JOINT MANAGEMENT REPORT

Download complete joint management report as PDF

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

The MLP Group – The partner for all financial matters

Broad range of services

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

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

Client requirements in focus

Since it was founded by Manfred Lautenschläger and Eicke Marschollek in 1971, MLP has consistently striven to establish long-term relationships with its clients. This requires profound understanding of their individual requirements. Each of our more than 2,000 consultants in the private client business of MLP Finanzberatung SE and MLP Banking AG therefore focuses on one professional group. MLP's clients primarily include physicians, economists, engineers and lawyers. We support these clients in all financial matters – from old-age provision and wealth management, through health and non-life insurance to financing, real estate brokerage and banking business.

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

Transparent partner and product selection process

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

Further training of key importance

Qualifications and further training of our employees and clients play an important part in our company's ability to ensure sustainably high-quality consulting services. The qualifications and further training offered at the MLP Corporate University, the company's accredited in-house training facility, are considered a benchmark in the financial consulting sector. You can find more detailed information on this in the chapter entitled → "Employees and self-employed client consultants".

MLP Banking AG

MLP Banking AG offers its clients banking services with a combination of face-to-face consulting and online services. Its target groups are both private and corporate clients, to whom it offers account and credit card products, loans and mortgages, as well as wealth management solutions. MLP Banking AG assumes the following role within MLP:

- Part of end-to-end financial consulting services provided by MLP consultants
- Provider of accounts/credit cards, deposit models and financing solutions
- Holder of special expertise in the fields of wealth management and financing, particularly for the target group of physicians.
- Liability umbrella for MLP consultants and the central service provider for regulatory issues, loans, payment transactions, as well as liquidity and risk management in the Group

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

MLP Finanzberatung SE

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

As an insurance broker, MLP Finanzberatung SE is also committed to selecting the most suitable product options for clients from the broad scope of offers available 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 AG provides extensive coverage concepts for private and freelance clients in the non-life insurance consulting fields. DOMCURA offers special expertise in the development and administration of residential building concepts. Its products are currently used by approximately 5,000 insurance brokers and insurance sales agents.

DOMCURA – The non-life insurance specialist

As an investment house for institutional investors, high net-worth families and foundations, the FERI Group (FERI) offers services in the fields of investment management, investment consulting and investment research. FERI Cognitive Finance Institute, which was founded in 2016, acts as a strategic research centre and creative think tank within the FERI Group with a clear focus on innovative analyses and method development for long-term aspects of economic and capital market research. In the reporting period, FERI AG strengthened and extended its activities in the area of sustainable investments. The FERI SDG Office has been coordinating all sustainability activities taking place at FERI for some years and will promote the development of special service concepts and investment solutions. The FERI SDG Office employs a focused approach, paying particular attention to the UN's 17 Sustainable Development Goals (SDGs).

FERI – Wealth management with independent research

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

As a specialist in occupational old-age provision management, the TPC division offers companies and associations occupational provision services within MLP Finanzberatung SE under the TPC brand, focussing on consultancy services that cover all issues relating to occupational pension provision and pay – from requirements analysis, through individual concept development and implementation, all the way to continuous review of existing company old-age provision systems. The key focus here is on providing consulting services to small and medium-sized companies from various sectors, as well as employer consulting services to tax advisers, auditors, solicitors, physicians and architects. On the TPC Portal, both employers and employees can find all relevant information on their occupational provision online, together with an option to request a personal consultation – also in the form of a video consultation if desired. Employees will also have dedicated access to their contracts via this portal.

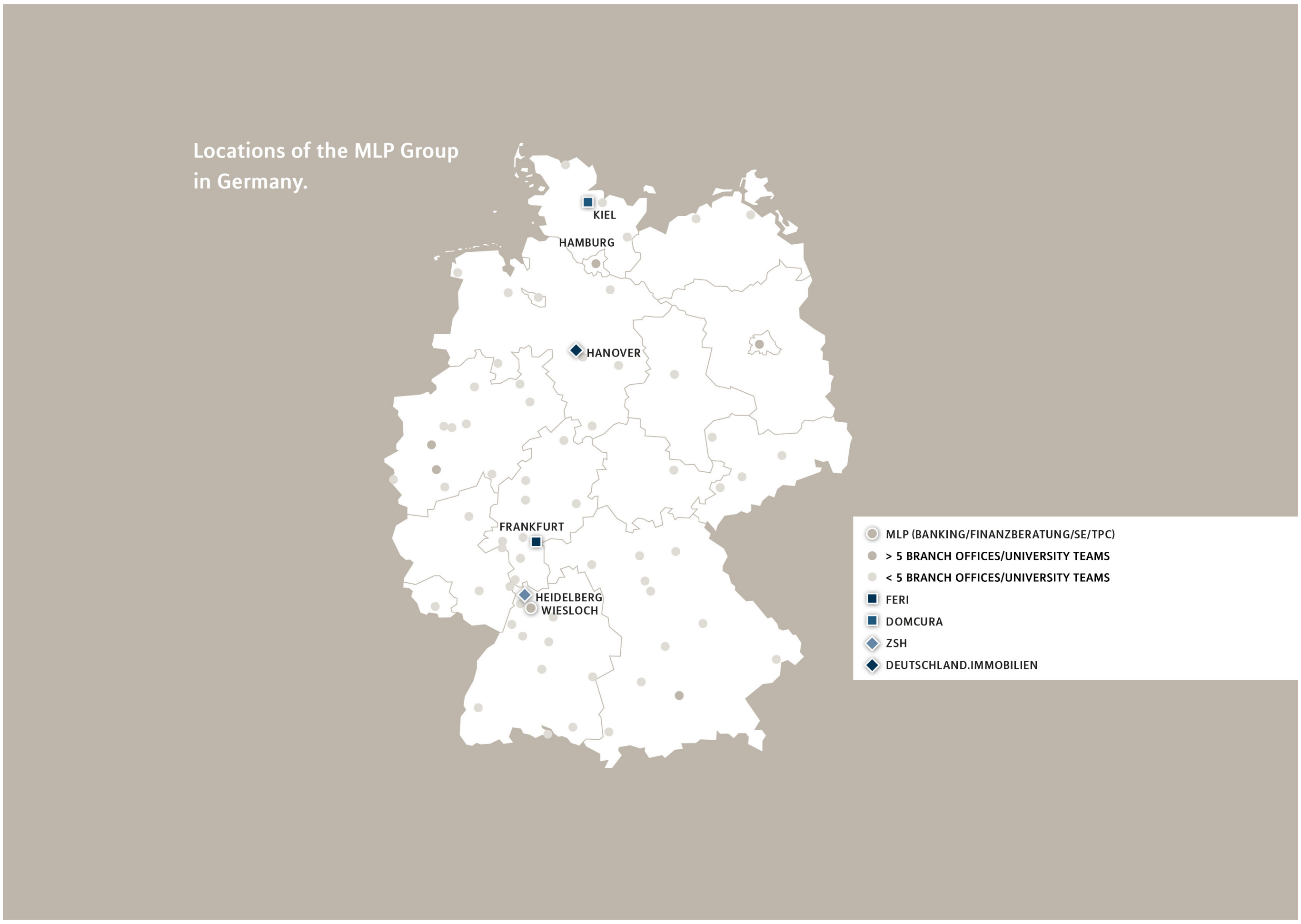
TPC – Sector concepts for occupational pension provision management

The majority stake in the DI DEUTSCHLAND.Immobilien AG (DEUTSCHLAND.Immobilien), which was acquired in 2019, has significantly extended both the expertise and the portfolio in the real estate sector. DEUTSCHLAND.Immobilien is an independent real estate platform for all classes of investment property. The company also operates as a property developer in the field of senior citizen housing. Alongside direct brokering of real estate to clients, sales via external sales partners also play a key role at DEUTSCHLAND.Immobilien. Sales partners can use the real estate portal of DEUTSCHLAND.Immobilien to process all steps, from collecting information, producing estimates and making reservations right through to the actual sale and commission calculation.

DEUTSCHLAND.Immobilien – Market place for investment properties

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

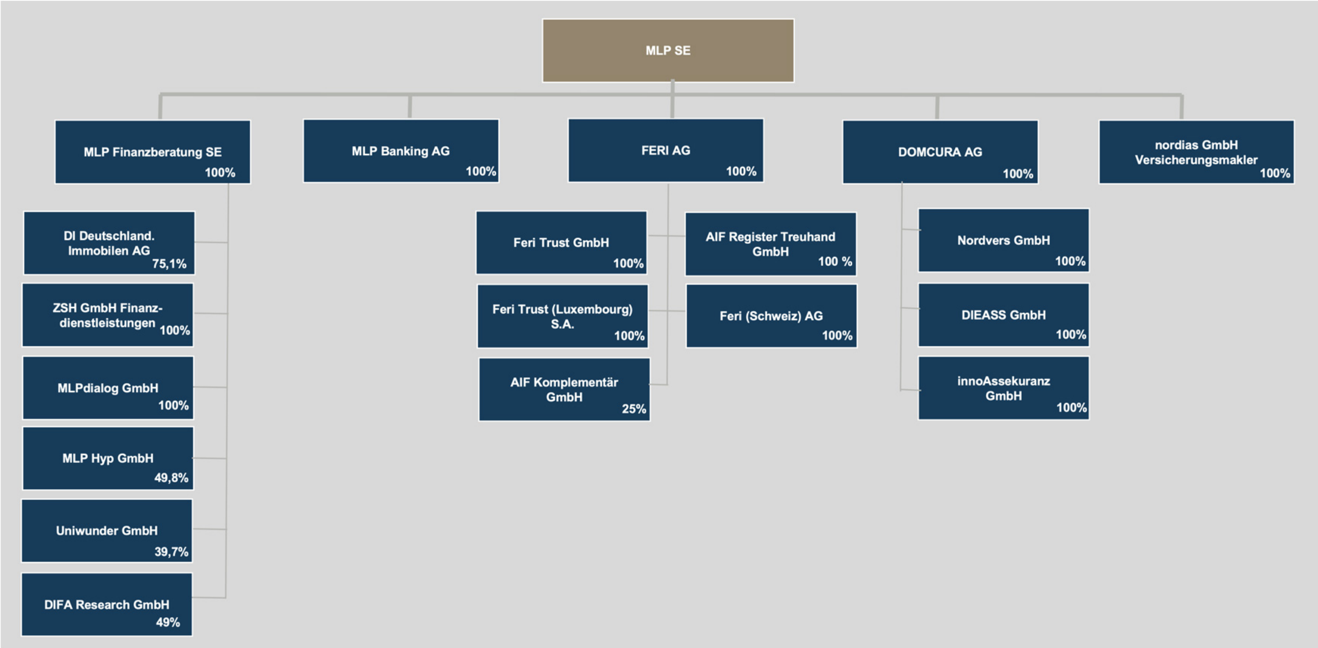
Represented throughout Germany



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 (see chart). The business divisions each carry end-to-end accountability for results.

Current Group structure of operating companies



MLP Finanzberatung SE is registered as an insurance broker due to the brokerage of insurance products. MLP Finanzberatung SE includes ZSH GmbH Finanzdienstleistungen (ZSH), Heidelberg, which is registered as an insurance broker, and MLPdialog GmbH, Wiesloch. Another holding is MLP Hyp GmbH, Wiesloch, which we operate together with the mortgage lending broker Interhyp AG in Munich. MLP Finanzberatung SE also holds a 75.1% stake in DEUTSCHLAND.Immobilien and its subsidiaries. In addition to this, MLP Finanzberatung SE holds a stake in Uniwunder GmbH. As part of an increase in capital stock at Uniwunder GmbH that was performed during the financial year and in which MLP did not participate, the stake was reduced to 39.7% (49.0%). The start-up has a great deal of expertise in the field of performance marketing. In 2019, MLP Finanzberatung SE also founded DIFA Research GmbH together with the German Institute for Specialist Healthcare Research (DIFA), itself part of the German Association of Medical Specialists (SpiFa). MLP Finanzberatung holds a 49.0% stake in the company that performs economic analyses specifically for clients working in the medical profession.

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

The business conducted by FERI AG revolves around investment research, investment management and investment consulting for institutional investors, high net-worth families and foundations. These are anchored in FERI Trust GmbH, Bad Homburg v.d.H. FERI (Switzerland) AG performs various roles from the Zurich location, including acting as an innovation hub for the development and implementation of novel investment approaches for private and institutional investors outside the eurozone. As fund administrator, FERI Trust (Luxembourg) S.A. coordinates the entire fund structuring and fund floating process. Since the spin-off of parts of FEREAL AG to FERI Trust GmbH and the subsequent merger of FEREAL AG into FERI Trust (Luxembourg) S.A., it has been operating as a capital management company for alternative asset classes, such as real estate, private equity and infrastructure.

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

Changes in corporate structure

During the reporting period, TPC GmbH was merged with and into MLP Finanzberatung SE, where it was incorporated in the TPC occupational pension provision division. The merger was performed with retroactive effect from 1 January 2020.

In addition to this, FERAL AG was partly merged with and into FERI Trust (Luxembourg) S.A. in August 2020 with retroactive effect from 1 January 2020.

Insurance broker Siebert GmbH was also merged with and into insurance broker nordias GmbH with retroactive effect from 1 January 2020.

Factors affecting business development

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

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

Organisation and administration

The Executive Board at MLP SE comprises three members. The positions on the Board are held by Dr Uwe Schroeder-Wildberg (Chief Executive Officer), Manfred Bauer (Products and Services) and Reinhard Loose (Finance).

The Supervisory Board of MLP SE, which is required to monitor the Executive Board under German law, comprises six members: Dr Peter Lütke-Bornefeld (Chairman), Dr Claus-Michael Dill, Matthias Lautenschläger and Tina Müller as representatives of the capital side, as well as Alexander Beer and Burkhard Schlingermann as employees' representatives. However, Burkhard Schlingermann stepped down from his position on the Supervisory Board as of 31 December 2020 after reaching retirement age. Monika Stumpf, deputy works council chair, will join the Supervisory Board as successor to Mr Schlingermann.

With effect from 1 January 2020, Jan Berg was appointed as a further member of the Executive Board at MLP's largest subsidiary, MLP Finanzberatung SE. Since assuming this new role, he has been responsible for the newly established Corporate University division.

Control system

The MLP Group employs comprehensive planning and control systems. Starting from our strategy and the estimates regarding future external framework conditions, we draw up target values for key controlling figures in the strategic and operational 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 central controlling parameters

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 taxes (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, real estate brokerage and project development consulting fields is carried out with the objective of explaining the performance of the business segments in the past, anticipating changes in the environment and exerting targeted influence on the future development of the segments.

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

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

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

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

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

The objective of our corporate management is for all consultants and employees to actively support MLP's strategic goals and pledge to meet our service commitment. Our established central, strategic control instrument is the so-called "ISA" (Integrated Strategic Agenda). Major objectives are derived, and operational targets formulated on the basis of strategic challenges and success factors. At the end of the process, key performance indicators are used to evaluate whether the defined targets have been met. This way, the Group objectives are broken down across all Group companies and the key segments, thereby allowing each business unit to make its own contribution to meeting the defined targets. This ensures the 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 ISA process, the extent to which the targets have been met by the units will be recorded using 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 at 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 be able to assess the success of our business. Important early indicators include assets under management, which reflect developments in the wealth management business field, 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 an annual turnover rate for self-employed consultants of around 10%.

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

Research and development

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

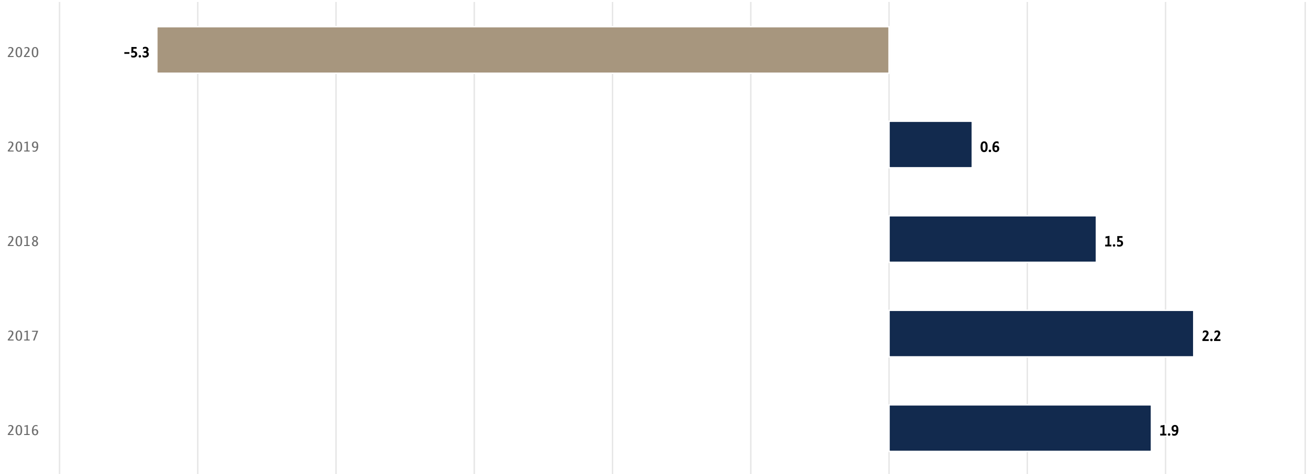
ECONOMIC REPORT

Overall economic climate

Overall economic situation

The economic performance in 2020 was marked by the global coronavirus pandemic. The various lockdown measures associated with the pandemic led to a severe slump in economic growth in Germany. According to FERI Investment Research, inflation-adjusted gross domestic product (GDP) declined by –5.3% over the previous year.

Economic growth in Germany (in %)



Source: FERI Investment Research, change in gross domestic product, price-adjusted

Consumer confidence hit hard by the corona pandemic

The second wave of the corona pandemic and the resulting lockdown negatively impacted consumer confidence in Germany at the end of the year. Indeed, the Consumer Sentiment Index of the German Consumer Research Association (GfK) was at –6.8 points in December 2020 – which is well below the previous year's level. (December 2019: 9.6 points). German citizens felt a strong sense of uncertainty at the end of the year. According to a survey undertaken by the German Consumer Research Association (GfK), three out of every four German citizens (78%) were of the opinion that corona poses a serious or very serious threat for Germany.

The corona pandemic also had a hugely negative impact on the sentiment among German companies in the reporting year - not least since the second wave in November once again interrupted the recovery that had begun in the German economy. The ifo business climate index was just 90.7 points in November 2020 – in comparison with 95.5 points back in December 2019. In December, the index rose slightly to 92.1 points.

Employment market bottoming out

The employment market came under severe pressure in the last financial year. However, the negative developments were cushioned to a certain extent by the large-scale implementation of reduced working hours, which reached a record level in 2020. According to data published by Germany's Federal Employment Agency, the average number of registered job seekers in 2020 increased by 429,000 over the previous year to 2.70 million persons. This corresponds to an unemployment rate of 5.9% (2019: 5.0%).

However, the prospects for university graduates in the German employment market remain excellent. According to the latest data from Germany's Federal Employment Agency, the unemployment rate among academics remains at a low level of 2.0% in 2019.

Increasing salaries and wages

The developments in the employment market due to the effects of the corona pandemic were reflected in a deterioration of the financial situation in German households. According to data published by the "Tax Estimates" workgroup, gross wages and salaries decreased by 1.6% in the reporting year, while the disposable income of private households fell by 2.8% according to the 2021 Financial Report of the German government.

The savings rate in Germany rose sharply during the coronavirus pandemic, above all due to the lack of consumption options during lockdown and the uncertainty among consumers associated with the situation. The 2020 figure was therefore 16.5% (2019: 10.9%).

Industry situation and competitive environment

Old-age provision

In the past year, the market environment in the old-age provision business continued to be characterised by low interest rates. Following a strong period of sales at the start of 2020, the corona pandemic dampened growth in the German life insurance sector. According to data published by the German Insurance Association (GDV e.V.), the pandemic also shifted the focus of households towards short-term provision and putting long-term provision measures on hold. The corona pandemic also meant that the topic of occupational pension provision was no longer on the radar of company directors and HR managers.

Based on the results of a survey conducted by the German Pension Institute (DIA), some 20% of private individuals surveyed had less disposable income available in March and April 2020 as a result of the corona pandemic. 19% also reduced the amount they pay into their old-age provision investments or even stopped saving altogether for the time being as a way of cutting down their regular expenses.

Support for statutory pension dwindling

The trust of German citizens in the statutory pension system has suffered during the corona pandemic, as highlighted by a survey conducted by HDI Lebensversicherung. Indeed, only around a fifth of those surveyed consider the statutory pension a primary option when it comes to saving towards their old age. Only around 1 in 4 trust private life or pension insurance policies. However, the clear winners here are real estate and investments in the capital markets.

Product landscape undergoing change

The product landscape in the old-age provision business has undergone radical change as a result of the low interest rate environment. The structural realignment also becomes apparent when examining the growth recorded in the individual segments. According to data published by the German Insurance Association (GDV), more than half (58%) of all newly signed old-age provision products are now policies with alternative guarantee models. Based on the most recent figures provided by the German Insurance Association (GDV e.V.), classic life and pension insurance policies with maximum technical interest rates represented just short of one third (30%) of all new contracts concluded. Pure unit-linked policies make up a market share of 12%.

Occupational pension provision suffering due to the pandemic

The corona pandemic has negatively impacted new business in the field of occupational pension provision. The greatest challenges here revolved around the difficulties in accessing clients due to the lack of personal contact and the fact that companies started to consider occupational pension provision a low priority. In addition to this, uncertainty among corporate clients led to reservations in terms of new business.

Downturn in the entire market

Based on current figures provided by the German Insurance Association (GDV e.V.), the corona pandemic led to a significant decline in premium income from life insurance policies in the reporting year (–0.4%) to almost € 103 billion.

Wealth management

In the reporting period, the market environment in wealth management was influenced and correspondingly volatile due to the corona pandemic, yet it was also characterised by rising stock markets, as well as persistently low interest rates. The effects of the corona pandemic represented a significant factor of uncertainty worldwide during the reporting period.

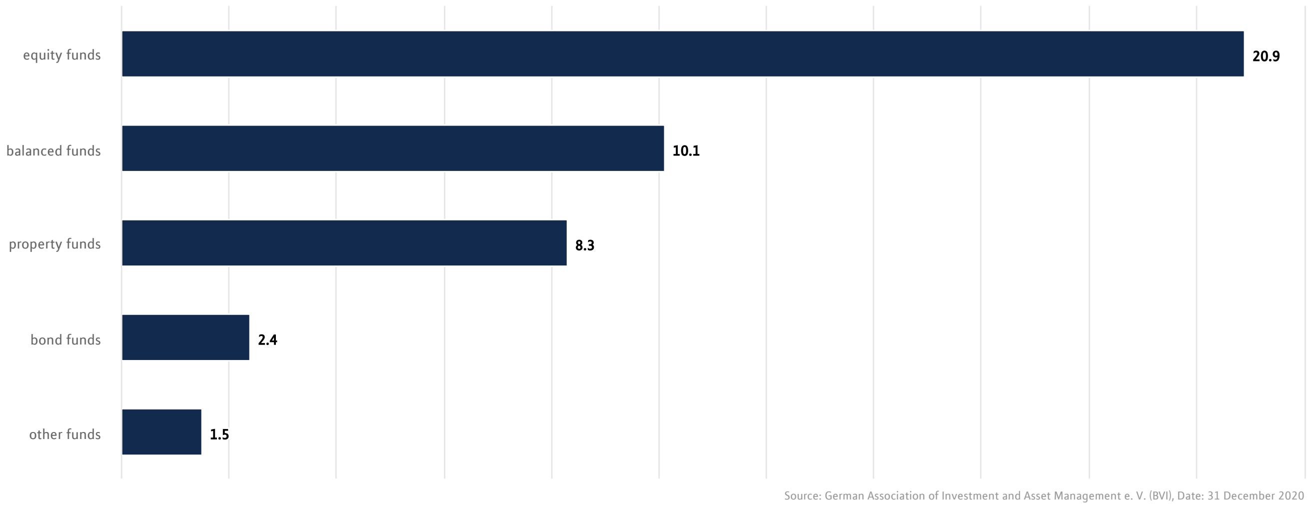
Following a temporary slump at the start of the corona pandemic, private assets in Germany rose to around € 6,738 billion in the third quarter. Monetary assets in the form of cash, securities, bank deposits and claims against insurance companies reached thereby a new all-time high. The transaction-related increase in households' cash and deposits of € 41 billion was strong, but not unusually high compared with previous years. At the same time, households' exposure to the capital market recently experienced a rapid upswing. In the third quarter, private households invested € 20 billion in equities and investment funds, almost three times as much as the average of the past ten years. According to the Global Wealth Report published by Credit Suisse, the number of US Dollars millionaires in Germany also rose by 58,000 to 2.1 million in the first half of 2020.

Private households wealthier than ever before

Based on information provided by the German Association of Investment and Asset Management (BVI e.V.), the total value of assets managed by the German fund industry rose by 13.4% to € 3,850 billion as of 31 December 2020. Around € 127 billion had been channelled into investment funds by the end of December 2020. The main options selected are open special funds with € 79.7 billion in new money and open mutual funds with € 43.2 billion. Closed-end funds secured investment of € 4.5 billion. The sales list of open-end mutual funds in the current year is led by equity funds with € 20.9 billion, followed by balanced funds with € 10.1 billion.

Mixed funds very popular

Cash inflows and outflows in open mutual funds in Germany from January until December 2020 (in € billion)



According to the Wealth Barometer 2020 of the German Savings Bank Association (DSGV), the topic of sustainability is now of appreciable importance for those looking to make investments. As such, almost a third of those surveyed have already considered sustainability, whereby younger investors and those with a higher income are particularly interested in this. According to the industry association BVI, sustainable funds currently manage € 147 billion. MLP has already been offering sustainable funds since 2012.

Increased demand for sustainable investments

The market for providing consulting services and managing the investments of high net-worth individuals, in which the MLP Group is active through FERI, has become more challenging and fiercely contested. According to the European Asset Management Survey 2020, produced by management consultancy zeb, the key challenges for the sector revolve around the advancing market concentration, as well as the dwindling profit margins, despite the overall increase in assets under management. In addition, the continuing low interest rate environment is making clients more price conscious.

Ongoing consolidation in private banking and wealth management

As a result of the ongoing low interest rate environment and the rising risks on the stock markets, institutional investors are showing increasing interest in alternative investments. According to the BAI Alternative Investor Survey 2019, which is performed by the German Association of Alternative Investments (BAI) among institutional investors, 82% of all respondents increased their commitments in this asset class.

Institutional investors strengthen commitment to alternative investments

Non-life insurance

The corona pandemic was also the dominant issue in the business with non-life insurance policies during the reporting year – and put significant strain on the entire sector. Not only did the restrictions in terms of social contact have a dampening effect on business development, the corona pandemic also led to a rapid increase in the digitisation of consulting services in the field of non-life insurance.

Considerable decline in growth momentum

Based on estimates of the German Insurance Association (GDV e.V.), the coronavirus pandemic led to a slump in business development and virtual stagnation in premium income in the accident and damages business. Since some of these effects are not likely to be felt until 2021, the GDV is still anticipating an increase in gross premiums of 2.2% for the financial year 2020.

According to the German Insurance Association (GDV e.V.), various effects could be observed during the corona pandemic. For example, greater use of individual transport was recorded, which could potentially have a positive impact on new business in future, particularly in the field of motor vehicle insurance.

Growth recorded, particularly in liability and motor vehicle insurance

The sector recorded slight growth overall for 2020, even if negative effects could be felt as a result of the coronavirus pandemic. Liability insurance and motor vehicle insurance policies made a particular contribution to the growth recorded. The effects of the coronavirus on the various insurance segments varied in the market.

Health insurance

According to data from the Association of Private Health Insurers (PKV), private health insurers (PHI) were able to reduce their net portfolio loss to a slight minus of 0.1% in the reporting year of 2020. The number of persons holding comprehensive health insurance amounted to 8.7 million.

Private health insurance attractive for those willing to make the switch

For the third year in a row, 2020 saw a rise in people switching from statutory health insurance to private health insurance instead of the other way round. According to data published by the industry association, this resulted in an overall increase of 21,400 policy holders in favour of private health insurance (2019 balance: +17,400).

Corona pandemic putting pressure on both private health insurance and the statutory health insurance system

According to data published by ratings agency Assekurata, only relatively few policy holders made the switch during the corona pandemic due to difficult economic situations. However, the ratings agency anticipates that the field of comprehensive insurance will come under pressure in future as a result of the corona pandemic. The private health insurance sector recorded additional expenditure overall in 2020 due to the impact of corona. This is estimated at over € 1 billion, or almost € 1.4 billion when considering benefits paid. The statutory health insurance funds were also increasingly impacted by the effects of the pandemic, which left deep marks in terms of both income and expenditures. Indeed, the statutory health insurers recorded a deficit of € 1.67 billion in the first three quarters of 2020 and must therefore be subsidised to a greater extent by the federal government.

Supplementary insurance policies on the rise

To close coverage gaps in the statutory health insurance system, more and more patients are signing up for private supplementary insurance policies. According to the most recent surveys performed by the Association of Private Health Insurers, there were around 27.3 million private supplementary insurance policies in place in 2020 – approximately 2.4% more than in the previous year.

Occupational health insurance as a growth driver

The growth recorded in the field of occupational health insurance continued. According to the Association of Private Health Insurers, around 13,500 companies in Germany offered their employees a fully employer-funded occupational health insurance policy in 2020 – this means an increase of 29% compared to the previous year (2019: 10,500 companies). The number of employees who benefit from an occupational health insurance policy increased by 18% to around 1.04 million persons.

Real estate

Despite the corona pandemic, the real estate market in Germany displayed robust development. The demand for residential property rose further and remained consistently high, particularly in major cities.

Based on information provided in a survey undertaken by HDI Lebensversicherung, a slim majority (51%) of those in active employment in Germany are relying on their own home as a way of providing for their old age. One in three respondents stated during the corona pandemic that they now considered it more important to own their own property as a way of providing for their old age. Accordingly, the "Living in Germany 2020" survey performed by the Sparda banks noted that the level of interest, particularly in purchasing a house, has increased markedly.

Price increases not affected by of the pandemic

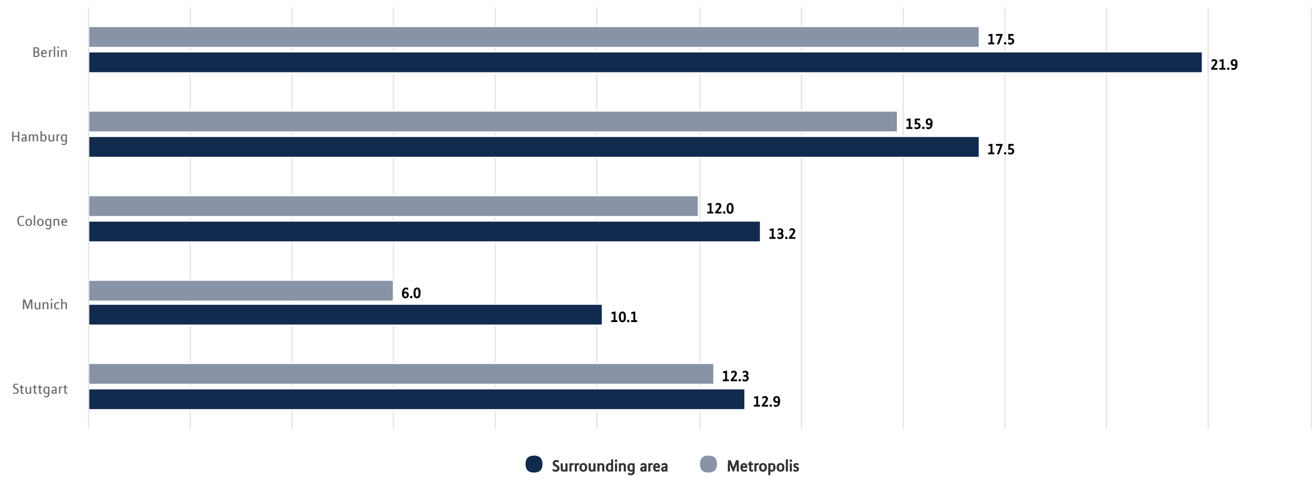
The corona pandemic has not been able to halt the upwards trend in property prices, which has now been holding steady for ten years. The Real Estate Price Index of the Association of German Pfandbrief Banks (vdp) reached a new high in the fourth quarter of 2020 (172.8 points) – having increased by 6.0% since the start of the year.

Prices, particularly for residential properties, continued to rise irrespective of the corona pandemic. Indeed, prices throughout Germany rose by an average of 7.1% between Q3 2019 and Q3 2020 according to the vdp index. The price dynamics for commercial property, on the other hand, came to a standstill. The cultural sector, hotels, as well as the restaurant and retail trades were particularly hard hit by the lockdown and associated movement restrictions during the corona pandemic – with corresponding dampening effects on commercial property prices.

Good investment opportunities in the periphery

In the past, those seeking to buy affordable apartments and houses have generally found what they were looking for on the outskirts of major cities. According to an analysis performed by the Institute of the German Economy (IW), however, apartment prices are also on the up there. Based on the "Living in Germany" survey performed by the Sparda banks, property prices in the areas surrounding most urban centres have seen greater rises in the last few years than the city centre districts themselves. As such, property in these areas remains highly attractive as an investment opportunity.

Increases in the purchase price of an existing condominium from 2017 to 2020



Source: "Living in Germany 2020" survey of the Association of Sparda Banks (VSB e.V.)

Completion of building projects not satisfying demand

According to the Institute of the German Economy (IW), there are no signs of a speculative bubble in the real estate market. Indeed, many cities and districts are still seeing demand outstrip supply. No major city is engaged in sufficient construction work to cover the demand for housing.

Loans and mortgages

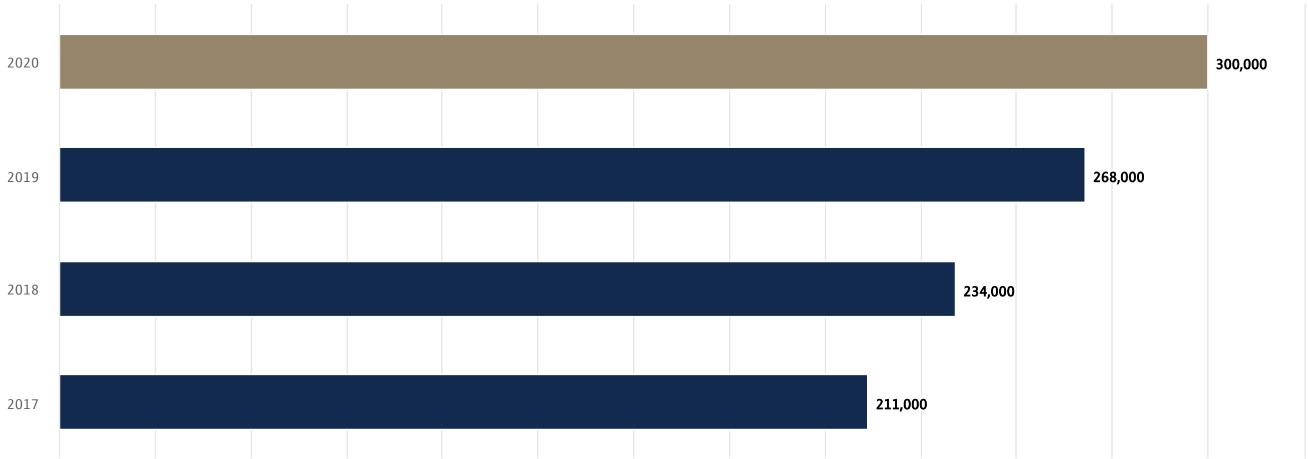
Set against the background of the corona pandemic, the European Central Bank (ECB) kept the prime rate unchanged at 0% in the reporting year. The deposit rate for banks was also left unchanged. Accordingly, mortgage lending rates also remained at a very low level. The interest for a ten-year mortgage was below 1 percent at the end of 2020.

Loan amounts for property financing continue to rise

Based on estimates provided by mortgage broker Interhyp, the corona pandemic has not had a negative impact on the demand for property financing, but rather shifted focus more onto the idea of owning property. As a result of the persistently low interest rates and increased property prices in Germany, there was also another major increase in the average amount borrowed in the last financial year. According to data provided within the scope of the Dr Klein Trend Indicator for Mortgage Lending, the average amount borrowed was € 300,000 in December 2020 – which is € 32,000 or around 12% higher than the figure from the previous year. The average amount borrowed has therefore increased by € 89,000 or around 42% (see chart).

Mortgage amounts at record level

Average mortgage amount in €



Source: Dr. Klein Trend Indicator for Mortgage Lending (DTB), Data as at 31 December in each case

Competition and regulation

The competitive situation in the German market for financial services did not change significantly for the MLP Group in 2020 compared to the previous year. The sector remains very heterogeneous and is characterised by consolidation trends. The providers include numerous financial service providers, single agents, banks, insurance companies and free finance brokers. However, the quality of consulting provided by these companies can vary quite markedly. In addition to this, there is competitive pressure in the entire sector as a result of digital business models and fintechs.

Over the last few years, the legislator has exerted major influence on the financial consulting market and therefore also on MLP's market (with legislation including the MiFID, IDD, Investor Protection Act, Financial Investment Broker Act and Life Insurance Reform Act (LVRG)). The legislator's goal in taking these steps is to protect consumer interests. Among other things, it sets out comprehensive further training, documentation, qualification and transparency obligations for brokers of financial products. These measures mean that the provision of consulting services takes longer, which in turn puts pressure on product margins.

Draft bill for commission capping in the life insurance sector

Changes with relevance to MLP already came into force in 2015 with the introduction of the Life Insurance Reform Act (LVRG). The effects of these changes were also felt in 2020 and will continue to have an impact in the coming years. MLP actually welcomes the requirement to disclose effective costs, as well as the fact that no flat-rate cap has yet been introduced for acquisition commissions. The draft bill for capping commission that was presented by the German Ministry of Finance in the last financial year had proposed 1 January 2021 as a potential start date. However, the political process began to flounder in 2020 and relevant political specialists also remain critical of this regulation. The plan is still to include three components. These are basic compensation, a component for high-quality consulting and a compensation for services that is in line with the market, in case a broker such as MLP performs specific services for an insurer. Overall, MLP benefits from high-quality consulting in the target group which, among other things, leads to lower cancellation rates. However, the margin pressure resulting from the regulation that has already been implemented is also being felt at MLP – albeit to a lesser extent than at other market members thanks to the provision of high-quality consulting services.

Further training obligation for real estate brokerage

Since August 2018, commercially active real estate agents and residential property managers have had to meet a further training obligation of 20 hours within three years. This is regulated in § 34c (2a) of the Industrial Code (GewO) in conjunction with § 15b of the Real Estate Agent and Commercial Construction Industry Ordinance (MaBV). Fulfilment of the further training obligation is a prerequisite for the brokerage of real estate, which plays an important part in MLP's business model and is to be further strengthened. The certificate for the MLP consultants in question had to be produced for the first time in 2020, as the target had to be met by 31 December 2020. Since MLP has already made key investments in continuous further training while introducing measures for implementation of the IDD further training obligation, it was possible to address the requirements resulting from the MaBV without any major additional costs.

Cost transparency further improved

The legislator has taken action with binding stipulation of an effective cost ratio both in Germany through the Old-Age Provision Product Contact Point (PiA) for tax-privileged old-age provision products (basic and Riester pensions) and at European level (stipulated both in euros and as a "reduction in yield") with the Key Information Documents (KIDs) for Packaged Retail and Insurance-Based Investment Products (PRIIPS) that have been mandatory since January 2018. However, from our perspective even these most recent regulatory steps have not even come close to securing sufficient comparability of the products in the market or their associated costs. The methods of calculation should be adapted, so that calculations are performed based on the same prerequisites and the same cost factors.

Data protection intensified

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

EU Money Laundering Directive transposed into national law

In 2020, transposition of what is now the fifth EU Money Laundering Directive into national law led to further key regulatory requirements for MLP. Overall, it is fair to say that the money laundering legislation is focussing primarily on the real estate sector, even after presentation of the findings from the "First National Risk Assessment in Combating Money Laundering and Financing of Terrorist Activities", the results of which have been available since the end of 2019.

Special regulatory requirements in light of corona

Due to the special situation within the context of corona, a large number of further regulatory requirements and/or recommended actions were published in 2020. More are likely to follow in 2021. This in particular affects moratoria and value adjustments, as well as the way in which they are handled both in balance sheets and by the supervisory authorities. It also has a general impact on information provided regarding individual risk positions. MLP Finanzberatung SE has not made use of any state aid measures or incentives at any time in connection with the effects of the corona pandemic. At the same time, we do not see any significant influence on our credit portfolio. However, we are of course following developments very closely.

Challenging regulatory environment

The regulatory developments certainly represent a challenge overall. The effects of generally declining commission income per unit and increasing unit and administration costs – combined with increased price sensitivity among clients – can also negatively impact the profitability of MLP's business model. Irrespective of this, MLP considers itself well positioned in relative comparison with other market actors.

Business performance

Diversification of revenue streams - a key success factor

The business performance of the MLP Group in the last financial year was significantly better than expected at the start of the year and, in particular, better than in the updated forecast published in April 2020 in view of the coronavirus pandemic. With a positive overall development of operations, the high level of performance-linked compensation in wealth management made a particular contribution to this.

The corona pandemic meant that the various fields of consulting developed differently than anticipated at the start of the year. However, MLP was able to more than compensate for weaker developments in one field with gains in other consulting fields. This underlines the robustness that we have established in the last few years through significant diversification of our service offering and thereby also our revenue basis.

Assets under management climb to a new record level

In particular, the wealth management consulting field has developed into a key revenue pillar of the MLP Group. FERI continued its successful course of the last few years in the reporting period and reinforced its position as a leading independent investment company. Despite operating in volatile markets, FERI was able to record organic growth in all core business segments for the seventh year in succession, and even set a new all-time high for performance-linked compensation. 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). In the last financial year, we also recorded highly positive development in MLP's private client business in the field of wealth management, where we were able to significantly increase both net cash inflows and assets under management. The total assets under management in the MLP Group were € 42.7 billion. Wealth management revenue and assets under management were therefore both above the previous year's level.

The effects of the corona pandemic could especially be felt in the area of old-age provision. Not only did companies hold back on signing up to new occupational pension provision concepts, the changed circumstances resulting from the coronavirus pandemic also impeded new client acquisition and had a negative impact on new business in the field of private old-age provision. This development was already discernible in the second quarter and had a negative influence on sales revenue throughout 2020. The situation was compounded even further by the perception of economic risk among the general population, which led to clients displaying even more reservations about signing long-term contracts. Old-age provision revenue declined by 5.0% overall and thereby displayed weaker development than we anticipated. This can be attributed to the effects of the corona pandemic.

The non-life insurance business displayed positive development, both at DOMCURA and in MLP's private client business. The premium volume under joint management increased by 6.2% to € 430.8 million. Revenue therefore improved by 8.4% and was, as anticipated, slightly above that of the previous year.

In the health insurance consulting area, we continued to encounter reservations throughout the market with regard to signing new comprehensive private insurance policies. Factors such as premium increases and critical media coverage contributed to this development. In line with expectations, revenue in the health insurance business remained at the level of the previous year despite the difficult market conditions.

As forecast, we were able to significantly increase our revenue in the real estate brokerage business in 2020 compared with the previous year. The main reasons for this positive development were the systematic expansion and ongoing diversification of our real estate portfolio. Alongside the listed buildings sector, we also considerably extended our portfolio of new buildings, as well as existing and concept-driven properties (microliving, properties with nursing care). This development was supported by our majority stake in DEUTSCHLAND.Immobilien.

Once again, we saw a significant increase in our revenue in the brokerage of property financing (+5.0%) – primarily as a result of the high demand associated with the low interest rate environment.

Online consulting tool rolled out

The company-wide roll-out of our online consulting tool took place in January. As such, a whole host of services is now available to our consultants and clients online, including:

- Video/audio chat, also with multiple participants.
- Desktop sharing: screen content (for example consultation programmes) can be shared and discussed with clients.
- Whiteboard: during an online meeting with clients, consultants have the option to write or draw on a whiteboard. Consultation slides can, for example, also be uploaded to the whiteboard and then edited or annotated by hand.
- Text chat: a chat function – including the option to exchange files – is available in parallel to a consultation/session.
- Online appointment arrangement: clients can view available time slots in their consultant's scheduler online and are therefore able to arrange for a specific appointment date and time.

Thanks to our digital services, we were able to maintain close proximity to our clients, despite the ongoing corona pandemic.

Online client portal further optimised

We significantly optimised our online client portal in 2020. For example, the new "News" function facilitates secure, bidirectional communication between clients and their consultants. Clients can now also send their consultant a message directly from the client portal. The portal offers our clients all financial information at a glance, and provides them with a user-friendly overview of their income and expenditure in a personal budget book. Moreover, it contains an overview of all insurance policies and even allows clients to incorporate contracts with third parties. A further systematic expansion of the functionality is planned for the next few years.

Digital presence further expanded

Within the scope of its digitalisation strategy, the MLP Group continued to expand and intensify its presence on social media platforms such as Facebook, YouTube and Twitter in the financial year 2020. Uniwunder GmbH, in which we hold a 39.7% stake, continues to support us in the field of online acquisition. Uniwunder has platforms for students and, in addition to other partners and advertising activities, helps to ensure that our workshop programmes reach the right target group.

Consultant acquisition successfully continued

Acquiring new consultants continued to be a key topic in 2020. The young segment enjoyed very successful development. The total net year-on-year rise was 107 consultants, which corresponds to a gain of 5.5% and represents another increase over the previous year. This increasingly reflects the success we are enjoying thanks to the realignment of our recruitment activities.

Number of clients still displaying positive trend despite corona pandemic

The number of clients in the MLP Group displayed further positive development in 2020, despite the social distancing associated with the corona pandemic serving to restrict new client acquisition. MLP was able to acquire 18,400 (19,300) new family clients in 2020. Around 24% (25%) of these initiated new clients were acquired online. As of 31 December 2020, the MLP Group served a total of 554,900 (549,600) family clients and 22,500 (21,900) corporate and institutional clients.

Consistent efficiency management programme supports growth strategy

Since 2016, MLP has implemented comprehensive efficiency measures to reduce the cost base significantly. A consistent cost management approach was also applied in the last financial year to flank our growth strategy.

Results of operations

Development of total revenue

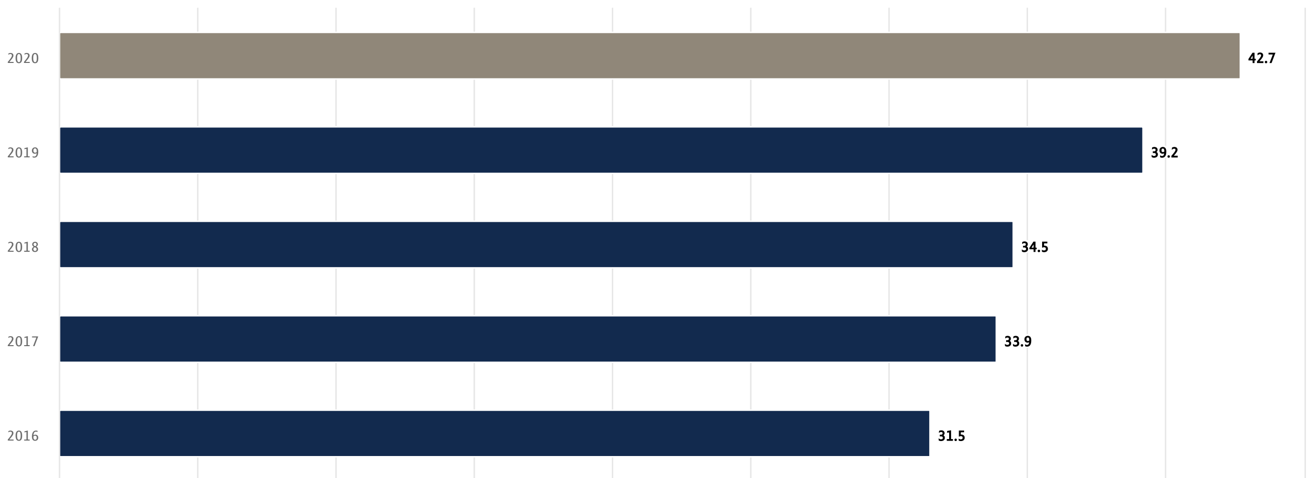
Total revenue increased

Despite the tough market conditions already described, the MLP Group was able to increase its total revenue in the financial year 2020 by 8.3% to € 767.3 million (€ 708.8 million) and reached another new all-time high since the sale of our own insurers. This success can be attributed to the significant diversification of its revenue basis over the course of the last few years. With the exception of old-age provision, MLP was able to record gains in all consulting fields. This growth was primarily driven by the increase in commission income, which rose by 8.5% to € 730.4 million (€ 672.9 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 € 15.2 million (€ 16.6 million).

Wealth management once again records significant growth

The MLP Group was once again able to record gains in the wealth management consulting field, with a considerable increase in revenue of 17.3% to € 262.1 million (€ 223.5 million). The main contributor to this pronounced growth was a massive rise in performance-linked compensation at FERI. Group-wide assets under management rose to a new record of level of € 42.7 billion (€ 39.2 billion). Gains were recorded at the subsidiary FERI and, in particular, in MLP's private client business.

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



Old-age provision under the influence of the corona pandemic

In the last financial year, old-age provision revenue declined slightly due to the effects of the corona pandemic and was € 214.6 million (€ 225.8 million). This decline can be attributed to a downturn in new business where total premiums paid fell by 9.0% from € 4,183.2 million to € 3,805.2 million. Occupational pension provision was particularly hard hit by the effects of the corona pandemic. New business declined by 24.6% to € 659.7 million (€ 875.2 million) here. MLP is continuing to play a pioneering role in the transition to new guarantees. Pension insurance policies with classic guaranteed interest rates now represent just 3% (3%) of newly brokered contracts at MLP. The proportion of new guarantees was 75% (74%), while purely unit-linked contracts represented 22% (23%).

Non-life insurance enjoys continued growth

Revenue in the non-life insurance consulting field increased again in the last financial year. It rose by 8.4% to € 137.2 million (€ 126.6 million). The portfolio of non-life insurance policies enjoyed positive development. The premium volume received through the MLP Group rose to € 430.8 million (€ 405.5 million).

At € 50.6 million (€ 48.3 million), revenue in the health insurance consulting field was slightly up on the previous year. MLP therefore enjoyed positive development, despite the reservations displayed by many citizens in terms of signing up for fully comprehensive private health insurance policies.

Health insurance above previous year

We were also able to record significant growth in the real estate brokerage business, which we have been expanding since 2014. Revenue increased by 67.4% to € 39.5 million (€ 23.6 million) in this consulting field. Since the acquisition of a majority stake in DEUTSCHLAND.Immobilien on 2 September 2019, revenue from real estate project planning has been disclosed alongside the revenue from real estate brokerage. In the reporting period, this revenue was € 2.6 million (€ 0.1 million). An extremely dynamic fourth quarter made a particular contribution to the positive development recorded for the year. The real estate volume brokered by MLP increased significantly to € 403.8 million (€ 294.0 million).

Real estate brokerage displaying significant growth

We also reached a new record level in the brokerage of loans and mortgages. Revenue here improved to € 21.8 million (€ 20.8 million). At € 2,357.5 million (€ 1.958,5 million), the brokered financing volume reached a new record level. The reason why the increase in revenue from loans and mortgages was less dynamic than the rise in brokered volume can be attributed to commission payments, which are only received at a later date.

Brokered financing volume sets new record

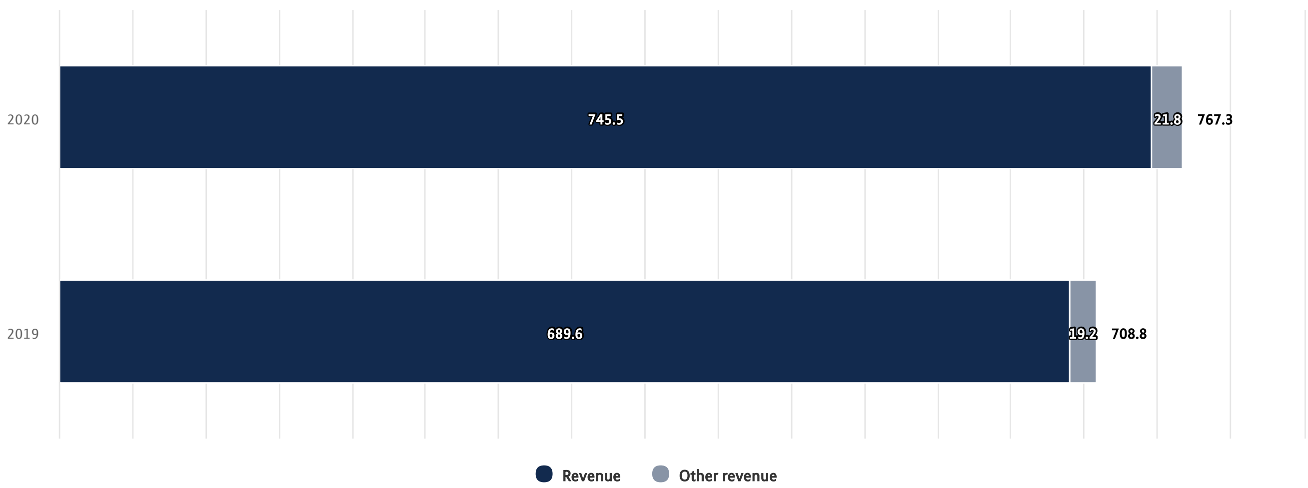
Despite ongoing capital expenditure to further strengthen our young segment, and thereby also secure future revenue and earnings potential alongside further implementation of the digitalisation strategy, we significantly surpassed both our original forecast and our updated forecast from April 2020. This can largely be attributed to considerably better performance in the wealth management business and the generally positive operating development with an EBIT of € 59.4 million (€ 47.1 million).

Forecast surpassed

Analysis of revenue performance

Revenue rose by 8.1% to € 745.5 million in the reporting period (€ 689.6 million). Commission income, which increased from € 672.9 million to € 730.4 million, played a key role in this. This growth was supported by virtually all consulting fields, but in particular by wealth management and real estate brokerage. Other revenue rose to € 21.8 million (€ 19.2 million). The increase can essentially be attributed to one-off higher income from VAT refunds that were accrued in the Banking segment. Interest income declined to € 15.2 million (€ 16.6 million) in the last financial year due to the ongoing period of low interest rates. Total revenue rose by 8.3% to € 767.3 million (€ 708.8 million).

Development of total revenue (all figures in € million)



The wealth management consulting field made the greatest contribution in terms of commission income. As a result of the successful diversification of the revenue basis it was 35.9% (33.2%). Old-age provision contributed a share of 29.4% (33.6%). With an overall increase in commission income, non-life insurance accounted for 18.8% (18.8%). The following table provides a detailed overview.

Wealth management enjoys significant growth

Breakdown of revenue

All figures in € million	Share in %	2020	Share in %	2019	Change in %
Wealth management	36%	262.1	32%	223.5	17.3%
Old-age provision	29%	214.6	34%	225.8	-5.0%
Non-life insurance	19%	137.2	19%	126.6	8.4%
Health insurance	7%	50.6	8%	48.3	4.8%
Real estate brokerage	5%	39.5	3%	23.6	67.4%
Loans and mortgages	3%	21.8	3%	20.8	4.8%
Other commission and fees	1%	4.6	1%	4.3	7.0%
Total commission income		**730.4**		**672.9**	**8.5%**
Interest income		15.2		16.6	-8.4%
Total		**745.5**		**689.6**	**8.1%**

Analysis of expenses

Commission expenses primarily comprise performance-linked commission payments to our MLP consultants. They represent the largest item under expenses. This item also includes the commissions paid in the DOMCURA segment. The variable expenses result from the compensation of brokerage services in the non-life insurance business. Added to these are the commissions paid in the FERI segment, which particularly result from the activities in the field of fund administration. In this business segment they are primarily accrued due to compensation of the depository bank and fund sales. Commission expenses are also accrued in the Holding and Others segment. These are essentially the result of expenses from real estate development at DEUTSCHLAND.Immobilien. Against a backdrop of increased commission income, commissions paid were also above the previous year at € 397.0 million (€ 369.9 million). Net commission income therefore rose to € 333.3 million (€ 303.0 million).

Commission income above the previous year

Inventory changes increased to € 7.3 million (€ 3.9 million) in the reporting period. These result from real estate development and represent the change in asset values generated in the current phase of the projects within the reporting period. This item will increase in future as the respective projects progress and then decline again with the gradual sale of project units.

Interest expenses fell to € 0.4 million (€ 0.6 million) due to the ongoing low interest rate environment. Net interest was € 14.7 million (€ 16.0 million) in total.

Gross profit (defined as total revenue less commission expenses and interest expenses, plus inventory changes) improved to € 377.1 million (€ 342.2 million).

Administration costs of the MLP Group (defined as the sum of personnel expenses, depreciation/amortisation and impairment, as well as other operating expenses) increased to € 318.5 million in the reporting year (€ 297.2 million). It is important to take into account the fact that DEUTSCHLAND.Immobilien was only incorporated in the income statement for the first time in the third quarter of 2019.

Administration costs marginally increased

Personnel expenses increased to € 148.0 million (€ 135.7 million). This was influenced by various factors, including the announced strengthening of our young segment, which we have been expanding since 2017 through intensified recruiting efforts aimed at young consultants, a slightly higher overall number of employees, higher performance-based compensation components, as well as general salary increases. Among other things, this includes € 127.2 million (€ 116.8 million) for salaries and wages, € 17.1 million (€ 15.9 million) for social security contributions, as well as employer-based old-age provision allowances of € 3.7 million (€ 3.0 million). In addition to this, MLP staff that worked at least 19.5 hours per week received a coronavirus bonus of € 900. Trainees and students received a special one-off payment of € 200. Depreciation/amortisation and impairments increased slightly to € 27.7 million (€ 26.4 million). Other operating expenses were € 142.8 million (€ 135.1 million).

Breakdown of expenses

All figures in € million	2020	in % of total expenses	2019	in % of total expenses	Change in %
Inventory changes	7.3	-1.0%	3.9	—	87.2%
Commission expenses	-397.1	56.0%	-369.9	55.7%	7.4%
Interest expenses	-0.4	0.1%	-0.6	0.1%	-33.3%
Personnel expenses	-148.0	20.9%	-135.7	20.4%	9.1%
Depreciation and impairment	-27.7	3.9%	-26.4	4.0%	4.9%
Other operating expenses	-142.8	20.1%	-135.1	20.4%	5.7%
Total	**-708.7**	**100.0%**	**-663.8**	**100.0%**	**6.8%**

The result of MLP Hyp, which as a joint venture with Interhyp is reported as net income from investments accounted for using the equity method, increased to € 3.6 million (€ 3.0 million). The result of the DI Group project companies accounted for using the equity method is also included in this item. This amounted to just under € 0.1 million (€ 0.0 million) in the reporting period. Overall, the result from investments accounted for using the equity method amounted to € 3.7 million (€ 3.0 million).

EBIT significantly increased

The EBIT of the MLP Group improved significantly in the last financial year to € 59.4 million (€ 47.1 million).

The finance cost declined to € –3.0 million in the last financial year (€ –2.3 million).

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

Earnings structure, as well as the development of earnings and margins

All figures in € million	2020	2019	Change in %
Total revenue	767.3	708.8	8.3%
Gross profit [1)]	377.1	338.1	11.5%
Gross profit margin (%)	49.1%	47.7%	—
EBIT	59.4	47.1	26.1%
EBIT margin (%)	7.7%	6.6%	—
Finance cost	-3.0	-2.3	30.4%
EBT	56.3	44.8	25.7%
EBT margin (%)	7.3%	6.3%	—
Income taxes	-13.1	-7.8	67.9%
Net profit	43.2	36.9	17.1%
Net margin (%)	5.6%	5.2%	—

[1)] Definition: Gross profit results from total revenues less commission expenses, interest expenses and inventory changes.

Group net profit increased by 17.1% overall to € 43.2 million (€ 36.9 million). This was essentially due to a significant increase in commission income in wealth management.

Pronounced increase in earnings per share

Group net profit

All figures in € million	2020	2019	Change in %
Continuing operations	43.2	36.9	17.1%
GROUP	**43.2**	**36.9**	**17.1%**
Earnings per share in € (basic)	0.40	0.34	17.6%
Earnings per share in € (diluted)	0.40	0.34	17.6%
Number of shares in millions (basic)	109.2	109.2	0.0%
Number of shares in millions (diluted)	109.3	109.3	0.0%

Appropriation of profits

Our dividend policy is to pay 50% to 70% of Group net profit to our shareholders in the form of dividends. MLP paid out a dividend of 21 cents per share for the financial year 2019. The total dividend paid was therefore € 23.0 million.

We have announced that we will be continuing our dividend policy for the financial year 2020. On this basis, the Executive Board and Supervisory Board will propose a dividend of € 0.23 per share to the Annual General Meeting on 24 June 2021. This corresponds to a distribution rate of around 58% of operating net profit.

Financial position

Aims of financial management

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

No liabilities or receivables in foreign currencies

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

Financing analysis

Equity ratio at 14.0%

The Group's equity capital backing and liquidity remain good. As of the balance sheet date, shareholders' equity amounted to € 454.0 million and was therefore above the previous year's level (€ 437.4 million). The Group net profit of € 43.2 million for the financial year 2020 had a significant effect on this. However, this was counteracted by the dividend payment of € 23.0 million for the financial year 2019. Due to the higher balance sheet total, the equity ratio declined from 15.6% to 14.0%. The regulatory core capital ratio was 21.3% (19.2%) on the balance sheet date. Even with today's group structure, MLP still expects increased capital requirements for the next few years so as to meet the revised definition of equity and stricter requirements of Basel IV.

We did not use any borrowed funds to finance the Group in the last financial year. Our non-current assets are financed in part by non-current liabilities. Current liabilities due to clients and banks in the banking business represent further refinancing funds that are generally available to us in the long term. Total liabilities due to clients and financial institutions in the banking business of € 2,379.4 million (€ 1,993.3 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 € 1,632.1 million (€ 1,600.3 million) in receivables from clients and financial institutions in the banking business.

Since provisions only account for 3.6% (3.6 %) of the balance sheet total, they have no significant financing function for the Group. Other liabilities increased to € 265.7 million (€ 250.6 million) on the balance sheet date. Due to our typically strong year-end business, they increase markedly up to the balance sheet date of 31 December and then decline again in the subsequent quarters. Current liabilities increased to € 180.8 million (€ 165.6 million). These are essentially liabilities from operating activities. Current liabilities are offset on the assets side by cash and cash equivalents of € 859.0 million (€ 510.8 million), which are attributable to higher deposits at the Deutsche Bundesbank, and financial investments of € 197.6 million (€ 178.6 million), as well as other current assets of € 158.0 million (€ 130.4 million).

Liquidity analysis

Cash flow from operating activities increased to € 408.1 from € 191.6 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 € –33.3 million to € –28.3 million.

Condensed cash flow statement

All figures in € million	2020	2019
Cash and cash equivalents at beginning of period	**510.8**	**385.9**
Cash flow from operating activities	408.1	191.6
Cash flow from investing activities	–28.3	–33.3
Cash flow from financing activities	–31.5	–33.5
Change in cash and cash equivalents	**348.3**	**124.9**
Daily due liabilities to credit institutions	–3.2	—
Cash and cash equivalents at end of period	**855.8**	**510.8**

As of the balance sheet date, 31 December 2020, the MLP Group has access to cash holdings of around € 929 million. A good level of liquid funds therefore remains available. There are sufficient cash reserves available to the MLP Group. Alongside cash holdings, free lines of credit are also in place.

Capital expenditure analysis

MLP generally finances capital expenditures from cash flow. The total investment volume in intangible assets and property, plant and equipment was € 9.3 million (€ 22.3 million) in the last financial year.

Capital expenditure

All figures in € million	2020	2019	2018	2017	2016
Intangible assets	**5.8**	**3.9**	**4.4**	**3.4**	**13.7**
Goodwill	—	—	—	—	—
Software (developed in house)	—	0.2	0.2	0.2	0.3
Software (purchased)	1.9	1.5	0.9	1.0	2.5
Other intangible assets	0	0	—	—	—
Payments on account and assets under construction	3.9	2.2	3.3	2.1	11.0
Property, plant and equipment	**3.5**	**5.4**	**22.2**	**3.9**	**4.7**
Land, leasehold rights and buildings	0.4	0.9	16.2	0.3	0.5
Other fixtures, fittings and office equipment	2.9	3.8	3.4	2.6	3.0
Payments on account and assets under construction	0.2	0.7	2.6	1.0	1.2
Purchase price DEUTSCHLAND.Immobilien	—	13.0	—	—	—
Total capital expenditures	**9.3**	**22.3**	**26.6**	**7.3**	**18.4**

At € 3.4 million, the vast majority of investments were made in the Financial Consulting segment. The main focus of these investments was in operating & office equipment and IT systems to support sales. These contribute to the continuous improvement of consulting support and client service. Alongside these capitalisable investments, we also use other intensive resources for these projects which are recognised as expenses in the income statement. The investment volume in the FERI segment was € 2.6 million. The investment volume in the Banking segment was € 0.3 million. Software and IT were the primary focuses of investment here. Investments in the DOMCURA segment totalled € 2.5 million. Operating and office equipment, as well as acquired software represented one focus for investment here.

Capital expenditures by segment

	Total capital expenditures		Change in %
All figures in € million	2020	2019	
Financial consulting	3.4	17.6*	-80.7%
Banking	0.3	0.7	-57.1%
FERI	2.6	1.5	73.3%
DOMCURA	2.5	1.3	92.3%
Holding and Others	0.6	1.2	-50.0%
Total	**9.4**	**22.3**	**-58.3%**

*This includes a cash price payment of € 13.0 million for DEUTSCHLAND.Immobilien

Net assets

Further increase in balance sheet total

The balance sheet total of the MLP Group increased to € 3,235.0 million (€ 2,799.6 million) as of 31 December 2020, which can be attributed to further increases in client deposits.

Intangible assets – essentially including the client base, brand and goodwill – declined to € 178.9 million (€ 183.1 million) as of the balance sheet date. Provisions of € 125.1 million (€ 130.9 million) were slightly below the previous year's level.

At € 880.6 million (€ 872.2 million), receivables from clients in the banking business were almost on a par with the previous year. Set against the background of increased investment in time deposits, receivables from banks in the banking business increased to € 751.5 million (€ 728.1 million). Around 80% of receivables from banks and clients have a remaining term of less than one year.

The "Inventories" item essentially represents the assets of the project enterprises in the field of real estate. This item increased significantly to € 17.8 million as of 31 December (€ 10.5 million).

Financial assets increased slightly to € 197.6 million (€ 178.6 million). At € 9.7 million, tax refund claims were significantly above the previous year's level (€ 4.5 million). The increase is essentially the result of recognising accounts receivable for 2020 at MLP Finanzberatung SE.

Other receivables and assets increased to € 199.8 million (€ 168.6 million). This item essentially comprises commission receivables from insurers resulting from the brokerage of insurance products. Due to the typically strong year-end business, these increase considerably at the end of the year and then decline again during the following financial year.

Cash and cash equivalents rose markedly to € 859.0 million (€ 510.8 million). This increase can be attributed to a greater deposit volume at the German Bundesbank. Among other factors, the dividend payment to our shareholders had the opposite effect. You can find detailed information on the change in cash and cash equivalents in the chapter entitled → "Financial position".

Increase in return on equity

The equity capital backing of the MLP Group remains good. Shareholders' equity increased to € 454.0 million (€ 437.4 million) as of 31 December 2020. Minority interests have been disclosed in the balance sheet since 2019 due to the acquisition of a majority holding in the DI Group. These were € 0.8 million on the reporting date and thereby remained at the previous year's level (€ 0.8 million). Due to the higher balance sheet total, the equity ratio was 14.0% (15.6%). Based on a Group net profit of € 43.2 million (€ 36.9 million), we therefore achieved a return on equity of 9.9% (8.7%).

Provisions of € 115.8 million (€ 101.6 million) were slightly above the previous year's level. The increase can essentially be attributed to a rise in pension provisions as well as provisions for obligations from IT services and litigation risks.

The deposits of our clients which are recorded under → "Liabilities due to clients in the banking business" increased to € 2,271.9 million (€ 1,894.8 million) at the end of the reporting period. This increase is primarily attributable to short-term deposits held in bank accounts and instant access savings accounts. Liabilities due to banks in the banking business rose to € 107.5 million (€ 98.4 million). This increase can mainly be attributed to a higher volume of promotional loans being passed on to our clients. This item includes the refinancing funds from funding institutions.

Tax liabilities rose to € 10.9 million (€ 6.1 million). At € 265.7 million (€ 250.6 million), other liabilities were slightly higher than in the previous year. This item further comprises increased liabilities from the underwriting business of DOMCURA, purchase price liabilities and current liabilities due to our consultants and branch office managers in connection with open commission claims (please refer to the section entitled → "Financial position").

Segment report

The MLP Group is broken down into the following segments:

- Financial Consulting
- Banking
- FERI
- DOMCURA
- Holding and Others

The Financial Consulting segment includes revenue generated in the fields of consulting of old-age provision, health and non-life insurance, loans & mortgages and real estate brokerage. All banking services for both private and corporate clients, from wealth management, accounts and cards, through to the interest rate business, are brought together in the Banking segment. 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 Holding segment was renamed "Holding and Others" and includes the project entities of the DI Group since the acquisition of a majority holding in the DI Group on 2 September 2019. Expenses from real estate development are disclosed under "Commission expenses. The "Inventory changes" item also results from real estate development and represents the changes in assets generated in the current phase of the projects within the reporting period. This item will increase in future as the respective projects progress and then decline again with the gradual sale of project units.

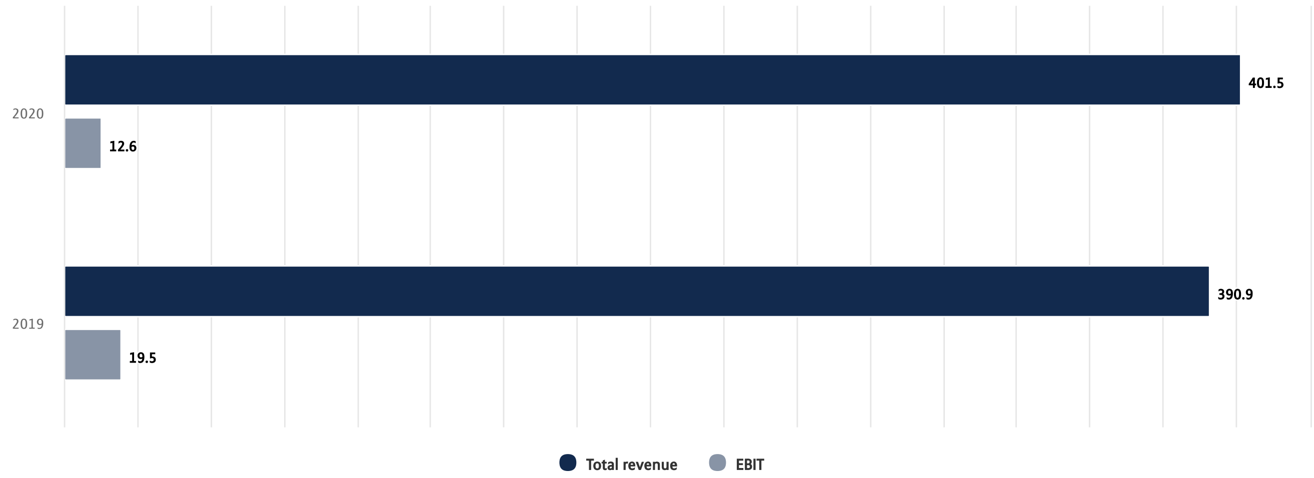
Financial Consulting segment

Total revenue in the Financial Consulting segment rose to € 401.5 million in the reporting period (€ 390.9 million). This figure is essentially made up of commission income. The consulting fields of health insurance, non-life insurance, loans and mortgages, real estate brokerage included in this segment, as well as other commission and fees developed in line with the general development of the Group. Old-age provision recorded a slight decline in revenue due to the corona pandemic. Revenue in the financial consulting segment was € 377.4 million (€ 369.3 million). Other revenue was € 24.1 million (€ 21.6 million).

Commission expenses increased to € 193.8 million (€ 186.5 million). Personnel expenses rose slightly to € 72.8 million (€ 69.6 million). Depreciation/amortisation and impairments increased to € 20.2 million (€ 19.7 million). Other operating expenses rose to € 105.3 million (€ 98.6 million). This rise can essentially be attributed to increased expenses for EDP consulting services, as well as greater allocations to provisions.

Earnings before interest and taxes (EBIT) were € 12.6 million in the reporting year (€ 19.5 million). With a finance cost of € –3.0 million (€ –1.8 million), earnings before taxes (EBT) were € 9.7 million (€ 17.7 million).

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



Banking segment

Revenue in the Banking segment is primarily generated from the wealth management field of consulting. Interest income represents another revenue source.

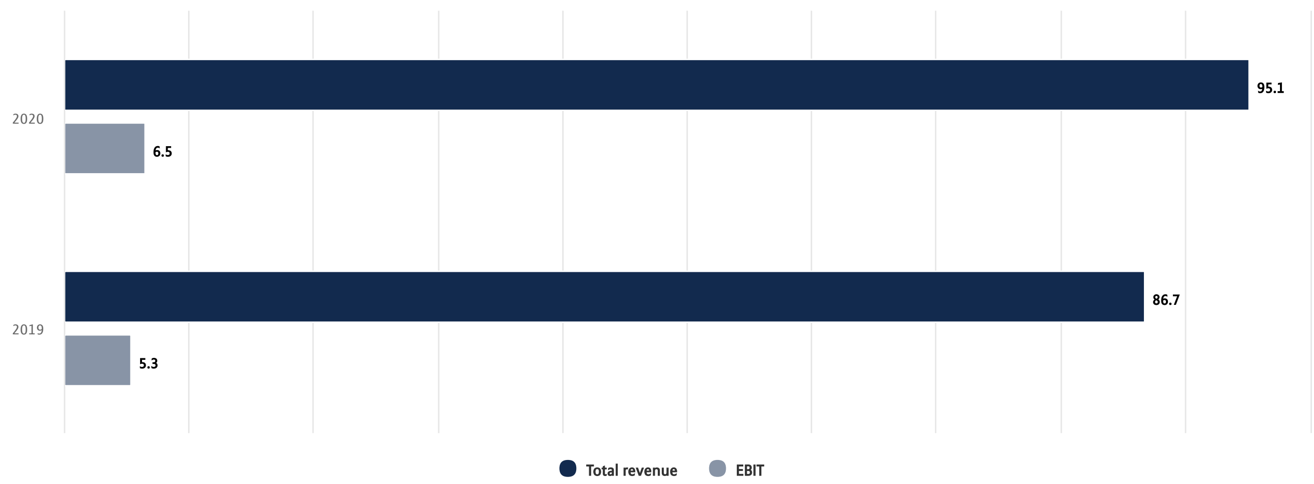
Total revenue in this segment in the reporting period was € 95.1 million (€ 86.7 million). Sales revenue increased to € 87.6 million (€ 81.4 million). At € 15.2 million, interest income was below the previous year (€ 16.6 million). This was due to the ongoing period of low interest rates. Other revenue increased to € 7.5 million (€ 5.3 million). This rise can be attributed to a positive VAT refund effect from previous years.

Commission expenses increased to € 36.9 million (€ 33.6 million) as a result of a rise in commission income. In light of the continuingly low interest rates, interest expenses of € 0.3 million were generated (€ 0.5 million).

Personnel expenses totalled € 12.5 million (€ 11.9 million). Depreciation/amortisation and impairment was € 0.4 million (€ 0.3 million). Other operating expenses were € 36.4 million (€ 34.3 million).

Earnings before interest and taxes (EBIT) were € 6.5 million (€ 5.3 million). Finance cost rose significantly to € 1.0 million (€ 0.1 million). This was particularly due to interest on reimbursements relating to VAT refunds from previous years. Accordingly, earnings before taxes (EBT) rose to € 7.5 million (€ 5.4 million).

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



FERI segment

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

In the last financial year, total revenue increased by 18.6% to € 197.7 million (€ 166.7 million), marking a new record high. The high level of performance-linked compensation in wealth management made a particular contribution to this. Sales revenue rose to € 194.2 million (€ 161.6 million). Other revenue amounted to € 3.5 million (€ 5.1 million).

As a result of higher revenue, commission expenses also rose to € 107.1 million (€ 99.1 million). Personnel expenses increased to € 37.1 million (€ 32.8 million). Depreciation/amortisation and impairment totalled € 2.3 million (€ 2.4 million) and therefore remained virtually unchanged. Other operating expenses were € 9.2 million (€ 9.1 million).

As a result of higher revenue, EBIT rose to € 41.8 million (€ 23.3 million). The EBIT margin was 21.1% (14.0%). At € 6.4 million (€ 6.4 million), finance cost remained at the previous year's level. EBT therefore reached a new all-time high of € 41.2 million (€ 22.7 million).

Total revenue and EBIT in the FERI segment

DOMCURA segment

Revenue in the DOMCURA segment is primarily generated in the non-life insurance field of consulting. 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 € 97.9 million (€ 89.0 million) in the reporting year. Other revenue was € 1.7 million (€ 2.1 million). Accordingly, total revenue was € 99.6 million (€ 91.1 million).

Commission expenses increased to € 63.4 million (€ 57.8 million), largely due to higher sales revenue. These are essentially accrued as variable compensation for brokerage services.

Administration costs were € 28.8 million (€ 27.0 million). € 17.9 million (€ 16.0 million) thereof were attributable to personnel expenses. Depreciation/amortisation and impairments increased to € 2.4 million (€ 2.2 million). Other operating expenses fell slightly to € 8.5 million (€ 8.8 million).

EBIT rose to € 7.5 million (€ 6.3 million). With a finance cost of € –0.2 million (€ –0.1 million), EBT was € 7.3 million (€ 6.2 million).

Total revenue and EBIT in the DOMCURA segment

Holding and Others segment

Total revenue in the Holding and Others segment in the reporting period was € 18.3 million (€ 10.5 million). This includes sales revenue of € 4.5 million (€ 0.1 million), which essentially reflects the real estate business incorporated by the DI Group. Other revenue was € 13.8 million (€ 10.4 million).

Commission expenses were € 10.1 million (€ 3.9 million). Inventory changes stood at € 7.3 million (€ 4.0 million).

Personnel expenses amounted to € 7.7 million (€ 5.5 million). Depreciation/amortisation and impairment amounted to € 2.4 million (€ 1.8 million). Other operating expenses rose to € 11.7 million (€ 9.7 million).

EBIT reached € –6.5 million (€ –6.6 million). Finance cost declined to € –2.1 million (€ –0.8 million). At € –8.6 million (€ –7.4 million), EBIT was slightly below the previous year's level.

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. The continuous development and optimisation of HR work for employees, as well as recruiting and training new consultants were therefore also key focuses in 2020.

Low staff turnover rate

The number of employees in the MLP Group increased slightly in the last financial year. In the reporting year 2020, a total of 1,850 employees worked for MLP. This increase is essentially the result of the inclusion of staff from the acquisition of the DI Group, as well as new recruitments and personnel returning to work following parental leave. Employee turnover within the Group decreased in 2020 and remains at a very low level of 6.7% (2019: 8.2%). The average age of the employees is currently 43.8.

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

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

Segment	2020	2019	2018	2017	2016
Financial services [1]	-	-		1,198	1,275
Financial consulting [2] [3] [5]	1,097	1,071	1,055	1,047	-
Banking [2] [5]	193	187	179	163	-
FERI	221	236	223	224	223
DOMCURA	293	274	260	254	264
Holding and Others [4]	46	16	6	6	7
Total	**1,850**	**1,783**	**1,722**	**1,686**	**1,768**

Date: 31 December 2020
[1] This segment existed until 30 September 2017
[2]) The average values stated for 2017 refer solely to the fourth quarter of 2017
[3] Incl. TPC (merger into Finanzberatung SE in 2020), ZSH, DI Sales, DI Web, DI IT and MLPdialog
[4] Since 2019 including DI AG and DI Projects
[5] Separate disclosure - 2017 values included in financial services

Development programmes for junior staff and managers

MLP offers development opportunities for employees at all levels. 2020 sees another group of participants venturing on the long-established "Top Talents" programme for junior staff. The objective of this programme is to systematically identify talented junior staff from within the company and then provide these with targeted and sustainable development opportunities for future complex specialist and management duties within the MLP Group. Participation in our modular management programme has been compulsory for all new managers since 2018. Up-and-coming managers are trained in relevant areas and receive guidance and support in their new role.

No new works agreements were concluded in the reporting year. Particularly during the corona pandemic, it became clear that MLP is already well positioned regarding the existing works agreements. Especially the "working times" and "mobile working" works agreements have provided both the company and its employees with the necessary scope and flexibility to successfully overcome the challenges associated with the corona pandemic. MLP always seeks to make sensible additions to its portfolio of social and fringe benefits.

Works agreements

The ongoing digitalisation of personnel work remained a focus of activity in 2020. Work on the digital personnel file was further expedited, while important preparatory work to secure greater automation through the establishment of workflows was also performed. The assessment and feedback meetings held with employees, which have been based online since 2018, were once again presented using a software solution in 2020. In addition to this, agile work methods were increasingly applied at the company and then also programmatically incorporated into personnel work in the form of training sessions and seminars. In 2020, the stage was ultimately also set for the introduction of a new, modern applicant management system for personnel work at the start of 2021.

Digitalisation of personnel work successfully continued

The ongoing digitalisation of personnel work at MLP really proved its value, particularly in light of the special circumstances surrounding work during the coronavirus pandemic. Alongside processes and activities that have already been digitalised, this also applies especially to the work organisation and technical equipment of the HR department - including the EDP skills of the corresponding employees which, despite already starting at a very high level, were given another significant boost in the course of the crisis response.

Compensation report

Fundamentals of the pay system

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

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

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

The key strategic objective is to bring about profitable growth. The key indicator and control variable is EBIT which, as operating profit, is essentially the result of revenue and expenses. A variable compensation based on the EBIT performance is therefore a suitable measure for supporting this strategy. By splitting the variable compensation into an immediate payment and a deferred payment, variable compensation has a multi-year basis for assessment. This ensures that focus is not only on short-term success, but also on the company's long-term performance.

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

The existing Executive Board service contracts do not contain any regulations regarding claiming back variable portions of compensation that have already been paid out in addition to those required under the provisions of law.

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

Pay system

The Supervisory Board at MLP SE has approved a pay system for the members of the Executive Board at MLP SE. The Supervisory Board of MLP SE has decided on a remuneration system for the members of the Executive Board of MLP SE, which will be presented to the Annual General Meeting of MLP SE on June 24, 2021 for resolution. Please refer to the pay system in the Annual Report for details.

Executive Board compensation

Principles of Executive Board pay

The members of the Executive Board receive a fixed basic annual salary, as well as a variable pay component (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 tax (EBT) 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 EBIT 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. To calculate the deferred payment, the EBIT recorded in the base year as per the MLP Group's profitability analysis is compared with the average of the EBIT recorded in the three years subsequent to the base year and the updated base amount is then adjusted accordingly.

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 pay 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 Chief Executive Officer, 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 are 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, spin-offs 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' Pay 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 their position voluntarily.
- The members of the Executive Board undertake not to engage in any personal hedging or other countermeasures as a way of limiting or even eliminating the risk-orientation of compensation.
- Pursuant to § 25a (5) of the German Banking Act (KWG), the variable compensation component must not exceed 200% of the fixed compensation component for each member of the Executive Board. An AGM resolution that proposes increasing the variable compensation cap from 100% to 200% of the fixed compensation component, and thereby deviates from § 25a (5) Sentence 2 of the German Banking Act (KWG), has been submitted.

As per the revised version of the German Corporate Governance Code (GCGC) from 16 December 2019, it is no longer necessary to publish individualised Executive Board compensation as per the specimen tables of the GCGC. However, to ensure that a high degree of transparency is still maintained, we continue to disclose Executive Board pay as in previous years.

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

Allocation (All figures in €'000)	Dr Uwe Schroeder-Wildberg		Reinhard Loose		Manfred Bauer	
	Chief Excecutive Officer		Chief Financial Officer		Member of the Board for Products and Services	
	since 1 Jan 2003		since 1 Feb 2011		since 1 May 2010	
	2019	2020	2019	2020	2019	2020
Fixed compensation	550	550	360	360	360	360
Fringe benefits	34	29	20	19	32	30
Total fixes compensation	**584**	**579**	**380**	**379**	**392**	**390**
One-year variable compensation	384	306	256	204	256	204
Multi-year compensation	273	344	182	230	182	230
2015 bonus (2015-2018)	273	0	182	0	182	0
2016 bonus (2016-2019)	0	344	0	230	0	230
Other	0	0	0	0	0	0
Total fixed and varibale compensation	**1,241**	**1,229**	**819**	**812**	**830**	**823**
Pension benefits	267	324	150	150	150	150
Total compensation (in accordance with the German Corporate Governance Code (DCGK))	**1,508**	**1,553**	**969**	**962**	**980**	**973**

Granted benefits

Benefits granted (all figures in €'000)	Dr Uwe Schroeder-Wildberg				Reinhard Loose			
	Chief Excecutive Officer				Chief Financial Officer			
	since 1 Jan 2003				since 1 Feb 2011			
	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2020 (Min)	2020 (Max)
Fixed compensation	550	550	550	550	360	360	360	360
Fringe benefits	34	29	29	29	20	19	19	19
Total fixes compensation	**584**	**579**	**579**	**579**	**380**	**379**	**379**	**379**
One-year variable compensation	304	368	258	479	203	245	172	319
Multi-year compensation	512	570	0	990	341	380	0	660
2019 bonus (2019-2022)	512	0	0	0	341	0	0	0
2020 bonus (2020-2023)	0	570	0	990	0	380	0	660
Total fixed and varibale compensation	**1,400**	**1,517**	**836**	**2,047**	**925**	**1,004**	**550**	**1,358**
Pension benefits	267	324	324	324	150	150	150	150
Total compensation (in accordance with the German Corporate Governance Code (DCGK))	**1,668**	**1,841**	**1,161**	**2,372**	**1,075**	**1,154**	**700**	**1,508**

Benefits granted (all figures in €'000)	Manfred Bauer			
	Member of the Board for Products and Services			
	since 1 May 2010			
	2019	2020	2020 (Min)	2020 (Max)
Fixed compensation	360	360	360	360
Fringe benefits	32	30	30	30
Total fixes compensation	**392**	**390**	**390**	**390**
One-year variable compensation	203	245	172	319
Multi-year compensation	341	380	0	660
2019 bonus (2019-2022)	341	0	0	0
2020 bonus (2020-2023)	0	380	0	660
Total fixed and varibale compensation	**936**	**1,015**	**562**	**1,369**
Pension benefits	150	150	150	150
Total compensation (in accordance with the German Corporate Governance Code (DCGK))	**1,086**	**1,165**	**712**	**1,519**

As of 31 December 2020, pension provisions of € 20.3 million (€ 20.3 million) were in place for former members of the Executive Board.

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

In addition to this, a horizontal comparison is performed. The benchmark companies are selected in accordance with the stipulations in the pay system. For the financial year 2020, the benchmark group comprised the following companies: Aareal Bank AG, Comdirect Bank AG, Deutsche Beteiligungs AG, Deutsche Pfandbriefbank AG, GRENKE AG, Hannover Rück SE, Hypoport AG, INDUS Holding AG, OVB Holding AG, Talanx AG and Wüstenrot & Württembergische AG.

Compensation 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 compensation of € 40,000 in accordance with the Articles of Association. The Chairman of the Supervisory Board receives twice this amount and their deputy one and a half times. Additional, special compensation 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 compensation. The fixed portion of compensation is paid after the end of the financial year. No member of the Supervisory Board receives any variable or share-based compensation components.

Individualised Supervisory Board compensation

Individualised Supervisory Board compensation	Compensation 2020	Compensation 2019
All figures in €'000 (without tax)		
Dr Peter Lütke-Bornefeld (Chairman)	135	135
Dr Claus-Michael Dill (Vice Chairman)	110	110
Tina Müller	55	55
Matthias Lautenschläger	80	80
Burkhard Schlingermann	55	55
Alexander Beer	65	65
Total	**500**	**500**

In the financial year 2020, € 15 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, as well as 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, as well as the special Risk Controlling, Compliance and Internal Audit functions represent key components of the Group-wide risk management system.

Group-wide risk management

Within the scope of risk management, the following companies are incorporated in the Group-wide system of risk management (scope of consolidation pursuant to § 25a of the German Banking Act (KWG) – Germany's "MaRisk" minimum risk management requirements consolidation scope, referred to as "key companies" in the following):

- 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
- FERI Trust (Luxembourg) S.A., Luxembourg
- DOMCURA AG, Kiel
- NORDVERS GmbH, Kiel

As defined by § 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 the MLP Financial Holding Group (MLP FHG) as the depository institution, ensured appropriate control and monitoring of the significant risks at Group level through suitable processes. This approach encompasses in particular

- defining Group-wide strategies,
- securing the Group's risk-bearing ability,
- establishing structural and organisational regulations for the Group,
- implementing Group-wide risk management and controlling processes 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 MLP FHG, 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 FHG are defined taking into account the type, scope, complexity and risk content, as well as the different application options provided by corporate law on an individual basis.

Risk policies

The Executive Board of the controlling company defines the business strategy, as well as a consistent risk strategy for MLP FHG. 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 FHG 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 FHG:

The Executive Board and/or the Managing Directors are responsible for the proper organisation of the business and its further development:

Irrespective of any supplementary internal responsibilities assigned, the Executive Board and/or the Managing Directors are responsible for the proper organisation of the business and its further development at the company. They must introduce necessary measures for drawing up stipulations unless the decision is made by the Supervisory Board. This responsibility includes defining appropriate strategies and setting up appropriate internal control procedures - thereby assuming responsibility for all significant elements of the risk strategy. Responsibility for specifying the business and risk strategy cannot be delegated. It is the responsibility of the Executive Board and/or the Directors to implement the strategy, assess the risks associated with it, as well as to put in place and monitor the necessary measures to ensure that these risks are limited. These also include the development, promotion and integration of an appropriate risk culture. In addition to this, the Executive Board regularly drafts a declaration of the appropriateness of the risk management procedures adopted.

The Executive Board and/or the Managing Directors bear responsibility for the risk strategy:

The Executive Board of the controlling company defines the risk strategy for MLP FHG. The risk strategy reflects the risk propensity or "risk appetite" based on the targeted risk/earnings ratio. The Executive Board at the controlling company and the members of the Executive Board or Managing Directors at the controlled companies ensure that a comprehensive approach, incorporating all key risk types, is integrated in the company and that suitable steps are taken to implement the risk strategy.

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

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

MLP engages in comprehensive risk communication, including risk reporting:

Detected risks are reported to the responsible management levels openly and without restriction. The Executive Board and/or the Managing Directors are informed in a comprehensive and timely manner (if necessary ad hoc) of the risk profile of the relevant risks, as well as the profit and losses at MLP FHG. 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 the shareholders of the MLP Group and the capital market and also comply with the supervisory requirements.

Objective

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

Identification, assessment, control, monitoring and communication of the key risks is guaranteed with the help of and on the basis of Group-wide risk management at MLP. Risk management is a key component of the value-driven management and planning system at MLP FHG. 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 FHG. Active control to provide sufficient financial capital, in compliance with supervisory requirements, ensures that risk-taking is always in line with capital backing.

Risks are only accepted within limits derived from aspects of the risk-bearing ability to achieve adequate returns, taking into account risk/earning factors. This particularly 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 taking into account the risk coverage fund. The focus is on the key risks for MLP FHG, which are identified at least once a year within the scope of a risk inventory (risk profile) performed throughout the Group. The Group-wide risk profile represents the basis for both risk capital management and the risk management and controlling processes.

The key risk types of counterparty default, market price, liquidity and operational risks are particularly 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, these are considered when calculating the risk-bearing ability in the form of additional buffers.

In addition to 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.

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

Furthermore, MLP 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 41.0%, the banking segment allocates the largest portion of the risk coverage fund at MLP FHG. This is 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 the MLP Financial Holding Group at all times. The concept of and compliance with the liquidity capacity is also derived from Pillar 2 of the Basel Accord.

Concentration of risk

Risk concentrations can occur, regardless of the risk type. Alongside unilaterally aligned structures with regard to debtors or the investment structure, these can also be caused by unilateral focussing on individual products (earnings concentrations) or risk types. Potential risk concentrations are in particular analysed within the scope of the stress tests that are to be performed regularly. MLP's clear business focus with the client business continues to be on the target group of academics. The continuous and focussed further development of individual client groups by definition leads to concentration on individual products, such as medical practice financing. However, appropriate diversification and limitation are pursued within this framework.

Focussing on the target group facilitates an attractive risk/return ratio, particularly when taking into account cross-selling effects from the holistic consulting approach, which reduces the earnings concentrations in the Group.

By pre-emptively reducing the emergence of risk concentrations in proprietary trading, the best possible diversification is pursued - among other things via minimum ratings, the tradability of the shares, as well as via issuer and sector limits and a corresponding maturity structure. To this end, capital investment directives are implemented at the key companies.

In addition to this, a maturity-congruent strategy is adopted for balance sheet items where possible so as to minimise the market price and liquidity risk.

Insofar as possible and likely economically beneficial from a risk and opportunity perspective, operational risks that can cause serious damage are covered to the greatest extent possible.

The risk concentrations are regularly monitored and considered in the stress scenarios and reported.

Stress tests

Stress tests are also performed on a regular and ad hoc basis for special analysis of the effects of unusual yet still plausible events. Their potential effects are also reflected when assessing the risk-bearing ability. Comprehensive analyses have therefore been implemented, both at the level of the individual risk types and across all risk types. The market value effects on the financial situation, the liquidity situation and the results of operations as well as the concentration of risks are also investigated in this connection.

Organisation

The Executive Board is responsible for establishing an appropriate and effective system of risk management at MLP FHG. 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

As a member of the management, the Group Risk Manager is responsible for the risk monitoring and control activities at MLP FHG. He is kept continuously informed of the risk situation at MLP FHG and gives regular reports on this to the entire Executive Board and Supervisory Board.

Risk controlling function

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

Risk management and controlling processes

Risk management at MLP FHG 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 Management unit in particular is responsible for the identification and assessment of risks, as well as for the monitoring of defined limits. This is accompanied by reporting the risks to the Executive Board and the business units that control the risks. Early detection systems support risk monitoring, identify potential problems early on and thereby enable the prompt planning of measures.

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

The methods used at MLP FHG to assess risks are aligned with practices in the banking sector, as well as recommendations of the supervisory authorities and international standard-setting bodies, whilst taking into account the principle of proportionality. The results determined through the risk models for controlling the risks, as well as the underlying quantification methods are subject to regular reviews. However, despite careful model development and regular checks, it is conceivable for circumstances to occur that could lead to greater losses than those predicted by the risk models.

Controlling monitors earnings trends

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

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

Internal controlling system in the accounting process

With regard to the accounting and management reporting processes, the Internal Control System (ICS) is used to provide an accurate picture of actual conditions in terms of the net assets, financial position and results of operations at MLP Banking AG and the MLP Group. The objective of the ICS is to secure 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.

The units involved in the accounting process are particularly subject to the quantitative and qualitative requirements, which MLP meets through a clear organisational, corporate and control structure. To this end, 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 individual financial statements and consolidated financial statements are drawn up in line with the provisions of German commercial law and International Financial Reporting Standards (IFRS), as well as proper and timely internal and external financial reporting. The scope of the checks and responsibilities integrated into the procedures is clearly regulated.

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

Functional separation, system-based monitoring, the dual-control principle, as well as the audit activities of the Internal Audit department represent key control instruments for all important accounting-related processes. The key 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, as well as the consolidated financial statements, are generally drawn up using standard software. Group Accounting secures the completeness and accuracy of the relevant disclosures based on the information provided.

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

Compliance function

A compliance office has been set up at the controlling institution to counter, as per the minimum risk management requirements (MaRisk), the risks which can result from non-compliance with the essential legal provisions and stipulations for MLP FHG. These in particular include supervisory provisions on avoiding money laundering, the financing of terrorist activities and other criminal conduct, or relating to financial sanctions, embargoes and the account screening procedure (in the following referred to as prevention of money laundering & fraud), the prevention of insider trading, the securities business, protection of client assets, data and consumer protection, as well as all institute-specific provisions, whose non-compliance could put assets at risk or lead to a significant reputation risk. Compliance plays a key role in identifying risk potential through the proactive monitoring of insider information and rules of conduct, as well as within the scope of management of conflicts of interest.

Internal Audit

The regular audits performed by the Internal Audit department, which is independent of the operating units in terms of both organisation and function, represent another key aspect when monitoring the quality of our risks. Above all, compliance with relevant guidelines is checked, paying particular attention to legal provisions.

The Internal Audit department, which operates throughout the Group, also performs regular process and system audits in all sections of the Group and monitors the correction of any issues detected during the respective audits. This also includes the auditing of IT systems. The Internal Audit department adopts a risk-oriented approach to auditing. It is independent and falls under the direct responsibility of the Chief Financial Officer at MLP Banking AG. Global reports on the audits performed are drafted and presented to the managers responsible. Based on the respective risk content, elimination of the identified deficiencies is monitored either immediately or in quarterly follow-ups. The Internal Audit department performs regular, Group-wide reporting to the management bodies at the individual companies.

Risk reporting

A substantial risk reporting scheme forms the basis for appropriate and successful corporate management. This is complemented by an extensive system of internal reporting, which provides the key decision-makers with prompt 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. Prompt and comprehensive information is provided on any changes to relevant influential factors.

Statement of risks

MLP FHG is exposed to various financial risks. These particularly 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 account following risk-reducing measures such as insurance policies.

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. Alongside the credit risk, the counterparty risk comprises the counterparty risk (replacement risk, as well as advance performance and settlement risk), the issuer's risk, the specific country-related risk, as well as risks resulting from securitisations and investments.

Counterparty default risks are included in the proprietary and client business positions. The key companies for this risk type are to be identified within the scope of the materiality classification. The maximum default risk is expressed as the carrying amounts (after write-downs) of the financial instruments recognised in the balance sheet (especially originated loans and receivables), as well as derivative financial instruments with positive market value. There are no significant risks related to specific countries, since the majority of lending (more than 95%) is limited to borrowers domiciled in the Federal Republic of Germany.

The client credit business, with the target group of upper mid-size market and the core market in Germany, essentially focuses on medical practice and mortgage financing, as well as loans with fixed interest rates for 5 or 10 years, which are predominantly collateralised through wealth deposit accounts at MLP Banking AG or hedged through redemption values/share assets in life insurance/unit-linked policies (premium loans) and the bulk business. In terms of strengthening new client acquisition and keeping existing clients loyal, the main focus is on issuing overdraft facilities to the holders of the MLP account and providing credit limits in connection with the MLP Card. Moreover, the plan is also to increase the volume of loans - particularly among the target group of physicians, yet also mortgage lending and premium loans for target group clients.

Overall, the lending policy at MLP is characterised by only accepting risks that are both known and also appear reasonable in terms of their volume. Bad debts are written down accordingly. We are anticipating a moderate rise in the level of loan loss provisions due to the planned increase in loan volumes. We are also anticipating a rise in the average default rate due to deteriorations of credit ratings in connection with the coronavirus, as well as accompanying rises in impairments.

The non-performing loan (NPL) quota is the ratio of bad loans relative to the total volume of loans and credits, including deposits at banks and central banks. For the supervisory scope of consolidation, the NPL quota as of 31 December 2020 is 0.5% (previous year: 0.2%). Non-performing loans, which are identified at MLP, are transferred to specialist departments, where they are individually managed by experts.

Credit management

The responsibilities in the credit business - application, authorisation, completion, and the periodic monitoring with regular creditworthiness analyses - have been defined and documented in the organisational policies. The decision-making authority is laid down in the authority regulations, which themselves are based on the risk content and the processes of the transactions. Land charges in particular serve as collateral for MLP when issuing client loans. A process that is scaled based on volume and employs external support is established for measuring this collateral.

The provision of loans in the client credit business takes the form of credit limits being granted for the individual borrower or borrower unit. Individual credit decisions are reached by specialist employees in accordance with clearly defined authorities based on the size, creditworthiness, and collateral of the respective borrower. A special scoring process allows fast decisions to be made, especially for credit cards and accounts in the retail lending business, while also securing a consistently high quality.

The various types of credit are measured regularly during the portfolio monitoring of the client credit business. As part of the internal monitoring procedures, the privileged mortgages on residential and commercial property are compared to the loan portfolios in the individual field of mortgage lending, lombard loans, premium loans and medical practice financing. Further types of collateral are included as a way of hedging credit commitments, although these are not currently considered in the internal system of risk management.

Calculations are based on the various supervisory methods of calculation as per the rating status.

For the positions rated internally using the VR rating system, the risks are calculated using the IRB method. For debtors that have not been rated internally but do have an external rating, a mapping table is used to convert and assess this external rating to the VR rating that MLP uses as the master scale. Based on the probability of default determined in this way and a dedicated assessment of qualitative aspects such as balance sheet KPIs, sector-specific findings and so on, externally rated debtors are treated the same as internally rated debtors and assessed using the IRB method.

The standardised approach to credit risks based on the supervisory formulae as per the Capital Requirements Regulation (CRR) is used for all other unrated debtors.

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. You can find detailed information on the measurement process, as well as development of loan loss provisions in the notes.

There are also issuer's risks within the scope of proprietary trading that go beyond the risks described above. In the light of the current market trend, risks in investment management, particularly those resulting from defaults of issuers, are also limited through the high credit standards set out in the capital investment directives. The capital investment directives stipulate restrictions applying to the investment of available funds regarding the various investment categories and products with the corresponding maturities, and also in general regarding investments in various sectors.

The documented competencies and further provisions must always be taken into account when making investment decisions.

Market price risks

MLP FHG understands market price risks as the uncertainty regarding changes in market prices and rates (including interest rates, share prices, exchange rates and raw material prices), the correlations between them and their volatility. Alongside interest rate and share price risks, there are spread risks on proprietary investments. The investment currency is generally the euro.

At MLP FHG, market risks essentially comprise the incomplete congruency of interest rate agreements between loans granted by MLP and their refinancing. In addition to this, there are market price risks within the scope of proprietary trading activities. There are currently only very minor open risk items in foreign currency in the portfolio.

The possible effects of different interest development scenarios at Group level are portrayed via planning and simulation calculations. The basis of this is our interest management tool, which makes risks and their effects transparent in complex interest scenarios.

In this context, cash value changes of all items in the interest 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. It also determines whether the change in value is always below the threshold of 20% of equity.

Interest rate risks of the MLP Financial Holding Group

in %	Interest rate shock/parallel shift			
	Change in value + 200 BP		Change in value - 200 BP	
	2020	2019	2020	2019
Total	**5.8**	**–0.6**	**–0.6**	**–0.9**

Liquidity risks

MLP FHG 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. Key components of the liquidity risk include both the insolvency risk (operational liquidity risk) and the refinancing risk (structural liquidity risk).

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). In addition, the liquidity at risk (LaR) describes the anticipated net funding requirement from all payments, which will not be exceeded at a defined level of probability. Additionally, an expected shortfall is monitored for the assessment of any outliers. Short-term liquidity requirements were covered by sufficient funds at all times.

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 (up to three years). In this connection, all assets and liabilities relevant for the refinancing profile are taken into account in accordance with their term. The funding matrix compares a surplus or shortfall of financing means with refinancing potential (liquidity reserve) for each time horizon. To this end, the assets that are available for sale in the short-term and mid-term and not tied up in operational liquidity control are compiled and assigned to classes on the basis of their speed of sale.

The net stable funding ratio (NSFR) compares the available refinancing with the stable refinancing required. This performance indicator serves as a key balance sheet ratio.

The general aim when examining the liquidity risk within the scope of the risk-bearing ability is to determine the additional costs that occur in the context of the structural refinancing requirements. To determine the additional refinancing costs, the liquidity value-at-risk (LVaR) is established for the capital requirements, themselves determined based on the funding matrix. To this end, the additional costs accrued across all refinancing instruments are added together. Alongside the compressed LVaR key performance indicator, the distribution of the capital requirements across the refinancing instruments and their utilisation is also presented.

In addition to this, the effects of various scenarios on cash flows and thereby also on MLP's liquidity situation are analysed using the funding matrix. The additional monitoring metrics (AMM) serve as supplementary information here.

When determining the LVaR as of 31 December 2020, 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 FHG results primarily from MLP Banking AG as the deposit-taking bank. The refinancing structure is based largely on client deposits. Appropriate short and medium-term credit lines have also been agreed to safeguard against a possible short-term liquidity shortfall.

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

MLP Banking AG has established a simple allocation system to allow the internal assignment 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 4 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.

Throughout the Group, operational risks are identified and assessed at local level in the individual organisational units at the main companies in the form of self-assessments and damage data pools. The information is compiled within the scope of risk controlling at MLP Banking AG. Within this framework, the risk assessments performed at the individual companies are each summarised to create an overall assessment for MLP FHG. Irrespective of the specific risk profile, the following core statements apply to all companies in the MLP FHG:

- All key operational risks are to be identified and continuously analysed in terms of their anticipated or incurred damage, as well as their anticipated or incurred frequency.
- For risks whose occurrence is unlikely but which exhibit a high or very high damage potential, the option to perform a risk transfer should be considered, in particular with corresponding insurance programmes.
- Process improvements, adjustments to the IT system landscape, employee training and similar measures should be particularly identified for risks with a high likelihood of occurrence but low damage potential with the objective of reducing errors.
- Suitable risk prevention measures should be implemented immediately for risks with a high likelihood of occurrence and high damage potential for the MLP FHG, if necessary incorporating business continuity management.
- The efficiency of all risk management measures should be reviewed from a cost/benefit perspective.

Reduction of the operational risk and with this a reduction in the frequency and level of associated losses is primarily to be achieved through implementation of continuous improvements, such as digitalisation of business processes. Further safeguarding measures include risk transfer by concluding insurance policies and consciously avoiding high-risk products. Moreover, contingency plans are in place for critical business processes to secure continuation of business operations.

Risks from internal procedures

MLP uses both internal and external employees, as well as buildings and technical equipment to perform its administrative and organisational activities. We protect ourselves against damage claims and a potential liability risk through comprehensive insurance cover, which is subject to ongoing monitoring.

Business impact analyses (BIA) are 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. BCM documentation is available for the business units and employees.

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. The potential consulting risk is minimised by securing continuously high-quality consulting which, among other things, is backed up by IT-supported tools. Consultations with clients and the results of these are documented in accordance with legal requirements.

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

Risks from human errors and employee availability

The adequacy of staffing levels and sufficient qualification/training of employees at MLP are ensured by the responsible specialist departments. The adequacy of staffing in terms of type, level and planned Group development is checked regularly, at the very least during the annual planning process. In this context, key positions have been identified and defined with the objective of further reducing staffing risks with the implementation of appropriate risk control measures. The requirements regarding the qualification of all employees, but particularly those tasked with working in the loans and commercial business, are set out in differentiated job descriptions in the organisation manual.

As part of their responsibilities, those employees tasked with assuming, controlling and monitoring risks, as well as their substitutes, have comprehensive product know-how, as well as expertise in the commercial, valuation and control techniques employed. This applies especially to the Heads of the functions Audit, Compliance and Risk Controlling in accordance with Germany's "MaRisk" minimum risk management requirements. Generally speaking, the available personnel capacities are structured in such a way that necessary procedures are still securely maintained, even when employees are unexpectedly unavailable for work.

Demographic changes and their effects on the workforce structure are systematically reviewed by MLP. A dynamisation of the age curve, as well as an increasing average age of the workforce can be observed here. To counter this trend and continue thriving in the face of increasing competition, the material and non-material framework conditions are continuously optimised for the employees. The aim is to further strengthen the profile as a family-friendly employer offering flexible models in terms of working hours and places of work, as well as family-friendly conditions and fringe benefits. To counteract the predicted skills shortage, MLP has established a dedicated junior staff development programme and a management development programme. Alongside this, MLP traditionally invests in the sustainable recruiting of talented young employees and, alongside various training professions, also offers a university of cooperative education degree programme with many different fields of specialisation.

In line with the requirements regarding pay systems, such as the Ordinance on the Supervisory Requirements for Institutions' Pay Systems (InstitutsVergV), they are set out in such a way that negative incentives that could otherwise encourage managers and employees to enter into disproportionately high risk positions, are avoided. To circumvent incentives of this kind for employees, in particular those holding positions of responsibility, attention is paid when setting out such pay and incentive systems to ensure that these do not contradict the objectives defined in the strategies and that any risk of conflicts of interest is ruled out. Any change in strategy triggers a simultaneous review and, where necessary, adaptation of pay and incentive systems.

In terms of variable pay components, safeguards are in place to ensure that these are not based on short-term but rather mid-term and long-term success. Moreover, the pay system is established such that employees with variable compensation components are also affected by the negative development of business initiated by them and that employees in departments arranged downstream of the initiating departments are also compensated appropriately based on their responsibility.

The Supervisory Board is responsible for the pay and incentive systems at management level, while the management team is responsible for the system used for employees. The pay systems are reviewed on an annual basis by the Legal department and any necessary amendments are implemented.

Nevertheless, human error cannot be completely ruled out. Based on the core values of performance and trust, we employ an open culture of constructive criticism with the objective of detecting mistakes early on, continuously improving our processes and strengthening our innovative capacity. The risk of staff shortages is reduced through personnel planning and targeted personnel marketing 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 deputisation regulations secure our business and decision-making processes.

IT risks

MLP FHG pursues an IT strategy to effectively minimise potential IT risks. When selecting IT systems, the primary focus is on sector-specific software. If necessary, business-specific proprietary IT applications are developed by qualified internal and external specialists. The correct functioning of IT systems is secured by performing comprehensive system tests and pilot phases before they are commissioned. Databases are protected from a potential data loss by conventional means by outsourcing data centre operations to external service providers with various locations, back-up systems and mirror databases, as well as the establishment of a defined contingency plan. The access and authorisation concept, extensive virus protection, as well as other comprehensive security measures protect the access and IT systems. Virtually all employees are now able to work from home securely, making use of communication via video conferencing systems, including a video conferencing solution that has been made available for online consultations. Minimum standards with regard to information security are stipulated throughout the Group. Digital innovations are developed in a laboratory environment as a way of keeping risks to a minimum during the development phase.

Risks from external events

The trend towards industrialisation and a reduced vertical range of manufacture has increased in the financial services sector. More than ever before, companies are focussing on their core skills, i.e. production of financial services products, support and information services, specialist consulting expertise and sales expertise. In this market environment, MLP 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 at MLP FHG are incorporated into risk management within the standard scope of risk controlling and management processes with continuous risk identification, assessment, control and reporting. MLP has clearly regulated the responsibility for outsourced processes and installed a central system of outsourcing management. 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, a range of insurance policies have been concluded to minimise risks from external events such as fraud, burglary, theft or damage due to force majeure.

Internal security measures are also set up in such a way that any attempts at fraud, burglary or theft are prevented upfront. To prevent external cyber risks, such as hacker attacks and viruses, standard approaches such as firewalls, virus scanners, as well as active patch and vulnerability management for systems are operated.

To ensure the maintenance of critical processes in all cases, the potential consequences of external events are assessed within the scope of the Business Continuity Management (BCM) system and corresponding plans of action drawn up.

Potential risks arising for the institutes of MLP FHG 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 internally and externally). Both the risk assessment and the individual measures implemented to avoid criminal conduct are performed by the relevant section at the respective central office pursuant to § 25h of the German Banking Act (KWG) and are also incorporated into the operational risk inventory process.

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 checks and monitors the existing insurance coverage for economic loss in cooperation with the product management and initiates any adjustments which may be necessary. According to our review, the pending or threatening legal proceedings against MLP FHG do not represent risks which could endanger the Group's continued existence.

By means of its authorisation to conduct banking and financial service businesses, MLP FHG is subject to special risks in connection with potential non-compliance with supervisory regulations. This also applies to legal capital adequacy regulations, which require shareholders' equity backing. Comprehensive guidelines and workflows have been implemented to comply with supervisory regulations and for the functions Compliance, Money Laundering and Fraud Prevention, as well as Data and Consumer Protection. The objective of these guidelines and workflows is to secure compliance with and monitor the legally stipulated requirements by the specialist departments and staff units responsible.

The Executive Board has also set up a compliance function, the duties of which include the identification and monitoring of key legal provisions and requirements. Non-compliance can potentially jeopardise the assets of MLP FHG and can lead to significant reputation risks. The compliance function advises and supports management, as well as the responsible specialist departments. It works towards the implementation of effective procedures ensuring compliance with substantive provisions and internal regulations as well as corresponding control measures performed by responsible units. It also provides regular reports, including ad-hoc reports on its activities to both management and the Supervisory Board when and where necessary. The compliance function also promotes and strengthens the Group-wide risk culture.

Active knowledge management in the specialist departments and, at the same time, the continuous observation of legal developments by our Legal and Compliance departments ensure that any potential regulatory changes can be detected early on. As part of our audit management, the implementation of new legal requirements and findings of external auditors are controlled through our Group-wide "MaRisk Steering Committee", tasks are assigned to relevant functions and their progress regularly and actively tracked. Particularly those issues that have significant effects on the MLP Group and involve multiple specialist departments are assigned to this programme.

Taxation risks

Changes that emerge in the tax and accounting law are continually checked and reviewed with regard to the potential effects they may have on the Group. The company's compliance with fiscal requirements is checked by internal and external experts in accordance with the tax regulations and the documents pertaining to these issued by the tax authority. Corresponding provisions are formed for subsequent payments to be anticipated. Developments in the accounting law are monitored and implemented in the respective specialist departments.

Capital charge according to the basic indicator approach

In 2020, MLP FHG employed the basic indicator approach in line with Section 315 and 316 of the Capital Requirements Regulation (CRR). On this basis, the capital charge is 15% of the average gross proceeds of the last three financial years, whereby only positive gross proceeds are taken into consideration.

Other risks

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

Reputation risks

Reputation is defined as the reputation of MLP as a whole or of individual Group companies in terms of expertise, integrity and trustworthiness that results from the perception of different stakeholder groups. The 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.

Management of reputation risks at MLP FHG is always performed decentrally within the scope of a defined regulatory cycle following the principle of managing operational risks. Alongside reactive control directly after the occurrence of an event of damage, preventive risk management is particularly important here.

The potential risk of mistakes made while providing consulting services to our clients also impacting our reputation, is minimised by securing continuously high-quality consulting. The instruments used to secure this high level of consulting include IT-based consulting tools.

General business risks

General business risks are those risks that arise as a result of altered framework conditions. These, for example, include the market environment, client behaviour, sustainability risks or technical progress. Achieving the planned results can potentially be jeopardised due to an inadequate alignment of the company to the respective business environment, which may have changed abruptly. The necessary alignment, for example with individual products or a special client segment, also bears the risk of making the operating results excessively dependent on the earnings contribution of these products or this client group. Risks due to earnings concentrations can potentially occur as a result of changes in the market. Strategic risks can particularly result from an inadequate strategic decision-making process, unforeseeable discontinuities in the market, products and services that have not been properly matched to the market or poor implementation of the chosen strategy.

We consider sustainability risks to include events or conditions resulting from the environment, social issues or corporate governance, whose occurrence can have actually or potentially significantly negative effects on MLP's net assets, financial position and results of operations, as well as its reputation. This also includes climate-related risks in the form of physical risks and transition risks. Alongside general business risks, sustainability risks can also manifest themselves in all risk types, which is why we do not rate them as a dedicated risk type, but rather based on issues encountered within the scope of the respective relevant risk type.

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

Overall economic risks

Changes in economic and political factors can affect the business model and performance of MLP. Both national and international developments in the political, economic and regulatory arenas, as well as business developments and other requirements in the financial services market are therefore monitored. The knowledge bundled at FERI Trust offers us support in this regard.

Corporate strategy risks

Corporate strategy risks largely consist in the erroneous assessment of market trends and, as a consequence, the erroneous alignment of business activities. Strategic risks also emanate from unexpected changes in market and environmental conditions as well as the shareholder structure with negative effects on the results of operations.

Corporate strategy control at MLP is primarily the responsibility of the Executive Board. Changes and developments in both the national and international markets, as well as the business environment are analysed based on the intensive observation of the competitive environment. Measures are then derived with the objective of ensuring the Group's long-term corporate success.

All key value drivers in MLP's business model are subject to the continuous analysis and active management via a comprehensive system of central and local controlling. The Group strategy and the measures it involves, all of which are set out by the Executive Board, are reflected within the scope of budget and long-term planning as a way of analysing their effects on the business situation. Key developments of internal value drivers, as well as external framework conditions are also modelled using planning and simulation instruments and are then subjected to various scenarios to determine their earnings sensitivity.

Continuous reporting is performed to record the anticipated course of business, so that action can be taken quickly in the event of any negative deviations.

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

Special measures relating to the corona pandemic

The following key measures have been implemented to combat the corona pandemic.

Organisation

In March 2020, the crisis teams were assembled per segment under the leadership of the respective risk manager in accordance with the emergency organisation. Group-wide coordination is performed by the managing directors and members of the Executive Board during regular telephone or video conferences. These events are used to secure joint assessments of the situation, as well as to discuss business developments and how to make effective use of synergies in responding to the crisis.

Establishing crisis mode

When it became clear that COVID-19 had the potential to deliver serious health and economic impacts, comprehensive measures were initiated. The objective was to protect employees, consultants, clients and service providers, as well as to secure operations as a way of assuming social responsibility and helping contain this pandemic.

Reduction of contact

Thanks to flexible technical equipment, most employees are able to work from home. Over the course of the year, the percentage of employees working from home varied on the basis of legal requirements and infection rates. Staff were and still are only expected to be physically present at their workplace when this was/is deemed absolutely essential for operations. Comprehensive security measures have been implemented at the locations to reduce the risk of infection. These measures primarily target compliance with the recommended minimum social distancing and hygiene rules.

Securing process-based and operational stability

Process-based and operational challenges had to be overcome in the transition from working in the office, through hybrid models, all the way up to staff spending most of their working hours at home.

In a first step, the contingency plans were reviewed to determine their suitability for use at home and preparations for the switchover were made. Working from home places greater stress on both the IT and telephone systems. However, measures to stabilise this were implemented quickly.

Client proximity and impact for clients

Our clients required more information and advisory services due to the special circumstances. MLP consultants working from home are also capable of offering client consultations, whereby online consultations via the Flexperto application have been offered since the start of 2020. Due to the general focus at MLP Banking AG on the target group of academics, with a particular emphasis on physicians, the financial impact on our (banking) clients associated with the effects of the corona pandemic is generally less severe when compared with the market as a whole. Increases in exposure and the granting of development loans happened only to a limited extent.

Assessment of the risk and liquidity position

The pandemic is having a particular influence on the counterparty default risks of MLP Banking AG, as well as the operational and general business risks of the Group.

Due to MLP's specific target group, counterparty default risks only increased moderately and the increase in value adjustments was largely influenced by individual measures in the proprietary trading portfolio.

In terms of operational risks, particular attention is paid to scenarios relating to personnel shortages and IT operations, as well as process-based challenges resulting from the necessary adaptations to enable a large proportion of the workforce to work mainly from home.

The risk of major personnel shortages has been addressed by enabling staff to work from home. The illness rate is also subject to continuous monitoring. Operations have been maintained without any major restrictions.

In particular, process-based challenges had to be overcome during the transition period of working in the office, using hybrid working arrangements, through to working entirely from home. Early indicators, such as the number of complaints, displayed an increase at the end of March. However, this was attributable to the volatile markets and difficulties in reaching a service provider.

IT operations remain stable thanks to the measures described above.

The cases of damage recorded in the Group in the financial year 2020 were well below the level we had anticipated.

The risk-bearing ability is essentially influenced by the counterparty default risks. To cater for the risks that have generally increased due to the pandemic, the Executive Board already reached a decision back in March to increase the capital made available to cover risks. Even without this measure, the risk-bearing ability was still secured at all times.

The liquidity situation at MLP remains good. In a precautionary measure implemented at short notice, the buffer for operational liquidity control was increased by 18%. However, cash outflows remained at a normal level.

In summary, all supervisory KPIs were met without having to make use of any optional relief options on the part of the supervisory authorities.

Risk-bearing ability & capital requirements

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 FHG 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 and thereby continuing the business operations of MLP FHG. 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.

By 27 March 2020, the Executive Board made a risk coverage fund available based on the risk coverage potential up to an upper threshold of € 105 million. A further € 10 million was then approved to secure flexible coverage of risks in connection with the coronavirus crisis. The risk coverage fund is used to cover the risk types classified as significant by MLP. These are the counterparty default risk, the market price risk, the liquidity risk, as well as operational and other risks.

With a share of 54.0% and 31.3% 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 the MLP Financial Holding Group

Risk bearing ability	2020 Utilisation (in %)	2019 Utilisation (in %)
Risk and capital commitment	78.3	77.4
thereof:		
Counterparty default risk	78.1	78.7
Market price risk	77.3	61.4
Operational risk	82.6	82.1
Liquidity risk	0.0	0.0

Capital adequacy requirements under banking supervisory law

A consistent minimum ratio of 4.5% continues to be required for the backing of risk assets with eligible own funds for Tier 1 common capital. As in the previous year, these requirements have not changed during the financial year 2020.

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

As in the previous year, MLP FHG has fulfilled all legal requirements relating to the minimum core capital backing during the financial year 2020. The relationship between the risk assets and equity capital on the balance sheet date is illustrated below.

Supervisory KPIs

Shareholders' equity (in € million)	2020	2019
Tier 1 common capital	301.2	289.6
Tier 1 additional capital	–	–
Tier 2 capital	–	–
Eligible own funds	301.2	289.6
Capital adequacy requirements for counterparty default risks	89.6	89.5
Capital adequacy requirements for operational risk	23.5	31.1
Core capital ratio (in %)	21.32	19.21
Tier 1 common capital ratio (in %)	21.32	19.21

Summary

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

Both MLP FHG as a whole as well as the business segments always acted within the scope of their financial risk-bearing ability in 2020.

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

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

The 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 anticipate any negative development for the coming year. No appreciable risks which could have a significant influence on the continued existence of the MLP Financial Holding Group occurred at MLP FHG after the balance sheet date.

Opportunity report

Opportunity management

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

This takes place within the scope of a standardised business strategy process, 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 reviewed and updated by the Executive Board on an annual basis. The current internal and external framework conditions, as well as 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. Other important protagonists in terms of opportunity management are Controlling, which examines the market to detect potential acquisition opportunities, as well as the organisational units of Risk Management and Compliance, which examine potential regulatory changes early on.

Opportunities

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

Opportunities from changing framework conditions

The economic forecasts for the year 2021 suggest only limited opportunities for MLP. Following a decline in economic performance in 2020, the economic experts are anticipating slight growth for Germany in 2021. Should the German economy display significantly better development than assumed in our forecast, this will only have an indirect influence on the operating development at the company in the short term. If the restrictions caused by the corona pandemic come to an end and our business returns to a state of normalisation sooner than we expect, this may have a positive impact, particularly on the acquisition of new customers.

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 must be adapted. However, the regulation also tightens the quality standards required of market actors. In our view, this will accelerate consolidation of the market, as individual brokers will not be able to comply with the stricter requirements. Overall, the number of providers is likely to reduce further. In the past two years in particular, this number has declined by almost 4,200 brokers. At the same time, this development could lead to a situation in which qualified brokers from other market actors display a stronger desire to work for MLP. 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.

The acceptance of digital media triggered by the corona pandemic offers the opportunity that technical efficiency gains can be leveraged even more through increased digital use in the future.

Wealth management, as well as the associated development of the capital markets, is increasingly also influencing the earnings performance of the MLP Group. Should this perform significantly better than anticipated, it could have a positive impact on performance-linked compensation.

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 increasingly focusing on our business with corporate clients and institutional investors. In cooperation with our Group companies DOMCURA, nordias and FERI as well as the occupational pension provision business within MLP Finanzberatung SE, 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 corresponding revenue potential. Its broadly diversified positioning gives MLP an important USP in the private client business. Further developing these opportunities offers important potential for the next few years. Additional increases are also possible, particularly in the wealth management business field, in which MLP clearly sets itself apart from the market through its highly transparent price model, yet also in the non-life insurance business field, in which MLP is developing the business of its subsidiary DOMCURA. In addition to this, there is potential for further developing the real estate business.

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

Business performance opportunities

As a service provider, our operational tasks comprise sales, product selection and sales support. Since the acquisition of a majority stake in DI Deutschand.Immobilien AG and its subsidiaries, 2019 has seen the addition of the project business in the real estate sector.

In terms 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 midterm, 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 business, 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 advice and hold corresponding revenue potential.

The private client business is not the only area in which we see opportunities for winning and supporting new clients. There is also a high demand for independent, professional consulting in the business with corporate clients and with institutional clients, which we have now bundled 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 brokers and other intermediaries in the non-life insurance business and provides comprehensive solutions in the private and commercial sectors – often 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. These include the further development of our consulting applications, even greater support for our consultants – for example in product selection – and even more effective service from the back-office in Wiesloch. Furthermore, the ongoing development of the training programme offered at our Corporate University to our self-employed client consultants, which, thanks to its perfectly tailored modules, fulfils the individual training requirements of the consultants, as well as the completed realignment of the university segment with a clear focus on the recruitment of young consultants are also contributing to this. Should we be more successful in recruiting new consultants than anticipated in our current planning, this could also lead to additional potential. The service centre of our subsidiary MLPdialog also plays a key part. As an underwriting agency, the DOMCURA Group has also extended the added value chain of the MLP Group for standard products in the non-life insurance business field with its processes and expertise and will continue to do so in the 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 in the real estate business that go beyond current planning could arise due to planned projects being implemented more quickly and cost-effectively or indeed through implementation of a greater number of projects. However, these opportunities may be affected by a continued lockdown due to the corona pandemic, in particular by regulatory approvals being delayed as a result of congestion.

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 business model and risk profile. In addition to the already mentioned opportunities from changing framework conditions, corporate strategy and performance opportunities, these can also be corresponding interest rate developments, should the interest rate environment return to a normal state more quickly, contrary to our expectations. However, reductions in loan loss provisions due to economic developments can also represent opportunities. The economic development of individuals or companies due to the corona pandemic can have a limiting effect on this.

In the banking segment, MLP also engages in 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, these can also be associated with risks.

Interest rate developments also have an influence on the 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 manages its interest rate book with the objective of continuing to secure a healthy liquidity situation.

Summary

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

FORECAST

Future overall economic development

In 2021 economic developments will continue to be shaped largely by the coronavirus pandemic. Until a sufficiently large proportion of the global population has been vaccinated against the virus, setbacks due to further waves of the pandemic along with the associated restrictions to business life are to be expected. Improved growth momentum should therefore not be anticipated until the second quarter. Domestic economic forces will then be the key driver of economic dynamism in Germany. FERI Investment Research is anticipating economic growth of 2.7% in Germany for 2021.

Employment market on tough path to recovery

Based on estimates of the Institute for Employment Research of the German Federal Employment Agency (IAB), the situation in the German employment market is likely to improve during 2021 as the economy recovers. Unemployment is set to decline by 100,000 people to 2.6 million based on an annual average. Even then, however, it will still be significantly higher than the pre-pandemic level. In terms of gainful employment, the experts from the IAB are forecasting an increase of 130,000 people.

However, in the long term, the employment market will develop positively, especially for skilled professionals. Basel-based research institute Prognos estimates that there will be a staff shortfall of around 3.9 million people in Germany by 2040, among them 840,000 university graduates and 1.9 million people with vocational qualifications.

Salaries and wages displaying robust recovery

The Tax Estimation Workgroup is forecasting a 3.5% increase in gross salaries and wages for 2021. The disposable income of private households in Germany is increasing by 1.8%. FERI Investment Research is anticipating a continued high savings rate of 15.9% in Germany for 2021 (2020: 18.7%).

Future industry situation and competitive environment

Old-age provision

The old-age provision segment continues to operate in a market environment that is already challenging and has been made even more difficult by the coronavirus pandemic. In the light of short-time work and imminent company insolvencies, it is safe to assume that both private and corporate clients will continue to display reservations when it comes to signing long-term contracts. In addition, there is no end in sight to the low interest rate phase.

In the short term, the coronavirus pandemic remains a factor of uncertainty. According to the results of a YouGov survey, just under a third of German citizens (31%) consider it likely that their old-age provision plans could be negatively impacted by the pandemic and its effects.

However, focus could shift back towards retirement plans in the long term. In its 2020 Pension Insurance Report, the German government stressed that the decline in the level of the statutory pension can only be compensated through supplementary provision and use of state subsidies/allowances. Due to the growing pension shortfall, the market potential remains promising, in particular among MLP's clientele.

Course of the pandemic influencing demand for life insurance

The German Insurance Association (GDV e.V.) is expecting demand for life insurance products to increase once again after the corona pandemic has been overcome. However, the trend towards hybrid products with guarantees is likely to continue. The proportion of classic products with fixed interest guarantees will see a marked decline in terms of new business.

Occupational pension provision holds long-term potential

The course that the corona pandemic takes in 2021 will also have a significant influence on the development of occupational pension provision. However, the interest displayed by corporate clients in occupational pension provision is likely to remain lukewarm at best in the near term. Parallel to this, the pandemic will expedite digitalisation in new business, whereby digital structures and occupational pension provision portals are likely to play a bigger role in shaping the market in the future. However, face-to-face consulting and implementation will remain important for corporate clients.

The German government has provided positive impetus in the context of approving the basic pension by doubling its support for occupational pension provision from a maximum of € 144 to € 288. By taking this step, the government has created a stronger incentive for the creation of an additional employer-financed occupational pension provision concept.

The legislation to strengthen occupational pension provision in Germany (BRSG), which came into force in 2018, will also have an influence here. After all, a transitional arrangement stipulates that the new compulsory employer subsidy will also become binding for all existing contracts as of 1 January 2022.

Depending on how the pandemic progresses and the economy develops, the German Insurance Association (GDV e.V.) is forecasting a development in gross premiums of between +3.0% and –7.0% for life insurance policies in 2021.

Wealth management

For the investment year 2021, FERI is expecting the global economy to overcome the coronavirus pandemic and resume a clear growth course. FERI cites the imminent deployment of effective coronavirus vaccines, huge economic stimulus packages in both the US and Europe, strengthened growth in China, as well as the ongoing period of low interest as the key factors supporting this. The positive trend on the global stock markets should then continue. However, it is impossible to rule out negative surprises in terms of interest rates, which could in turn serve to dampen the favourable stock market environment.

Assets on long-term growth trajectory despite the crisis

Based on a recent survey undertaken by management consulting firm Boston Consulting Group (BCG), the corona pandemic could potentially bring the worldwide growth in private assets to a standstill. However, an analysis produced by management consultancy zeb indicates that this is likely to rise again in the long term. The company cites global megatrends – such as expansion of the middle classes, an increasing number of high-net-worth individuals (HNWI), the ongoing shifting of funds from deposits to financial assets, increased life expectancy and longer pension terms – in support of this. The need for high-quality wealth management services is therefore likely to increase in the long term despite the crisis.

Inherited wealth continuously increasing

Around ten percent of all adults in Germany have received at least one inheritance or major gift in the past 15 years. This was determined by the German Institute for Economic Research (DIW). According to this, the average amount of these inheritances in real terms is a good € 85,000 per person, and € 89,000 for gifts. Compared to 2001, inheritances and gifts have increased on average by about 20 per cent in real terms. The structure of MLP's client base means that the volume should be above average here.

Investors focussing on sustainability

Based on estimates of the investment experts at FERI, sustainable investment strategies offer great market potential and are developing into a dominant trend in the investment industry. A planned amendment to the MiFID II stipulations states that investment advisors will be obligated, likely from the start of 2022, to query the "sustainability preferences" of their clients. According to a survey performed by asset management firm Blackrock, institutional investors such as pension schemes, insurance companies, foundations, pension funds, sovereign wealth funds and family offices are keen to more than double their sustainably managed assets from 18 percent as things stand today to 37 percent by 2025. MLP has already been offering a range of sustainable funds since 2012 and these are set to be further expanded in 2021.

Institutional investors increasingly choosing private assets

Due to major economic concerns associated with the coronavirus pandemic, and also in an attempt to diversify their portfolio, institutional investors are keen to channel more funds into private assets or alternative investments in the future. These are the conclusions of the Schroders Institutional Investor Study 2020. Private equity, infrastructure equity and private debt are the three most important investment segments here.

Within this context, we expect to see an increased need for professional consulting services in the field of wealth management among all of the Group's target client groups for the financial year 2021.

Non-life insurance

Non-life insurance will remain very important both for the market as a whole and for independent brokers. According to a recent survey undertaken by AssCompact, almost half of respondents expect the relevance of the private property and casualty business to remain at its current high level in the next five years. In terms of sales, the importance of the property and casualty business has been continuously rising over the last five years.

Risk of natural disasters on the rise

Based on estimates of the German Insurance Association (GDV e.V.), increased awareness of natural hazards could have positive effects on the demand for corresponding insurance products. For example, the GDV is anticipating a stronger demand for insurance coverage that offers protection from natural disasters due to the ever-increasing incidence of extreme weather conditions.

Based on forecasts of the German Insurance Association (GDV e.V.), demographic developments are increasing demand for assistance products and services in the field of property and casualty insurance – particularly among older sections of the population.

Assistance services in greater demand

Cyber attacks are still on the rise. According to the "Marsh Insurance Market Report for Germany", almost half of all companies fell victim to cybercrime in 2019. A survey undertaken by AssCompact also indicates that more than three quarters of all independent brokers operating in the commercial property and casualty business are anticipating a positive sales revenue trend for commercial cyber insurance policies over the next three years.

Growth market of cyber insurance

According to data published by the German Insurance Association (GDV e.V.), process optimisations and the use of artificial intelligence (AI) will help make procedures more efficient and affordable in the future, particularly in terms of claims management. This in turn should create scope for new offers. However, the cost decreases could potentially lead to reductions in the price structure in an intensive competitive environment.

Digitalisation as the main driving force behind change

The Allianz Global Insurance Report 2020 forecasts that the topic of sustainability is likely to develop into a key factor for the entire industry. The trend towards sustainable insurance products and the importance of ESG factors will increase, thereby also opening up new market opportunities in the non-life insurance business.

ESG criteria offer new market opportunities

Overall, the German Insurance Association (GDV e.V.) expects gross premium income in the property and casualty insurance field to display development of between –3.0% and +1.8% for 2021. The Allianz Global Insurance Report 2020 expects the premium volume to return to pre-corona pandemic levels as early as in 2022.

Health insurance

Access to private health insurance will also be further restricted in 2021 as a result of the increase to the statutory insurance limit from € 62,550 to € 64,350 per year. Only those employees with income above this threshold will have the opportunity to switch over to private insurance. Anyone earning less than the threshold is subject to compulsory insurance in the statutory health insurance system.

Due to a billion-euro hole in the statutory health insurance funds due to the coronavirus pandemic, members should expect to pay higher premiums from 1 January 2021 onwards. The average additional premium for 2021 is likely to increase from 0.2 percentage points to 1.3%.

Statutory health insurance funds: premiums on the rise

As highlighted by the "Continentale Survey 2020", the vast majority of those paying into the statutory health insurance system are worried about the future of the healthcare system in Germany. 81% fear that securing good health provision is likely to cost a lot of money on top of their statutory health insurance premiums. Some 73% therefore consider private provision crucial.

Private health provision remains in demand

Occupational health insurance is slowly starting to pick up speed. Based on figures provided by the Association of Private Health Insurers, the number of companies that offer their employees additional insurance cover of this kind more than tripled between 2015 and 2020. According to the Association of Private Health Insurers, some 1.04 million persons had occupational health insurance provision in place as of 31 December 2020 (+18% compared to the previous year). The number of employers offering occupational health insurance increased by 29% over the previous year to 13,500. In a survey performed by AssCompact, 49% of brokers surveyed indicated that occupational health insurance will become increasingly important in future.

Occupational health insurance offers potential

In its current market outlook, Assekurata rates the business expectations of comprehensive private health insurance as negative overall. However, the field of supplementary insurance is likely to provide positive stimulus here, above all in the areas of supplementary dental insurance, outpatient hospital tariffs, as well as supplementary long-term care insurance.

Real estate

Based on estimates provided in the survey "Living in Germany 2020", produced by the Sparda banks, the real estate market in Germany is still likely to display robust development even after the coronavirus pandemic. The demand for property is continuing to increase and remains consistently high, particularly in major cities. Accordingly, the survey also highlights an increasing future need for construction work in the urban centres, as well as the areas immediately surrounding major cities.

Trend towards smaller households

There is no end in sight for the boom, even in the long term. Demand for housing will continue to rise up to 2040 and beyond. This is the conclusion of the "Real Estate Forecast 2060" published by the University of Freiburg. According to information provided in the survey, the trend towards smaller households will continue to drive demand for decades. In many regions, strong demand will be leading to significant residential property appreciation.

Based on projections of the University of Freiburg, real estate prices will continue to rise until 2030 – particularly in urban centres and prestigious locations. These more popular areas should even expect to see property prices continue to increase until 2060. In many regions, strong demand will be leading to significant residential property appreciation.

Property purchasers facing challenges

The Real Estate Sector Autumn Report 2020 is forecasting that pronounced increases in both land prices and construction costs will also lead to a significant rise in residential property purchase prices in many locations. Despite affordable interest rates, property purchasers are finding it increasingly difficult to secure loans and mortgages - not least due to the stricter equity and creditworthiness requirements encountered during the application process.

Need for senior citizen housing rising

Properties with nursing care are becoming increasingly popular as an investment. In the course of demographic developments in Germany, the need for in-patient nursing care is set to rise to 3.51 million patients by 2060. This is the estimate of real estate research specialist Bulwiengesa. Accordingly, the number of citizens specifically receiving in-patient care as a percentage of all those requiring nursing care is likely to increase from 31% to 73%. Housing suitable for senior citizens will cease to be a niche product over the course of the next few years and instead form the focus of housing construction policy. After all, the current housing stock is simply not fit for purpose. Indeed, only 3.4% of the housing stock of households with persons of retirement age is currently easily accessible (barrier-free access).

The growing pressure of demand is already being reflected in the returns in the market for properties with nursing care. According to data provided in the Real Estate Sector Autumn Report 2020, the prime yields for nursing homes are currently at around 4.3% or 3.5% for assisted living.

Loans and mortgages

The prime rate of the European Central Bank (ECB) has been at a record low of zero percent since March 2016. No end to the low interest rate phase is currently in sight. According to a survey of 71 economists performed by international news organisation Reuters, the ECB is likely to stick to its zero percent policy at least until the end of 2021. In terms of the prime rate, the vast majority believe that the so-called deposit rate is also likely to remain at –0.5% in Q4 2021.

Construction interest rate remains low

The experts at Interhyp are only anticipating a slight increase in the mortgage rate in the second half of 2021 at the earliest.

According to our estimates, demand for real estate will remain high. The need for housing suitable for the disabled and elderly will also increase continuously. Investments in property with nursing care are therefore enjoying great popularity and are also considered a secure form of financial investment by banks. Accordingly, we expect demand for loans and mortgages to remain high overall.

Demand for real estate supports financing growth

Competition and regulation

In 2019, the German Federal Ministry of Finance (BMF) presented a draft bill for capping commission in the life insurance sector and for credit life insurance policies. However, the matter has not yet been dealt with by the cabinet. The political discussion in this regard is ongoing. Whether and when the parliamentary process is picked up again in the parliamentary term is impossible to predict. As such, there is unlikely to be any direct impact on MLP's operating business in the field of old-age provision in 2021.

Sluggish parliamentary process regarding legislation to cap insurance commission

A draft bill of the German Federal Ministry of Finance (BMF) to transfer supervision of financial investment brokers to the Federal Financial Supervisory Authority (BaFin) was published at the end of December 2019. Accordingly, transfer of supervisory duties is scheduled for 2021. As a financial institution and provider of a liability umbrella for its investment advisers, MLP Banking AG has already been supervised by the Federal Financial Supervisory Authority (BaFin) for years. The planned regulatory step, a government policy that is set out in the coalition agreement, therefore applies exclusively to other market members. The draft bill has been the topic of much controversial debate in Berlin's political landscape.

Transfer of supervisory duties for financial investment brokers to the Federal Financial Supervisory Authority (BaFin)

Following a comprehensive internal discussion, the CDU passed a resolution at its party conference in November 2019 to grant a phase for improving penetration of the Riester pension, which has also been criticised by its government partner, among the general population. It is demanding an increase of around 30% over the current situation within three years. Those involved all agreed that various improvements to the current structure of Riester pensions were necessary for this, including the relaxation of the fixed premium guarantee that is currently reducing returns considerably in the low interest rate environment. The CDU is holding discussions with the coalition partner SPD on modernising the Riester pension. It is not yet possible to predict whether and when any legislative action will result from this. However, MLP believes that Riester pensions can still be a prudent old-age provision component for our clients in many cases.

Planned modernisation of the Riester pension

The regulation on sustainability-related disclosure requirements in the financial services sector, published in the Official Journal of the EU in December 2019, will be adopted for the first time from 10 March 2021. The objective of this regulation is to inform investors more effectively of the extent to which providers and brokers of financial investments take into account sustainability considerations.

Sustainability-related disclosure requirements in the financial services sector

It is to be implemented by means of amendments to the disclosure requirements, the MiFID II and the IDD, as well as a whole host of new regulations, such as a label for green financial products, a uniform EU classification system, new EU benchmarks and various EU standards for non-financial reporting. The first step will focus on the disclosure requirements, whereby financial market participants and financial consultants are obligated to disclose in their "precontractual information" how sustainability risks are considered when reaching investment decisions or when providing investment/insurance consulting services. The MLP sales and consulting process will also need to be extended continuously to include further sustainability aspects.

Information, analyses and investment parameters associated with the Sustainable Development Goals (SDGs) are also incorporated in various phases and steps at FERI throughout the entire investment process. FERI is already proactively offering its clients various services that grant them transparency in terms of the degree of compatibility and support of their investments in connection with the UN SDGs and allow them to increase this at the various stages of the investment process. The extent to which SDG compatibility can be increased depends on the respective investment objectives and restrictions of the clients.

In certain circumstances, the new legislation can have effects on the companies incorporated in the supervisory scope of consolidation, and thereby on the capital adequacy of the MLP Group, due to regulatory guidelines of the Capital Requirements Regulation (CRR II) and Capital Requirements Directive (CRD V).

Adjustments to capital adequacy requirements through regulatory changes

Over the next few years, the regulatory bodies are likely to continue working on ways to make the costs associated with financial products more comparable for clients, while clients themselves are likely to become more conscious about costs and consulting quality overall. Fee-based consulting in particular is likely to remain an important topic in the world of politics. MLP today already offers fee-based consulting in those areas in which we sense corresponding demand on the part of our clients, such as retirement planning.

Further regulation to be anticipated

In the field of investment advisory services, the Fee-Based Investment Advice Act, which came into force in 2014, has not had any appreciable effects to date due to the continued application of non-competitive provisions pertaining to historic policies. However, should any further market potential actually materialise here, MLP is already well-positioned to handle this, as new wealth management business is already remunerated on a fee-like basis at MLP.

MLP has already implemented numerous requirements that will become binding law in future. But irrespective of this, the regulatory developments will certainly represent a challenge overall and lead to additional implementation costs.

Well prepared to handle new regulatory requirements

Anticipated business development

Worldwide economic performance in 2020 was marked by the global corona pandemic. Overcoming the pandemic and its consequences will continue to have an impact in the coming year. In terms of its own business development, MLP does not expect things to normalise again until the second half of 2021.

There is still a strong demand for value-maintaining, broadly diversified investment opportunities, especially among clients that already have assets. The current market environment with very low prime rates and negative real interest rates is playing a key part here. We are not anticipating a general change in this environment in the foreseeable future. Over the course of the next few years, we generally expect to see an increased need for consulting services in the field of professional wealth management among all the Group's target clients. 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 considerable growth opportunities through the massive potential of this consulting field among our client base at MLP. At FERI, we are continuing to also benefit from the comprehensive expertise in alternative forms of investment. However, in light of low interest rates and a moderate economic growth, the capital market environment is likely to be dominated by pronounced volatility and remain challenging in the financial year 2021. Moreover, we also expect performance-linked compensation to be significantly lower again in 2021 following its pronounced increase in 2020. The MLP Group therefore anticipates revenue development in this consulting field to remain stable overall.

Despite all uncertainties, demographic developments still hold massive long-term potential for MLP. For example, in Germany we are generally still expecting to see an increase in demand for both private and occupational pension provision policies. In the old-age provision field of consulting, 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. As a result of the corona pandemic, we are still anticipating a negative influence on this consulting field, especially in the first half of 2021. The strengthening of our young segment, on the other hand, is likely to provide major positive stimulus. Alongside insurance cover, our consultants are also starting to broker initial provision modules here. We are also anticipating a general recovery in new business for occupational pension provision in 2021 in comparison with 2020, which was a relatively weak year and dominated by the coronavirus pandemic. We are expecting support from our digital occupational pension provision portal for small and medium-sized companies too. This portal makes it easier for employers to manage their occupational pension provision contracts, while providing employees with clearly structured and compact information on their company's occupational pension provision offers. Following the decline observed in 2020 due to the corona pandemic, we are anticipating overall new business and old-age provision revenue to be slightly above the previous year's level in the financial year 2021.

We also see further growth potential in non-life insurance, both on the concept side (DOMCURA) and from a sales perspective (MLP Financial Consulting), as well as in cooperation with our sales partners. Following the successful introduction of package products by DOMCURA in the private client arena in previous years, further improved offers were also introduced for residential building insurance. We see potential here, especially in the context of the "Lebenswelt Wohnen" residential living environment, which DOMCURA specifically caters to. There is also great growth potential in the client base at MLP, with, among other things, portfolio acquisitions. Overall, we therefore expect a significant increase in revenue in the non-life insurance consulting field for 2021.

Market conditions in the field of health insurance are unlikely to display any significant improvement in the short-term. The supplementary insurance consulting field continues to hold growth potential. We also believe that the occupational health insurance consulting field has a promising future. As a whole, we expect revenue in the field of health insurance to remain stable in 2021.

As part of a diversified investment strategy and due to the low interest rates, we continue to view investment properties as a good investment option for our target group. Indeed, we see particularly great growth potential in the brokerage of new buildings and concept-driven properties. This applies especially to nursing care and senior citizen housing. With DEUTSCHLAND.Immobilien, we have acquired special expertise in this field, as well as existing business through the affiliated brokers. We are also benefiting from an extended product range for our consultants. Following restrictions due to the corona pandemic, particularly in the project business, we are anticipating catch-up effects and further upwards movement in terms of revenue development for 2021 as result of the consistently high demand for real estate. In concrete terms, we expect the brokered volume and sales revenue to increase significantly in 2021.

Owing to the ongoing high demand for home ownership, we expect largely unchanged development in the loans and mortgages field of consulting for the year 2021 with revenue remaining at the same high level as recorded in the previous year.

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

Analysis of revenue performance 2021 (compared to the previous year)

2021	
Revenue from old-age provision	Slight increase
Revenue from wealth management	Unchanged
Revenue from non-life insurance	Sharp increase
Revenue from health insurance	Unchanged
Revenue from real estate	Sharp increase
Revenue from loans and mortgages	Unchanged

Continuation of the growth initiatives

MLP will continue to drive forward the strategic further development of the previous years. Initiated and successful growth activities will be continued to this end.

Focus still on physicians

In 2020, we have started to focus our activities more on the physician market, among other things by further developing the target group segment of entrepreneurial physicians, the diversification of activities in the field of classic practices, expansion of association work and cooperations, as well as intensification of the qualification measures for MLP consultants. We will continue along this path in 2021.

Further acquisitions possible

Consolidation is taking place in the market of MLP Finanzberatung SE's line of business. Regulation and margin pressures are motivating many market members to rethink their strategic positioning. MLP sees itself as a proactive participant in the market consolidation in this area. We focus our acquisition interest on companies that will help us further diversify our service offering, yet also on those that can contribute to expanding our proportion of recurring revenue. However, horizontal acquisitions are to be reviewed in detail, as the structure and culture of these companies must suit MLP. There are also opportunities for vertical acquisitions, i.e. for extending or strengthening the added value chain, in MLP Finanzberatung SE's line of business. Acquisitions and joint ventures are also conceivable in the markets of FERI and DOMCURA, facilitating profitable inorganic growth and strengthening of the respective business models.

Further wealth management functionalities are to be integrated and gradually expanded in MLP's online client portal in 2021. Alongside a modern appearance and intuitive operation, clients are also to be offered lots of options for analysing and optimising their investments.

Consistently pushing ahead with digitalisation – online client portal being extended

Recruitments of new consultants therefore remains a focus topic in 2021 and beyond. The young consultants have successful and experienced consultants at their side in the form of regional managers and "university team leaders". Moreover, we have optimised the training and qualification offers for this group of consultants. The process for joining MLP has also been significantly optimised for consultants with professional experience, making it even easier to make the switch to MLP. With these greater investments, we will create the basis for future growth in terms of consultants, revenue and income, which will essentially take effect from 2022 onwards.

Recruiting remains in focus

To this end, we aim to strengthen our recruiting activities via our online presence (including expansion of active sourcing activities). We are also anticipating a net increase in our number of consultants for 2021. However, it is important to note that our overall estimate is based on annual employee turnover of around 10%.

We believe that the high quality of our qualification and training measures for our consultants will continue to be the key to success. Indeed, we offer our consultants a programme that far surpasses the legally stipulated level. Despite the restrictions associated with the effects of the corona pandemic in 2020, we are still expecting to achieve a slight increase in the number of central training days (including online seminars) at our Corporate University compared to the last financial year. This also applies to the total budget for qualifications and further training. We are anticipating expenses of around € 14 million for this in 2021.

We will apply a system of consistent cost and process management over the next few years to support our operational growth. Expenses will primarily be accrued within the scope of investments in the future, such as recruitment of young consultants in the course of strengthening the university segment, as well as in IT for ongoing implementation of our digitalisation strategy.

Consistent efficiency management programme supports growth strategy

Forecast

A consistent cost management approach is one of the pillars for continuously growing profitability. Despite additional investments in our own future, above all in the university segment, administration costs were only slightly above the previous year's level in 2020. The efficiency measures implemented in the past are showing their effects here.

Slight increase in admin costs

We will continue to develop and optimise MLP in 2021. The forecast administration costs therefore still include expenses for investments in the future, in particular for recruiting young consultants within the scope of expanding the young segment. We have spent around € 30.0 million on this since 2018. We have quite consciously sacrificed short-term earnings growth here so as to strengthen our future earnings potential. As planned, we are anticipating additional expenses of around € 14.0 million for this in the financial year 2021. At the same time, we are expecting to reach the break-even point for the first time in this field in 2021 through an increase in sales revenue. Added to this are further investments, in particular in IT, which are largely necessary for the further implementation of our digitalisation strategy. Overall, we expect a constant development of administrative costs.

Against the background of our anticipation of the significant increase in project business in the field of real estate, we are also anticipating a considerable rise in expenses for purchased services from the project business. Overall, we expect to record a slight increase in expenses for the commission business. We forecast a strong increase in expenses for the project business due to the expansion of the business.

We are once again anticipating a significant decrease in the item "Valuation result/loan loss provisions" in the coming year.

Forecast 2021: EBIT expected to remain stable after very strong development

Based on our expectations for revenue and costs, and against the backdrop of the very strong increase in earnings in 2020, we expect EBIT to remain stable overall in the 2021 financial year - despite continued extensive investments, especially in our young segment, but also in the further implementation of the digitalisation strategy. This forecast is based on the assumption that the framework conditions in our core markets will not become significantly worse and that the altered business conditions resulting from the corona pandemic will normalise in the second half of 2021.

Mid-term planning: significant increase in EBIT still anticipated

We expect to record a further marked increase in EBIT in the mid-term – up to 2022 – and will primarily benefit from the strengthening of the young segment and significant expansion of the real estate business.

As was already the case in the previous year, we expect the finance cost to decline further in 2021. The tax rate was 23.2% in 2020. We are anticipating a tax rate of between approximately 28% and approximately 30% for 2021.

Dividend of € 0.23 per share

MLP's objective is to enable our shareholders to participate fairly in the company's success, as well as to pay an attractive and reliable dividend corresponding to our dividend policy, whereby the company's financial and earnings position, as well as its future liquidity requirements are determining factors for our dividend policy. 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.

On this basis, the Executive Board and Supervisory Board will propose a dividend of € 0.23 per share to the Annual General Meeting on 24 June 2021. The payout ratio is around 58% of Group net profit. We are keen to continue paying out between 50% and 70% of Group net profit in the 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, sufficient internal financing capacity is therefore in place for the forecast period. However, we can also supplement this by borrowing adequate funds should suitable opportunities present themselves. 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.

We will continue to make investments in the future, above all in our IT systems. We expect to be able to finance all investments from cash flow.

Slight increase in return on equity anticipated

The return on equity increased to 9.5% (8.7%) in 2020. Assuming unchanged shareholders' equity, we are anticipating the return on equity to decline again to the level of 2019 (8.7%).

The overall liquidity situation remains good. Liquidity will be reduced by the intended dividend payment of € 25.1 million for the financial year 2020. It will increase again in the second half of 2021 thanks to the typical year-end business. Acquisitions which are largely financed through our 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 2021. At the same time, we will increasingly benefit from the future-oriented strategic alignment of the Group, which we have expedited in the last few years. Thanks to the successful further development, above all in the young segment and the real estate business, we expect EBIT to remain stable in 2021 against the backdrop of the significantly stronger than expected increase in earnings in 2020. 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.

Our expectations are based on the conviction that the changed circumstances due to the corona pandemic, will largely normalise again in the second half of 2021. However, MLP is keeping its eye on potential effects and continuously assesses their potential influence on business.

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 different kinds of 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 (DISCLOSURES BASED ON HGB)

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

Business and general conditions

General company situation

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

Five key subsidiaries are arranged under the umbrella of MLP SE. The brokerage business is now under one roof at MLP Finanzberatung SE. 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 corporate clients in the non-life insurance consulting field. With the acquisition of the DOMCURA Group in 2015, MLP also acquired several brokers in the commercial non-life insurance field alongside the primary underwriting agent business. As the parent company of further brokerage firms, nordias GmbH Versicherungsmakler is home to further brokers in the commercial non-life insurance sector. 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 € 5.4 million (€ 5.3 million), revenue remained slightly above the previous year's level. Revenue essentially comprises rental income from affiliated companies. At € 3.7 million (€ 4.2 million), other operating income stood slightly below the previous year's level.

Personnel expenses declined to € 6.3 million (€ 7.0 million) in the last financial year. Tax reserves remained virtually unchanged at € 2.6 million (€ 2.5 million). Other operating expenses grew to € 9.5 million (€ 9.0 million). Earnings before interest and taxes (EBIT) were € –9.3 million (€ –9.0 million).

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

The finance cost in the reporting year was € 53.6 million (€ 31.7 million) and as such significantly higher than in the previous year. This can essentially be attributed to income from profit/loss transfer agreements, which increased by 64% to € 52.9 million (€ 32.3 million) in the reporting year. Following deduction of income taxes of € 10.8 million (€ 2.2 million), this resulted in net profit of € 33.3 million (€ 20.5 million). No withdrawal (€ 2.5 million) from retained earnings was performed in the reporting year, leaving unappropriated profit at € 25.1 million (€ 23.0 million).

Net assets

As of the balance sheet date on 31 December 2020, the balance sheet total of MLP SE was € 415.9 million (€ 402.2 million).

On the assets side of the balance sheet, the item "Property, plant and equipment" declined slightly to € 29.4 million (€ 31.5 million). This was essentially due to depreciation and amortisation expenses. Tax reserves remained unchanged at € 242.3 million (€ 242.3 million). The receivables and other assets increased markedly to € 79.9 million (€ 33.7 million). This is essentially due to an increase in receivables from affiliated companies, which more than doubled to € 76.2 million (€ 31.9 million). This is primarily attributable to receivables from subsidiaries of MLP SE, resulting from profit/loss transfer agreements in place with these companies. Other assets grew to € 3.7 million (€ 1.8 million).

On the equity side of the balance sheet, shareholders' equity increased to € 378.1 million (€ 367.7 million) as a result of the increase in unappropriated profit. The share capital and capital reserves remained unaltered at € 109.3 million (€ 109.3 million) and € 139.1 million (€ 139.1 million) respectively. At € 104.6 million (€ 96.4 million), retained earnings were on a par with the previous year. Unappropriated profit increased to € 25.1 million, following € 23.0 million in the previous year.

Provisions increased to € 31.9 million (€ 24.6 million), with pension provisions and similar obligations rising slightly to € 14.4 million (€ 13.1 million). Provisions for taxes rose to € 10.6 million (€ 6.0 million). Liabilities fell to € 5.9 million (€ 9.8 million), which can essentially be attributed to a decline in other liabilities to € 2.6 million (€ 6.8 million). This item is mainly made up of tax liabilities, which dropped to € 1.7 million (€ 6.0 million). Liabilities due to affiliated companies increased to € 2.2 million (€ 2.1 million).

Financial position and dividends

As of the balance sheet date, 31 December 2020, MLP SE had cash holdings (cash on hand and on deposit with the Deutsche Bundesbank, bank deposits and cheques) of € 64.1 million (€ 94.4 million). This item was reduced by the dividend payout to our shareholders at € 0.21 per share and a total volume of € 23.0 million. The profit transfers from our subsidiaries had the opposite effect.

At 90.9% (91.4%), the equity ratio remained at the previous year's level. MLP SE therefore continues to enjoy a good equity capital backing.

The liabilities of MLP SE declined to € 5.9 million (€ 9.8 million), essentially due to lower tax liabilities and liabilities due to affiliated companies. Almost all liabilities at MLP SE are current liabilities. Cash and cash equivalents therefore exceed current liabilities more than ten times.

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% and 70% of net profit of the MLP Group. In concrete terms, the Executive Board and Supervisory Board will propose a dividend of € 0.23 per share at the Annual General Meeting on 24 June 2021. This corresponds to a distribution rate of around 58% of the Group's 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. We therefore refer to the comparison with the forecast business performance of the MLP Group.

Despite market conditions that generally remained difficult for its subsidiaries, on the whole MLP SE was able to meet its own objectives and expectations in 2020.

Research and development

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

Employees

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

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

Compensation report of MLP SE

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

Risks and opportunities at MLP SE

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

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

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

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

Forecast for MLP SE

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

Explanatory Report on the Disclosures Pursuant to Sections 289a (1), 315a (1) of the German Commercial Code (HGB)

The explanatory report on acquisition-relevant disclosures applies equally to MLP SE and the MLP Group. In this respect, we refer to the explanatory report on the disclosures in accordance with §§ 289a (1), 315a (1) of the German Commercial Code (HGB) of the MLP Group.

Declaration of Corporate Governance pursuant to § 289f of the German Commercial Code (HGB)

The Declaration of Corporate Governance applies equally to MLP SE and the MLP Group. We therefore refer to the MLP Group's Declaration of Corporate Governance.

EXPLANATORY REPORT ON THE DISCLOSURES PURSUANT TO SEC. §§ 289a ABS. 1, 315a ABS. 1 HGB

Composition of capital

As of 31 December 2020, 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 three shareholders who directly or indirectly exceeded 10% of the voting rights:

	Number of shares*	Shareholding*
Dr h. c. Manfred Lautenschläger, Gaiberg[1]	29,883,373[1]	27.33%[1]
Angelika Lautenschläger, Gaiberg[2]	31,883,373[2]	29.16%[2]
Angelika Lautenschläger Beteiligungen Verwaltungs GmbH, Gaiberg	22,796,771	20.85%

* Status known to MLP SE as of 31 December 2020

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

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

Shares with special control rights

Shares that 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 revoke the appointment of a member of the Board before the time in office expires for an important reason. Such a 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 Chairperson and one or more Vice Chairpersons.

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 to the company's Articles of Association for which only a simple majority is required for stock corporations incorporated under German law (AG), § 19 (4) of the company's Articles of Association provides in deviation from § 179 (2) Sentence 1 of the German Stock Corporation Act (AktG) 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, unless mandatory legal provisions require a greater majority, provided 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 relate to the formulation thereof.

Authority of the Executive Board to issue or buy back shares

A resolution passed by the Annual General Meeting on 14 June 2018 authorised the Executive Board, with the Supervisory Board's approval, to increase the company's share capital by up to € 21.5 million in total by 13 June 2023 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.

If the share capital is increased in return for cash contributions, shareholders must be granted subscription rights. However, the Executive Board has been authorised, with the approval of the Supervisory Board, to exclude the subscription 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 29 June 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 company's share capital during the authorisation period up to 28 June 2022. Based on this authorisation, MLP Finanzberatung SE – a 100% subsidiary of MLP SE – acquired 382,000 shares up to 28 February 2018 following authorisation by the Annual General Meeting on the basis of an Executive Board resolution and with the consent of the Supervisory Board of MLP SE. It then issued 377,876 of these shares to commercial agents working for MLP Finanzberatung SE within the scope of a participation programme. Based on this Annual General Meeting, MLP Finanzberatung SE then once again acquired a further 163,900 shares in December 2018 in accordance with the Executive Board resolution and with the consent of the Supervisory Board of MLP SE. A further tranche of 372,309 shares was then bought back in the period from 1 January to 1 March 2019. In April 2019, a total of 539,947 shares were then transferred to commercial agents working for MLP Finanzberatung SE. With the consent of the Supervisory Board, the Executive Board acquired further shares from January 2020 onwards. These shares will be used to cover consultant entitlements resulting from the 2019 participation programme. In the time from 2 January up to and including 11 February 2020, a total of 566,000 shares were bought back. In April 2020, a total of 557,886 shares were then transferred to commercial agents working for MLP Finanzberatung SE as part of the 2019 participation programme. With the consent of both the Executive Board and the Supervisory Board at MLP SE, the Executive Board at MLP Finanzberatung SE approved the share buyback in the first quarter of 2021. The redeemed shares are to be used to cover consultant entitlements in connection with the 2020 participation programme. MLP Finanzberatung SE still held 8,500 shares on the reporting date of 31 December 2020. These shares and further bought-back shares are then once again to be issued to the commercial agents working for MLP Finanzberatung SE within the scope of a participation programme – this is likely to take place in the second quarter of 2021.

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 Chief Executive Officer, 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 compensation 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 compensation to be paid in the event of a "change of control" corresponds to no more than twice the average compensation, based on the total compensation of the last full financial year prior to termination of their contract and the total anticipated compensation for the year still in progress when their contract is terminated. The service contract of Dr Schroeder-Wildberg is set to run until 31 December 2022, the service contract of Mr Manfred Bauer is set to run until 30 April 2025 and the service contract of Mr Reinhard Loose is set to run until 31 January 2024. 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 compensation transparency – appendix to the management report

In line with the requirements of § 21 of the Transparency of Pay Act (EntgTranspG), the following provides information on both equality and equal pay at MLP. Within the 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. Set against this background, reporting is only performed regarding those employees that cannot be classed as executive employees pursuant to § 5 (3) of the Works Constitution Act (BetrVG). These represent approximately 64.31% of all employees in the MLP Group.

A "pay system" works agreement has been in place at MLP since November 2015. During this process, the various positions below the level of division leader were assessed based on abstract criteria and then assigned to a total of 10 salary brackets.

While introducing the pay system at MLP, and in particular with the assignment of job types to the various salary brackets, MLP gained statistical conclusions that enable the provision of information regarding gender-equal pay 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 pursuant to the Transparency of Pay Act (EntgTranspG), as is MLP's pay system. This means that any notion of gender-based discrimination is already ruled out in the pay system employed by MLP.

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

In connection with the lower brackets it was determined that female employees were over-represented in terms of total numbers. This means that the predominant share of all employees whose actual pay 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 2017. By taking this voluntary step, the Executive Board contributed to increasing gender equality in terms of pay.

In the upper 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 those MLP employees whose current annual pay 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 Pay 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, rectification of this situation is difficult. There are limits as to what MLP can achieve here 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. In the financial year 2020, the Executive Board approved a concept for increasing the percentage of women at management levels within the company. The individual measures within the package of measures are set to be implemented by the end of 2022. The objective is to achieve a gender balance at the individual management levels in the company.

The term "pay gap" is used in the public discussion to describe the delta between the pay of men and that of women. Although a precise definition of this term and the factors to be taken into consideration has not yet been provided, the German Federal Statistical Office nevertheless states a figure of 6 percent as an "adjusted pay gap" (figure from 2018, as the calculation can only be performed every four years as per press release #484 of the German Federal Statistical Office from 8 December 2020).

According to information provided by Compensation Online, the cooperation with Germany's Federal Ministry of Family Affairs, Senior Citizens, Women and Youth expired at the end of 2019. The compensation monitor of Compensation Online, which we had used for our first report on pay transparency due to the adjusted pay gap it stated, broken down by sectors, has therefore no longer been updated since 2020. This data basis is therefore no longer available. The unadjusted pay gap between men and women, weighted according to salary bracket and number of persons, was around 2.96% at MLP at the end of 2020. To determine this percentage value, the average pay of men per salary bracket was compared with the corresponding average pay of women and the resulting individual values weighted on the basis of the number of incumbents per salary bracket. The obvious adjustment factor is age. On average, the men at MLP are approximately 1.9 years older than the 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 influences 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 pay gap at MLP was therefore approximately 1.14%.

Even if a pay gap, adjusted for age differences, that disadvantages female employees were to exist at MLP, it would be significantly below the "adjusted pay gap" of the German Federal Statistical Office applied here. Since further adjustment factors also come into consideration as per the German Federal Statistical Office, there are good reasons to suggest that a pay gap at MLP, if it even exists, is not of significant magnitude.

No systematic gender-specific pay discrimination that would disadvantage female employees can be detected in the individual departments at company HQ. Generally speaking, there are job types with higher average pay for women, as well as job types in which men generally receive higher average pay in large parts of MLP Banking AG and MLP Finanzberatung SE. However, no valid blanket statements can be made about this for the branch office staff which is spread out across 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 end of 2020, 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. With regard to 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 pay discrimination" is prevalent at MLP.

With the Transparency of Pay Act (EntgTranspG), employers with more than 500 employees are requested to perform their own company audit with the aim of reviewing their pay systems in terms of compliance with the equal pay principle. The legislator's intention is for auditing processes of this kind to be performed 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 compensation. Any disadvantage to individual female employees that is identified should then be addressed with suitable measures on the part of the employer.

MLP performed an audit process of this kind on a voluntary basis in 2017 for the joint operations of MLP SE, MLP Banking AG and MLP Finanzberatung SE. Details on this are published in the annual report for the financial year 2017.

Since MLP remains committed to pursuing the objective of gender pay equality, further internal investigations may still be performed.

Alongside these purely pay-based measures, MLP offers a large number of further measures promoting a good work-life balance and thereby contribute to greater equality of pay. You can find further information on this in the management report under → "Corporate governance report – Declaration of Corporate Governance (§ 289f of German Commercial Code (HGB).

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 § 21 (2) of the Transparency of Pay Act (EntgTranspG):

2020	Number (total)	Number (full-time)	Number (part-time)	Quota (total)	Quota (full-time)	Quota (part-time)
Men	352.75	322	30.75	29.84%	91.28%	8.72%
Women	829.5	332	497.5	70.16%	40.02%	59.98%

NON-FINANCIAL REPORT OF BUSINESS ACTIVITIES

Within the scope of our 2020 Sustainability Report, we report on the non-financial aspects of our business activities. The focuses of our sustainability reporting in terms of content result from the materiality analysis performed in 2017, on the basis of which we identified the key aspects for our company. These remain valid.

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