairment	15.3	2.6%	24.0	4.1%	-36.3%
Other operating expenses	143.6	24.2%	145.1	24.5%	-1.0%
Total	**592.5**	**100.0%**	**591.1**	**100.0%**	**0.2%**

MLP Hyp GmbH once again recorded a very pleasing business development in the financial year. We hold a 49.8% stake in this company, which is operated as a joint venture together with mortgage broker Interhyp. As a result of the excellent business development, our allotted earnings from this company increased to € 2.5 million (€ 2.1 million). This is reflected in the income statement under the item Earnings from investments accounted for using the equity method.

Significant increase in operating EBIT

Operating EBIT before one-off expenses increased by 33.0% to € 46.7 million (€ 35.1 million) in the financial year. This increase can be attributed to higher commission income. In addition to this, cost savings resulting from the efficiency programme initiated in 2016 had a positive influence on earnings. As announced, one-off expenses were accrued in connection with the further optimisation of the corporate structure. These were € 9.1 million, resulting in an EBIT of € 37.6 million (€ 19.7 million).

The finance cost dropped to € -1.2 million (€ -0.9 million) in the last financial year.

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

All figures in € million	2017	2016	Change in %
Total revenue	628.2	610.4	2.9%
Gross profit [1]	317.8	310.2	2.5%
Gross profit margin (%)	50.6%	50.8%	
EBIT	37.6	19.7	90.9%
EBIT margin (%)	6.0%	3.2%	
Operating EBIT [2]	46.7	35.1	33.0%
Operating EBIT margin (%)	7.4%	5.8%	
Finance cost	-1.2	-0.9	-33.3%
EBT	36.4	18.7	94.7%
EBT margin (%)	5.8%	3.1%	
Income taxes	-8.6	-4.1	>100%
Net profit	27.8	14.7	89.1%
Net margin (%)	4.4%	2.4%	

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

Group net profit increased by 89.1% overall to € 27.8 million (€ 14.7 million). This was essentially due to higher commission income, as well as the positive effects of the efficiency programme initiated in 2016.

Earnings per share virtually doubled

Net profit

All figures in € million	2017	2016	Change in %
GROUP	**27.8**	**14.7**	**89.1%**
Earnings per share in € (basic)	0.25	0.13	92.3%
Earnings per share in € (diluted)	0.25	0.13	92.3%
Number of shares in millions (basic)	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. We paid our shareholders € 0.08 per share in the form of a regular dividend for the 2016 financial year. The total dividend amount paid was therefore € 8.7 million.

For the 2017 financial year we announced that we would compensate the one-off expenses accrued in connection with the optimisation of the corporate structure for our shareholders and submit our proposed dividend on the basis of operating net profit. On this basis, the Executive Board and Supervisory Board will propose a dividend of € 0.20 per share to the Annual General Meeting on June 14, 2018. This corresponds to a distribution rate of around 64% 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 → "Financial risk management" chapter.

Financing analysis

Equity ratio at 18.7%

The Group's equity capital backing and liquidity remain good. As of the balance sheet date, shareholders' equity amounted to € 404.9 million and was therefore above the previous year's level (€ 383.6 million). The Group net profit of € 27.8 million for the 2017 financial year had a significant effect on this. However, this was counteracted by the dividend payment of € 8.7 million for the 2016 financial year. Due to the higher balance sheet total, the equity ratio declined from 19.7% to 18.7%. The regulatory equity ratio was 20.0% on the balance sheet date (14.2%). This already reflects the successful work performed to further optimise the corporate structure, together with the objective of significantly increasing attributable equity capital by 2021. Even with today's group structure, MLP still expects increased capital requirements for the next few years in order to meet increased capital requirements and stricter requirements of Basel III.

At present, we are not using any borrowed funds in the form of promissory note bond issues to finance the Group. Our non-current assets are financed in part by non-current liabilities. Current liabilities due to clients and financial institutions 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 € 1,501.2 million (€ 1,308.8 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 € 1,336.2 million (€ 1,217.5 million) in receivables from clients and financial institutions in the banking business.

Since provisions only account for 4.1% (4.7%) of the balance sheet total, they have no significant financing function for the Group. Other liabilities increased to € 154.9 million (€ 146.9 million) on the balance sheet date, while current liabilities rose to € 149.1 million (€ 143.1 million). These are essentially liabilities from operating activities. Current liabilities are offset on the assets side by cash and cash equivalents of € 301.1 million (€ 184.8 million), which are attributable to temporarily higher deposits at the Deutsche Bundesbank, and financial investments of € 158.5 million (€ 162.3 million), as well as other current assets of € 111.1 million (€ 109.4 million).

On the balance sheet date of December 31, 2017, there were financial commitments from rental and leasing agreements amounting to € 13.7 million (€ 15.8 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 € 67.6 million (€ 70.9 million) by the year 2023.

Liquidity analysis

Cash flow from operating activities declined to € 115.5 from € 144.7 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 € -41.3 million to € -2.6 million. Compared to the same period of the previous year new investments in financial assets were higher than in the reporting period.

Condensed cash flow statement

All figures in € million	2017	2016
Cash and cash equivalents at beginning of period	**184.8**	**94.5**
Cash flow from operating activities	115.5	144.7
Cash flow from investing activities	-2.6	-41.3
Cash flow from financing activities	-8.7	-13.1
Change in cash and cash equivalents	**104.2**	**90.3**
Adjustments from demerger operations	**12.0**	**–**
Cash and cash equivalents at end of period	**301.0**	**184.8**

As of the balance sheet date, December 31, 2017, the MLP Group has access to cash holdings of around € 353.5 million. A good level of liquid funds therefore remains available. Thus there are sufficient cash reserves available to the MLP Group. Alongside cash holdings, free lines of credit are also in place. The MLP Group has agreed-upon and non-utilised lines of credit amounting to € 131.6 million. In 2017 the MLP Group was capable of meeting its payment obligations at all times.

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 declined to € 7.3 million. The previous year's higher figure can essentially be attributed to greater investments in IT systems and software to support sales. By increasing our free equity capital in connection with further optimising the corporate structure we are also significantly extending our entrepreneurial and economic room for manoeuvre for example to make investments.

Capital expenditure

All figures in € million	2017	2016	2015	2014	2013
Intangible assets	**3.4**	**13.7**	**7.9**	**8.9**	**19.5**
Goodwill	–	–	–	–	–
Software (developed in house)	0.2	0.3	0.4	0.4	0.4
Software (purchased)	1.0	2.5	0.4	1.1	0.6
Other intangible assets	-	0.0	0.0	0.0	0.0
Payments on account and assets under construction	2.1	11.0	7.1	7.4	18.5
Property, plant and equipment	**3.9**	**4.7**	**4.8**	**6.6**	**2.9**
Land, leasehold rights and buildings	0.3	0.5	0.7	0.4	0.4
Other fixtures, fittings and office equipment	2.6	3.0	3.1	4.2	1.8
Payments on account and assets under construction	1.0	1.2	1.0	2.0	0.8
Total capital expenditures	**7.3**	**18.4**	**12.8**	**15.4**	**22.5**

At € 3.7 million, the overwhelming majority of capital expenditure in the last financial year focused on investments in the banking segment. Similar to the investments in the financial consulting segment, in which € 1.3 million was invested, these are investments in operating and office equipment that focus primarily on IT systems to support sales. They contribute to the continuous improvement of consulting support and client service. Alongside these activatable investments, we also use other intensive resources for these projects which are recognised as expenses in the income statement. Capital expenditure in the FERI segment was € 0.5 million, which we invested in operating and office equipment, as well as in IT. The investments in the DOMCURA segment amounted to € 1.5 million and were aimed in particular at operating and office equipment, as well as IT.

Capital expenditures by segment

	Total capital expenditure		Change in %
All figures in € million	**2017**	**2016**	
Financial Consulting	1.3	16.6*	-
Banking	3.7		-
FERI	0.5	0.6	–16.7%
DOMCURA	1.5	0.7	>100%
Holding	0.3	0.3	0.0%
Total	**7.3**	**18.4**	**–60.3%**

*Investments in the financial service segment made in 2016

Net assets

Further increase in balance sheet total

Against the backdrop of further increased client deposits, the balance sheet total of the MLP Group rose to € 2,169.5 million as of December 31, 2017 (€ 1,944.1 million).

Intangible assets – essentially including the client base, brand and goodwill – decreased to € 161.8 million (€ 168.4 million) as of the balance sheet date. This decline can essentially be attributed to scheduled amortisation of software. Fixed assets were declined within the scope of scheduled amortisations to € 61.9 million (€ 63.4 million).

Receivables from clients in the banking business increased to € 702.0 million (€ 626.5 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 € 634.2 million (€591.0 million) as a result of higher investments in fixed-term deposits, as well as higher promissory note bonds. Around 53% of receivables from banks and clients have a remaining term of less than one year.

At € 158.5 million, financial investments were only slightly below the previous year's level (€ 162.3 million). At € 12.3 million, tax refund claims remained at the same level as the previous year (€ 12.1 million).

At € 125.7 million, other receivables and assets remained at the previous year's level (€ 122.8 million). This item essentially comprises commission receivables from insurers resulting from the brokerage of insurance products.

Cash and cash equivalents increased to € 301.0 million (€ 184.8 million). This increase can be attributed to a greater deposit volume at the German Bundesbank. At the same time, the profit transfers of FERI AG and DOMCURA AG added to the increase, while among other factors the coverage of losses of Banking AG and 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, 2017, shareholders' equity was € 404.9 million (€ 383.6 million). Due to the higher balance sheet total, the equity ratio was 18.7% (19.7%). Based on Group net profit of € 27.8 million (€ 14.7 million), we therefore achieved a return on equity of 7.3% (3.8%).

Provisions of € 88.7 million (€ 91.2 million) were slightly below the previous year's level. This slight decline is essentially due to lower 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 € 1,439.8 million (€ 1,271.1 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 financial institutions in the banking business rose to € 61.4 million (€ 37.7 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.

As a result of the improved earnings recorded, the tax liability increased to € 10.2 million (€ 3.6 million). Other liabilities amounted to € 154.9 million (€ 146.9 million). This item essentially comprises current liabilities due to our consultants and branch 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 defined our statements made in the forecast more closely in the Events subsequent to the reporting date section of the 2016 Annual Report. Taking into account anticipated one-off expenses of € 9.0 million for optimising the corporate structure of the Group, we expected to record an EBIT of at least € 36 million and an operating EBIT (before one-off expenses) of at least € 45.0 million.

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 in 2017.

In the old-age provision area, revenue at the end of the year fell slightly short of our expectation of it remaining at a stable level. Our revenue in the health insurance area remained at the previous year's level and was therefore within expectations. With a slight increase in revenue, the non-life insurance area developed as expected. The wealth management area enjoyed better development than forecasted and recorded a significant increase in revenue.

We expected administration costs to decline by around € 15 million in comparison with 2015 (around € 285 million when taking into account DOMCURA for a full year, despite it only having been acquired in the course of 2015). Adjusted for one-off expenses for further optimising the corporate structure, administration costs in 2017 at € 273.0 million were slightly above this target.

At € 46.7 million (before one-off expenses), operating EBIT is slightly above our forecast minimum and we have therefore reached our targets for the year.

Segment report

In the reporting period 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. 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 and 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

The spin-off of MLP Finanzberatung SE from MLP Finanzdienstleistungen AG, described in the chapter → Fundamental principles of the Group, came into force from a tax perspective on September 30, 2017 and from a financial accounting perspective on October 1, 2017. The figures disclosed in the following therefore include the brokerage business for the period from October 1, 2017 to December 31, 2017. Due to a limited scope for comparison, the previous year's values have not been provided.

Total revenue in the reporting period was € 133.2 million. This figure is essentially made up of commission income generated in the consulting fields of old-age provision, health insurance, non-life insurance and loans & mortgages and other commission and fees, which primarily comprises revenue from real estate brokerage. Development was in line with the overall development in the Group.

Other revenue was € 6.4 million. € 1.1 million of this figure is attributable to passed-on costs occurred in connection with optimising the corporate structure.

Commission expenses amounted to € 58.5 million. Personnel expenses amounted to € 21.5 million. Scheduled depreciation and impairment was € 3.7 million. Other operating expenses were € 21.2 million. This figure includes one-off expenses of € 1.2 million within the scope of further optimising the corporate structure. Taking into account other revenue, one-off expenses of € 0.2 million were accrued in the financial consulting segment.

EBIT was € 24.9 million. The EBIT margin was 18.7%. At a finance cost of € -0.2 million, EBT was € 24.7 million. It is important to note that this only includes the income and expenses for the period from October 1, 2017 to December 31, 2017. The brokerage business is traditionally very strong during this end-of-year business period. The income and expenses of the brokerage business in the period from January 1, 2017 to September 30, 2017 are recorded in the banking segment.

Banking segment

The spin-off of MLP Finanzberatung SE from MLP Finanzdienstleistungen AG, described in the chapter → Fundamental principles of the Group, came into force from a tax perspective on September 30, 2017 and from a financial accounting perspective on October 1, 2017. Banking business operations remained at MLP Finanzdienstleistungen AG. MLP Finanzdienstleistungen AG was renamed MLP Banking AG with entry into the Commercial Register on November 30, 2017.

The banking segment therefore includes earnings from 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. Wealth management and the interest rate business remained in the Banking segment. As such, the previous year's figures presented in brackets are not comparable with the figures from December 31, 2017, especially since the fourth quarter is traditionally by far the strongest in the brokerage business in terms of sales.

Total revenue in the reporting period was € 290.0 million. Revenue amounted to € 278.3 million. Other revenue was € 11.6 million. € 1.5 million of this can be attributed to passed-on costs occurred in connection with optimising the corporate structure. At € 20.1 million, revenue from the interest rate business was slightly below the previous year. This was due to the ongoing low interest rate.

Commission expenses amounted to € 129.0 million. In the light of continuingly low interest rates, interest expenses were € 1.1 million.

Personnel expenses were € 53.2 million. This figure includes € 0.7 million in one-off expenses for further optimising the corporate structure. Scheduled depreciation and impairment was € 7.5 million. Other operating expenses were € 103.3 million. This item includes around € 6.2 million in one-off expenses for further optimising the Group structure.

Taking into account other revenue, total one-off expenses of € 5.4 million were accrued in the Banking segment for further optimising the corporate structure.

EBIT was € -4.6 million. With a finance cost of € -0.5 million, EBT was € -5.0 million. It is important to note that this figure no longer includes the income and expenses of the brokerage business from October 1, 2017. As described, these are recorded in the financial consulting segment.

FERI segment

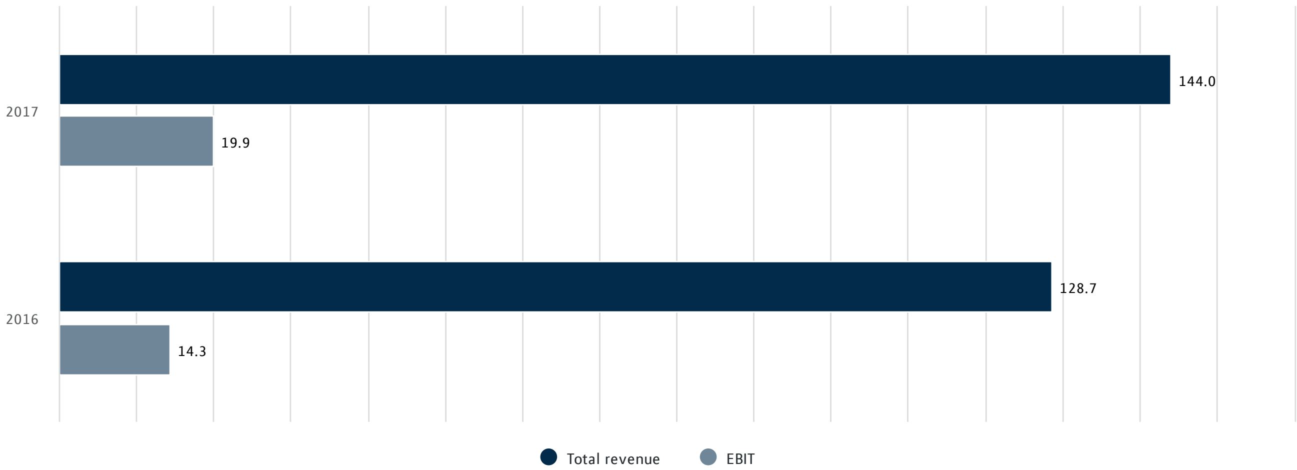
The FERI segment represents the activities of the FERI Group. Revenue is primarily generated in this segment from the wealth management field of consulting.

Total revenue increased by 11.9% to € 144.0 million (€ 128.7 million) and therefore reached a new record level. Among other things, FERI was able to collect higher performance fees in the last financial year than in the previous year.

As a result of higher revenue, commission expenses also rose to € 81.8 million (€ 72.1 million). Against a backdrop of higher variable remuneration, personnel expenses amounted to € 30.5 million (€ 28.1 million). Scheduled depreciation and impairment was € 1.2 million (€ 1.5 million). Other operating expenses decreased to € 10.6 million (€ 11.8 million).

As a result of higher revenue, EBIT increased to € 19.9 million (€ 14.3 million). The EBIT margin improved to 13.8% (11.1%). The finance cost amounted to € -0.2 million (€ -0.1 million). EBT therefore reached € 19.7 million (€ 14.2 million).

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



DOMCURA segment

At DOMCURA, revenue is primarily generated in the non-life insurance consulting field. DOMCURA's business model is characterised by 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.

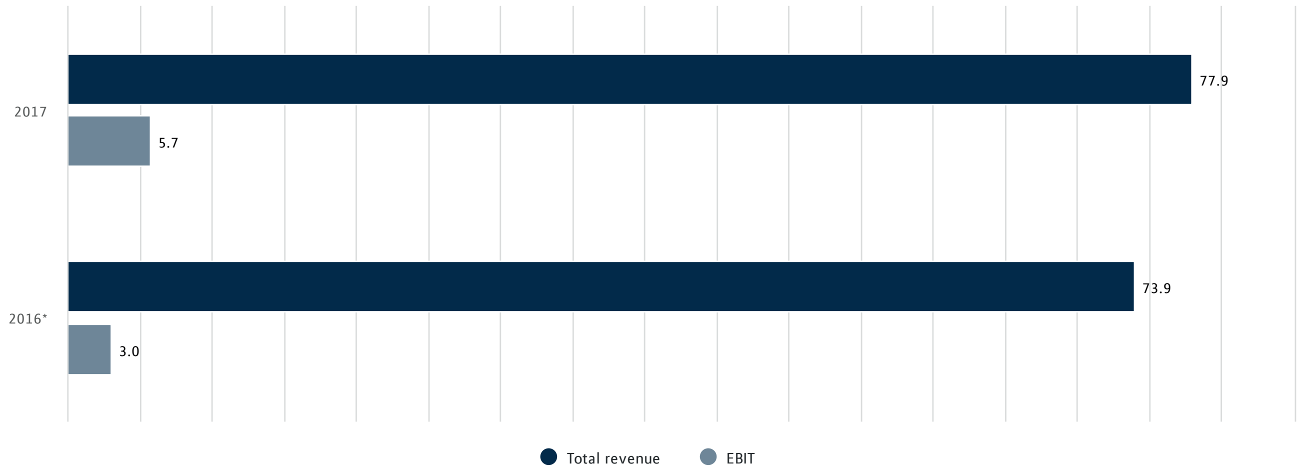
DOMCURA generated revenue of € 73.3 million in the reporting year (€ 70.7 million). Other revenue was € 4.6 million (€ 3.2 million). This is attributable to final settlements of expiring contracts with insurers that essentially were already made in the second quarter. Accordingly, total revenue was € 77.9 million (€ 73.9 million).

Commission expenses amounted to € 48.3 million (€ 46.6 million). These are essentially accrued as variable remuneration for brokerage services.

Administration costs were € 23.9 million (€ 24.3 million). Thereof personnel expenses accounted for € 14.3 million (€ 14.1 million). Regular depreciation and impairment was € 1.3 million (€ 1.4 million). Other operating expenses amounted to € 8.3 million (€ 8.8 million).

EBIT rose to € 5.7 million (€ 3.0 million). With a finance cost of € 0.0 million (€ 0.0 million), EBT was € 5.7 million (€ 3.0 million).

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



Holding segment

The Holding segment does not have active operations. Total revenue declined to € 9.6 million in the reporting year (€ 13.7 million). The previous year's higher figure was essentially due to the sale of a property and a settlement payment received in connection with a lawsuit.

Personnel expenses were € 3.8 million (€ 3.6 million). Scheduled depreciation and impairment amounted to € 1.7 million (€ 1.9 million). Other operating expenses increased to € 12.6 million (€ 10.5 million). This item includes around € 3.6 million in one-off expenses for further optimising the corporate structure.

Set against the background of the one-off expenses accrued, as well as lower total revenue, EBIT declined to € -8.4 million (€ -2.4 million). The finance cost was € -0.4 million, following € -0.6 million in the previous year. EBT was € -8.8 million (€ -3.0 million).

Total one-off expenses of € 3.6 million were accrued in the Holding segment in connection with further optimising the corporate structure.

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 both winning and training new consultants were therefore also key focuses in 2017.

Low staff turnover rate

The number of employees in the MLP Group declined slightly in the reporting year 2017. As at December 31, 2017, 1,686 employees were working for MLP. Since the value to be determined refers to the average of a year, the previous year's figure only partially reflects effects such as from selling FERI EuroRating. Further reasons for the decrease include a lower number of temporary staff and trainees, a decline at MLPdialog, short-term contracts that have expired, as well as ongoing effects of the efficiency programme from 2016 that had an impact in 2017. At 6.4%, the staff turnover rate at the company HQ remained at a low level in 2017 (2016: 6.3%). The average age of employees at MLP SE, MLP Finanzberatung SE, MLP Banking AG, FERI AG and DOMCURA is currently 43.

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

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

Segment	2017	2016	2015	2014	2013
Financial services [1]	1,198	1,275	1,300	1,303	1,306
Financial consulting [2] [3]	1,047	–	–	–	–
Banking [2]	163	–	–	–	–
FERI	224	223	232	232	244
DOMCURA	254	264	261	–	–
Holding	6	7	7	7	9
Total	**1,686**	**1,768**	**1,802**	**1,542**	**1,559**

Date: December 31, 2017
1) This segment existed until September 30, 2017
2) The values stated concern on average only the fourth quarter of 2017
3) incl. TPC, ZSH and MLP Dialog

To offer our employees even better development opportunities, we launched a modular "management programme" in 2015. This was once again held successfully in the reporting year and open to all employees in management positions. The objective here is to train existing managers, focusing on skills relevant to their duties, while also supporting them in their role with personnel responsibility. In the reporting year, another group successfully completed the Top Talents programme for junior staff, which has been running since 2013 and trains new managers for various business units. The objective of this program is to systematically identify talented junior staff from within the company and then provide these with targeted and sustainable development opportunities for future specialist and management duties within the MLP Group. The programme is set to continue in the future based on a needs-aligned scope and schedule.

Development programmes for managers and junior staff

In the course of the company's change in corporate form from MLP AG to MLP SE, a participation agreement was concluded in 2017 that sets out both corporate and operational employee participation in MLP SE within the scope of legal provisions. Among other things, this agreement contains provisions on the election and composition of the SE works council, its operational jurisdiction, as well as the term in office and role of its respective members. In addition to this, the participation agreement contains provisions on the election and composition, as well as on the term in office of the employees' representatives on the Supervisory Board at MLP SE.

Collective bargaining arrangements in the light of the restructuring measures

In the course of the demerger of MLP Finanzdienstleistungen AG, a balance of interests and a voluntary social plan was concluded with the MLP works council. Among other things, the balance of interests laid down the collective foundations allowing those employees affected by the spin-off of the brokerage branch of activity to MLP Finanzberatung SE to be transferred to brokerage branch of activity. The employment contracts of the employees assigned to the brokerage business could then be assigned to the new brokerage company, MLP Finanzberatung SE, in the course of the transfer of business. The former joint operation of MLP AG (or MLP SE) and MLP Finanzdienstleistungen AG will continue between the companies MLP SE, MLP Banking AG and MLP Finanzberatung SE following the demerger of MLP Finanzdienstleistungen AG. The company agreements previously in place remain in effect without alteration.

The ongoing digitalisation of personnel work remained a focus of activity in 2017. Indeed, we began to work in the last financial year on migrating the old data records from the former personnel file system to the newly introduced digital personnel file. This process is set to continue and also reach its conclusion in the coming financial year. As planned, we also successfully brought payroll back in house on July 1, 2017. The objective here is to make HR processes more effective and efficient through ongoing digitalisation in HR Management.

Digitalisation of personnel work successfully continued

The digitalisation of payroll accounting was also launched in the reporting year and we established a new remuneration system. For the first time, online-based appraisal meetings with the employees are set to be offered from 2018 on.

Alongside a general salary increase, we also implemented comprehensive improvements in the field of social and fringe benefits for our employees in the reporting year to further improve our attractiveness as an employer and honour the work done by our employees. Among other things, the package includes significantly upgraded group accident insurance, introduction of death benefits, employee-financed occupational health insurance without a health check, as well as additional occupational pension provision offers.

Fringe benefits extended for employees

As at December 31, 2017, MLP operated 145 representative offices with a total of 1,909 consultants (2016: 1,940), who work as self-employed commercial agents. The average age of consultants is currently 44. The loyalty displayed by existing consultants remains very pleasing, as underlined by our employee turnover rate. This figure was 9.59% in 2017 – and thereby below the target variable of around 10%.

Consultant turnover at a low level

As in the previous year, acquiring new consultants continued to be a key topic in the reporting year. The new further training allowance introduced in 2015 for those wishing to begin a career as a client consultant has established itself as an important concept within our recruiting initiative. At the same time, we completed the announced realignment of the university segment. In the course of this process, MLP appointed an additional divisional board member on March 1, 2017 who now brings together all of MLP's activities in the university segment across all locations. The objective here is to further accelerate the acquisition of new clients and young consultants and to further increase our presence at universities. As at December 2017, a total of 65 university team leaders are active in the most important university cities, focusing on acquiring and training new consultants in the university segment. We are keen to expand these activities further in 2018.

Progress in the process for recruiting new consultants

To learn about the everyday working life of an MLP consultant, 74 high-school graduates and students took the opportunity to participate in our internship programme in the reporting year. The Sales dual study course, which was launched in 2013 and helps students at the representative offices prepare for a career as consultant, represents another successful recruiting instrument. To cater to the requirements of the newly established university segment, we are currently further developing the curriculum contents. At the end of the year, 14 dual study students and 26 trainees were active at the representative offices (previous year: 21 and 28), while 18 dual study students and 17 trainees were working at the company HQ (previous year: 23 and 20).

Internship programme and dual study programme established

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.

Comprehensive range of training offers are the key to success

A high-quality range of training courses represent an indispensable prerequisite in achieving this. At the heart of the development of the training programme for consultants, branch 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 this time, more than 137 consultants have successfully gained their CFP certification and further consultants are already preparing for this.

Following an extensive certification process, in 2013 it was the first corporate university to be awarded the "Certified Corporate University" international seal of approval from the Foundation for International Business Administration Accreditation (FIBAA). 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.

The cooperative programme of study we launched in 2016 has now established itself. The Corporate University has been collaborating with the School of Management and Innovation at the Steinbeis University in Berlin (Steinbeis-SMI) since September 2016 to offer an MSc course in Financial Planning and Management. The extra-occupational master's course is aimed both at experienced MLP consultants as well as new consultants who are working for MLP after completing their bachelor's degree. The degree course therefore offers our consultants an additional opportunity to gain further qualifications – which also makes it a valuable recruiting instrument.

Financial Planning master's programme established

Comprehensive training programme

Numerous seminars and events serve to underline the scope of our training offer. In 2017 around 20,700 training days (including online seminars) were held at the CU. Alongside specialist and consulting topics, one key focus of training was the new Budget guide consulting application, which we have been gradually establishing since 2016. Since early 2017, the CU has also been offering a Specialist in retirement planning certificate of advanced training in cooperation with the University of Applied Sciences Kaiserslautern.

Preparation for the EU Insurance Distribution Directive (IDD), which is coming into force in 2018, was another focus topic. We have taken various steps to comply with the regulatory requirements of the IDD on the topic of further training, including modularising our further training offer and introducing a points system.

In the summer of 2017, all consultants had the opportunity to learn about the latest specialist and consulting topics in various modules during two "financial planning power days". The event was also open to external participants. In the course of realigning this division in the reporting year, the CU also adapted its training for new consultants in the university segment.

Total expenditure for our comprehensive qualification and training programme amounted to € 6.9 million in the past financial year and was thus at the same level as the previous year.

Thanks to all employees and consultants

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. 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, branch managers and university team leaders for their commitment in a large number of forums and workgroups.