FORECAST

Future overall economic development

There are currently no indications that the solid worldwide recovery might be coming to an end. FERI Investment Research is also expecting the healthy economic activity in the eurozone to continue and is forecasting growth of 1.9% for 2018. This performance is being spurred on by the good global economic situation and the increase in exports resulting from this, the positive effects of low interest rates on bank lending and a relaxation of fiscal consolidation policies in many European countries. These forces will essentially remain intact for the time being. Added to this is the fact that the internal base for the upswing has stabilised in several countries, primarily due to falling unemployment figures and the impetus this provides for private consumption.

Germany remains on course for growth

In Germany domestic demand will remain the most important driving force of the economic upswing in 2018. In its 2018 Financial Report, the German government states a good performance of the labour market and solid income gains as key factors for the dynamics in the domestic economy.

FERI Investment Research anticipates the upswing to continue for Germany, although with slightly reduced dynamism. In absolute terms, our economic experts are anticipating economic growth of 1.8% for 2018.

Labour market prospects remain favourable

Based on estimates of the Institute for Employment Research of the German Federal Employment Agency (IAB), labour market developments in Germany remain positive. In 2018 the average number of jobseekers is set to decline by a further 80,000 to 2.48 million. A temporary increase in the unemployment figures due to refugee registrations is being compensated by the generally good development, however, this effect is slowing down the rate of decline of unemployment figures compared to 2017. The upward trend in gainful employment is also set to continue. The labour market experts at the IAB predicted an increase in total employment figures of around 550,000 persons in 2018.

The labour market is also likely to remain dynamic in the long term, especially for specialists. Indeed, a survey undertaken by Basel-based research institute Prognos suggests that the shortfall in terms of specialists, engineers, researchers and healthcare professionals could reach 3 million persons by 2030 and 3.3 million by 2040.

Increasing salaries and wages to be anticipated.

The framework conditions for private households remain favourable. The German government is forecasting a 3.9% increase in gross salaries and wages in 2018 and according to a forecast provided by the German government, the price-adjusted consumption expenditure of private households will increase by 1.6% in 2018. According to estimates of the German government, investment activity should gain momentum in 2018. Private residential construction is in particular continuing to display lively development. The high degree of job security and above-average increases in real wages are serving to promote demand, as are the low interest rates. For 2018, Deutsche Bundesbank is expecting a savings ratio at the previous year’s level of 9.6%.

Future industry situation and competitive environment

The above influence of the individual areas of consulting on the operating business segments applies accordingly to the future industry situation and the competitive environment.

Old-age provision

In future, private and occupational pension provision are set to play an increasingly important part in Germany in terms of maintaining an acquired standard of living during retirement. In its 2017 Pension Insurance Report, the German government stresses that the continuous decline in the level of the statutory pension can only be compensated through supplementary provision. In the short term, however, the industry will continue to face major challenges due to the low interest rate environment and the ongoing reservations when it comes to signing long-term provision contracts.

German citizens not making adequate provisions

Based on a survey conducted by comdirect, almost half of all Germans (48%) are currently not saving for their old age. One in four claims not to have enough money left over to save for their retirement. At the same time, only around one in ten German citizens have confidence in the statutory system and believe that the future statutory pension will be adequate for their retirement.

Statutory pension continues to decline

According to the latest Pension Insurance Report published by the German government, the standard pension level is already at 48.0%. This figure is predicted to decline to 45.0% by 2030. The official group of estimators expects the pension level to fall further to 41.7% by 2045 and the premium rate to increase to 23.6%.

Gaps in provision to be closed

The results of the latest Provision Atlas Germany by Union Investment indicate that the young generation in particular must take action if it wishes to maintain its standard of living when reaching retirement age. The survey calculates that German citizens currently aged 20 to 65 can expect to receive around € 1,070 per month from the statutory pension when they retire. On average, this corresponds to around 48.0% of their last gross income (replacement rate). While German citizens currently aged 50 to 65 will reach a replacement rate of around 64% on reaching retirement age, those currently aged 20 to 34 will likely have to manage on just 38.6% of their last gross income. To maintain their standard of living, the survey states that they will then require around € 800 extra per month. The gap in provision is even wider among higher earners.

Greater support for basic and Riester pension from 2018

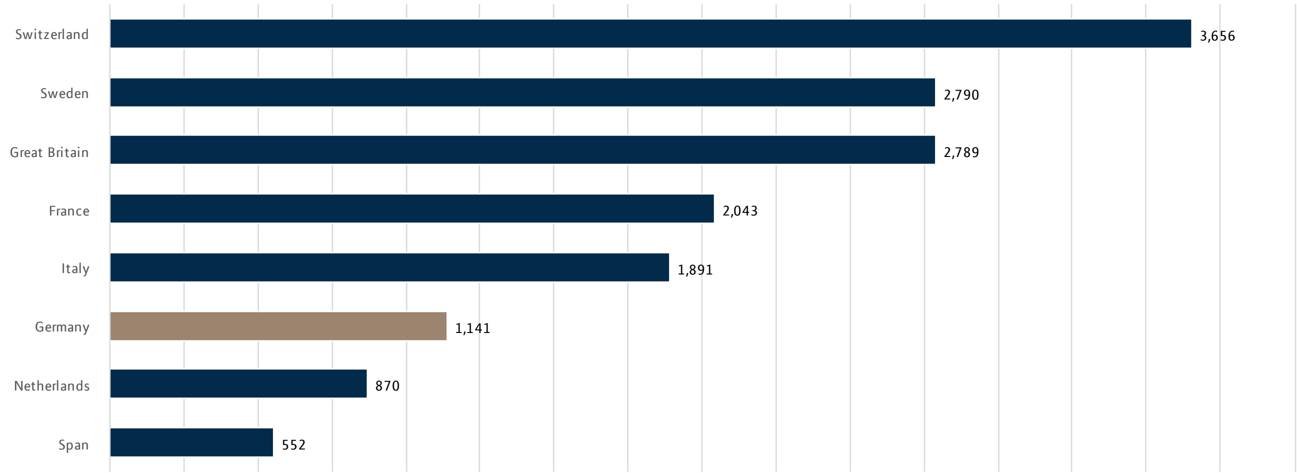
The state supports supplementary old-age provision in Germany. In 2018, the maximum tax-deductible amount in Tier 1 is to increase from € 23,362 to € 23,712 for single persons. At the same time, the percentage of premiums paid that is taken into account by the tax authorities is set to increase from 84.0% to 86.0%. A maximum of € 20,392 can therefore be deducted as special expenses in 2018. These figures are doubled for married couples.

In addition to this, the legislation to strengthen occupational pension provision in Germany (BSRG), which comes into force on January 1, 2018, sets a higher basic allowance of € 175 per year for the Riester pension (previously: € 154).

German citizens need to catch up quickly

A European comparison shows just how far German citizens have to go in order to catch up in terms of private old-age provision. Although they pay an average of € 1,141 per year into life insurance policies, this figure is considerably higher in other European countries such as France (€ 2,043 per capita) and Great Britain (€ 2,789 per capita).

A comparison of annual per capita life insurance premiums in Europe (all figures in €)



Source: Insurance Europe

Occupational pension provision holds potential

In 2017 the German government launched an extensive package of measures to achieve greater market penetration with the legislation to strengthen occupational pension provision in Germany. According to the German government, small companies and low earners often have the greatest gaps in provision. Indeed, only 28% of employees at enterprises with fewer than ten employees have a company pension entitlement. In total, 47% of employees with less than € 1,500 earned income per month do not have a company pension or Riester pension policy in place at all.

A survey undertaken by Deloitte also underlines the need to catch up. Based on the information provided, only 26% of employees currently participate in deferred compensation, i.e. take the opportunity to pay their own money into occupational pension schemes. Only 11% of employees receive employer-financed occupational pension provision with which they are satisfied. According to the survey, such problems often arise due to a lack of information. Indeed, 30% of respondents stated that they had not received adequate information on occupational pension provision. A further 35% said that they did not receive any information at all. Those participating in the survey stated that they would ideally like to have a consultation meeting with example calculations for their personal situation or a detailed brochure.

Assekurata takes the view that the legislation to strengthen occupational pension provision in Germany (BSRG) can deliver particular growth stimuli for consulting firms with a strong presence in occupational pension provisions and a pronounced target group focus in the commercial sector.

Unit-linked products enjoying an upswing

Assekurata believes that the ongoing low interest rate environment is forcing more and more providers to turn their back on typical life insurance policies. Biometric products such as occupational disability insurance and unit-linked policies are therefore getting more attention. What's more, growth opportunities for the entire old-age provision sector could result from the ongoing good economic situation of private households in future.

The reservations being displayed by German citizens when it comes to signing long-term contracts is likely to continue in the financial year 2018. However, in light of the legislation to strengthen occupational pension provision in Germany (BSRG) there is still potential particularly in the field of occupational pension provision.

Wealth management

The market environment in the wealth management area is characterised by profit growth in a global economy which is still expanding robustly, low interest rates and a friendly monetary policy. FERI Investment Research expects this scenario to continue providing good support to global stock markets in the interim, although it is likely to be increasingly put under pressure over the course of 2018 due to existing risks. Alongside the fundamental problem of ongoing high debt levels in almost all countries, the risks according to FERI are primarily associated with a significant drop in growth momentum in China and the gradual withdrawal of the expansive monetary policy by the key central banks. The situation is also compounded by the fact that the economic upturn in the US is clearly in its late stage. The different alignment of monetary policy, in particular the difference between the US on one side and both Europe and Japan on the other, could lead to increased volatility in the markets.

Increasing demand

The need for high-quality wealth management services is set to increase in the long term, due to the consistent growth in private wealth. In its 2016 Global Wealth Report, the Boston Consulting Group (BCG) expects global high net-worth individuals to increase at an annual rate of 6% and exceed US$ 224 trillion by 2020.

Over the next few years, we expect to see major shifts in funds due to inheritances. According to a survey performed by the German Pension Institute (DIA), private households in Germany alone will inherit around € 3.1 trillion by 2024. Based on the DIA survey, an average of € 363,000 will be handed down per inheritance.

Private investors still cautious regarding shares

According to a survey performed by AXA on the topic of investment behaviour, German investors are remaining rather reserved with regard to the stock markets. Accordingly, only around 14.0% of German citizens hold shares or mutual equity funds, despite the fact that four out of every ten Germans find the idea of investing on the stock exchange "highly interesting". However, more than half of the respondents agree with the statement that they would only invest money on the stock exchange if they had a money-back guarantee for their investment.

Alternative investments still in demand

Among institutional investors, the trend towards alternative investments is ongoing. According to the Mercer European Asset Allocation Survey 2017, classic government bonds with a good rating no longer deliver sufficient profit. Depending on their investment strategy and the regulatory opportunities available, institutional investors are therefore looking more towards shares, real estate, private equity and private debt - and this trend will intensify. Indeed, according to a survey undertaken by the German Private Equity and Venture Capital Association (BVK), more than half of all German institutional investors and family offices (55.0%) are keen to further expand their private equity allocation in the coming one or two years, while another 40.0% are seeking at least to maintain their current level. The BVK expects private equity to become even more popular over the next few years.

In light of low interest rates, the ongoing debt crisis and geopolitical risks, the capital market environment is likely to be characterised by pronounced volatility and remain challenging in the 2018 financial year. Within this context, in the long term we expect to see an increased need for consulting services in the professional wealth management area among all of the Group's target client groups.

Non-life insurance

Overall, the German Insurance Association (GDV e.V.) anticipates growth in the property and casualty insurance area to remain at the 2017 level in 2018.

Independent brokers, in particular, are also expecting the growth trend observed in the last few years to continue over the next five years. Indeed, 73.0% of insurance brokers taking part in a survey performed by AssCompact believe that the private non-life insurance business will be highly relevant in the coming four years.

Digitalisation and cyber insurance

According to a recent survey by Bain & Company and Google, the digital transformation holds massive potential - particularly for property and casualty insurance policies, which often employ standardised products and procedures. However, leveraging this requires thorough digital transformation throughout the entire value-added chain. Although insurance companies have invested in the expansion of their digital offers, they have primarily focused on sales and innovations in and around the concept of online marketing. For example, companies are increasingly offering or expanding client portals and using new communication tools such as apps. Technical developments in the field of mobility in particular are changing the traditional business models.

Ratings agency Assekurata also believes that cyber insurance is a promising new market segment. Cyber insurance policies are intended to offer companies protection from damage caused by hacker attacks. According to Assekurata many small and medium-sized enterprises are underestimating the risk associated with this.

Online policy sales showing massive growth potential

The market potential for the selling of policies via the internet is large. Indeed, every second German citizen (56.0%) would have no problem taking out an insurance policy entirely online. This tendency is even more pronounced among those who already regularly purchase books, clothing or electronics on the internet. This was the result of the Digital Insurance 2017 survey undertaken by software producer Adcubum. However, the willingness to sign contracts online drops off sharply for increasingly complex insurance products and those with a longer term. As such, while 56.0% of clients could see themselves signing up for basic products online, such as travel cancellation insurance or travel health insurance, this figure drops to just 2.0% for pension insurance policies. This is just some of the information provided in a survey conducted by the Institute for Insurance Business at the Technical University of Cologne.

Commercial non-life insurance business holds potential

Alongside the established private non-life insurance business, many brokers are increasingly expanding their focus to include the commercial arena as a way of building up or securing a solid portfolio. After all, many companies require specialist expertise and qualified consulting services to secure tailor-made insurance solutions that cover their business risks. According to the survey entitled AssCompact AWARD – Commercial Damage / Accident Business 2017, the relevance of the commercial non-life insurance business has increased by 20 percentage points in the past five years. The independent brokers surveyed agree that this growth trend is likely to continue in the next five years. While 64.0% of independent brokers believe that the commercial non-life insurance business is already highly relevant, 70.0% of brokers believe it will be highly relevant in five years.

Health insurance

Further reforms are to be expected in the German healthcare system over the course of the next few years. The call from several parties for the introduction of a "citizens insurance" – despite the fact that the CDU has clearly positioned itself against this – is continuing to spur on the political and media discussion regarding reforms to the healthcare system.

Statutory health insurance funds anticipating drastic premium increases

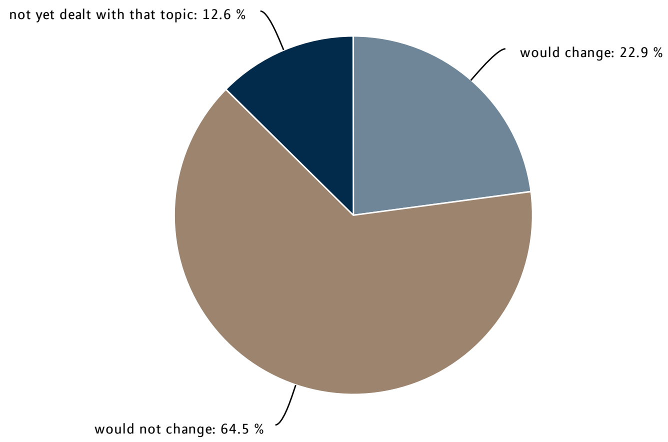
Due to demographic developments in Germany, the German Institute for Economic Research (DIW) is anticipating an increase in insurance contributions for the statutory health insurance system from their current level of 14.6% to 16.5% by 2020. This would correspond to an increase of 13.0%, whereby the additional premium (which was 1.1% on average in 2017) has not yet been taken into account. Although the Health Ministry has stated that the average additional premium is set to be reduced by 0.1 percentage points in 2018 due to the good current revenue situation of the statutory health insurance funds, according to estimates provided by the Association of Alternative Health Funds it will increase to between 1.8% and 2.0% over the next three years.

Future of comprehensive insurance depends heavily on politics

MLP believes that the willingness of numerous statutory health insurance policy holders to switch to a private policy will be boosted as a result of the increasing additional premiums. This in turn should inject new momentum into the whole market. Ratings agency Assekurata currently sees hope for a possible reversal of trends in the field of private health insurance, following the recent success in significantly reducing portfolio erosion throughout the comprehensive insurance market in comparison with previous years.

According to experts it depends heavily on the world of politics and the recent intensive discussions regarding the introduction of a "citizens insurance" offering holders of private health insurance the right to switch whether this development actually marks a reversal of trends for comprehensive insurance. Based on the survey on consumers' willingness to switch policies, the experts at Assekurata believe that the overwhelming majority of private health insurance policy holders are unlikely to make any use of a potential right to switch in the event of "citizens insurance" being introduced.

Proportion of private health insurance policy holders who would exercise their right to switch to the statutory health insurance system



Source: Assekurata Assekuranz Rating-Agentur GmbH, market outlook 2017/2018

As highlighted by the Continentale Survey 2017, the vast majority of those paying into the statutory system are worried about the future of the healthcare system in Germany. Indeed, 87.0% are worried that good health provision is costing or will in future cost a lot of money on top of the statutory health insurance premiums. Many consider supplementary private provision to be the right solution here. In fact, 81.0% believe that good provision of healthcare will only be possible via private top-up insurance policies.

Supplementary private health provision necessary

The latest Healthcare Barometer published by PricewaterhouseCoopers indicates that well over half (58.0%) of statutory insurance policy holders in Germany currently do not have any supplementary insurance in place. Ratings agency Assekurata therefore sees large untapped growth potential for products such as supplementary dental insurance.

The focus is increasingly turning to care services for those suffering from dementia, as highlighted by the DAK Care Report 2017. Accordingly, the majority of German citizens consider the services provided by statutory long-term care insurance to be inadequate. More than 1.7 million people are already living with dementia in Germany alone, and experts are anticipating this figure to increase to 3 million by 2050.

Greater support required for those suffering from dementia

Only 9.0% of companies in Germany are currently offering their employees occupational health insurance. This figure is up slightly from the 7.0% recorded in 2014, as reported in a survey by market research institute Heute und Morgen. Around 40.0% of companies not offering any occupational health insurance could currently envisage introducing such an offer in future, while 8.0% already have concrete plans to do so within the next twelve months.

Occupational health insurance still offers great potential

Real estate

Set against the background of increasing rents, around 30.0% of young families in Germany are planning a future real estate purchase according to the Wealth Barometer 2017 of the Deutscher Sparkassen- und Giroverband financial group; this figure is still almost one in four (23.0%) in the 20- to 50-year-old age group.

There has been a significant increase in the numbers of new builds in the German real estate market in the last three years. According to estimates of Germany's Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), multi-floor residential buildings represent the main projects here. This is a trend that is likely to continue in future, according to the Residential Construction Forecast 2030 published by the BBSR. The survey states that the number of households in Germany is set to increase by 500,000 to 2030 and be almost 1.3% higher in 2030 than in 2015. Based on calculations, an average of 230,000 new apartments per year will be required for the whole of Germany in the forecast period. For the years up to 2020, the survey even anticipates a higher demand of around 272,000 new apartments per year.

Need for newly built apartments rising further

Investment in nursing care properties is becoming increasingly important. The need for compact dwellings with nursing care will increase in future as a result of the demographic shift. According to a survey commissioned by Germany's Federal Ministry of Economics, there is likely to be a shortfall of around 160,000 nursing home places by 2030.

Nursing care properties as an investment

Demographic developments in Germany will lead to a significant increase in demand for micro-apartments, thereby also increasing the value of this type of property. According to estimates provided by the German Federal Statistical Office, the trend towards smaller households is set to continue in future. Indeed, the proportion of single-person and two-person households in Germany will rise to 81.0% by 2030. By this time, four out of every five households will comprise only one or two people.

Demand for micro-apartments set to rise

The proportion of small households in the city states is particularly high. By 2030, the proportion of single-person households is expected to increase to 54.0% in Bremen, to 55.0% in Hamburg and to 58.0% in Berlin.

Cities are booming

The boom currently being experienced in cities is reinforcing this trend. Based on a survey conducted by the Institute of the German Economy (IW), the population of Berlin is likely to increase by 14.5% to over 4 million people by 2035. Frankfurt is expected to increase by 11.0% to 813,000 residents, while the population of Munich is likely to increase by 14.4% to 1.66 million people.

On this basis, the real estate market in Germany can expect to see further growth.

Loans and mortgages

In light of the favourable economic environment, German banks should also be able to benefit from the lending business, which is set to pick up in the next few months. Growth in terms of loans both to companies and private individuals is likely to remain higher than in the eurozone overall.

Despite the ongoing normalisation of monetary policy in the US, we should not expect any fundamental improvement in terms of interest surplus at banks in the short term. At the same time, however, the low interest rates and robust economic growth should have a positive impact on bank lending to both households and companies, while continuing to ensure low credit losses. The highest uncertainties for the sector result from the Brexit negotiations between the EU and Great Britain, as well as the speed and extent of the expected turnaround in monetary policy by the ECB. An abrupt interest rate rise could place a significant strain on banks.

Competition and regulation

The entire market for financial services and the insurance sector are facing consolidation. Germany is considered to be the market with the greatest potential in Europe, in which both national and international service providers are competing. Due to stricter regulations, pressure is, in particular, mounting on low-level providers, which will lead to a further reduction in the number of market actors. In addition to this, the entire sector is facing competitive pressure from the new, innovative market actors (fintechs).

Life Insurance Reform Act (LVRG) on the test bench

In 2018 the Federal Financial Supervisory Authority (BaFin) will report to the Bundestag on their review of the Life Insurance Reform Act (LVRG), which came into force in 2015. Initial comments from the supervisory authorities would seem to indicate that they do not consider the reduction in acquisition costs implemented in the sector as adequate. Insofar as the Federal Financial Supervisory Authority (BaFin) maintains its position, ratings agency Assekurata anticipates a readjustment by the legislator.

Legislation set to strengthen occupational pension provision

The German government is keen to offer greater incentives for occupational pension with its legislation to strengthen occupational pension provision in Germany (BSRG). At the heart of the new law is the opportunity to introduce occupational pension provision at companies through a collective bargaining agreement. The new legislation will come into force on January 1, 2018, but will initially only apply to newly concluded deferred compensation. For agreements already in place, the employer's contribution is only set to be compulsory after a transitional period of four years, i.e. from the start of 2022.

Further key points of the new legislation focus, in particular, on a higher tax subsidy to 8.0% (currently 4.0%) 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.

On January 3, 2018 large sections of the MiFID II Directive will have come into force to bring national regulations in the field of financial market supervision into line with numerous new European stipulations. The amendments have fundamental effects on the business model of securities service enterprises. Existing consulting processes need to be reviewed and adapted to the new requirements, which could prove quite costly in certain areas. This is particularly true of the IT processes and also the product structures.

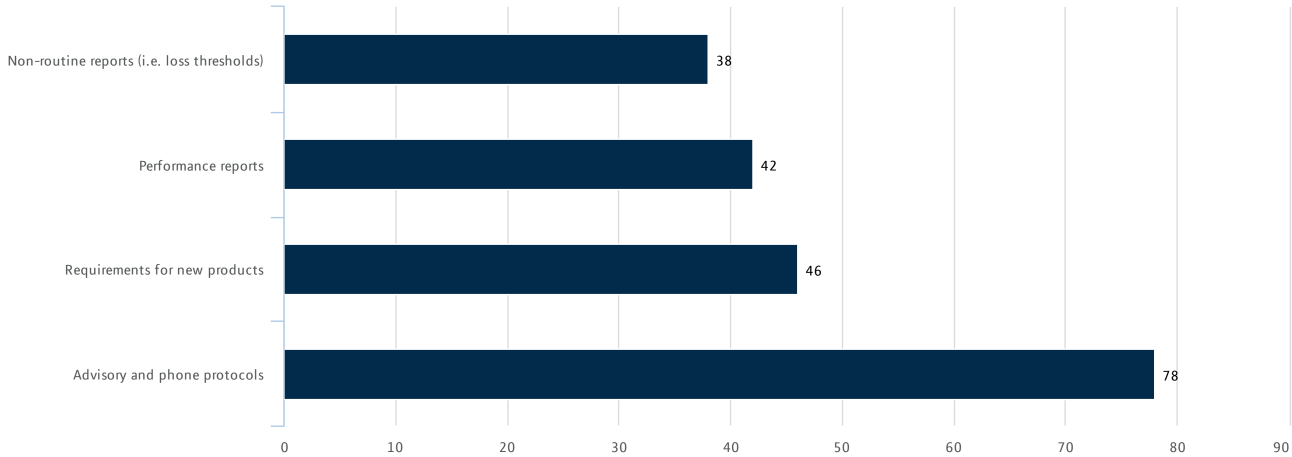
Greater transparency and better investor protection in focus

Banks and savings banks believe that the obligation to keep records of telephone conversations for securities advisory services to be the greatest burden that the sector faces with the introduction of MiFID II. Indeed, 39 of 50 institutes responding to a survey performed by consulting firm PPI believe that telephone recordings and other consultation records will lead to "extremely high" or "fairly high" costs. The banking association is concerned about the mutual trust between consultants and clients, while independent asset managers are criticising the acquisition costs for appropriate telephone systems.

Record keeping requirements adding extra burden to the sector

Anticipated follow-up costs for securities advisory services as a result of MiFID II

share of respondents estimating cost to be very high or rather high



Source: PPI, survey of 50 banks and savings banks

The banking association is forecasting total one-off costs of around € 1 billion for the implementation of MiFID II requirements. Added to this are ongoing costs for dispatching reports and information to clients.

MiFID II will also result in significant costs for MLP. However, we are well-prepared to implement these requirements.

The new EU regulation on packaged retail and insurance-based investment products (PRIIP Regulation) came into effect on January 1, 2018. This regulation stipulates that companies must inform their clients of insurance investment products in a key information document (KID). The objective here is to help consumers gain a better understanding of the opportunities and risks associated with these products. These uniform key information documents should also make it easier to compare various investment products. The content and design of the KIDs are fixed. A maximum of three A4 pages may be used to inform consumers of the most important features of the respective product, in particular its investment objective, risk/return profile and costs. The PRIIP Regulation applies to all investment products and contracts in which the client's money is only invested indirectly in the capital market instead of directly or whose repayment claim is linked to the performance of certain securities or reference values in a different way. This, for example includes investment funds or endowment life insurance policies.

Key information documents for investment products to follow later

A far-reaching new regulatory reform for insurance sales is set to come into force from February 23, 2018 with implementation of the EU Insurance Distribution Directive (IDD). The key items of this EU Directive include information requirements and rules of conduct, as well as regulations regarding ongoing qualification of consultants and remuneration. The commission ruling initially contained in the German government's draft bill has been amended in the final legal wording so that fee-based consulting or a mixed model is now also possible. Brokers for private clients can therefore still work on a fee basis, which ratings agency Assekurata believes will continue to safeguard independent advice in the interests of the client. The IDD also stipulates that insurance brokers must attend at least 15 hours of further training per year.

New Insurance Distribution Directive (IDD) comes into force

No major effects on MLP's business model should currently be anticipated as a result of the IDD stipulations. However, comprehensive process-based adjustments will be necessary.

The new law for introduction of a professional licensing ruling for commercial estate agents and residential property managers comes into force from 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. In future, property managers and brokers must be able to prove that they have attended 20 hours of further training within the last three years. Residential property managers that are already active have until March 1, 2019 to apply for their permit. They must provide evidence of their further training for the first time in August 2021.

Obligation to attend further training for estate agents

The Investment Tax Reform Act (InvStRefG) came into force on January 1, 2018. Alongside the provisions under European law on equal treatment of domestic and foreign investment funds, its objective is primarily to simplify the taxation of mutual funds at investor level. From January 2018, investment funds must themselves then also pay corporation tax on certain income.

The new EU General Data Protection Regulation (GDPR) will be transposed into directly applicable legislation in all member states of the European Union on May 25, 2018. The objective is to establish an equivalent level of protection of individuals' rights and freedoms with regard to the processing of personal data across all member states.

This will also lead to a wide range of new requirements for MLP in terms of reporting processes, statements of accounts, information disclosure requirements and process documentation.

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

Well-equipped to handle new regulatory requirements

Anticipated business development

Over the course of the coming years, we generally expect to see an increased need for consulting services in the field of professional wealth management among all of the Group's target client groups. More and more clients of MLP Banking AG are approaching the age at which financial investments become significantly more important to them, not least due to their increasing personal wealth. Above all, we see significant growth opportunities through the massive potential of this consulting area among our client base at MLP. At FERI, we are continuing to benefit from the comprehensive expertise in alternative forms of investment. In light of low interest rates, the ongoing debt crisis and geopolitical risks, the capital market environment is likely to be characterised by pronounced volatility and remain challenging in the 2018 financial year. It is therefore safe to assume that both private and institutional investors will continue to display risk-averse behaviour. Volume- and performance-based remuneration could also decline.

In an unchanged market situation with no radical events or similar effects on capital markets, we are anticipating a slightly better performance than in the previous year in the wealth management area for 2018 in terms of both revenue and assets under management – driven by FERI, yet crucially also by MLP's private client business.

In the old-age provision area, MLP expects the reservations displayed when it comes to signing long-term provision contracts to continue throughout the market, primarily due to the ongoing period of low interest rates. These are driving changes in the product landscape of the old-age provision area. Alternative guarantee concepts are enjoying ever increasing demand and gaining ground throughout the market. MLP has taken on a pioneering role in the brokerage of these concepts and we are increasingly benefiting from this. The entry into force of the German legislation to strengthen occupational pension provision in 2018 is likely to provide positive stimulus for the occupational pension provision area. In the field of old-age provision, we are anticipating a significant increase in new business in 2018, while revenues are expected to increase slightly.

For the non-life insurance business, we see growth potential in both the private and commercial sectors. Following the successful introduction of pooling concepts for MLP, as well as the physician policy (special inventory policy), further target group concepts which also contain a module to safeguard against hacker attacks (cyber insurance) are planned at DOMCURA for 2018. These are, in particular, aimed at office-based operations and professional advisers.

We are keen to further extend the interaction between MLP and DOMCURA, while at the same time growing the overall portfolio at MLP. To this end, we are establishing a process that will make it easier for us to incorporate existing non-life insurance policies of our clients that have not already been brokered via MLP into our portfolio. Overall, we therefore expect a slight increase in revenue in the non-life insurance area for 2018.

In the health insurance area, market conditions are unlikely to improve in the short term, as the concept of comprehensive private insurance is continually being called into question by some politicians and in the media. The notion of a "citizens insurance" and increased premiums are the main aspects of the discussion that are continuing to unsettle German citizens here. Indeed, the introduction of a "citizens insurance" continues to be discussed in public while attempts to form a new government are underway. However, the additional premiums for the statutory health insurance system could increase willingness among those paying into the statutory health insurance system to make the switch to a private policy in the medium term – which applies to MLP clients, in particular, as they generally enjoy above-average incomes. The private supplementary insurance business holds growth potential too. We also believe that the occupational health insurance area has a promising future. Overall, we expect revenues in the field of health insurance in 2018 to be at the previous year's level.

Within the scope of a holistic investment strategy, material assets in the form of real estate offer an attractive investment option, particularly for MLP's target group. We are keen to continuously expand our brokerage activities for new and concept-driven properties in future as a way of establishing a broader revenue basis for our advisory services. For 2018, we are expecting the brokered volume of business in the loans and mortgages area to remain at the same high level recorded in the previous year. In terms of real estate brokerage, we are anticipating a volume slightly above the previous year's level, although revenue is likely to remain at the same level as the previous year.

In our lending business we are also anticipating a positive development in terms of financing volume as well as in terms of revenues. The partnership between MLP Banking AG and Interhyp AG is new. MLP Banking AG is appearing as a product partner on this loan brokerage platform for the first time.

However, a degree of uncertainty remains in all consulting areas due to the overall challenging market environment.

Revenue estimates: 2018 (in comparison with the previous year)

2018	
Revenue from old-age provision	Slight increase
Revenue from health insurance	Unchanged
Revenue from wealth management	Unchanged
Revenue from non-life insurance	Slight increase
Revenue from real-estate brokerage	Unchanged
Revenue from loans and mortgages	Unchanged

Strategic restructuring accelerated

In order to also maintain this earnings level in spite of the ongoing difficult market conditions in the field of old-age provision, MLP will further accelerate the strategic further development of the previous years. Initiated and successful growth activities will be continued to this end.

Further acquisitions possible

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

The MLP Group supports its business model to a large extent with digital offers and will continue to consistently expand this support. In this vein, we are working step-by-step on the following objective:

Digitalisation remains in focus

MLP also strives to be the dialogue partner for all financial matters on the web and on social media. Based on their requirements and interests, existing and prospective clients are offered useful information and dialogue opportunities, as well as online products and tools. These channels are also used to win prospects and new clients for MLP. The offer for young people comes together under the name MLP financify. The portal allows everyone to experience the benefits of MLP in the digital world around the clock. Clients can find all personal finance topics, such as policies, accounts and overviews of in and outgoings, in an app. All information is presented clearly and transparently for effective use. To supplement this, clients receive news and optimisation suggestions tailored to their requirements. There is always an option to get in contact or reconnect with their personal MLP consultant, customer service or both – depending on the respective client's wishes.

Building upon previous activities we are targeting further establishing and increasing online policy sales as a way of winning new clients in 2018. E-mail marketing measures are also planned as a way of turning prospects into actual clients. In addition we intend to expand our presence on social media pages such as Facebook with a chatbot, which is currently in the testing phase, and will open up the e-signature for further products in 2018.

As of 2018 our MLP client portal will be upgraded to include a contract overview of all insurance policies.

Online client portal being extended

Within the scope of our digitalisation strategy, we will be introducing a new telephone system over the course of 2018. This will also make it easier to get in touch with consultants via app and smartphone. In addition to this, the step-by-step roll-out of a new electronic client file will take place early in 2018.

The continuous increase in the number of persons with academic qualifications in gainful employment is pleasing for MLP in terms of client potential. This trend is likely to continue over the course of the next few years, as the unemployment rate among academics is at a very low level. However, this presents a challenge in terms of recruiting new consultants for MLP. The competition for graduates has intensified in the last few years, and good graduates typically have a choice between several attractive career entry offers. In 2018, we will once again strengthen activities to recruit new consultants - an area we are keen to significantly expand with the realignment of our university segment.

Number of prospective clients constantly on the rise

Our aim is to increase our presence at universities over the course of the next few years. By pooling all of MLP's cross-location activities in the university segment, we established all necessary prerequisites for this in the reporting year. The objective of this realignment of our university segment is to win over more new clients and young consultants. We feel confident that young consultants will find ideal prerequisites in this new model. Firstly, we have optimised the training and qualification offers for this group of consultants. Secondly, the young consultants also have successful and experienced consultants at their side in the form of the university team leaders, whose focus is mainly aimed at training new consultants in the university segment. On the basis of the success enjoyed by these measures to date, we will intensify our investment in this area and its growth in the coming year. With these greater investments, we will create the basis for stronger future growth in terms of consultants, revenue and income.

Realignment of the university segment at MLP

In this context, we will continue to expand our recruiting activities through our online and social media presences. We are anticipating a slight net increase in our number of consultants for 2018. Our overall assessment is based on the fact that annual employee turnover will not exceed the target limit of around 10.0%.

We believe that the high quality of our basic and further training programme will continue to be the key to success. Indeed, we offer our consultants a programme that exceeds the legally stipulated level. This should help us increase the number of central training days (including online seminars) at our Corporate University slightly compared with the last financial year. This also applies to the total budget for qualifications and further training.

Administration costs stable

MLP has been implementing additional extensive efficiency measures since 2016 in order to further reduce the cost base significantly in the financial year 2017 and subsequent years. We consider the level that has now been reached to provide the basis in the coming years for a consistent cost management.

We will continue to develop and optimise MLP in 2018. The forecast administration costs therefore still include expenses for investments in the future, in particular for recruiting young consultants within the scope of strengthening the university segment. Expenses incurred in this connection in 2017 were around € 3.6 million. On the basis of the successes already achieved in 2017, we are keen to continue driving forward this approach in 2018 and further intensify our investments in strengthening the university segment. We are anticipating expenses of around € 7 million for this in 2018. In addition there will be higher training expenses in the light of rising consultant numbers. Although this may limit our growth in earnings in the short term, it will greatly increase our future profit potential in the long term. Added to this are further investments, in particular in IT, which are largely necessary for further implementation of our digitalisation strategy.

Alongside administration expenses, the cost of sales (primarily commission expenses) are also relevant for our cost structure. Since 2015, MLP has been offering a training allowance for new client consultants to support them in their start to self-employment. These costs are also recognised under commissions paid. In 2018, we expect to record a comparable overall ratio of commission income to commissions paid as in the reporting year.

We also expect loan loss provisions to remain at the previous year's level.

Forecast: Significant increase in EBIT anticipated

Based on our expected revenues and costs, we are anticipating a significant increase in EBIT for the financial year 2018 over the previous year. In 2017, one-off expenses of € 9.1 million for further optimising the corporate structure had a negative impact on EBIT. Compared with the previous year's operating EBIT, i.e. excluding the one-off expenses described above, we are anticipating stable development – despite operating in markets that remain challenging and comprehensive investments in our future.

This forecast is based on the assumption that the framework conditions in our core markets will not become significantly worse.

As was already the case in the previous year, we once again expect the finance cost to be slightly negative. The tax rate in 2017 was 23.6%. For 2018, we are anticipating a higher tax rate.

Dividends of € 0.20 per share

As a general rule, our dividend policy is aligned to the respective financial and earnings position, as well as the company's future liquidity requirements. Since MLP employs a comparatively low capital-intensive business model, we intend to maintain an attractive and consistent dividend policy for the future. At the same time, we will retain a portion of profit to further strengthen the business model. Set against this background, we have been paying out between 50% and 70% of Group net profit as dividends since the financial year 2014.

As a result of further optimising the corporate structure, free equity capital increased to around € 290.0 million at the end of the 2017. At the same time, one-off expenses of € 9.1 million were accrued in this connection. MLP has announced that it will compensate these one-off expenses for the shareholders and base its dividend distribution on 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. The distribution rate is around 64% of operating net profit. We are keen to continue paying out between 50% and 70% of Group net profit in future.

Planned financing activities and investments

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

Our investment volume was € 7.3 million in the last financial year, whereby the focus remained on IT. You can find more detailed information on this in the chapter entitled "Economic report – Business performance". We will continue to invest, above all in our IT systems. This essentially focuses on further implementing our digitalisation strategy, for which we are estimating an investment volume of around € 30 million over the next three years. In concrete terms this means that we expect to invest around the same volume in 2018 as in the previous year. Within our projects, we use further funds that will flow directly into our income statement as expenses. We expect to be able to finance all investments from cash flow.

Significant increase in return on equity anticipated

Return on equity increased from 3.8% to 7.3% in the financial year 2017. The previous year was essentially burdened by higher one-off expenses, which were accrued within the scope of our efficiency measures. However, we are anticipating a significant increase in return on equity for 2018.

The Group's liquidity rose from € 265 million to around € 354 million in the financial year 2017. However, the overall liquidity situation remains good. Liquidity will be reduced by the intended dividend payment of € 21.9 million for the financial year 2017. It will increase again in the second half of 2018 thanks to the typical year-end business. Acquisitions which we finance with cash holdings would also have a negative effect on the Group's liquidity and capital adequacy. We are not anticipating any liquidity squeezes for the coming financial year.

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

MLP anticipates that the challenging market conditions will continue throughout the financial year 2018. Against a backdrop of the successfully implemented efficiency measures and the elimination of one-off expenses, we expect EBIT to be significantly higher in 2018 than in 2017 and also expect operating EBIT to be at the same level recorded in 2017. With regard to total revenue, we are anticipating a stable to slightly upward development. We therefore expect to see a positive overall development within the Group. We enjoy a sound financial standing, which we are keen to use to further extend our strong market position.

Prognoses

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

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

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