JOINT MANAGEMENT REPORT

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

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

FUNDAMENTAL PRINCIPLES OF THE GROUP

Business model

MLP – The partner for all financial matters

Broad range of services

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

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

Client requirements in focus

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

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

Supervisory requirements

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

Transparent partner and product selection process

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

Qualifications and further training of key importance

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

Division of MLP Banking AG (operating as MLP Finanzdienstleistungen AG until November 30, 2017)

In the reporting period, the brokerage branch of activity was spun off from MLP Banking AG (operating under the name MLP Finanzdienstleistungen AG until November 30, 2017) 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 (old-age pension provision, health insurance, non-life insurance, real estate, finance brokerage) are now provided by the new MLP Finanzberatung SE.

MLP Banking AG

MLP Banking AG combines the features of a direct bank with consulting services, which are provided by its consultants. It offers classic banking services to both private and business clients – from accounts and cards through to loans, all the way to the wealth management. MLP Banking AG assumes the following role within the MLP Group:

- Combining direct banking services with face-to-face advisory
- Part of a comprehensive financial consulting offer from MLP and MLP consultants
- Provider of regular account and securities account models, as well as other banking services
- Special expertise in the fields of wealth management and financing

MLP Finanzberatung SE

Atrium 105. Europäische VV SE was acquired with effect from May 17, 2017 and was renamed MLP Finanzberatung SE by entry in the commercial register on July 6, 2017. In the 2017 financial year, the brokerage division was spun off from MLP Finanzdienstleistungen AG and transferred to MLP Finanzberatung SE with retroactive effect from October 1, 2017.

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

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

As an underwriting agency, DOMCURA designs, develops and implements extensive coverage concepts for private and commercial clients in the non-life insurance segments. The products of DOMCURA are currently used by approximately 5,000 insurance brokers and insurance sales.

DOMCURA and nordias – non-life insurance specialists

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 developed in the reporting year and integrated into nordias GmbH Versicherungsmakler (nordias) as a direct subsidiary of MLP SE and as a parent company of the other brokerage companies in the DOMCURA Group. DOMCURA AG and nordias have thereby become sister companies within the MLP Group. Over the course of the further development in the DOMCURA Group, nordias assumed additional functions and services for MLP Sales.

As an investment house for institutional investors, high net worth families and foundations, the FERI Group (FERI) offers services in the fields of investment research, investment management and investment consulting. The FERI Cognitive Finance Institute, which was established in 2016, acts as a strategic research centre within the FERI Group with a focus on analyses and method development for long-term economic and capital market research.

FERI – Wealth management with independent research

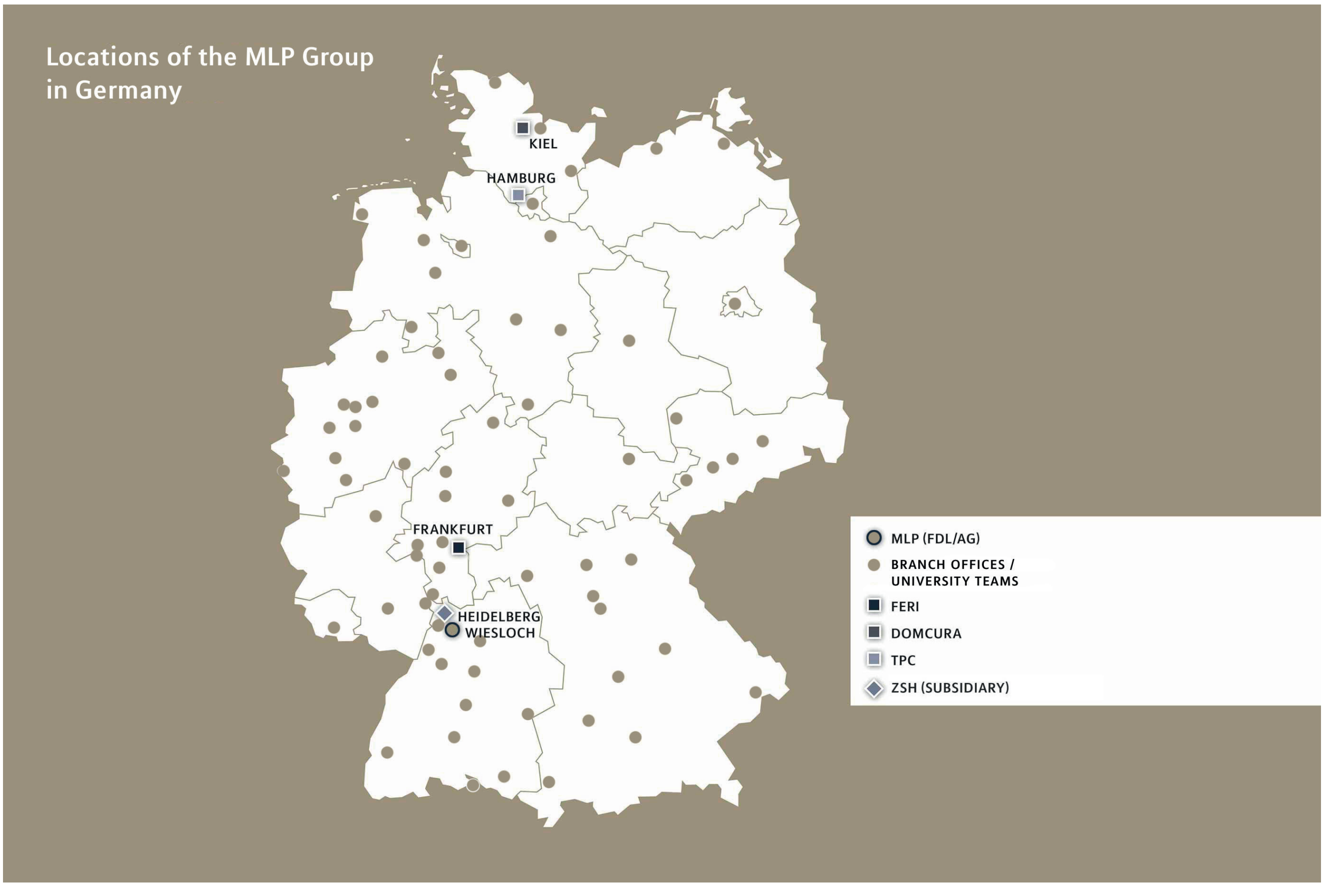
In the Investment Management business area, FERI Trust GmbH offers a broad spectrum of wealth management services in all asset classes. These services range from the development and implementation of individual investment strategies, right through to quantitative risk management and control. Investment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

As a specialist in occupational old-age provision management, TPC GmbH (TPC) offers companies and associations consultancy services covering all issues relating to occupational pension provision and remuneration – from requirements analysis through to individual concept development and implementation, all the way to continuous checking of existing occupational old-age provision systems. The key focus here is on providing consulting services to medium-sized companies from various sectors, as well as employer consulting services to tax advisers, auditors, solicitors, physicians and architects.

TPC – Sector concepts for occupational pension provision management

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

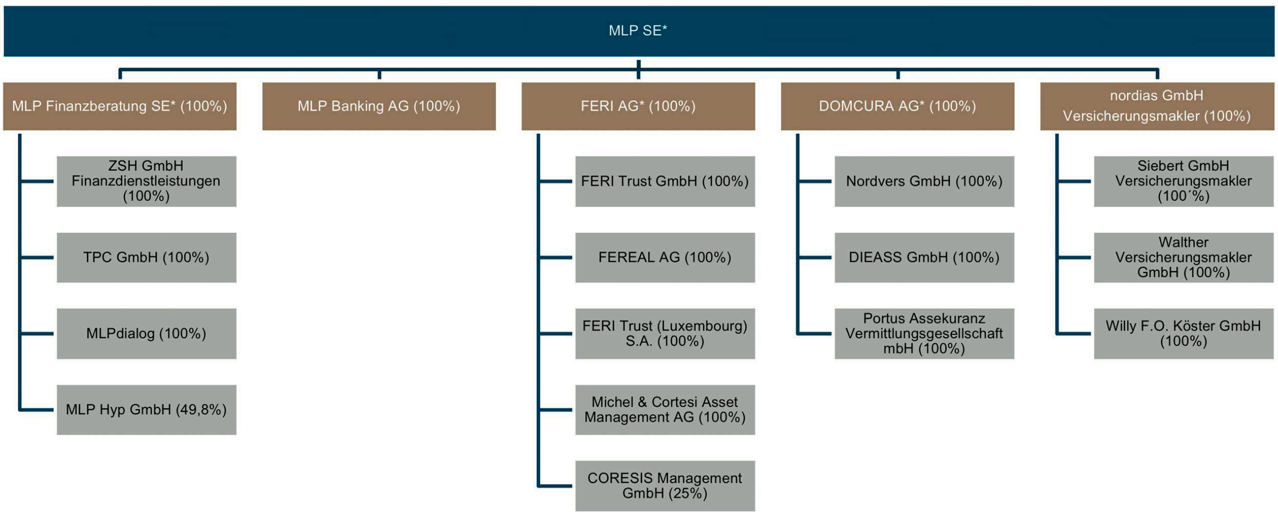
Represented throughout Germany



Legal corporate structure and executive bodies

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

Current Group structure of operating companies



* Plus further direct and indirect subsidiaries

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

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

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

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

Changes in corporate structure

Change in corporate form of MLP Holding to an SE

The change in the corporate form of the MLP holding from a German stock corporation (AG) to a European stock corporation (Societas Europaea/SE) was effectively completed in the reporting period with entry in the Commercial Register on September 21, 2017. 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. The rights of the shareholders, the company's membership in the SDAX index and the stock exchange code remain unaffected by this changeover.

Separation of banking operations and brokerage business

On February 21, 2017 the MLP AG Supervisory Board consented to the change in Group structure passed by the Executive Board. The brokerage branch of activity was spun off from MLP Banking AG (operating under the name MLP Finanzdienstleistungen AG until November 30, 2017) and integrated into MLP Finanzberatung SE with retroactive effect from October 1, 2017. Furthermore, the supervisory scope of consolidation was narrowed down. These steps should significantly increase free regulatory equity capital by the end of 2021. We anticipate free equity capital to gradually increase by around € 75 million compared to 2016. MLP will thereby expand its scope for action above all for acquisitions and investments, but also in terms of the distribution of dividends. The Federal Financial Supervisory Authority (BaFin), which here performs its supervisory role, was kept up to date regarding the implementation of these measures throughout the whole process. With effect from October 1, 2017 all regulated banking activities were bundled at MLP Banking AG, while the brokerage business is continued by MLP Finanzberatung SE.

The merger of Schwarzer Familienholding GmbH (SFH) with MLP AG under commercial law already took place in the first half of the year with retroactive effect from January 1, 2017. From this date on DOMCURA AG and nordias GmbH Versicherungsmakler have been 100% subsidiaries of MLP SE, formerly MLP AG.

Factors affecting business development

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

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

Organisation and administration

The Executive Board at MLP SE comprises three members. The positions on the Board continue to be held by Dr Uwe Schroeder-Wildberg (Chief Executive Officer), Manfred Bauer (Product Management) and Reinhard Loose (Finance). In January 2017 the Supervisory Board at MLP SE had already extended the contract of Chief Executive Officer, Dr Uwe Schroeder-Wildberg, which was running until December 31, 2017 by a further five years to the end of 2022. No personnel changes to the company's Executive Board were made in the last financial year. However, new appointments were also necessary for the members of the Executive Board within the scope of the company's change of corporate form.

The Supervisory Board, which is required to monitor the Executive Board under German law, comprises six members. There were no changes to the personnel on this committee in the reporting year. However, the term in office of the Supervisory Board at MLP AG ended by operation of law as a result of the change in corporate form. As per the approved conversion plan, the newly formed Supervisory Board of MLP SE comprises the same members that previously sat on the equivalent body at MLP AG, i.e. Dr Peter Lütke-Bornefeld, Dr. h.c. Manfred Lautenschläger, Mrs Tina Müller, Dr Claus-Michael Dill, Mr Burkhard Schlingermann and Mr Alexander Beer.

On the Executive Board at FERI AG, Marcel Renné assumed responsibility for Operations on January 1, 2017. He thereby succeeded Dr Matthias Klöpper, who left the Board on expiry of his contract. At the same time, Chief Executive Officer Arnd Thorn assumed responsibility for Finance.

Control system

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

Corporate management

EBIT and revenue as the most crucial key performance indicators

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

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

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

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

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

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

Risk management: Important management and control element

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

Key figures and early indicators used by corporate controlling

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

Keeping consultant turnover low

Our objective is not only to win over the best consultants in the industry to our business model, but also to keep them loyal to our company in the long term. We therefore continually monitor our employee turnover rate and aim for a low annual turnover rate for self-employed consultants of no more than around 10%.

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

Research and development

Since our consulting company is a service provider, we are not engaged in any research or development in the classic sense. Nevertheless, we make resources available, for example to develop our own software or refine acquired software.

ECONOMIC REPORT

Overall economic climate

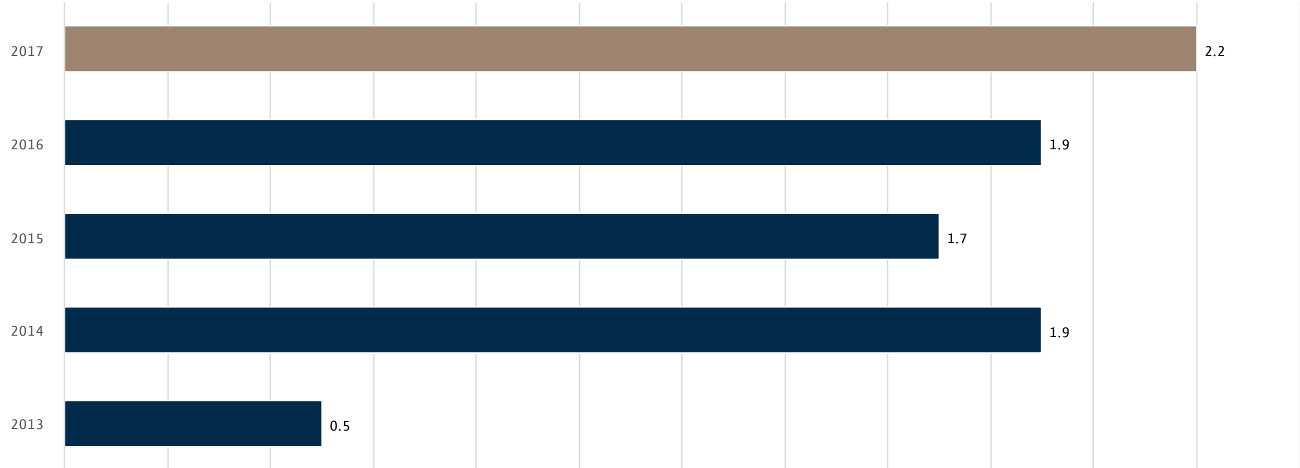
Overall economic situation

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.

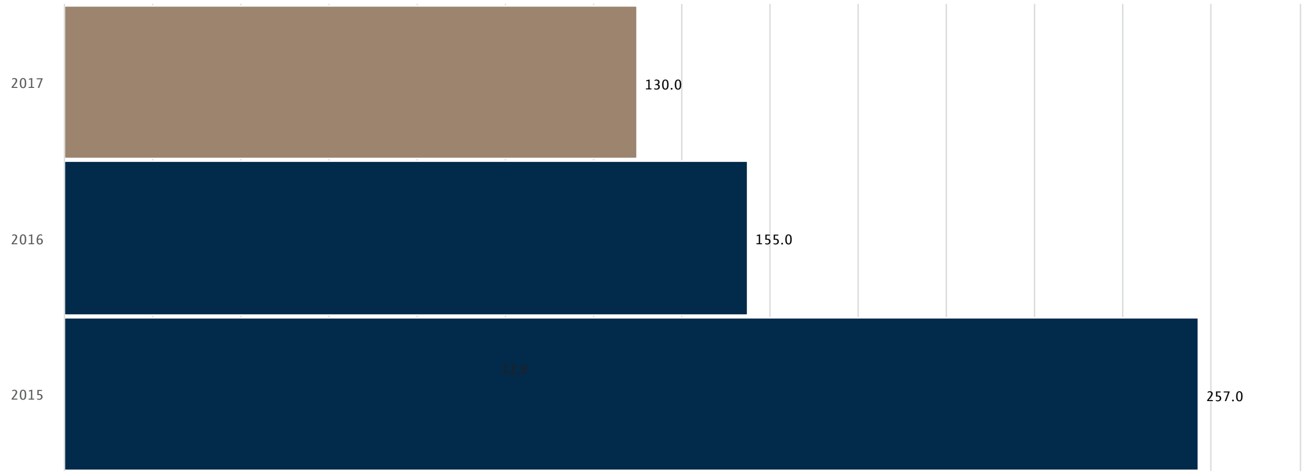
Low interest rate phase leaving German citizens at a loss

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.

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%).

Falling saving rates

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

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.

Holiday more important than old-age provision

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.

Difficult framework conditions discernible in all three tiers

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.

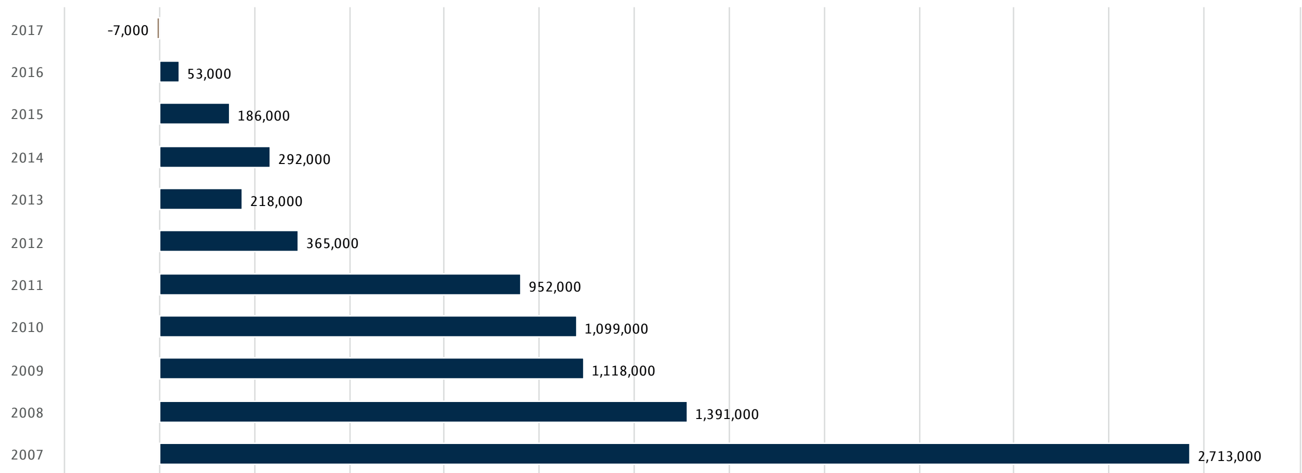
Improved incentives for basic pension not having any impact

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)



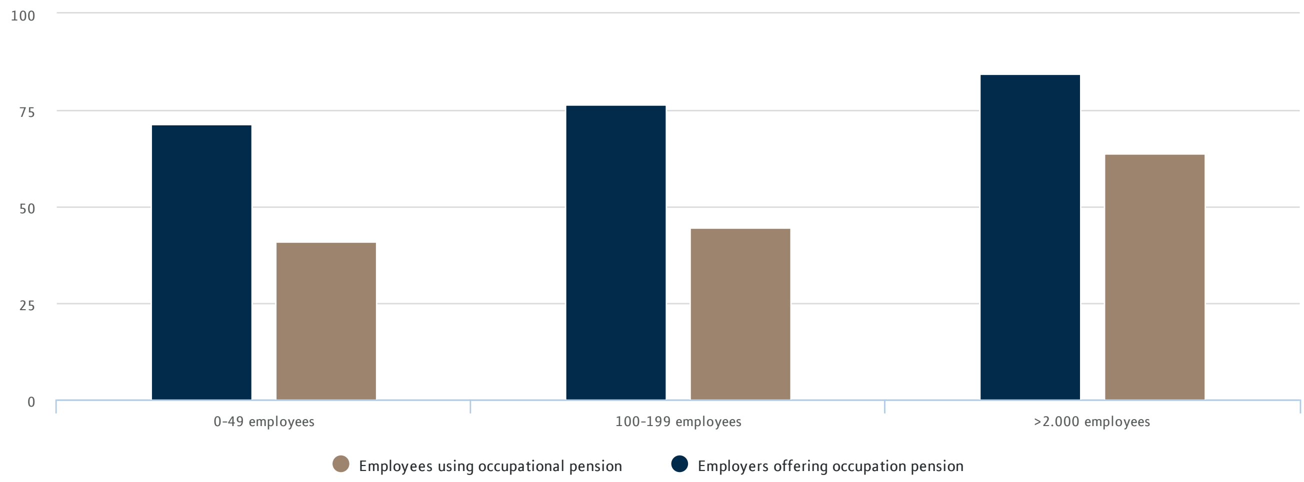
*Date: September 30, 2017, Source: German Federal Ministry of Labour and Social Affairs

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.

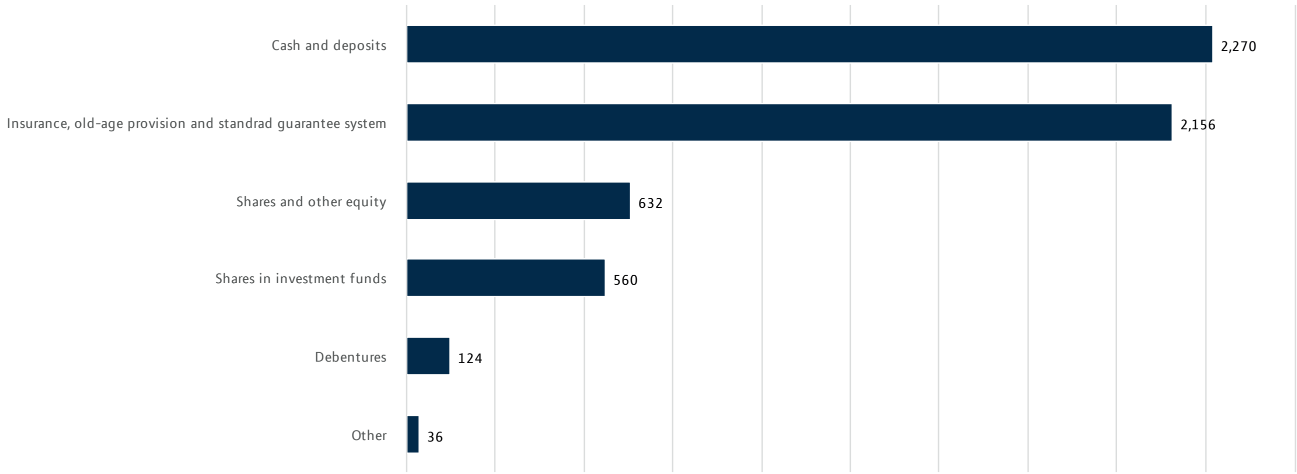
Wealth management

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.

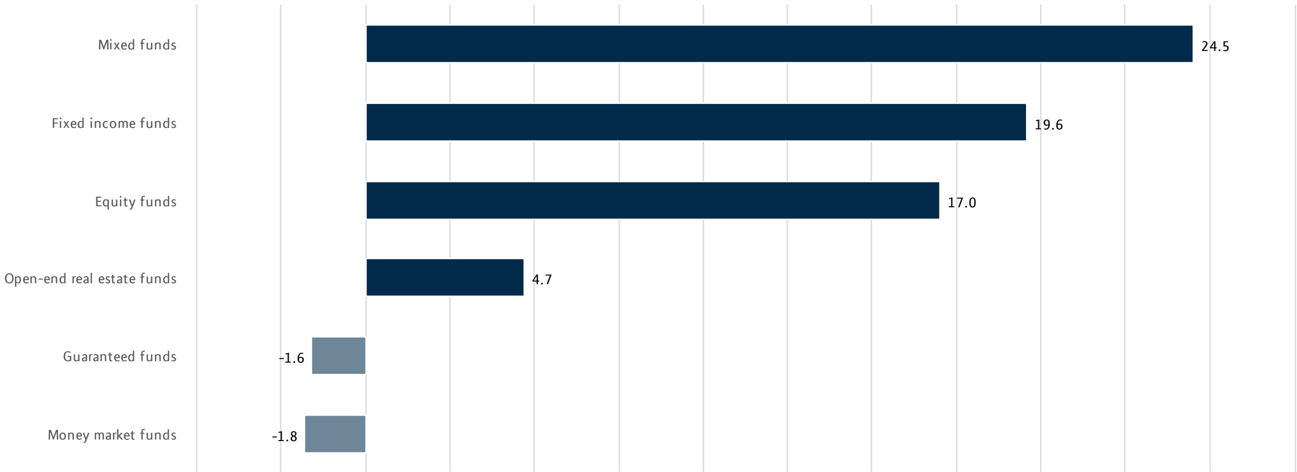
Private monetary assets of German citizens (all figures in € billion)



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.

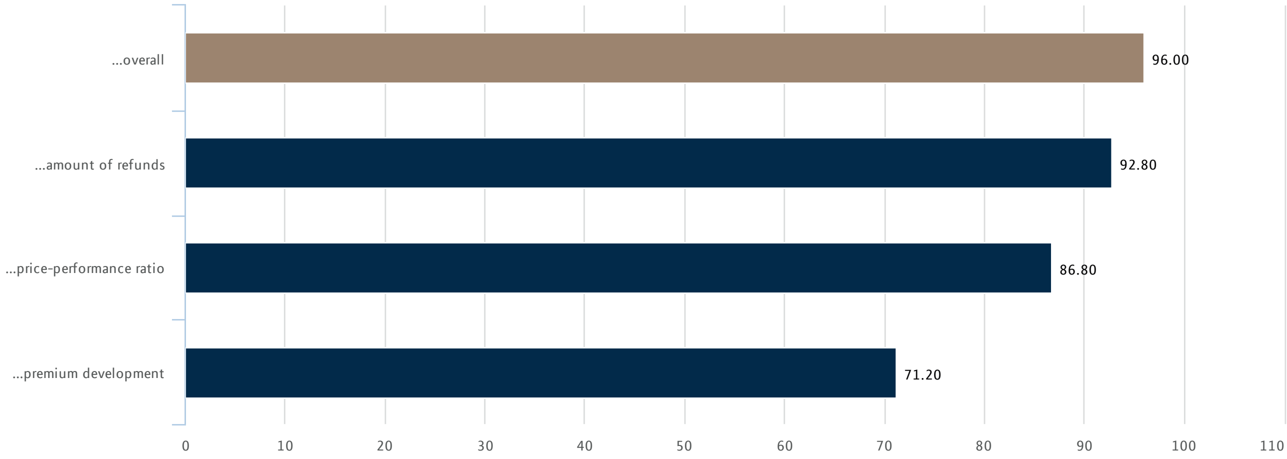
In the course of the German parliamentary elections in 2017 and the subsequent exploratory negotiations among the parties, the public discussion regarding the possible introduction of "citizens insurance" led to uncertainty among German citizens. Even after the elections, the SPD, the Green Party and 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

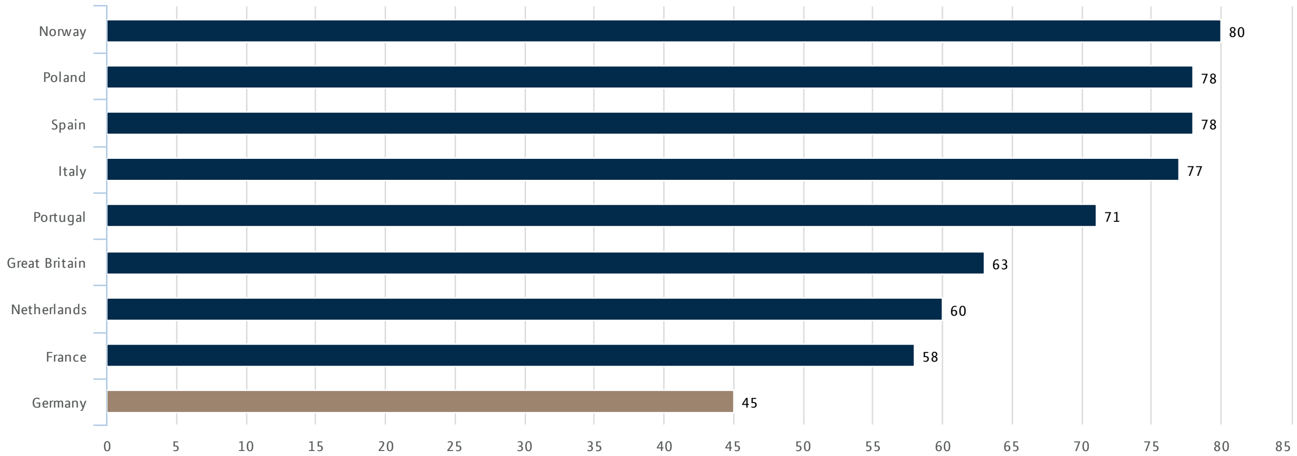
In the light of persistently low interest rates, investments in both owner-occupied and investment properties are becoming increasingly important with a view to long-term capital accumulation. According to the 2017 Wealth Barometer of the Deutsche Sparkassen- und Giroverband Financial Group, 54% of German 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.

Obligation to attend further training also for estate agents

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.

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.

Initial steps towards a "European pension"

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.

New definition of "need for care" as of 2017

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.

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.

Demand for independent consulting services remains high

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%.

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%).

Consolidation of brokers ongoing

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%.

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).

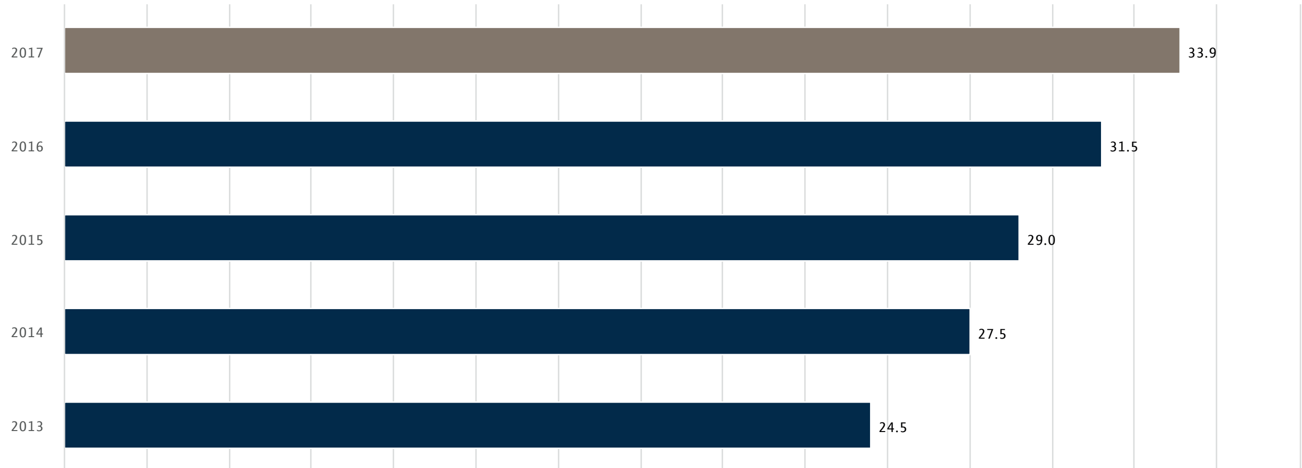
Old-age provision below the previous year due to market conditions

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).

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.

Health insurance at the previous year's level

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.

Real estate brokerage displaying the strongest growth

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).

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).

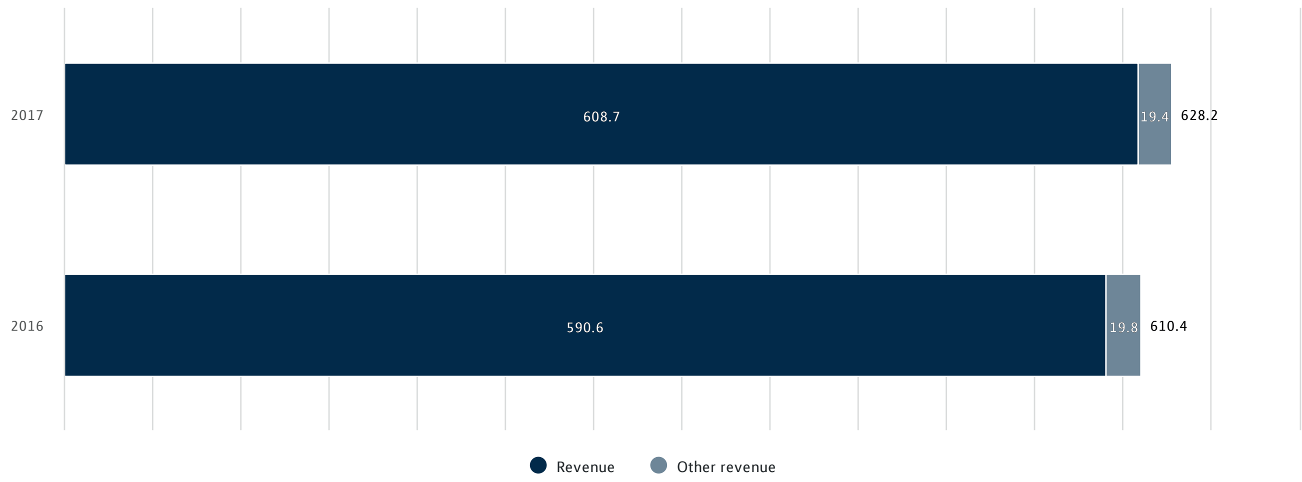
Further optimisation of corporate structure successfully completed

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

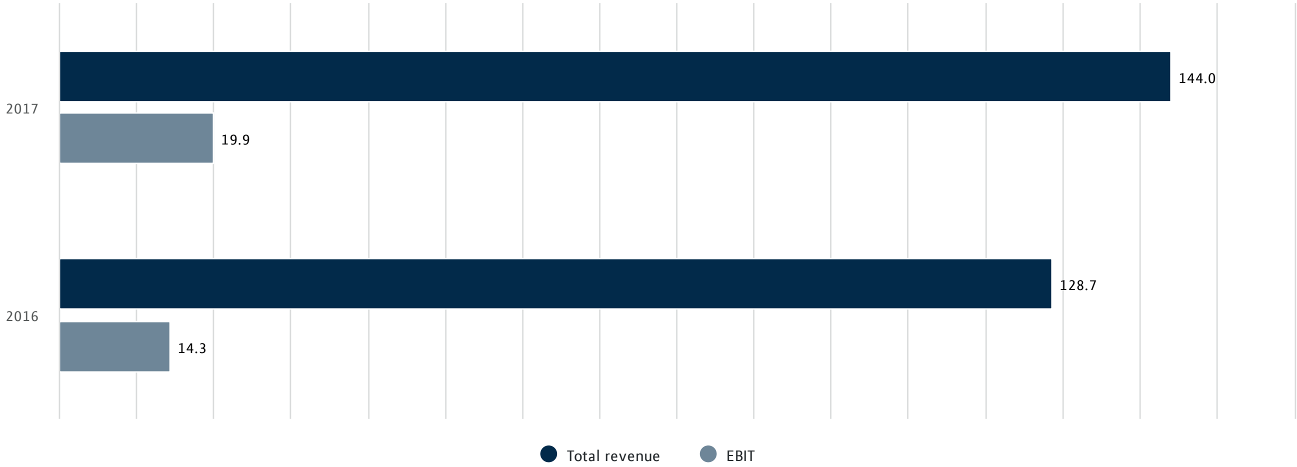
The FERI segment represents the activities of the FERI Group. Revenue is primarily generated in this segment from the wealth management field of consulting.

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.

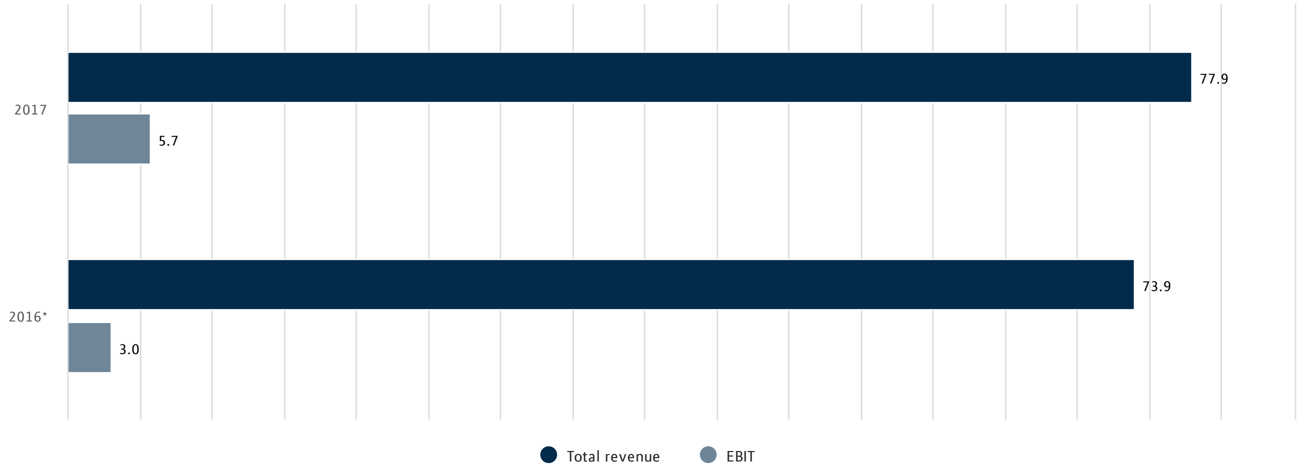
DOMCURA generated revenue of € 73.3 million in the reporting year (€ 70.7 million). Other revenue was € 4.6 million (€ 3.2 million). This is attributable to final settlements of expiring contracts with insurers that essentially were already made in the second quarter. Accordingly, total revenue was €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

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.

Comprehensive training programme

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.

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.

Thanks to all employees and consultants

Remuneration report

Principles of Executive Board remuneration

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

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

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

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

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

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

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

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

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

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

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

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

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

Allocation	Dr. Uwe Schroeder-Wildberg		Reinhard Loose		Manfred Bauer		Muhyddin Suleiman	
	Chairman of the Board		Chief Financial Officer		Member of the Board for Products and Services		Member of the Board for Sales	
	since Jan 1, 2003		since Feb 1, 2011		since May 1, 2010		until Mar 31, 2014	
All figures in €'000	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Fixed compensation	550	550	360	360	360	360	0	0
Fringe benefits	30	31	17	17	26	27	0	0
Total fixed compensation	**580**	**581**	**377**	**377**	**386**	**387**	**0**	**0**
One-year variable compensation	194	130	129	86	129	86	0	0
Multi-year variable compensation	216	229	151	134	172	153	209	153
Bonus 2012 (2012-2015)	216	0	151	0	172	0	209	0
Bonus 2013 (2013-2016)	0	229	0	134	0	153	0	153
Other	0	0	0	0	0	0	0	0
Total fixed and variable compensation	**990**	**940**	**657**	**597**	**688**	**626**	**209**	**153**
Pension benefits	224	266	140	140	150	150	0	0
Total compensation (in accordance with the German Corporate Governance Code (DCGK)	**1,213**	**1,206**	**797**	**737**	**838**	**776**	**209**	**153**

Granted remuneration

Benefits granted			Dr. Uwe Schroeder-Wildberg				Reinhard Loose	
			Chairman of the Board				Chief Financial Officer	
			since Jan 1, 2003				since Feb 1, 2011	
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	550	550	550	550	360	360	360	360
Fringe benefits	30	31	31	31	17	17	17	17
Total fixed compensation	**580**	**581**	**581**	**581**	**377**	**377**	**377**	**377**
One-year variable compensation	130	244	171	317	87	163	114	212
Multi-year variable compensation	376	367	0	990	250	244	0	660
Bonus 2016 (2016-2019)	376	0	0	0	250	0	0	0
Bonus 2017 (2017-2020)	0	367	0	990	0	244	0	660
Total fixed and variable compensation	**1,086**	**1,192**	**752**	**1,889**	**714**	**784**	**491**	**1,249**
Pension benefits	224	266	266	266	140	140	140	140
Total compensation (in accordance with the German Corporate Governance Code (DCGK)	**1,310**	**1,458**	**1,018**	**2,154**	**854**	**924**	**631**	**1,389**

Benefits granted			Manfred Bauer				Muhyddin Suleiman	
			Member of the Board for Products and Services				Member of the Board for Sales	
			since May 1, 2010				until Mar. 31, 2014	
	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)
Fixed compensation	360	360	360	360	0	0	0	0
Fringe benefits	26	27	27	27	0	0	0	0
Total fixed compensation	**386**	**387**	**387**	**387**	**0**	**0**	**0**	**0**
One-year variable compensation	87	163	114	212	0	0	0	0
Multi-year variable compensation	250	244	0	660	0	0	0	0
Bonus 2016 (2016-2019)	250	0	0	0	0	0	0	0
Bonus 2017 (2017-2020)	0	244	0	660	0	0	0	0
Total fixed and variable compensation	**724**	**794**	**501**	**1,258**	**0**	**0**	**0**	**0**
Pension benefits	150	150	150	150	0	0	0	0
Total compensation (in accordance with the German Corporate Governance Code (DCGK))	**874**	**944**	**651**	**1,408**	**0**	**0**	**0**	**0**

As at December 31, 2017, pension provisions totalling € 16,897 thsd (€ 18,109 thsd) were in place for former members of the Executive Board.

Remuneration of the members of the Supervisory Board

In addition to compensation for their expenses for the financial year, the members of the Supervisory Board receive a fixed annual remuneration of € 40,000 in accordance with the Articles of Association. The Chairman of the Supervisory Board receives twice and his deputy one and a half times this amount. Additional, special remuneration is granted for work on the Audit Committee and the Personnel Committee. This comes to € 25,000 for the Audit Committee and € 15,000 for the Personnel Committee. The chairman of the respective committee receives twice the stated level of remuneration. The fixed portion of remuneration is paid after the end of the financial year. No member of the Supervisory Board receives any variable or share-based remuneration payments.

Individualised Supervisory Board remuneration

All figures in €`000 (without tax)	Remuneration 2017 (I)*	Remuneration 2017 (II)**	Remuneration 2016
Dr. Peter Lütke-Bornefeld (Chairman)	98	37	135
Dr. h. c. Manfred Lautenschläger (Vice Chairman)	72	28	100
Dr. Claus-Michael Dill	65	25	90
Tina Müller	40	15	55
Burkard Schlingermann	40	15	55
Alexander Beer	47	18	65
Total	**362**	**138**	**500**

* until September 21, 2017 for MLP AG
** from September 21, 2017 for MLP SE (see following explenations)

The term in office of the members of the Supervisory Board at MLP AG ended with entry of the change in corporate form. The term in office of all members of the first Supervisory Board at MLP SE ends with conclusion of the Annual General Meeting on June 14, 2018. Pursuant to § 113 (2) of the German Stock Corporation Act (AktG), however, the remuneration for the members of the first Supervisory Board can only be approved by the Annual General Meeting. The resolution can only be passed in the Annual General Meeting that formally approves the actions of the members of the first Supervisory Board. This is the Annual General Meeting scheduled for June 14, 2018.

In the 2017 financial year € 18 thsd (previous year: € 17 thsd) was paid as compensation for expenses.

RISK AND OPPORTUNITY REPORT

Risk report

Risk management system

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

The operational and organisational structure, the risk management and controlling processes, in addition to the special Risk Controlling, Compliance and Internal Audit functions are key components of the Group-wide risk management system.

Group-wide risk management

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

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

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

* accounted for using the equity method

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

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

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

Risk policies

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

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

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

This responsibility includes defining appropriate strategies and setting up appropriate internal control procedures in particular - thereby assuming responsibility for all significant elements of risk management. The task of defining the business and risk strategy cannot be delegated. It is the responsibility of the Executive Board to implement the strategies, assess the risks associated with them in addition to putting them in place and monitoring measures to ensure that these risks are limited.

The Executive Board bears responsibility for the risk strategy:

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

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

Risk awareness that goes beyond each department's or person's own field of responsibility is essential. A strong awareness of risks across all divisions and a corresponding risk culture are encouraged through appropriate organisational structures. The appropriateness of the risk management and controlling system is continuously monitored and any adjustments that become necessary are implemented as quickly as possible. Appropriate quality standards are established and subjected to continuous checks.

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

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

Objective

Entrepreneurial activity invariably involves taking risks. For MLP Financial Holding Group, "risk" means the danger of possible losses or lost profits. This danger can be attributed to internal or external factors. Since it will not be possible to eliminate all risks, a risk that is commensurate with the expected return must be targeted. The aim is to identify risks as early as possible in order to react to them quickly and appropriately. Our risk management system currently records risks in particular. In addition to this, we also focus on business opportunities. Particularly in Product Management and Purchasing, business opportunities in the market are identified in a targeted process for the individual product segments. Implementation is then tested and initiated, taking into account the chances of success and the associated risks. You can find a detailed description of the significant opportunities for MLP Financial Holding Group in the separate → opportunity report.

MLP's group-wide early risk detection and monitoring system is used as the basis for a group-wide active risk management. This system ensures appropriate identification, assessment, controlling, monitoring and communication of the major risks. Risk management is a key component of the value-driven management and planning system at MLP Financial Holding Group. Moreover, the Group's risk culture is continuously consolidated and efforts are made to communicate information relevant to risk across all business segments.

Risk capital management, liquidity management and stress tests

Risk capital management - risk-bearing ability

Risk capital management is an integral part of the Group management system at MLP Financial Holding Group. Active control of the economic capital adequacy based on the results of risk assessments and in compliance with the supervisory requirements ensures that risk-taking is always in line with capital backing.

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

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

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

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

In accordance with the guideline entitled "Prudential assessment of internal banking risk-bearing capacity concepts" (published on December 7, 2011 by the Federal Financial Supervisory Authority), the internal assessment of the appropriateness of equity capital backing is performed based on the going-concern approach in the standard scenario. In addition, the liquidation approach is looked at and is applied inter alia in stress scenarios.

In the going-concern approach, the focus is on securing continued existence of MLP FHG. In the liquidation approach, the objective is to protect the bank's owners and external providers of equity.

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

At 39.5%, the largest portion of the risk coverage fund in MLP Financial Holding Group is allocated to the banking segment due to the risk inherent to the banking business.

Liquidity capacity

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

Stress tests

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

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

Organisation

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

Functional separation

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

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

Group Risk Manager

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

Risk controlling function

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

Risk management and controlling processes

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

The Risk Controlling unit in particular is responsible for the identification and assessment of risks, in addition to monitoring defined limits. This is accompanied by reporting the risks to the Executive Board and the business units that control the risks. Suitable early detection systems support risk monitoring and identify potential problems early on, thereby enable prompt planning of measures.

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

The methods used at MLP Financial Holding Group to assess risks are in line with the current level of knowledge and are aligned with practices in the banking sector as well as recommendations of the Federal Financial Supervisory Authority. The results determined based on the risk models are entirely suitable for controlling the risks. Quantification methods are subject to regular checks by risk controlling alongside internal and external audits. However, despite careful model development and regular checks, it is conceivable for circumstances to occur that lead to greater losses than those forecast by the risk models.

Controlling monitors earnings trends

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

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

Internal controlling system in the accounting process

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

MLP excels through its clear organisational, corporate and control structure. All units involved in the accounting process comply with their respective quantitative and qualitative requirements. The employees tasked with performing the accounting process receive regular training. Group Accounting is the central point of contact for all questions in connection with accounting issues.

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

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

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

The bank's separate financial statements, in addition to the consolidated financial statements, are drawn up using standard software. Group Accounting secures the completeness and accuracy of the relevant disclosures on the basis of the information provided.

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

Compliance function

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

Internal audits

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

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

Risk reporting

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

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

Statement of risks

MLP Financial Holding Group is exposed to various financial risks. They in particular comprise counterparty default, market price and liquidity risks. Alongside financial risks, there are also operational and other risks, such as general business risks and reputation risks. The risks are taken into consideration after risk-reducing measures, such as insurances.

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

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

Counterparty default risks

The counterparty default risk is the risk of a loss due to the defaulting of or deterioration in creditworthiness of a business partner. The credit risk comprises the contracting party risk (re-covering risk and advance performance and counterparty settlement risk), in addition to the risks related to specific countries which, however, are only of secondary importance to MLP Financial Holding Group.

The counterparty default risks of MLP Financial Holding Group are essentially made up of the client credit business under the company's own liability, the company's own business and the commission receivables against our product partners. There are no significant risks related to specific countries, since the majority of lending (more than 96%) is limited to borrowers domiciled in the Federal Republic of Germany.

Concentration of risk

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

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

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

Credit management

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

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

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

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

In addition to this, potential default risks are continuously measured and evaluated by comparing allowances for bad debts with the credit volumes subject to risk. For accounts that are regarded as carrying acute risk, we build up appropriate allowances for bad debt (see table for the development of loan loss provisions). The disposals made as a result of the spin-off comprise impaired receivables from consultants and receivables from the brokerage business. Identified non-performing loans are transferred to specialist departments where they are individually managed by experts. We use deferral in line with Article 178 of the Capital Requirements Regulation (CRR) as the definition of default. As a matter of basic principle, allowances for losses on individual accounts are performed on a case-by-case assessment.

Loan loss provisions (banking segment)

Amount in € million (previous year) *	Opening balance	Allocations	Reversals	Utilisation	Disposals due to spin-off	Closing balance
Specific allowance for doubtful accounts	7.5 (6.7)	0.8 (2.1)	0.5 (1.0)	1.0 (0.3)	3.4 (-)	3.4 (7.5)
General allowance for bad debts	3.4 (4.5)	0.1 (0.4)	0.0 (0.0)	0.7 (1.4)	0.0 (-)	2.8 (3.4)
General allowance for doubtful accounts	3.3 (4.5)	0.2 (-)	0.5 (1.2)	- (-)	0.5 (-)	2.6 (3.3)
Provisions	0.2 (0.2)	- (-)	0.1 (0.0)	- (-)	- (-)	0.1 (0.2)
Total	**14.4 (15.9)**	**1.2 (2.5)**	**1.1 (2.2)**	**1.7 (1.8)**	**3.9 (-)**	**8.9 (14.4)**

* Due to rounding of these figures, minor differences may arise.

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

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

Market price risks

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

Interest rate risks

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

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

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

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

Interest rate risks of MLP Financial Holding Group

Amount in € million	Interest rate shock/parallel shift			
	Change in value + 200 BP		Change in value - 200 BP	
	2017	2016	2017	2016
Total	-3.5	-8.4	0.8	4.5

Liquidity risks

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

The fundamental principles of liquidity control and planning are defined in the internal guidelines. In controlling the liquidity risk, we employ two different approaches - discretionary and structural.

Operational liquidity control

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

Structural liquidity control

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

The liquidity value at risk (LVaR), which indicates the additional refinancing costs required to close open liquidity items, is a key instrument of structural liquidity control and is also used in risk capital management. When determining the LVaR as of December 31, 2017, net cash inflows for the year were in line with forecasts and no additional refinancing costs are thus expected to occur.

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

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

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

Operational risks

The management of operational risks is based on the definition of Article 3 of the Capital Requirements Regulation (CRR). As such, operational risk is the risk of losses caused by inadequacy or failure of internal procedures and systems, people or by external events. This definition includes legal risks.

Operational risks are identified and assessed locally throughout the Group in the individual organisational units. To this end, an operational risks inventory is taken at least once a year. Within this scope, experts from all specialist departments examine and assess the operational risks based on self-assessments. They are broken down into an assessment of risk potential to identify and evaluate the main risks and into suggested measures derived from this.

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

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

Risks from internal procedures

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

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

When introducing new products or extending activities to include new markets/sales channels, a predefined process ("NPMVP" process for the introduction of new products or entry into new markets) is used to ensure that all affected functions of MLP are involved in the impact analysis prior to the start of planned new business activities.

Human resources risks

MLP Financial Holding Group places great value on having qualified employees and managers, particularly in the back-office areas. Staff resources and sufficient qualification/training of employees are secured by the responsible specialist departments. We reduce the risk of staff shortages through appropriate personnel allocation measures.

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

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

IT risks

To effectively manage IT-related risks, MLP Financial Holding Group operates a comprehensive information security management system.

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

Risks from external events

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

Responsibilities for outsourced processes are clearly set out at MLP Financial Holding Group. This ensures that any potential organisational, structural or process-based risks that may occur due to outsourced business activities are closely controlled.

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

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

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

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

Legal risks

Our legal department controls legal risks. In addition to consulting on corporate decisions and designing business processes, its tasks include following and assessing current legal disputes. Possible legal risks are detected at an early stage and possible solutions for minimising, limiting or preventing such risks are shown. The legal department coordinates the commissioning and integration of external lawyers. Within the scope of risk mitigation, the legal department, in cooperation with product management, checks and monitors the existing insurance coverage for economic loss and initiates any adjustments which may be necessary. According to our review, the legal proceedings pending or threatened against MLP Financial Holding Group do not represent risks which could endanger the Group's continued existence. The Executive Board at MLP AG remains of the conviction that the claims for damages filed against MLP SE in August 2007 due to the provision of allegedly inaccurate capital market information in 2000 - 2002 will not be successful. Indeed, the vast majority of these claims have already been withdrawn. Two claims were dismissed by the court, which ruled in favour of MLP. Dismissals were also issued in favour of MLP in the last two legal actions. However, these legal actions have not yet been finally concluded as the opposing party has started an appeal process.

Taxation risks

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

Capital charge according to the basic indicator approach

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

Other risks

Reputation risks

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

The reputation risks at MLP Group are generally managed using a decentralised organisational structure in line with the management of operational risks. Risk management differentiates between taking action prior to a potential event (preventive management) and taking action directly after damage has occurred (reactive management).

Alongside decentralised control, comprehensive preventive control is in particular carried out by the relevant market segments. In terms of reputation risk controlling, process-based control of reputation risks becomes an extremely important task. The goal here is to provide information regarding reputation risks preventively as a basis for helping to reach risk-relevant decisions.

As is the case with preventive risk management, the reactive management of reputation risks is also organised decentrally. Depending on the circumstances, downstream or multidisciplinary departments/functions will also be involved.

The potential risk of mistakes made while providing consulting services to our clients which also affect our reputation is minimised by securing continuously high-quality consulting. The instruments used to secure this high level of consulting include IT-based consulting tools. In addition to this, comprehensive documentation is provided of consultations with clients.

General business risks

General business risks predominantly arise due to altered framework conditions and can lead to unanticipated dips in earnings or negative budget deviations. These deviations can have many causes, such as changes in client behaviour, changes to general economic conditions and poor strategic decisions. The processes for managing general business risks are largely handled by Controlling within the scope of overall bank management. Controlling also performs regular checks to detect and analyse all changes to economic factors or the industry and competitive situation. This results in stimuli for strategic alignment of MLP Financial Holding Group.

The ongoing period of low interest rates, in addition to the lasting effects of the Life Insurance Reform Act (LVRG), lead to a degree of uncertainty. Alongside this, the ever-advancing regulations with regard to supervisory requirements continue to present a challenge to profitability in the banking and financial services sectors overall. We are still observing a great deal of competitive pressure in the German market for financial services i alongside new and digitally-oriented market actors (fintechs).

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

No quantification of other risks is currently performed within the scope of internal risk management. However, to adequately control the risks resulting from this, an adequate buffer is included in the risk-bearing ability. This is regularly validated within the scope of back testing and adjusted as and when necessary.

Results of the analysis of risk-bearing ability

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

In 2017, the Executive Board made a risk coverage fund available based on the risk coverage potential (sum of free supervisory equity and plan EBT) up to an upper threshold of €100 million to cover the following risk types that MLP categorises as significant: counterparty default risk, market price risk, liquidity risk, operational and other risks.

With a share of 51.3% and 40.8% respectively, counterparty default risks and operational risks take up the majority of the risk coverage fund available.

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

Risk bearing ability of MLP Financial Holding Group

Risk bearing ability	2017 Utilisation (in %)	2016 Utilisation (in %)
Risk and capital commitment	76.0	75.0
thereof:		
Counterparty default risk	79.0	77.8
Market price risk	60.9	71.6
Operational risk	78.0	75.9
Liquidity risk	0.0	0.0

Capital adequacy requirements under banking supervisory law

The backing of risk assets with eligible own funds for Tier 1 capital generally requires a minimum ratio of 4.5%. As in the previous year, these requirements have not changed during the 2017 financial year.

Pursuant to Article 25 et seq. of the CRR, the Group's Tier 1 capital includes the following equity items of IFRS capital:

Share capital, capital reserves, statutory reserves and retained earnings. Among other factors, intangible assets, treasury stock and goodwill reduce Tier 1 capital.

As was also the case in the previous year, MLP Financial Holding Group fulfilled all legal requirements relating to minimum capital adequacy throughout the 2017 financial year. The relationship between the risk assets and equity capital on the balance sheet date is illustrated below.

Supervisory KPIs

Shareholders' equity (in € million)	2017	2016
Tier 1 common capital	291.0	214.7
Tier 1 additional capital	–	–
Tier 2 capital	–	–
Eligible own funds	291.0	214.7
Capital adequacy requirements for counterparty default risks	73.8	75.5
Capital adequacy requirements for operational risk	42.4	45.8
Core capital ratio (in %)	20.02	14.16
Tier 1 common capital ratio (in %)	20.02	14.16

Summary

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

Both MLP Financial Holding Group as a whole and the business segments always acted within the scope of their financial risk-bearing ability in 2017.

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

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

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

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

Opportunity report

Opportunity management

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

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

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

Opportunities

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

Opportunities from changing framework conditions

The economic forecasts for 2018 suggest only limited opportunities for MLP. Although economic experts are assuming that Germany will enjoy further growth, the aforementioned reservations on the part of clients when it comes to signing long-term savings contracts will hinder progress. In the mid to long-term, however, the greater need for private and also occupational pension provision is likely to increase demand for these two products significantly again – particularly among MLP's target groups. Should the German economy enjoy better development than assumed in our forecast, this will only have an indirect influence on short-term operating developments.

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

Corporate strategy opportunities

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

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

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

Business performance opportunities

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

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

More targeted penetration of our client base, particularly in the wealth management and non-life insurance segments, will also help us achieve further growth. Since our clients are generally very well-trained and thereby have excellent income prospects, they also have a continuous need for sound financial consulting and hold corresponding revenue potential.

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

Over the last few years we have introduced and implemented various measures to increase the productivity of our consultants. This includes further developing our consulting applications, even greater support for our consultants – for example in product selection – and even more effective service from the back-office in Wiesloch. The service centre of our subsidiary MLPdialog also makes an important contribution to this. As an underwriting agency, the DOMCURA Group has also extended the added value chain of MLP Group for standard products in the non-life insurance segment with its processes and expertise and will continue to do so in future. The goal of these measures is to allow our consultants to focus even more on their core task, namely advising and supporting their clients. This provides important revenue potential for the future.

Opportunities from development of asset and risk positions

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

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

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

Summary

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

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

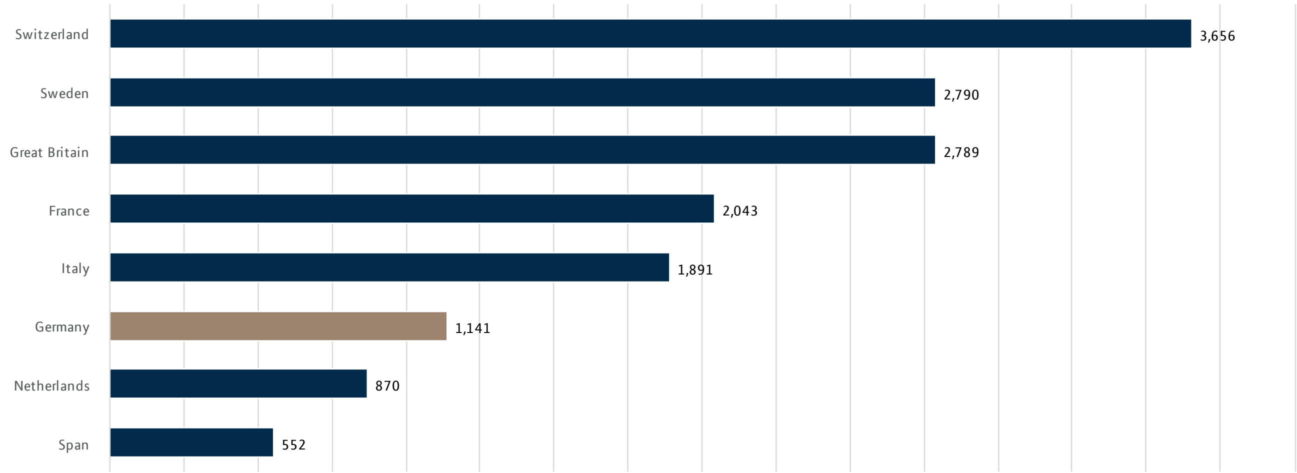
The state supports supplementary old-age provision in Germany. In 2018, the maximum tax-deductible amount in Tier 1 is to increase from € 23,362 to € 23,712 for single persons. At the same time, the percentage of premiums paid that is taken into account by the tax authorities is set to increase from 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

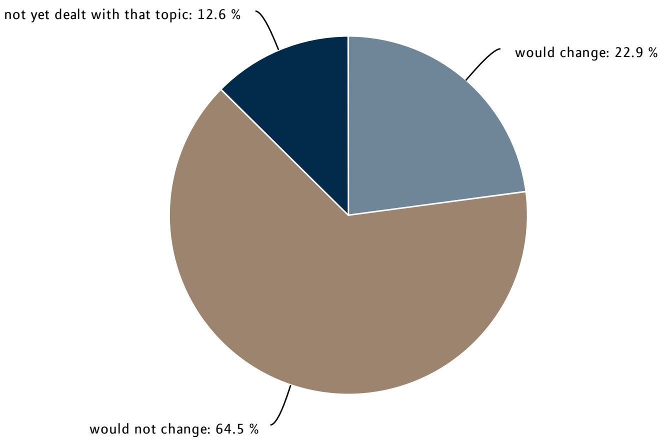
Due to demographic developments in Germany, the German Institute for Economic Research (DIW) is anticipating an increase in insurance contributions for the statutory health insurance system from their current level of 14.6% to 16.5% by 2020. This would correspond to an increase of 13.0%, whereby the 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.

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.

Cities are booming

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).

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.

Life Insurance Reform Act (LVRG) on the test bench

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.

Legislation set to strengthen occupational pension provision

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.

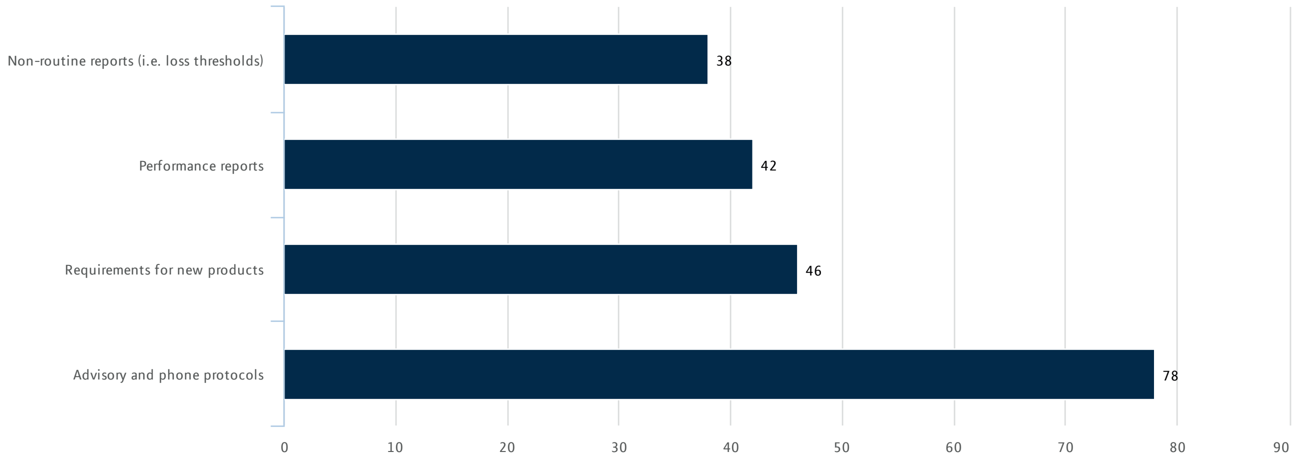
Greater transparency and better investor protection in focus

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.

Online client portal being extended

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

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.

Number of prospective clients constantly on the rise

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.

Realignment of the university segment at MLP

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.

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.

Supplementary data for MLP SE (in line with the German Commercial Code (HGB))

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

Business and general conditions

General company situation

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

The change in corporate form of the MLP AG from a German stock corporation (AG) to a European stock corporation (Societas Europaea/SE) was effectively completed in the reporting period with entry into the Commercial Register on September 21, 2017. 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. The rights of the shareholders, the company's membership in the SDAX index and the stock exchange code remain unaffected by this changeover.

On February 21, 2017 the Supervisory Board of MLP SE, formerly MLP AG, consented to the change of Group structure passed by the Executive Board. With effect from October 1, 2017, the brokerage branch of activity was spun off from MLP Banking AG (operating under the name MLP Finanzdienstleistungen AG until November 30, 2017) and integrated into MLP Finanzberatung SE. Furthermore, the supervisory scope of consolidation was narrowed down. These steps should significantly increase free regulatory equity capital in the Group by the end of 2021. We anticipate free equity capital to gradually increase by around € 75 million compared to 2016. The MLP Group will thereby expand its scope for action above all for acquisitions and investments, but also in terms of the distribution of dividends. The Federal Financial Supervisory Authority (BaFin), which here performs its supervisory role, was kept up-to-date regarding implementation of these measures throughout the whole process. With effect from October 1, 2017 all regulated bank activities have been handled by MLP Banking AG, while the brokerage business has been managed by MLP Finanzberatung SE.

The merger of Schwarzer Familienholding GmbH (SFH) with MLP SE under commercial law already took place in the first half of the year with retroactive effect from January 1, 2017. From this date on DOMCURA AG and nordias GmbH Versicherungsmakler have been 100% subsidiaries of MLP SE.

Since then, five key subsidiaries are arranged under the umbrella of MLP SE: The brokerage business is now under one roof at MLP Finanzberatung SE. In this segment, MLP Finanzberatung SE is the Group's consulting company for private and corporate clients and is registered as an insurance broker. MLP Banking AG as a financial institution is supervised by the Federal Financial Supervisory Authority (BaFin). It offers banking services to both private and business clients – from accounts and cards, through loans and mortgages, to wealth management. As an underwriting agency, DOMCURA designs, develops and implements extensive coverage concepts for private and commercial clients in the non-life insurance areas. 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 developed in the reporting year and integrated into nordias GmbH Versicherungsmakler as direct subsidiaries of MLP SE and as parent companies of the other brokerage companies in the DOMCURA Group. You can find more information on this in the chapter entitled → "Business performance" in the joint management report of the MLP Group.

Business performance at MLP SE

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

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

Results of operations

At € 5.6 million (€ 5.7 million), revenue generated in the reporting year remained at the same level as the previous year. These essentially include income from the letting of buildings to affiliated companies. Other operating income declined to € 4.0 million. Among other things, the previous year's higher figure can be attributed to the sale of a real estate object and a settlement payment in connection with a lawsuit.

Personnel expenses rose to € 5.0 million (€ 4.0 million), largely as a result of greater allocations to pension provisions.

Amortisation of intangible assets and property, plant and equipment decreased to € 2.6 million (€ 3.7 million). Other operating expenses increased to € 28.8 million (€ 10.6 million). This increase can essentially be attributed to a merger loss resulting from the merger of SFH Schwarzer Familienholding GmbH (SFH) with MLP SE. Added to this are one-off expenses of € 3.6 million within the scope of the described optimisation of corporate structure.

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

The finance cost was € 18.0 million in the reporting period (€ 22.7 million). Among other things, higher profit transfers from FERI AG and DOMCURA were more than compensated by the assumption of losses at MLP Banking AG and nordias GmbH.

Following a tax expense of € 4.0 million in the previous year, too high tax advance payments in connection with the demerger led to tax income of € 0.5 million in the last financial year. Net loss for the year was € -8.4 million. The withdrawal from retained earnings was € 30.2 million (€ 0.0 million), resulting in a balance sheet profit of € 21.9 million (€ 18.2 million).

Net assets

The balance sheet total of MLP SE was € 401.1 million (€ 413.3 million) on December 31, 2017.

On the assets side of the balance sheet, the item "Property, plant and equipment" declined slightly to € 34.0 million (€ 36.3 million). This drop was essentially due to depreciation and amortisation expenses. Financial investments decreased to € 242.2 million (€ 258.0 million), largely influenced by a decline in shares in affiliated companies from € 248.0 million to € 232.3 million. This is due to the merger of Schwarzer Familienholding GmbH with MLP SE.

Receivables and other assets decreased to € 34.9 million (€ 36.3 million). The receivables from affiliated companies included in this item also declined to € 22.1 million (€ 24.1 million). This increase is primarily attributable to receivables from subsidiaries of MLP SE, resulting from profit/loss transfer agreements in place with these companies. At € 12.8 million, other assets were slightly above the previous year's level (€ 12.2 million).

The item "Cash on hand and on deposit with the Deutsche Bundesbank, bank deposits and cheques" increased to € 87.1 million (€ 79.7 million). This can be attributed to regrouping of investments.

On the equity side of the balance sheet, shareholders' equity decreased to € 375.6 million (€ 392.7 million). This is due to the dividend payout to our shareholders in the amount of € 21.9 million. The share capital and capital reserves remained unaltered at € 109.3 million and € 139.1 million respectively. The retained income decreased to € 105.3 million (€ 126.0 million) due to a withdrawal. The accumulated profits amounted to € 21.9 million after € 18.2 million in the previous year.

At € 17.8 million, provisions were slightly above the previous year's level (€ 17.1 million). Pension provisions and similar obligations increased slightly to € 11.3 million (€ 10.8 million). At € 2.6 million, tax reserves remained at the same level as the previous year (€ 2.5 million). At € 3.9 million (€ 3.8 million), other provisions also remained virtually unchanged. Liabilities increased to € 7.7 million (€ 3.6 million), largely attributable to an increase in liabilities due to affiliated companies from € 2.1 million to € 6.6 million.

Financial position and dividends

As of December 31, 2017, MLP SE had cash holdings (cash on hand and on deposit with the Deutsche Bundesbank, bank deposits and cheques) of € 87.1 million (€ 79.7 million). This item was reduced by the dividend payout to our shareholders at € 0.08 per share and a total volume of € 8.7 million. The profit transfers of our subsidiaries, as well as portfolio shifts from other types of investments served to increase this figure.

At 93.6%, the equity ratio remained slightly below the previous year (95.0%). MLP SE therefore continues to enjoy a good equity capital backing. In addition to this, MLP SE has open lines of credit of € € 10.0 million as of the balance sheet date.

MLP SE's liabilities increased to € 7.7 million (€ 3.6 million), largely as the result of an increase in liabilities due to loss assumption from affiliated companies from € 2.1 million to € 6.6 million. The liabilities at MLP SE are all current liabilities. Cash and cash equivalents therefore exceed current liabilities several times over.

The dividend payments of MLP SE are made in accordance with the financial and profit situation, as well as future liquidity requirements. As announced, the distribution rate for the financial year will be between 50.0% and 70.0% of operating net profit of the MLP Group. In concrete terms, the Executive Board and Supervisory Board will propose a dividend of € 0.20 per share at the Annual General Meeting on June 14. This corresponds to a distribution rate of around 64% of the Group's operating net profit.

Comparison of actual and forecast business performance

Business performance at MLP SE is essentially dependent on the business performance of the MLP Group. Therefore reference is made to the comparison with the forecast business performance of the MLP Group. In addition reference is made to the loss accrued within the context of merging SFH with MLP SE, which is described under results of operations. As such, the development of MLP SE deviates from the development of the MLP Group.

Despite market conditions that generally remained difficult for its subsidiaries, MLP SE was overall able to meet its own objectives and expectations – without taking into account the merger loss.

Research and development

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

Employees

In the last financial year, MLP SE employed an average of 6 employees, following seven employees in the previous year.

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

Remuneration report of MLP SE

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

Risks and opportunities at MLP SE

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

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

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

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

Forecast for MLP SE

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

Explanatory report on the disclosures pursuant to § 176 (1) of the German Stock Corporation Act (AktG) and § 289 (4) of the German Commercial Code (HGB)

The explanatory report on acquisition-relevant disclosures applies equally to MLP SE and the MLP Group. We therefore make reference to the MLP Group's explanatory report on the disclosures pursuant to § 176 (1) of the German Stock Corporation Act (AktG), as well as § 289 (4) and § 315 (4) of the German Commercial Code (HGB).

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

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

Explanatory report on the disclosures pursuant to § 176 (1) of the German Stock Corporation Act (AktG), § 289 (4) and § 315 (4) of the German Commercial Code (HGB)

Composition of capital

As of December 31, 2017 the company's share capital amounts to € 109,334,686 and is divided into 109,334,686 ordinary bearer shares with a nominal value of € 1 per share.

Restrictions on voting rights or on the transfer of shares

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

Capital stakes

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

	Number of shares*	Shareholding*
Dr. h.c. Manfred Lautenschläger, Gaiberg[1]	25,383,373[1]	23.22%
Angelika Lautenschläger Beteiligungen Verwaltungs GmbH, Gaiberg	22,796,771	20.85%

* Status known to MLP SE as of December 31, 2017
[1] Based on information provided by Dr. h.c. Manfred Lautenschläger, 22,796,771 voting rights (=20.85% of the share capital of MLP SE) are attributable to him by Angelika Lautenschläger Beteiligungen Verwaltungs GmbH in accordance with § 22 (1) Sentence 1 No. 1 of the German Securities Trading Act (WpHG)- old version.

Shares with special control rights

Shares which confer special control rights have not been issued.

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

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

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

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

Amendments to the company's Articles of Association

Pursuant to Art. 59 of the SE Regulation in connection with § 179 (1) and (2) p. 1 of the German Stock Corporation Act (AktG), any amendment to the company's Articles of Association requires a resolution of the Annual General Meeting with a majority of at least three quarters of valid votes cast. When making amendments of this kind to the company's Articles of Association, for which only a simple majority is required for stock corporations founded on the basis of German law (AG), § 19 (4) of the company's Articles of Association deviates from § 179 (2) Sentence 1 of the German Stock Corporation Act (AktG) in that resolutions seeking to amend the company's Articles of Association by the Annual General Meeting can be passed with just a simple majority of the share capital votes entitled to vote on the resolution, insofar as a greater majority is not required based on obligatory legal regulations, insofar as at least half of the share capital is represented, otherwise a majority of two thirds of votes cast. However, the Supervisory Board is authorised, pursuant to § 23 of the company's Articles of Association, to make amendments to the company's Articles of Association that affect the version.

Authority of the Executive Board to issue or buy back shares

A resolution passed by the Annual General Meeting on June 5, 2014 authorised the Executive Board, with the Supervisory Board's approval, to increase the company's share capital by up to € 22 million in total by June 5, 2019 by issuing on one or more occasions new ordinary bearer shares in exchange for cash or non-cash contributions and, with the Supervisory Board's approval, to exclude the shareholders' subscription rights for the issuance of shares in exchange for non-cash contributions. On the basis of this authorisation and with the consent of the Supervisory Board, the Executive Board utilised the resolution from July 27, 2015 to increase the company's share capital by € 1,456,948.00 by issuing 1,456,948 ordinary bearer shares in MLP SE to Mr. Gerhard Schwarzer in return for shares in Schwarzer Familienholding GmbH, the former parent company of the DOMCURA Group, thereby excluding the subscription right. The Executive Board is thus still authorised to increase the share capital by up to € 20,543,052 million.

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

As per the resolution of the Annual General Meeting from June 29, 2017, the company is also authorised, pursuant to § 71 (1) No. 8 of the German Stock Corporation Act (AktG), to purchase up to € 10,933,468 – i.e. slightly less than 10% of the share capital during the authorisation period up to June 28, 2022. No shares were bought by the company on the basis of this authorisation up to December 31, 2017.

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

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

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

The contracts of employment between the company and the Chairman of the Board, Dr. Uwe Schroeder-Wildberg, and Executive Board members Manfred Bauer and Reinhard Loose contain a clause stating that said members are entitled to terminate their contracts with a notice period of one month in the event that a third party who had a share in MLP of less than 10% at the time at which the contracts were concluded acquires a share of at least 50% of the voting rights. If any of these Executive Board members chooses to exercise this right to terminate, MLP is obliged to pay said member remuneration corresponding to four times (4x) the respective fixed annual salary if the contract has not been terminated as a result of the change in control, provided that the respective contract is terminated more than two years before it reaches its normal termination date. For all members of the Executive Board, the remuneration to be paid in the event of a "change of control" corresponds to no more than twice the average remuneration, based on the total remuneration of the last full financial year prior to termination of their contract and the total anticipated remuneration for the year still in progress when their contract is terminated. The service contract of Dr. Schroeder-Wildberg is set to run until December 31, 2022, the service contract of Mr. Bauer is set to run until April 30, 2020 and the service contract of Mr. Reinhard Loose is set to run until January 31, 2019. In the case of a termination of contract within two years of the scheduled termination date, the severance payment will only be paid pro rata temporis.

Report on remuneration transparency – appendix to the management report

In line with the requirements of Section 21 of the Transparency of Remuneration Act (EntgTranspG), the following provides information on both equality and equal remuneration at MLP. Within MLP Group, only the subsidiary MLP Finanzberatung SE exceeds the legally stipulated threshold of 500 employees and only this company is therefore reportable. Despite this, reporting is still performed for the joint operations of MLP SE, MLP Banking AG and MLP Finanzberatung SE, as the relevant parameters are recorded on the basis of a company agreement governing these joint operations. In light of this, reporting is only performed with regard to employees that cannot be classified as executive employees pursuant to Section 5 (3) of the Works Constitution Act (BetrVG). They represent approximately 65% of all employees at MLP Group.

Gender-equal remuneration at MLP

A remuneration system works agreement was concluded at MLP in November 2015. During this process, the various positions below the level of division leader were assessed based on abstract criteria before being assigned to a total of 10 salary brackets.

Conclusions gained from the remuneration system works agreement

In the course of introducing the remuneration system at MLP, and in particular through the assignment of job types to the various salary brackets, MLP drew statistical conclusions that enable the provision of information regarding gender-equal remuneration at MLP.

It should be pointed out here that the salary bracket assignment criteria are based on job types and are therefore essentially gender-neutral in the sense of the Transparency of Remuneration Act (EntgTranspG), as is MLP's remuneration system. This means that any notion of gender-based discrimination is already ruled out in the remuneration system employed by MLP.

At the same time, there is also a mature remuneration structure in place at MLP. With regard to the outcome from the introduction of the new remuneration system, the following three areas reveal differences in remuneration.

With regard to the brackets determined below, female employees were over-represented in terms of total numbers. This means that the predominant share of all employees receiving remuneration that was initially still below the lower salary bracket limit recognised as critical by the assessment committee for the respective job type were female. The Executive Board reacted to this finding and raised the salaries of all employees affected by this into the relevant salary bracket in the last financial year. By taking this voluntary step, the Executive Board made a contribution to increasing gender equality in terms of remuneration.

In the above brackets, female employees at MLP are slightly under-represented in terms of the number of persons affected – at least at company HQ. This means that there were, and still are, fewer women than men among MLP employees whose current annual remuneration is above the relevant salary bracket. From an employment law perspective, however, this can only partially be influenced by employers as salary cuts are generally not permitted. Due to the provisions of the company agreement, balancing this situation by raising the salary of women above the relevant salary bracket is not permitted and also cannot be demanded in line with the purpose and intention of the Transparency of Remuneration Act (EntgTranspG) as this law does not postulate any "equality in injustice".

Female employees are still generally under-represented in higher level management positions. The higher the hierarchy level, the lower the proportion of women within the joint operations of MLP SE, MLP Banking AG and MLP Finanzberatung SE. Unfortunately, rectifying this situation is difficult. There are limits as to what MLP can achieve in this regard as an employer - not least since it is common for fewer women to apply for vacant management positions than would be desirable, despite the fact that there are significantly more female than male employees at MLP. The intention is now to improve the concept for increasing the percentage of women at management levels in the 2018 financial year. The objective here is to encourage more women to apply for a management position. This is a necessary prerequisite for sustainably increasing the percentage of women in management positions.

Remuneration gap

The term "remuneration gap" is used in public discussion to describe the gap between the remuneration of men and women. Although there has not yet been a precise definition of this term or the factors to be taken into account, the German Federal Statistical Office has stated that there is currently an "adjusted remuneration gap" of 6% in Germany.

The remuneration monitor of Compensation Online for 2017 breaks down the adjusted remuneration gap by sector. Unfortunately, the financial services sector is not included as a dedicated sector in this remuneration monitor. Assuming that the financial services sector should be located between the banking and insurance companies sectors, the values from these two sectors allow an approximated value to be derived for our financial services sector.

For banks, the remuneration monitor shows a remuneration gap of 1.8% (for professionals with annual income between €30,000 and €35,000) and 3.1% (for professionals with annual income between €55,000 and €60,000). The corresponding figures for the insurance industry are stated as 4.5% and 6.4% respectively. Equal weighting of these results leads to an average of 3.95% as an approximated value for our financial services sector.

The unadjusted remuneration gap between men and women, weighted according to salary bracket and number of persons, was around 3.9% at MLP at the start of Q4 2017. To determine this percentage value, the average remuneration of men per salary bracket was compared with the corresponding average remuneration of women and the resulting individual values weighted based on the number of incumbents per salary bracket. The obvious adjustment factor is age. On average, men at MLP are approximately 2.4 years older than women. Accordingly, they tend to have enjoyed greater general and individual salary development (at MLP, yet potentially also at their previous employer, which typically also has an effect on the starting salary). For the purposes of adjustment, the long-term average of annual salary development was applied conservatively at 2% p.a. Adjusted in this way for this average age difference, the remuneration gap at MLP was therefore approximately 1.6%.

If a remuneration gap, adjusted for age differences, that disadvantages female employees exists at all at MLP, it would be significantly below the adjusted sector average applied here. Since further adjustment factors as also considered according to the German Federal Statistical Office, there are good reasons to suggest that a remuneration gap at MLP, if it even exists, is not of significant magnitude.

No gender-based remuneration discrimination at MLP

No systematic gender-specific remuneration discrimination that would disadvantage female employees can be detected within individual departments at company HQ. Generally speaking, there are job types with higher average remuneration for women alongside job types in which men generally receive higher average remuneration in large parts of MLP Banking AG and MLP Finanzberatung SE. However, no valid blanket statements can be made on this for the branch office staff which is spread out throughout Germany. The individual branch offices are too small and the positions are predominantly filled by women, meaning that a statistically sound salary comparison between men and women cannot be produced.

Most employees at company HQ are assigned to salary brackets 5 and 6 with their job types, whereby significantly more women than men are remunerated in these two salary brackets. At the start of Q4 2017, the average salary of all male employees in salary bracket 5 was higher than the average salary determined for all women in salary bracket 5. As regards salary bracket 6, the average salary of women is higher, although not quite as significantly. It cannot therefore be assumed that any kind of systematic gender-based remuneration discrimination is prevalent at MLP.

The company auditing system

With the Transparency of Remuneration Act (EntgTranspG), employers with more than 500 employees are requested to conduct their own company audit with the aim of reviewing their remuneration systems with regard to compliance with the equal remuneration principle. The legislator's intention is for auditing processes of this kind to be conducted on a voluntary basis under the employer's own responsibility. The objective of the internal company auditing process is to identify individual women who are not receiving equal remuneration. Any disadvantage to individual female employees that is identified should then be addressed with suitable measures on the part of the employer.

MLP conducted an audit process of this kind on a voluntary basis in the reporting period for the joint operations of MLP SE, MLP Banking AG and MLP Finanzberatung SE.

In its decision to employ an internal audit process, the Executive Board was guided by the fact that simply complying with rights to information will not be effective in reducing any remuneration gap that women at MLP may encounter. MLP's assessment is that requests for information that have been refused are likely to be equally as demotivating and frustrating for the female employees who requested them as the requests that were granted, but which ultimately only provide meaningless medians from a comparison group. The approach to this internal audit process, described in more detail below, is intended to sustainably strengthen the trust of employees at MLP in the gender equality of MLP's remuneration system.

The internal audit process was performed as follows:

Group of persons included:

Only female employees at company HQ were included in the process. Male employees, as well as female employees from the branch offices, were not initially included in the scope of the audit (due to the low number of male employees at the offices).

Audit process stage 1:

- Determining the average salary of the men within the individual salary brackets, broken down by key positions (department head, team leader, specialist staff, employee).
- Identifying the women that receive a salary which is more than 20% below the relevant average salary of their male colleagues for their salary bracket and key position.
- Of these women, only those that are no more than five years younger than the average age of the male comparison group are taken into account at stage 1.

Audit process stage 2:

Individual review to identify indicators as to whether there is a material reason for the lower comparative remuneration.

A material reason for lower remuneration was in particular accepted if the actual qualification of the female employee was lower than the abstract requirement of the job type (whereby less emphasis was placed on this factor the longer the female employee had already been incumbent in the specific job type). In addition, the performance of the respective female employee was taken into account starting with the assessment from the staff appraisal but also including other experience. Other employment-related knowledge and experience with relevance for the specific job type were also taken into account.

A small number of female employees was identified on this basis.

Audit process stage 3:

An individual target salary was determined for the female employees identified at stages 1 and 2. This determination was performed as follows:

- The average salary of all employees holding the same job type as the person being exam-ined was generally applied. In a few special cases, in which no other persons were as-signed to the same job type or the other persons were themselves identified at audit stag-es 1 and 2, another appropriate benchmark group was used.
- Adjusting the average salary to include salaries of employees that earn more or less than 30% of the unadjusted average salary, in addition to adjusting for the salary of employees that previously held a higher-level job type (in particular former managers).

- The average salary adjusted in this way was then taken as the provisional target salary. To determine the final target salary, a correction was performed based on the professional experience assumed. In two cases, the adjusted target salary was actually lower than the current salary being paid. These two female employees were therefore no longer included.
- Female employees whose salary should be adjusted were then identified by comparing the actual current salary and adjusted target salary. The salaries of thefemale employees identified were then brought in line with the target salary (rounded up to the nearest full €10), whereby an adjustment was only made if the amount of increase was at least 2% of the individual annual salary of the female employee affected.

The result of these activities was that MLP increased the salary of these female colleagues in a range of 2.15% to 22.68% with an average increase of 11.05%.

As already mentioned, only female employees of MLP SE, MLP Banking AG and MLP Finanzberatung SE that work at company HQ were considered in this audit process. Since the staff working at the branch offices are almost all female, there is no suitable or statistically meaningful benchmark for men. However, since non-equal remuneration cannot be ruled out at the branch offices, the internal audits are to be continued with the objective of also specifying a suitable approach for branch office staff. In individual cases, there may also be men that appear to not receive equal remuneration. This is something we will also be addressing in future.

Further measures to promote equality of remuneration

Alongside these purely remuneration-based measures, MLP offers a large number of further measures promoting a good work-life balance and thereby contribute to greater equality of remuneration. You can find further information on this in the management report under "Corporate governance report – Declaration on corporate governance (Section 289a of German Commercial Code (HGB))/Corporate management practices" which forms part of the Annual Report.

Statistical information pursuant to Section 21 (2) of the Transparency of Remuneration Act (EntgTranspG)

For non-management employees in the joint operations of MLP SE, MLP Banking AG and MLP Finanzberatung SE, the following statistical information is provided as per the requirements of Section 21 (2) of the Transparency of Remuneration Act (EntgTranspG):

	Number (total)	Number (full-time)	Number (part-time)	Quota (total)	Quota (full-time)	Quota (part-time)
Men	339.75	309.5	30.25	29.80%	91.10%	8.90%
Women	800.25	336.5	463.75	70.20%	42.05%	57.95%

These disclosures refer to the averages of the quarterly figures from the 2016 financial year, in each case excluding employees that were on parental leave on the reporting date.

NON-FINANCIAL ASPECTS OF BUSINESS ACTIVITIES

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

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

Corporate governance report - Declaration on corporate governance

Every year, the Executive Board and Supervisory Board report on the company's corporate governance in the Annual Report as required by the German Corporate Governance Code (GCGC). The following statements and details are provided as a Declaration on Corporate Governance in the sense of § 289a of the German Commercial Code (HGB).

Compliance with the Corporate Governance Code

Wording of the Declaration of Compliance of MLP SE pursuant to § 161 of the German Stock Corporation Act (AktG)

"Pursuant to § 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board of MLP SE hereby declare that the company has generally complied with and will comply with the recommendations of the "German Corporate Governance Code" government commission (version dated February 7, 2017) since the last Declaration of Compliance was issued. Only the recommendations in Sections 4.1.5, 4.2.3 Sentence 11, Section 4.2.3 Sentence 12 to 14, Section 5.1.2. Sentence 2, Section 5.1.2 Sentence 8, Section 5.4.1 (2) Sentence 2 clause 4, clause 5 and clause 6 and Section 5.4.1 (5) Sentence 2 clause 1 were not and will not be applied.

The reasons for these deviations from the recommendations are as follows:

Section 4.1.5 (compliance with diversity at management level)

According to the recommendations of the German Corporate Governance Code, the Executive Board should take diversity into account when filling managerial positions and, in this respect, aim for an appropriate consideration of women. The Executive Board sets out targets for proportional female representation at the two management levels below Executive Board level.

In the current financial year, the Executive Board has intensified its efforts with respect to diversity when filling managerial positions and, in particular, strives to achieve appropriate consideration of women at managerial levels in the Company. In the past, the Executive Board of MLP SE already took measures directed at reconciling working life and family life. In the financial year 2017, the Executive Board again reviewed the effectiveness of these measures and already adopted an overall concept in November 2013. If appropriate, it will undertake modifications as necessary or initiate further measures in order to achieve appropriate consideration of female candidates at managerial levels in the Company, taking into account the Company’s specific situation. This concept also includes guidelines for diversity-compliant promotion, which will, however, still require final elaboration. Thus, no specifications for concrete selection decisions with respect to filling positions have yet been established. Nevertheless, the Executive Board of MLP SE has only decided upon a percentage of female members amounting to 0 percent at the first management level below the Executive Board as MLP SE is a holding company that has only a very limited number of staff with just a few managers. Beyond this, MLP SE does not have a second level of management below the Executive Board.

The measures are therefore not yet fully compliant with the requirements of Section 4.1.5 of the Code. As was also the case in the financial year 2017, MLP therefore declares it will continue to deviate from this recommendation in 2018.

Section 4.2.3 Sentence 11 (specification of the targeted level of benefits)

According to the recommendations of the German Corporate Governance Code, the Supervisory Board should specify the respective targeted level of benefits – also taking into account the length of service on the Executive Board – and consider the correspondingly derived annual and long-term cost to the Company.

The new remuneration system introduced by the Supervisory Board within the context of implementing the stipulations of the Management Board Remuneration Act (VorstAG) provides for a contribution-based commitment to grant benefits when appointing new members of the Executive Board. The level of specific contributions to be made by the Company is laid down for each respective member of the Executive Board. They do not hold the risk of any unexpected knock-on effects for the Company, since the respective member of the Executive Board actually bears the investment risk in relation to the Company. In the course of implementing the new remuneration system, a decision was therefore taken to dispense with the notion of switching over any employer's pension commitments for members of the Executive Board which provide a fixed benefit above a contractually defined age limit to a purely contribution-based system at the time of contract changeover. With specific regard to these employer's pension commitments, which are to remain in place, the Company does not comply in full with this recommendation.

Therefore the Supervisory Board is of the opinion that the implementation progress made to date is not yet sufficient to fulfil the requirements of Section 4.2.3 Sentence 11 of the Code in full. As was also the case in the financial year 2017, MLP therefore declares not to follow this recommendation in the financial year 2018.

Section 4.2.3 Sentence 12 to 14 (severance payment cap)

According to the recommendations of the German Corporate Governance Code, the Company should, when concluding Executive Board member contracts, ensure that payments, including fringe benefits, to an Executive Board member following premature cessation of Executive Board duties without serious cause, do not exceed the value of two years’ remuneration (severance payment cap). If the contract of service is terminated due to serious cause on the part of the Executive Board member, no payments will be made to the Executive Board member. The calculation of the severance payment cap should be based on the total remuneration of the previous financial year and, if appropriate, also on the expected total remuneration of the current financial year. In the event of premature termination of Executive Board membership due to a change of control, any commitment for payments should not exceed 150% of the severance payment cap.

During the course of 2011 MLP completed its amendment to the employment contracts of the members of the Executive Board to incorporate a new remuneration system and, particularly in 2014, aligned them with the requirements of the German Banking Act (KWG) and the Remuneration Ordinance for Institutions. Since the first-mentioned changeover, MLP has complied with the aforementioned recommendations.

However, there is no provision for a severance payment in the event of contract termination by mutual consent. Rules concerning a mutually-sought termination of contract can, in a contractual law sense, in any case only serve as a guideline from which, however, the parties could at any time agree to deviate. For this reason, any provisions of this nature would be no more than a formal act.

As was also the case in 2017, MLP will therefore not comply with this recommendation in 2018.

Section 5.1.2 Sentence 2 (diversity regarding the composition of the Executive Board)

Based on the recommendations of the German Corporate Governance Code, the Supervisory Board should also pay attention to diversity in the composition of the Executive Board and in particular aim for an appropriate consideration of women. Accordingly, the Supervisory Board should specify target numbers for the degree of female representation on the Executive Board.

The Supervisory Board at MLP SE strives to further intensify its future efforts with respect to diversity and, in particular, an appropriate consideration of women when appointing members of the Executive Board. The Supervisory Board gives specific consideration to applications from suitable female candidates in its selection procedures. In the financial year 2014 the Supervisory Board continued to review this aspect and will undertake further measures in order to build on the Group-wide overall concept already passed by the Executive Board for the implementation of Section 4.1.5 of the Code (observance of diversity for managerial positions) and also achieve an appropriate consideration of women within the Executive Board of the Company, taking into account the Company's specific situation. Nevertheless the Supervisory Board of MLP SE intends to continue to base its selection decision with respect to appointments primarily on the individual and professional qualifications of prospective candidates. For this reason, the Supervisory Board has specified a target figure for female representation on the Executive Board – which incidentally currently consists of just three persons – of 0 percent.

The Supervisory Board is of the opinion that the implementation progress made to date is not yet sufficient to fulfil the requirements of Section 5.1.2 Sentence 2 of the Code in full. As was also the case in the financial year 2017, MLP therefore declares not to follow this recommendation in the financial year 2018.

Section 5.1.2 Sentence 8 (age limit for members of the Executive Board)

According to the recommendations of the German Corporate Governance Code, an age limit should be set for members of the Executive Board.

MLP did not follow this recommendation in 2017. There is no set age limit for members of the Executive Board at MLP. The appointment of members of the Executive Board should be based solely on their knowledge, skills and specialist experience. As was the case in 2017, MLP will therefore not comply with this recommendation in 2018.

Section 5.4.1 (2) Sentence 2, clause 4, clause 5 and clause 6 (consideration of age limit, standard limit for length of service for members of the Supervisory Board and diversity in the composition of the Supervisory Board)

According to the recommendations of the German Corporate Governance Code, the Supervisory Board is to take into account a pre-defined age limit, a standard limit for the length of service and diversity with regard to its composition while also taking into consideration the Company's specific situation, international operations, any potential conflicts of interest and the number of independent members of the Supervisory Board in the sense of Section 5.4.2.

No age limit or standard limit for the length of service is specified for members of the Supervisory Board. In light of the knowledge, expertise and specialist experience stipulated in Section 5.4.1 Sentence 1 of the Code, it seems inappropriate to specify an age limit and standard length of service for members of the Supervisory Board. As was the case in 2017, MLP will therefore not comply with this recommendation in 2018.

These concrete objectives should also provide for an appropriate degree of female representation. Proposals by the Supervisory Board to the competent election bodies should take these objectives into account. The Supervisory Board should specify target figures for the degree of female representation on the Supervisory Board. The objectives and the status of implementation are to be published in the Corporate Governance Report.

MLP did not follow this recommendation in the current financial year. In its meetings over the last few financial years and again in 2017, the Supervisory Board of MLP AG and, since September 21, 2017, the Supervisory Board of MLP SE has addressed the topic of setting a concrete target for the composition of the Supervisory Board, paying particular attention to diversity, and approved an expertise profile. The Supervisory Board has set itself the target that in the presence of candidates of equal professional and personal suitability, it would seek to fill at least 16.5 percent of the Supervisory Board positions with suitable female members. However, the Supervisory Board does not currently regard the setting of a specific time frame for the implementation of this objective to be appropriate, primarily due to the small number of members of the Supervisory Board as anchored in the Articles of Association. It is therefore also not yet possible to report on any specific implementation steps towards such objectives in the Corporate Governance Report. Nevertheless, as early as in the financial year 2015, the Supervisory Board presented a resolution proposal to the shareholders at the Annual General Meeting to approve the appointment of a woman to the Supervisory Board of the Company. The resolution was subsequently adopted and the target figure was thus achieved.

At the same time, in the financial year 2018 – as in 2017– MLP will thus deviate from this recommendation as the Supervisory Board has not set any concrete target figures but rather sees a subsequent appointment against the background of the candidate’s respective qualification.

Section 5.4.1 (5) Sentence 2 clause 1 (submission of a curriculum vitae along with the candidate proposal)

As per the recommendations of the German Corporate Governance Code, all candidate proposals are to be submitted to the Annual General Meeting together with a CV that provides information on the relevant knowledge, expertise and experience of the respective candidate.

MLP will deviate from this. MLP discloses all legally required information with its candidate proposals to the Annual General Meeting. Indeed, MLP has already published the CVs of members of the Supervisory Board. However, sufficient clarification has yet to be provided in the legal discussion as to whether the ruling to include a CV with all candidate proposals submitted to the Annual General Meeting applies only to the resolution on election of shareholders' representatives or also employees' representatives and which information specifically needs to be included in the CVs in order to provide information on the respective candidate's knowledge, expertise and experience. In addition to this, including CVs with the candidate proposals on the agenda increases the risk of disputes regarding the election of members to the Supervisory Board. From MLP's perspective, posting the corresponding CVs on the homepage should therefore be seen as sufficient.

MLP therefore declares that it will deviate from this recommendation in future, and consequently also in the financial year 2018.

Wiesloch, December 2017

MLP SE

The Executive Board The Supervisory Board"

In December 2017, the Executive and Supervisory Boards issued the above Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders via the company's website. The Declaration of Compliance in the version of December 19, 2017 can also be viewed online at ↗ www.mlp-se.com.

You can also find more information on the topic of corporate governance at MLP on the aforementioned homepage.

Corporate governance

Responsible and value adding management

By mainly complying with the stipulations of the German Corporate Governance Code (GCGC) in the version of February 7, 2017, MLP continues to reinforce the confidence of its shareholders, clients, employees and other stakeholders in the management of the company. Responsible management geared toward long-term added value is a high priority for us. The Executive and Supervisory Boards ensure that MLP continues to review and develop corporate governance across the Group.

Management and control structure

MLP SE is a European stock corporation that is based in Germany and subject to the European SE provisions, the German SE Implementation Act (SEAG) and German stock corporation law. The company was created on September 21, 2017 as a result of the change in corporate form of MLP AG and the corresponding entry in the Mannheim commercial register. As an SE, the company has a dual management and control structure, comprising an Executive Board and a Supervisory Board. The third corporate body is the Annual General Meeting.

Executive Board

As the management body of an "Aktiengesellschaft" (public limited company), the Executive Board runs the business and is tied to the interests and business principles of the company within the scope of corporation law. The responsibilities and duties of the Executive Board are laid down in the German Stock Corporation Act (AktG), in MLP SE's Articles of Association, as well as in a set of rules of procedures and the schedule of responsibilities of the Executive Board attached to it.

The members of the Executive Board hold joint responsibility for the entire management. Decisions made by the Executive Board are reached during Executive Board meetings held at regular intervals. Resolutions are drafted as ordinary resolutions with majority votes and recorded accordingly.

The members of the Executive Board are Dr. Uwe Schroeder-Wildberg (Chairman), Manfred Bauer and Reinhard Loose.

Supervisory Board

The Supervisory Board advises and monitors the Executive Board. The responsibilities and duties of the Supervisory Board are derived from the German Stock Corporation Act (AktG), MLP SE's Articles of Association and a set of rules of procedures for the Supervisory Board.

Resolutions of the Supervisory Board are made during meetings convened by the Chairman of the Supervisory Board or on his behalf and require a majority vote. The Supervisory Board is informed of particularly important or urgent projects outside of the regular meetings. Where necessary, resolutions can also take the form of circular resolutions or be passed via telephone. A transcript of each meeting is drafted.

Supervisory Board composition

MLP SE's Articles of Association provide for a Supervisory Board that comprises six members, two of whom are employee representatives. Both the size and the tripartite composition of the Supervisory Board are thereby stipulated in MLP SE's Articles of Association. The members of the Supervisory Board at a dualistically structured SE are generally appointed by the Annual General Meeting (Art. 40 (2) of the SE Regulation). MLP deviates from this with regard to the employees' representatives. The appointment of the employees' representatives on the Supervisory Board is based on a participation agreement that has been agreed between the company and a negotiation committee established for this purpose. Accordingly, employees' representatives are elected directly through elections in the company. The current acting members of the first Supervisory Board at MLP SE are appointed until conclusion of the Annual General Meeting that approves the actions for the first financial year of MLP SE. The members of the Supervisory Board are currently Ms. Tina Müller, Dr. Peter Lütke-Bornefeld (Chairman of the Supervisory Board), Dr. h.c. Manfred Lautenschläger, Dr. Claus-Michael Dill, Mr. Burkhard Schlingermann (employees' representative) and Mr. Alexander Beer (employees' representative).

Based on the recommendations of the GCGC, the Supervisory Board is to stipulate concrete objectives regarding its composition, which, whilst considering the company's specific situation, take into account the company's international operations, any potential conflicts of interest, the number of independent members of the Supervisory Board, an age limit to be specified for members of the Supervisory Board and diversity.

The Supervisory Board has set itself concrete targets for its composition. One item worthy of particular note here is a requirements profile for Supervisory Board candidates, which was passed in the financial year and which summarises the knowledge, skills, professional experience and personal aptitude characteristics necessary for candidates to be considered. In addition to this, appraisals were made regarding diversity and the number of independent members.

You can find further information on the equal participation of women and men in the Supervisory Board in the disclosures on corporate governance practices provided below.

As per the new revisions to § 100 (5) of the German Stock Corporation Act (AktG) that became effective in 2016, members of the Supervisory Board no longer need to meet the personal independence prerequisites due to legal obligations. Instead, the Supervisory Board should comprise what it deems to be an appropriate number of independent members as per Section 5.4.2 of the German Corporate Governance Code (DCGK). Pursuant to § 5.4.1 (4) Sentence 3 of the German Corporate Governance Code (DCGK), however, this Corporate Governance report should also provide information on what the Supervisory Board deems to be an appropriate number of shareholders as independent members of the Supervisory Board and the names of these members. For this reason, the Supervisory Board continues to adhere to the requirement for independence. The Supervisory Board considers itself as already consisting of a suitable number of independent members who have no business or personal relationship with the company or members of the Executive Board which could form grounds for a conflict of interest. Accordingly, in its meeting on December 19, 2017 the Supervisory Board confirmed that Dr. Lütke-Bornefeld, Dr. Claus-Michael Dill, Mrs. Tina Müller are independent members of the Supervisory Board of the shareholders. The Supervisory Board established that Dr. h. c. Lautenschläger is not an independent member of the Supervisory Board under this provision.

In terms of independence, the Supervisory Board works to a strict standard to eliminate any doubt regarding its judgement. Since Dr. h. c. Lautenschläger is a significant shareholder in our company, his independence is at least seen as potentially compromised.

The Supervisory Board has also set itself the additional goal of filling at least 16.5% of Supervisory Board member positions with suitable female members, in the presence of candidates of equal professional and personal suitability. However, the Supervisory Board does not currently regard the setting of a specific time frame for the implementation of this objective to be appropriate, primarily due to the small number of members of the Supervisory Board as anchored in the Articles of Association. Nevertheless, this quota was already reached over the course of the year 2015 with the election of Ms. Müller to the company's Supervisory Board. The Supervisory Board also reviewed the knowledge and experience required of the Supervisory Board members and of the Chairman of the Audit Committee under the German Corporate Governance Code with regard to reporting and internal control procedures. The Chairman of the MLP SE Audit Committee fully complies with these requirements.

Efficiency of the Supervisory Board

In 2017 the Supervisory Board also reviewed the efficiency of its own activities. Particular attention was paid to the efficiency of the procedures in the Supervisory Board, the information flow between the committees and the Supervisory Board and the timeliness and sufficient content of reporting by the Executive Board to the Supervisory Board. Further measures aimed at increasing efficiency were drafted in the course of intensive discussions.

Supervisory Board committees

The Supervisory Board of MLP SE has set up committees in order to improve the effectiveness of its work. The Personnel Committee prepares the resolutions on HR issues concerning Executive Board members with the company. The Audit Committee is responsible for auditing the accounting processes, risk management issues and the auditing system itself, as well as ensuring the independence of the auditors, awarding the audit contract to the auditors and determining the focal points of the audits and agreements on fees. The Committee also discusses the annual financial statements, the consolidated financial statements and the management reports of MLP SE and the MLP Group and submits a recommendation for resolution to the Supervisory Board. In the financial year 2016, the Supervisory Board of MLP AG already intensively dealt with the new legislation of EU Directive 2014/56/EU regarding account auditing, as well as Germany's audit reform legislation (AReG). It adapted procedures to the new legal regulations, so that the stipulations of both the Directive and Germany's audit reform legislation (AReG) can be met. The Supervisory Board has also formed a Nomination Committee, composed exclusively of shareholder representatives, that proposes suitable Supervisory Board candidates for recommendation to the Annual General Meeting and addresses the requirements that these candidates must meet. The members of the Personnel Committee are Ms. Tina Müller, Dr. Peter Lütke-Bornefeld (Chairman of the Personnel Committee) and Mr. Burkhard Schlingermann. The Audit Committee comprises Dr. Claus-Michael Dill (Chairman of the Audit Committee), Dr. h.c. Manfred Lautenschläger, Dr. Peter Lütke-Bornefeld and Mr. Alexander Beer. The Nomination Committee comprises Ms. Tina Müller, Dr. Peter Lütke-Bornefeld (Chairman of the Nomination Committee), Dr. h.c. Manfred Lautenschläger and Dr. Claus-Michael Dill.

Corporate governance in the Supervisory Board

In 2017, the Executive and Supervisory Boards of MLP SE again dealt intensively with the German Corporate Governance Code and further new legislation significant to the work performed by the Supervisory Board and its committees. The Code, and its amendments passed on February 7, 2017, were the object of intensive discussions by the Supervisory Board. Stipulations were analysed and corresponding adjustments to the internal regulations and procedures followed by the Supervisory Board were either proposed or submitted for verification.

Cooperation between Executive Board and Supervisory Board

Intensive dialogue between the Executive and Supervisory Boards forms the basis of transparent and responsible company management. The Executive Board of MLP SE provides the Supervisory Board with regular, timely and comprehensive information on the Group’s position, including information on its risk situation, risk management and compliance. The Supervisory Board is informed of particularly important or urgent projects outside of the regular meetings. Furthermore, the Chairman of the Supervisory Board meets with the Executive Board on a regular basis to discuss specific issues. The Chairman of the Supervisory Board informs the other members of the Supervisory Board in detail about the content of his meetings with the Executive Board. The Supervisory Board discussed the Group's corporate planning and plans for strategic growth with the Executive Board.

Significant legal transactions by the Executive Board require the consent of the Supervisory Board. A set of rules of procedures issued by the Supervisory Board in particular governs the distribution of business, powers of approval outside the Articles of Association and co-operation with the Executive Board. Further details on the co-operation between Executive Board and Supervisory Board can be found in the report by the Supervisory Board.

Further disclosures on the Supervisory Board's activities can be found in the report by the Supervisory Board.

Transparency

Shareholdings of members of the Executive and Supervisory Boards as of the balance sheet date:

As of December 31, 2017, the shares held by the members of the company's Executive and Supervisory Boards were distributed as follows:

Supervisory Board member	Number of shares as of Dec. 31, 2017	Number of shares as of Dec. 31, 2016
Dr. Peter Lütke-Bornefeld	190,000	190,000
Dr. h.c. Manfred Lautenschläger[1]	25,383,373	25,383,373
Tina Müller	–	–
Dr. Claus-Michael Dill	–	–
Burkhard Schlingermann	55	55
Alexander Beer	–	–

[1] Incl. additional voting rights in line with § 22 of the German Securities Trading Act (WpHG)

Executive Board member	Number of shares as of Dec. 31, 2017	Number of shares as of Dec. 31, 2016
Dr. Uwe Schroeder-Wildberg	–	–
Manfred Bauer	11,254	11,254
Reinhard Loose	10,000	10,000

Directors' Dealings

Directors' Dealings

Pursuant to Art. 19 of the Market Abuse Regulation (MAR), persons assuming executive positions at the issuer of shares must notify the issuer and the Federal Financial Supervisory Authority (BaFin) of transactions in financial instruments. This obligation also applies to natural persons and legal entities that are closely linked to such a person assuming an executive position.

Transactions up to a total value of € 5,000 per calendar year are exempt from the notification requirement.

No transactions pursuant to Art. 19 of the Market Abuse Regulation (MAR) were reported to us in the financial year 2017. Transactions from previous years can be viewed on our website at ↗ www.mlp-se.com.

Compliance

Compliance regulations

The trust of our clients, shareholders and business partners in our capacity to act professionally and responsibly forms the basis of our business operations. Compliance with all relevant legislation and capital market regulations represents the foundation of our business activities and an integral part of our corporate culture. Violations against applicable legislation and regulations not only have the potential to lead to legal disputes and financial losses, but can also have a negative effect on our Group's reputation. The Executive Board at MLP ensures Group-wide compliance with legal provisions and internal company guidelines, while also guaranteeing both a trusting and transparent system of corporate governance.

The basic principles of abidance to laws, integrity and economically successful business practices are firmly anchored in our internal compliance guidelines. Our compliance activities are based on a Group-wide compliance strategy, which is specifically designed with preventive measures to avoid risks that could arise from non-compliance with applicable legislation, internal standards and processes. The primary focus here is on compliance with the key legal provisions and internal company directives, as well as in particular preventing illegal practices, such as insider trading, money laundering, fraud or any other criminal conduct. In the interests of our clients, shareholders and employees, the Compliance department supports and advises the Executive Board in establishing uniform standards for all Group companies. Taking into account the constantly changing regulatory requirements and market conditions, Compliance steers the continuous further development of our internal behavioural standards and monitors implementation of all applicable requirements.

On the basis of a Group-wide risk analysis, the Compliance department identifies, analyses and evaluates the compliance risks relevant to MLP's business operations. Compliance also collaborates with the specialist departments responsible for developing risk-reducing measures and continuously monitors their effectiveness in our day-to-day business.

Regular training sessions, during which all employees of the MLP Group familiarise themselves with the key regulations as a way of preventing any accidental infractions while also providing support in applying our compliance guidelines, represent an important element of our risk prevention measures. These in particular include web-based training events on market abuse legislation, securities compliance, data and consumer protection as well as the prevention of money laundering, financing of terrorist activities and criminal conduct. Compliance is also available to all employees as a point of contact for reporting anything suspicious with regard to criminal activities or violations against our compliance regulations. Any violations determined are investigated immediately, comprehensively clarified and then used to eliminate any weaknesses identified. The Executive Board and Supervisory Board are regularly informed of all relevant actions and measures taken by the Compliance department.

The Compliance Policy in the MLP Group also sets out the measures for insider trading prevention and describes the internal guidelines for execution of employee transactions. The compliance guidelines also ensure that confidential information is handled responsibly at MLP and define standards for advising and supporting our clients, as well as the policy on giving and accepting invitations and gifts. To prevent any impairment of client interests, we have defined policies regarding the avoidance and monitoring of conflicts of interest and the acceptance and granting of benefits. These policies are regularly reviewed and adapted to changing requirements.

Corporate management practices

Defined company values

MLP defined its core values; a process in which a large number of employees and consultants were involved. "Performance" and "Trust" were identified as values which the corporate mission relies and builds on. You can find details on our corporate mission on our homepage at www.mlp-se.com. In a further step, the following management principles were then derived from this for MLP.

MLP managers:

- are committed to the interests of MLP clients,
- live out the core values of "Performance" and "Trust",
- implement agreed targets and decisions consistently,
- are proactive in shaping the future,
- work together openly as team players,
- ensure systematic development of managers and staff.

In accordance with the recommendation of the Corporate Governance Code in Section 4.1.5., the Executive Board has further reinforced its efforts to secure diversity when filling management positions. It will also continue to test the effectiveness of the adopted measures in the financial year 2018 and either make any changes deemed necessary or implement additional measures to ensure that women are given appropriate consideration at the management levels of the company, taking into account the company's specific situation.

An explanation of the business and risk strategy as well as the risk management system can be found in the chapter → "Risk and opportunity report" of the Annual Report.

Stipulations for promoting equal participation of women in management positions pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act (AktG)

The legislation on equal participation of women and men in management positions came into force on May 1, 2015. It stipulates an obligation to specify targets for members of supervisory and executive boards, as well as the two upper management levels, although it does not define an actual minimum target. Insofar as the percentage of women is below 30%, the targets must then not fall below the percentage reached. The deadline for achievement of the first targets was fixed for June 30, 2017. After that deadlines can be up to five years. The targets and deadlines are to be specified in concrete terms. In addition to this, it must be stated whether the specified targets have been achieved and, if not, information as to the reasons must be specified.

MLP places great emphasis on promoting women and helping employees combine a career with a family. The company has therefore already made this topic a focus over the last few years and implemented various measures to promote women into management positions. The concept for example includes measures such as family-friendly meeting arrangements or flexible workplace designs. As a sign of its public commitment to diversity, MLP signed the Diversity Charter in 2014. To help staff more effectively combine their career with a family, MLP opened a parent & child office in February 2015 to provide parents that are struggling to find childcare with the option of taking their children to work with them.

Based on the experience gained when implementing the individual measures, the MLP Group will stick to the targets already achieved for management levels and thereby comply with the minimum legal requirements. In addition to this, MLP has set internal rules for the composition of its Executive Board and Supervisory Board. These stipulate a 25% proportion of women, assuming equal personal and professional aptitude.

MLP SE has met this quota on the shareholder side of the Supervisory Board. This leads to a quota of 16.66% for the entire Supervisory Board. Alongside the three-member Executive Board and one first level manager, as a holding company MLP SE does not employ any other managers and currently no woman holds any of these positions. The objectives for the Supervisory Board and Executive Board at MLP Finanzdienstleistungen AG are the same as those at MLP SE. As a result of the demerger to create MLP Finanzberatung SE and MLP Banking AG, there are now two separate legal entities, each with a dedicated Supervisory Board and the following quotas on the shareholder side: MLP Banking AG 25% and MLP Finanzberatung SE 0%. In the 2017 financial year, the quotas for the first management level below the Executive Board were 50% at MLP Banking AG and 5.26% at MLP Finanzberatung SE. For the second management level below the Executive Board, the quotas were 33.33% and 8.11% respectively. With measures such as the Top Talents Programme for targeted development of junior staff, as well as strengthening the role of the equal opportunities officer, MLP will continue to consistently pursue the goal of increasing the number of women in management positions.

Equal pay for women and men doing the same or equivalent work as per the German Transparency of Remuneration Act (EntgTranspG)

The Transparency of Remuneration Act (EntgTranspG) came into force on July 6, 2017 to counteract wage differences between women and men doing the same or equivalent work. The legislation promotes disclosure of company remuneration systems and prescribes an individual right to information regarding in-house remuneration structures for staff at enterprises with more than 200 employees. The right to information can be asserted for the first time by employees at MLP Finanzberatung SE from January 6, 2018.

A "remuneration system" works agreement, which applies to MLP SE, MLP Banking AG and MLP Finanzberatung SE, was concluded in December 2015 as the basis for establishing improved remuneration transparency at MLP. This agreement was then used to assess and subsequently assign each job type to a salary range. The awarding of salaries for new recruitments is based on this assignment, which also forms the basis for salary adjustments together with the concepts of professional experience and performance. Private employers that generally have more than 500 employees are called upon to use operational audit procedures to regularly review the application of their remuneration systems and the various remuneration components paid for compliance with the equal pay requirement in the meaning of this legislation. MLP has decided to perform these audits for MLP SE, MLP Banking AG and MLP Finanzberatung SE.

For the first time in 2018 a report on the current status and the provisions determined to establish equal pay and equality will be included with the management report as an appendix and also published in the Federal Gazette (Bundesanzeiger).

Information

By law, the shareholders are involved in all fundamentally important decisions at MLP SE, such as decisions on amendments to the Articles of Association and the issue of new shares. In order to help shareholders assert their rights, MLP offers them the option of having their voting rights exercised in writing by non-discretionary proxies appointed by the company or by postal vote. We report on the main content of the Annual General Meeting on our website at www.mlp-se.com, where the Chairman's speech can also be accessed online.

Provision of information to all target groups

We also use the internet in order to provide comprehensive and timely information on the company's position and significant changes in a way that ensures all stakeholders are treated equally. We provide access to both German and English versions of annual and quarterly reports, press releases, conference calls and presentations on our homepage at www.mlp-se.com. Our financial calendar includes important events and dates for investors. Analysts' and media conferences are held at least once a year. In accordance with legal provisions, ad-hoc notices are published on our website, where we also provide comprehensive information on corporate governance at MLP. We provide access to our Declaration of Compliance on our homepage for at least five years.

Accounting and audit

Group accounting is performed in line with International Financial Reporting Standards (IFRS). KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was appointed as auditor by the Annual General Meeting and has audited the 2017 consolidated financial statements. The Supervisory Board gave its assurance that the relations existing between the auditors and MLP or its governing bodies give no cause for doubting the independence of the auditor. The Supervisory Board at MLP SE also discusses the annual and consolidated financial statements.