# Notes

## General information

### 1 Information about the company

The consolidated financial statements were prepared by MLP AG, Wiesloch, Germany, the ultimate parent company of the MLP Group. MLP AG is listed in the Mannheim Commercial Register under the number HRB 332697 at the address Alte Heerstraße 40, 69168 Wiesloch, Germany.

Since it was founded in 1971, the MLP Group (MLP) has been operating as a broker and adviser for academics and other discerning clients in the fields of old-age provision including occupational pension provision, healthcare provision, non-life insurance, loans and mortgages, wealth management and banking services.

### 2 Principles governing the preparation of the financial statements

The consolidated financial statements of MLP AG have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standard Board (IASB), taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as they apply in the European Union (EU). In addition, the commercial law regulations to be observed pursuant to § 315a (1) of the German Commercial Code (HGB) were also taken into account. The financial year corresponds to the calendar year.

The consolidated financial statements have been prepared on the basis of the historical cost convention with the exception that certain financial instruments are measured at fair value. MLP prepares its consolidated balance sheet based on liquidity. This form of presentation offers information that is more relevant than if it were based on the time-to-maturity factor.

The income statement is prepared in accordance with the nature of expense method.

The consolidated financial statements are drawn up in euros (€), which is the functional currency of the parent company. Unless otherwise specified, all amounts are stated in thousands of euros (€'000). Both single and cumulative figures are values with the smallest rounding difference. As a result, differences to reported total amounts may arise when adding up the individual values.

### 3 Amendments to the accounting policies, as well as new standards and interpretations

The accounting policies applied are the same as those used in the previous year, with the following exceptions:

**In the financial year 2016 the following new or amended standards and interpretations were to be applied for the first time.**

In May 2014, the IASB published amendments to **IFRS 11 "Acquisition of an Interest in a Joint Operation"**. This clarifies that acquisitions of shares and additional shares in joint operations that represent business operations in the sense of IFRS 3 "Business Combinations" are to be recorded based on the principles for recognising business combinations pursuant to IFRS 3 and other IFRS standards, insofar as these are not in conflict with the provisions of IFRS 11.

In December 2014, the IASB published its amendments to **IAS 1 "Presentation of Financial Statements"**. The amendments are intended to improve the way information is presented in financial statements. In future, disclosures are to be more relevant and company-specific.

In December 2014, the IASB published its amendments to **IFRS 10, IFRS 12 and IAS 28 "Consolidation Exception"**. These amendments serve to clarify various issues relating to application of the exception from the consolidation obligation pursuant to IFRS 10 if the parent company fulfils the definition of an "investment company". The standard is to be applied to financial years beginning on or after January 1, 2016.

In August 2014, the IASB published amendments to **IAS 27 "Separate Financial Statements (Equity Method)"**. As a result of the amendments, investments in subsidiaries, joint ventures and associates will in future also be recognised in the balance sheet using the equity method for IFRS separate financial statements.

In May 2014, the IASB published amendments to **IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"**. The objective of these amendments is to clarify the correct methods with regard to amortisation of tangible and intangible assets.

The IASB **published its improvements to IFRS 2012–2014** in September 2014. The amendments concern the standards IFRS 5, IFRS 7, IAS 19 and IAS 34. They eliminate inconsistencies and clarify certain formulations.

The standards and amendments to be applied for the first time were predominantly not relevant for the consolidated financial statements. As such, no significant effects resulted from these.

**Adoption of the following new or revised standards and interpretations was not yet binding for the financial year commencing on January 1, 2016. The standards were not adopted early:**

**EU endorsement has already taken place**

In July 2014, the IASB completed its project to replace IAS 39 **"Financial Instruments: Recognition and Measurement"** with publication of the final version of **IFRS 9 "Financial Instruments"**. IFRS 9 introduces a uniform approach to classification and measurement of financial assets. The standard refers to the cash flow characteristics and the business model that is used to control them as its basis. In addition to this, it prescribes a new impairment model that is based on anticipated credit defaults.

IFRS 9 also contains new regulations regarding application of hedge accounting to present a company's risk management activities more clearly, in particular with regard to managing non-financial risks. The new standard is to be applied to financial years beginning on or after January 1, 2018. Early adoption is also permitted. As a consequence of the new model for recording credit defaults, we are anticipating higher impairment losses, although without currently being able to quantify these. The company is currently reviewing what effects adoption of IFRS 9 would have on its consolidated financial statements.

In May 2014, the IASB published the new standard **IFRS 15 "Revenue from Contracts with Customers"**. Based on the new standard, the revenue recorded is to include transfer of goods and services promised to the customer at the amount that corresponds to what the company is likely to receive in exchange for these goods or services. Revenue is generated when the customer receives control of the goods or services. IFRS 15 also contains stipulations regarding disclosure of performance surpluses or obligations in place at contractual level. These are assets and liabilities resulting from customer contracts that are based on the relationship between the service performed by the company and the payment made by the customer. In addition to this, the new standard requires disclosure of a whole host of quantitative and qualitative information to allow readers of the consolidated financial statements to understand the type, level and timing of revenue and cash flows from contracts with customers, as well as the uncertainty associated with these. IFRS 15 replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue", as well as the accompanying interpretations. The standard is to be applied to financial years beginning on or after January 1, 2018. Early adoption is also permitted. The company is currently reviewing what effects adoption of IFRS 15 would have on the Group's consolidated financial statements and will then stipulate the timing of the initial application, as well as the transmission methods.

**EU endorsement still pending:**

The IASB published its new **IFRS 16 "Leases"** standard in January 2016. IFRS 16 replaces IAS 17 and the accompanying interpretations (IFRIC 4, SIC-15, SIC-27). For lessees, the new standard requires a completely new approach for reporting leasing agreements. While with IAS 17 the transfer of key opportunities and risks relating to the lease object was the overriding factor when reporting leases, in future all leases must generally be recorded in the balance sheet by the lessee as a financing transaction. The accounting regulations for lessors have remained largely unchanged. If endorsed in its current form by the EU, the standard is to be applied for the financial years beginning on or after January 1, 2019. Early adoption is possible, provided IFRS 15 is also being applied. The company is currently reviewing what effects adoption of IFRS 16 would have on its consolidated financial statements.

In September 2014, the IASB published amendments to **IFRS 10 and IAS 28 "Sales or Contributions of Assets between an Investor and its Associate/Joint Venture"**. This eliminates an inconsistency that has previously existed between the two standards. The IASB has postponed the timing for initial adoption of this standard indefinitely. The Group currently does not expect this to lead to any significant effects on the consolidated financial statements.

The IASB published amendments to **IFRS 2 "Share-Based Payment"** in June 2016. The amendments concern the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. If endorsed in its current form by the EU, the amendments are to be applied for the financial years beginning on or after January 1, 2018. The Group currently does not expect this to lead to any significant effects on the consolidated financial statements.

The IASB published its amendments to **IAS 7 "Disclosure Initiative"** in January 2016. The amendments target improvement of the information on a company's indebtedness. If endorsed in its current form by the EU, the amendments are to be applied for the financial years beginning on or after January 1, 2017. The Group currently does not expect this to lead to any significant effects on the consolidated financial statements.

The IASB published its amendments to **IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"** in January 2016. The amendments clarify how deferred tax assets relating to unrealised losses are recorded for debt instruments measured at fair value. If endorsed in its current form by the EU, the amendments are to be applied for the financial years beginning on or after January 1, 2017. The Group currently does not expect this to lead to any significant effects on the consolidated financial statements.

The IASB published an amendment to **IAS 40 "Investment property"** in December 2016. The amendment serves to clarify transfers of property to, or from, investment property. More specifically, the question was whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there was an evident change in use. If endorsed in its current form by the EU, the amendment is to be applied for the financial years beginning on or after January 1, 2018. The Group currently does not expect this to lead to any significant effects on the consolidated financial statements.

The IASB published clarifications on **IFRS 15 "Revenue from Contracts with Customers"** in April 2016. The amendments include clarifications on various provisions of IFRS 15, as well as simplifications regarding the transition to the new standard. If endorsed in its current form by the EU, the amendments are to be applied for the financial years beginning on or after January 1, 2018.

The IASB published **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** in December 2016. **IFRIC 22 addresses an application question regarding IAS 21 "The Effects of Changes in Foreign Exchange Rates"**. If endorsed in its current form by the EU, the interpretation is to be applied for the financial years beginning on or after January 1, 2018.

The IASB **published its improvements to IFRS 2014–2016** in December 2016. The amendments concern the standards IFRS 12, IFRS 1 and IAS 28. They eliminate inconsistencies and clarify certain formulations. If endorsed by the EU, the amendments to IFRS 12 are to be applied to financial years beginning on or after January 1, 2017, while the amendments to IFRS 1 and IAS 28 are to be applied for the first time to financial years starting on or after January 1, 2018. The Group currently does not expect this to lead to any significant effects on the consolidated financial statements.

MLP did not adopt any standards or interpretations ahead of time that have already been issued but have not yet come into force. The Group will apply the new/revised standards and interpretations at the latest when their adoption becomes binding following endorsement by the EU.

For greater clarity, since January 1, 2016 MLP has disclosed loan loss provisions as a separate item in the income statement – and thereby separately from administrative expenses. Among other things, depreciation and impairment costs which were previously recorded under administrative expenses are now recognised under loan loss provisions. The following table shows the adjusted figures from the previous year:

**Consolidated income statement**

| All figures in €'000 | | | 2015 |
|---|---|---|---|
| | Before adjustment | Adjustment | After adjustment |
| Other operating income | 21,529 | -2,862 | 18,667 |
| Total revenue | 557,180 | -2,862 | 554,318 |
| Loan loss provisions | 0 | 156 | 156 |
| Other operating expenses | -144,234 | 2,706 | -141,528 |

## 4 Scope of consolidation, as well as shares in associates and disclosures on non-consolidated structured entities

MLP AG and all significant subsidiaries that are controlled by MLP AG are included in the consolidated financial statements. Associates are accounted for using the equity method.

The following changes to the scope of consolidation were made in the financial year. FERI AG announced the sale of FERI Eurorating Services AG to Scope Corporation AG on June 30, 2016. The transaction was then concluded on August 1, 2016. FERI is now continuing to focus on its core strengths of investment management, investment consulting and investment research, as well as on strategic further development to become the leading investment company in Germany, Luxembourg, Switzerland and Austria. Profit of € 469 thsd was recorded in connection with the sale of the shares. This is recognised under other revenue.

In the course of the ongoing focus on the corporate structure in the DOMCURA Group, Ralf W. Barth GmbH and F&F Makler AG were merged into nordias GmbH Versicherungsmakler, and Nordische Informations-Technologie AG was merged into DOMCURA AG in the financial year.

Alongside MLP AG as the parent company, 13 (previous year: 16) fully consolidated domestic subsidiaries and, as was already the case in the previous year, one fully consolidated foreign subsidiary and one associated company were incorporated in the consolidated financial statements of December 31, 2016.

## Listing of shareholdings for the consolidated financial statements as per § 313 of the German Commercial Code (HGB)

| As of December 31, 2016 | Share of capital in % | Shareholders' equity (€'000) | Net profit (€'000) |
|---|---|---|---|
| **Fully consolidated subsidiaries** | | | |
| MLP Finanzdienstleistungen AG, Wiesloch[1] | 100.00 | 109,548 | 6,775 |
| TPC GmbH, Hamburg [1] (Wholly-owned subsidiary of MLP Finanzdienstleistungen AG) | 100.00 | 314 | 64 |
| ZSH GmbH Finanzdienstleistungen, Heidelberg[1] (Wholly-owned subsidiary of MLP Finanzdienstleistungen AG) | 100.00 | 1,190 | 718 |
| FERI AG, Bad Homburg v.d. Höhe [1] | 100.00 | 19,862 | 14,092 |
| FERI Trust GmbH, Bad Homburg v.d. Höhe[1] (Wholly-owned subsidiary of FERI AG) | 100.00 | 8,386 | 2,199 |
| FEREAL AG, Bad Homburg v.d. Höhe[1] (Wholly-owned subsidiary of FERI AG) | 100.00 | 1,949 | 22 |
| FERI Trust (Luxembourg) S.A., Luxembourg (Wholly-owned subsidiary of FERI AG) | 100.00 | 18,242 | 13,646 |
| Schwarzer Familienholding GmbH, Kiel[1] | 100.00 | 2,215 | 2,701 |
| DOMCURA AG, Kiel[1] (Wholly-owned subsidiary of Schwarzer Familienholding GmbH) | 100.00 | 2,380 | 2,946 |
| Nordvers GmbH, Kiel[1] (Wholly-owned subsidiary of DOMCURA AG) | 100.00 | 26 | -1,073 |
| nordias GmbH Versicherungsmakler, Kiel[1] (Wholly-owned subsidiary of Schwarzer Familienholding GmbH) | 100.00 | 435 | -388 |
| Willy F. O. Köster GmbH, Hamburg[1] (Wholly-owned subsidiary of nordias GmbH Versicherungsmakler) | 100.00 | 2,025 | 148 |
| Siebert GmbH Versicherungmakler, Jens/Arnstadt[1] (Wholly-owned subsidiary of nordias GmbH Versicherungsmakler) | 100.00 | 26 | -185 |
| MLPdialog GmbH, Wiesloch (Wholly-owned subsidiary of MLP Finanzdienstleistungen AG) | 100.00 | 717 | 222 |
| **Associates consolidated at equity** | | | |
| MLP Hyp GmbH, Wiesloch (49.8% subsidiary of MLP Finanzdienstleistungen AG) | 49.80 | 6,216 | 3,216 |
| **Companies not consolidated due to immateriality** | | | |
| MLP Consult GmbH, Wiesloch | 100.00 | 2,320 | -8 |
| Michel & Cortesi Asset Management AG, Zurich (Switzerland) [2] [3] (Wholly-owned subsidiary of FERI AG) | 100.00 | 715 | 251 |
| CORESIS Management GmbH, Bad Homburg v.d. Höhe [2] (25% held by FERI AG) | 25.00 | 366 | 112 |
| FPE Private Equity Beteiligungs-Treuhand GmbH, Munich [2] (Wholly-owned subsidiary of FERI Trust GmbH) | 100.00 | 181 | 144 |
| FPE Private Equity Koordinations GmbH, Munich [2] (Wholly-owned subsidiary of FERI Trust GmbH) | 100.00 | 74 | 47 |
| FPE Direct Coordination GmbH, Munich[2] (Wholly-owned subsidiary of FERI Trust GmbH) | 100.00 | 45 | 14 |
| FERI Private Equity GmbH & Co. KG, Munich[2] (Wholly-owned subsidiary of FERI Trust GmbH) | 100.00 | 31 | 179 |
| FERI Private Equity Nr. 2 GmbH & Co. KG, Munich[2] (Wholly-owned subsidiary of FERI Trust GmbH) | 100.00 | 5 | -5 |
| AIF Komplementär GmbH, Munich[4] (25% held by FERI AG) | 25.00 | 3 | -21 |
| AIF Register-Treuhand GmbH, Munich[4] (Wholly-owned subsidiary of FERI AG) | 100.00 | 18 | -7 |
| DIEASS GmbH, Kiel[1] (Wholly-owned subsidiary of DOMCURA AG) | 100.00 | 26 | -9 |
| Portus Assekuranz Vermittlungsgesellschaft mbH, Kiel[1] (Wholly-owned subsidiary of DOMCURA AG) | 100.00 | 25 | -60 |
| Walther Versicherungsmakler GmbH, Hamburg[1] (Wholly-owned subsidiary of nordias GmbH Versicherungsmakler) | 100.00 | 25 | 0 |

[1] A profit and loss transfer agreement is in place. Presentation of the net result for the year before profit transfer.
[2] Shareholders' equity and net profit as of December 31, 2015.
[3] Exchange rate as at the balance sheet date € 1 = CHF 1.07364.
[4] Shareholders' equity and net profit as of December 31, 2014.

### Disclosures on non-consolidated structured entities

**Structured entitie**s are companies at which the voting rights or comparable rights are not the dominant factor when determining control, such as when voting rights refer exclusively to administrative duties and the relevant activities are governed by contractual agreements. Examples of structured companies include securitisation companies, asset-backed finance companies and private equity companies. As is also the case with subsidiaries, the structured entities need to be consolidated whenever MLP AG controls them.

Non-consolidated structured entities of the MLP Group are **private equity companies**. Due to the fact that they engage in similar activities, disclosures on non-consolidated structured entities are bundled.

The activities of the companies focus on establishing, maintaining and managing a portfolio of passive investments (target companies), in particular by acquiring shareholdings. The investments primarily comprise shareholdings and are regularly financed by shareholders' equity. The business model prescribes utilisation of potential returns for equity suppliers through investments in shareholdings via an umbrella fund concept. The objective is to generate income for the equity suppliers via two different approaches; firstly via regular dividend payouts from profitable target companies, and secondly by selling participations for a profit towards the end of the shareholding. The companies generally do not have any business operations of their own or employ any staff.

The carrying amounts of non-consolidated structured entities in the MLP Group are € 457 thsd as of December 31, 2016 (previous year: € 521 thsd). In the financial year 2016, MLP AG recorded an income of € 68 thsd from non-consolidated structured entities (previous year: € 216 thsd).

The MLP Group's maximum risks of loss from non-consolidated structured entities corresponds to the investment carrying amount.

## 5 Significant discretionary decisions, estimates and changes in estimates

On occasions, the preparation of the financial statements included in IFRS consolidated financial statements requires discretionary decisions, assumptions and estimates, which influence the level of the disclosed assets and debts, the disclosures of contingent liabilities and receivables, the income and expenses of the reporting period and the other disclosures in the consolidated financial statements.

The estimates include complex and subjective measurements, as well as assumptions, some of which are uncertain due to their very nature and can be subject to changes. The actual values may deviate from the estimates.

Information on significant discretionary decisions, assumptions and estimation uncertainties that have the greatest impact on the amounts disclosed in the consolidated financial statements when applying the accounting policies is provided in the following notes:

- → Note 4 – aggregation principles for structured entities
- → General information→ Notes 6 and → 19 – impairment test (discounted cash flow forecasts and significant assumptions applied)
- → Notes 6 and → 21 – non-current assets held for sale
- → Notes 6, → 22 to → 25 and → 35 – classification and measurement of financial instruments, as well as fair value disclosures.
- → Notes 6, → 22 and → 25 – allowances for bad debts
- → Notes 6, → 28 and → 34 – provisions and corresponding refund claims as well as contingent assets and liabilities
- → Notes 6 and → 28 – measurement of defined benefit obligations
- → Notes 6 and → 33 – classification of leases
- → Note 17 – recognition of tax receivables/tax reserves
- → Note 26 cash and cash equivalents – composition of cash and cash equivalents

## 6 Accounting policies

### Revenue recognition

Revenue is generally recognised if it is probable that MLP will derive definable economic benefit from it.

MLP generates **revenue from commission**. This commission is in turn generated in the areas of old-age provision, wealth management, health insurance, non-life insurance, loans and mortgages and other consulting services.

**Commission income** from the brokerage of insurance policies is recognised independently of the inflow of funds if the Group is entitled to receive payment. The entitlement to payment automatically arises when the first premium of the policy holder has been collected by the insurance company, but at the earliest upon conclusion of the insurance contract. Obligations to consultants and office managers also arise at this point in time. MLP is entitled to time-limited **trail commissions** for the brokerage of certain contracts (especially pertaining to old-age provision). They are realised according to the same principles as acquisition commissions. MLP receives partially recurrent **trailer fees** for brokered old-age provision and health insurance contracts. The company is usually entitled to these as long as premiums are payable for underlying contracts.

For the obligation to return portions of commission received when brokered insurance policies are prematurely terminated, MLP establishes provisions for cancellation risks on the basis of empirical values and capitalises the refund claims associated with this for consultants and office managers under “Other receivables and assets” as refund claims resulting from recourse claims. The change in provisions is disclosed under revenues, while the change in the refund claim associated with this is disclosed under commission expenses.

In the field of **old-age provision**, only commission income from the brokering of life insurance products is included. In the areas of **non-life and health insurance**, commission income comes from the brokering and management of corresponding insurance products. Revenue from wealth management includes issuing premiums, custody and account maintenance charges, fund management/brokerage fees, as well as brokerage and trailer commission from wealth management mandates. Further wealth management revenue comes from research and rating services. Revenue is generated after service provision.

Commission income from the brokering of loans (credit brokering commission) is attributed to the revenue from the **loans and mortgages** business. MLP realises brokerage commissions for loan brokerage after concluding the respective loan agreement.

**Other commission and fees** are generated at the level to which consulting services are performed. They are paid in particular for consulting services to companies when setting up occupational pension provision schemes, for consulting services offered in connection with medical practice financing and business start-ups, as well as for real estate brokerage.

In addition to this, **revenue is generated from the interest rate business**. Revenue from the interest rate business also includes interest income from the investment of funds of MLP Finanzdienstleistungen AG.

Interest income is earned by MLP for the duration of the capital investment in line with the effective interest method. Commissions that are part of the effective interest return of a receivable are treated as interest income and recorded in those periods in which they are actually earned. They include commitment interest for giving loan commitments or taking over an existing liability. The company realises fees for other current handling and processing services (for example prematurity compensation) after providing these services.

Interest income from the investment of money from other Group companies is a constituent of the **finance cost** and is earned for the duration of the capital investment in line with the effective interest method, while dividends are recognised the moment an entitlement to payment arises.

### Currency translation

The euro is the functional currency of all companies consolidated in MLP's consolidated financial statements. The Group operates exclusively in Germany and Luxembourg.

### Fair value

A range of accounting policies and Group disclosures require determination of the fair value for financial and non-financial assets and liabilities. For the determination of the fair value of an asset or liability, MLP uses data observed in the market insofar as possible. If there is no active market on the closing date, the fair value is determined using recognised valuation models. Based on the input factors used in the valuation models, the fair values are classified in various tiers within the fair value hierarchy as per IFRS 13:

1. Fair values at hierarchy level 1 are determined using prices available in active markets for the identical financial instrument (quoted market prices).
2. The fair values at hierarchy level 2 are either determined using prices on active markets for comparable but not identical financial instruments or using valuation techniques based primarily on data from observable markets.
3. When using valuation techniques, which incorporate a key parameter that cannot be observed in the market, fair values are assigned to hierarchy level 3.

If the input factors used to calculate the fair value of an asset or liability can be assigned to various tiers in the fair value hierarchy, the entire measurement of fair value is assigned to the tier in the fair value hierarchy that corresponds to the lowest input factor of overriding importance for the valuation.

The Group recognises re-assignments between the various tiers in the fair value hierarchy at the end of the reporting period in which the respective amendment was implemented.

You can find further information on the assumptions made when determining fair values in the following notes:

- → Note 21 – investment property/non-current assets held for sale
- → Note 35 – additional information on financial instruments

### Intangible assets

Intangible assets are disclosed at their acquisition or manufacturing costs minus all accumulated amortisation charges and all accumulated impairment losses. MLP does not apply the revaluation method.

**Definite-lived intangible assets** need to be estimated with regard to the depreciation methods and duration. The respective useful life periods are defined on the basis of empirical values. Due to changed overall economic circumstances, the amortisation period may need to be adjusted, which can have significant effects on the level of amortisation expenses. At MLP this mainly concerns client relations and software. Definite-lived intangible assets are usually written down on a straight-line basis over their economic life.

**Intangible assets generated internally** are only capitalised at their cost of conversion if the conditions required pursuant to IAS 38 are fulfilled. The cost of conversion includes all costs directly attributable to the development process and appropriate portions of development-related overheads.

Goodwill and other **indefinite-lived intangible assets** are not amortised. The indefinite-lived intangible assets are subjected to an impairment test once a year or when there are indications of an impairment. These tests are either performed individually or at the level of a cash-generating unit. At MLP, this in particular affects the brands acquired within the scope of business combinations.

**Business combinations** require estimates of the fair value of the assets acquired, assumed debts and contingent liabilities purchased. Property, plant and equipment are usually valued by independent experts, while marketable securities are shown at their stock market price. If intangible assets are to be valued, MLP either consults an independent external expert or calculates the fair value based on a suitable valuation method, generally discounted cash flows, depending on the type of asset and the complexity involved in calculating the value. Depending on the type of asset and the availability of information, various valuation techniques are applied (market-price-oriented, capital-value-oriented and cost-oriented methods). For instance, when valuing trademarks and licences, the relief-from-royalty method may be appropriate, whereby the value of intangible assets is assessed on the basis of royalties saved for trademarks and licences held by the company itself.

Insofar as cash-generating units are restructured, a re-allocation of the goodwill assigned to these units is performed on the basis of the relative revenue values. Brands are re-allocated on the basis of sustainable revenue or relative revenue values.

MLP tests **goodwill** from business combinations for impairment at least once a year. For the purpose of the impairment test, goodwill is allocated to cash-generating units at the acquisition date. The impairment test compares the carrying amount of the cash-generating units with their recoverable amount. The recoverable amount is the higher amount of either the fair value less costs of sale or the value in use of the cash-generating unit. This requires an estimate of the value in use of the cash-generating unit, to which the goodwill is allocated. To this end, corporate management must estimate the likely future cash flow of the cash-generating units. The calculation of the present value of anticipated future cash flows is based on assumptions on the development of funds under management, future sales volumes and expenses. The cash flow estimate is based on detailed planning periods with a planning horizon of four years. In addition to this, an appropriate discount rate must be selected to determine the present value of this cash flow.

### Property, plant and equipment

Items of property, plant and equipment are measured at cost and, if applicable, less straight-line depreciation and impairment losses. MLP does not apply the revaluation method.

The profits or losses resulting from the disposal of assets are determined as the difference between the net disposal proceeds and the carrying amount and are recognised in the income statement as other revenue or other operating expenses in the period in which the item is derecognised. Maintenance and minor repairs are recognised in the income statement immediately.

### Impairment test

The carrying amount of all indefinite-lived intangible assets, intangible assets that are not yet ready for use and goodwill is tested at the end of each financial year.

The significant assumptions that are used when calculating the recoverable amount in the form of the use value are the discount rates, terminal value growth rates and growth rate of earnings before tax. The discount rate is based on a risk-free basic interest rate plus a company-specific risk premium, which is derived from the systematic market risk (beta factor) and the current market risk premium. The discounted cash flow model is based on future cash flows over a period of four years. Cash flows after this time period are extrapolated using a growth rate, which is based on the management's estimate of the long-term average annual growth rate in earnings before tax. For further details, please refer to → Note 19.

### Leasing

MLP has not signed any agreements that essentially transfer all risks and rewards associated with the ownership of the leased asset to the lessee (finance leases). The further notes are therefore limited to operating leases.

MLP signed multiple leasing agreements as **lessee** of rental properties, motor vehicles and office machines. The agreements are also classified as operating leases, as the lessors bear the key risks and opportunities associated with ownership of the property. Rental payments under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. The same principle applies to benefits received and receivable that serve as an incentive to enter into an operating lease. For further details, please refer to → Note 33.

### Investments accounted for using the equity method

The acquisition costs are annually updated by taking into account the equity changes of the associates corresponding to MLP's equity share. Unrealised gains and losses from transactions with associates are eliminated based on the percentage of shares held. The changes of the pro rata shareholders' equity are shown in the company's income statement under earnings from investments accounted for using the equity method. Dividends received reduce the carrying amount. For further details, please refer to → Note 15.

### Financial instruments

A financial instrument is a contract that simultaneously gives rise to a financial asset at one entity and a financial liability or equity instrument at the other entity. In the case of regular-way purchases and sales, financial instruments are recognised or derecognised in the balance sheet on the trade date. Regular-way purchases or sales are purchases or sales of financial assets requiring delivery of the assets within a period dictated by market regulations or conventions.

Pursuant to IAS 39, financial instruments are divided into the following categories:

- Financial assets at fair value through profit and loss,
- Held-to-maturity investments,
- Loans and receivables,
- Available-for-sale financial assets,
- Financial liabilities measured at amortised cost and
- Financial liabilities at fair value through profit and loss

MLP defines the classification of its financial assets and liabilities upon initial recognition. They are initially recognised at their fair value. The fair value of a financial instrument is defined as the price paid for the sale of an asset or transfer of a liability in a standard business transaction between market actors on the cut-off date for valuation. Financial assets or liabilities that are not measured at fair value through profit and loss within the scope of the subsequent measurement are initially recognised plus transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability.

**Financial assets at fair value through profit and loss** comprise the subcategories "Held for trading" and "Designated at fair value through profit and loss". MLP's financial instruments are "designated at fair value through profit and loss" when incongruences would otherwise arise in their valuation or recognition. Subsequent to initial recognition, these assets are measured at their fair value. Profits or losses from the change in fair value are recognised through profit or loss.

MLP tests the carrying amounts of the financial instruments that are not measured at fair value through profit and loss individually at each closing date to determine whether there is objective and material evidence of impairment. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset than can be reliably estimated.

The following are classed as objective evidence that impairment losses have occurred to financial assets:

- Default or delay in payments on the part of the debtor
- Indications that a debtor or issuer is falling into insolvency
- Adverse changes in the payment status of borrowers or issuers
- Economic framework conditions that correlate with defaults
- The disappearance of an active market for a security.

In addition to this, when an equity instrument held suffers a significant or extended decline in fair value to a level below its acquisition costs, this is considered an objective evidence of impairment. MLP classes a decrease in value of 20% to be "significant" and a time period of nine months as an "extended" decline.

MLP has classified financial assets as held-to-maturity investments. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed term that MLP wishes to and is capable of retaining until maturity. So far MLP has not prematurely sold any financial assets that were classified as held-to-maturity financial investments. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. If held-to-maturity investments are likely to be subject to an impairment, this will be recognised through profit or loss. An impairment that was previously recognised as an expense is reversed to income if a recovery in value can be attributed objectively to facts that have arisen since the original impairment charge. An increase in value is only recognised to the extent that it does not exceed the value of the amortised costs that would have resulted without impairment. The recoverable amount of securities held to maturity which is required for impairment testing corresponds to the present value of the expected future cash flow, discounted using the original effective interest rate of the financial asset. The fair value of held-to-maturity investments can temporarily drop below their carrying amount. Insofar as this drop is not due to credit risks, no impairment is recognised.

**Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Subsequent to initial recognition, they are valued at amortised cost using the effective interest method. For receivables from banking business and for other receivables and other assets, impairment losses on portfolio basis are recognised for receivables for which no specific allowances have been made.

Any impairment losses are recognised in profit or loss on the corresponding impairment account. If a receivable is uncollectable (i.e. payment is almost certainly impossible), it will be written off. Allowances for bad debt on a portfolio basis in connection with **loan loss provision in the banking business** are established on the basis of historical loss rates and dunning levels. Specific allowances for bad debts are recognised if receivables are likely to be uncollectable. The **allowances for other receivables and other assets** essentially relate to receivables from branch office managers and consultants. Alongside the allowances formed for losses on individual accounts receivable that are in default, portfolio-based impairment losses are recorded for the remaining accounts receivable. As is also the case with loan loss provisions in the banking business, the allowances are based on historical loss rates. These are set separately for consultants and office managers and applied to the respective accounts receivable. For further details, please refer to Notes 22 and 25.

**Available-for-sale financial assets** represent non-derivative financial assets which, subsequent to initial recognition, are measured at their fair value. Profits or losses that result from a change in fair value are recognised outside the income statement as other comprehensive income until the respective asset is derecognised. However, allowances for bad debts and profits or losses from currency translations are excluded from this. They are recognised directly in profit or loss. The reversal of profits/losses recorded under other comprehensive income in the income statement is performed either when the respective asset is derecognised or in the event of an impairment.

If a decline in the fair value of an available-for-sale financial asset has been recognised under other comprehensive income and an objective reference to impairment of this asset is in place, this loss recognised previously directly in shareholders’ equity is to be transferred from shareholders’ equity to the income statement up to the level of the determined impairment.

Impairment losses of an available for sale equity instrument recognised in profit or loss cannot be reversed. MLP records any further increase of the fair value under shareholders’ equity with no effect on the operating result.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and this increase can be related objectively to events occurring after the impairment was recognised, the impairment loss is reversed to equity at the appropriate level.

MLP measures equity instruments for which no listed price exists on an active market, and whose fair value cannot be reliably established, at acquisition cost. If objective indicators suggest there is an impairment to a non-listed equity instrument measured at acquisition costs, the amount of impairment is calculated as the difference between the carrying amount and the present value of the estimated future cash flow, which are discounted at the current market rate of return of a comparable asset.

Subsequent to their initial recognition, **financial liabilities** are to be recognised at their amortised costs using the effective interest method. Profits or losses are recognised in the income statement on derecognition, as well as within the scope of amortisation charges. Subsequent to their initial recognition, **financial liabilities at fair value through profit and loss** are measured at their fair value. Profits or losses from the change in fair value are recognised through profit or loss.

### Pension provisions

Old-age provision in the Group is performed on the basis of the defined-benefit and defined contribution old-age provision plans.

In the **defined contribution plans**, MLP pays premiums to statutory or private pension insurance institutions based on legal or contractual provisions or on a voluntary basis. After payment of the premiums, MLP has no further benefit obligations.

Commitments to pay premiums into defined contribution schemes are recognised as expenses as soon as the related service has been rendered. Pre-paid premiums are recognised as assets insofar as a right to reimbursement or reduction of future payments arises.

In accordance with IAS 19 “Employee Benefits”, the provisions for pension obligations from **defined benefit plans** are measured using the projected-unit credit method.

The benefit obligations are partly covered by reinsurance. Virtually all reinsurance policies fulfil the conditions of pension scheme assets. For this reason the claims from reinsurance policies are netted against corresponding pension provisions in the balance sheet as per IAS 19.

The Group’s net obligation with regard to defined benefit plans is calculated separately for each plan by estimating future benefits that the employees have earned in the current period and in earlier periods. This amount is discounted and the fair value of any pension scheme assets subtracted from this.

For the measurement of pension obligations, MLP uses actuarial calculations to estimate future events for the calculation of the expenses, obligations and entitlements in connection with these plans. These calculations are based on assumptions with regard to the discount rate, mortality and future salary, as well as pension increases. The interest rate used to discount post-employment benefit obligations is derived from the interest rates of senior, fixed-rate corporate bonds.

Revaluations of net liabilities from defined benefit plans are recognised directly under other comprehensive income. The revaluation encompasses actuarial gains and losses, income from pension scheme assets (without interest) and the effects of any upper asset limit (without interest). The Group calculates net interest expenses (income) on net liabilities (assets) from defined benefit plans for the reporting period through application of the discount rate used for valuation of the defined benefit obligations at the start of the annual reporting period. This discount rate is applied to net liabilities (assets) from defined benefit plans at this time. Any changes to net liabilities (assets) from defined benefit plans that occur as a result of premium and benefit payments over the course of the reporting period are taken into account. Net interest expenses and other expenses for defined benefit plans are recognised as profit or loss.

Further details of pension provisions are given in → Note 28.

### Other provisions

In accordance with IAS 37 "Provisions, contingent liabilities and contingent assets" other provisions are recognised when the Group has a present obligation (legal or constructive) resulting from a past event, settlement is expected to result in an outflow of resources and the obligation's amount can be estimated reliably. They represent uncertain obligations that are measured at the amount that represents the best possible estimate of the expenditure required to fulfil the obligations.

Insofar as the level of the provision can only be determined within a range, the most likely value is used. If the probability of occurrence is equal, the weighted average is taken.

Where the effect of the time value of money is material, provisions with a time of more than one year remaining to maturity are discounted at market interest rates that correspond to the risk and the time remaining to maturity.

Reversals of provisions are recognised under other revenue.

If the Group expects to receive a reimbursement of at least part of a practically certain provision from an identifiable third party (e.g. in case of an existing insurance policy), MLP recognises the reimbursement as a separate asset. The expenditure required to set up the provision is recognised in the income statement after deduction of the reimbursement.

For the liability arising due to the premature loss of brokered insurance policies whereby commission that has been earned must be refunded in part, MLP sets up provisions for cancellation risks. MLP estimates the cancellation rate by product group and the period of the underlying policy that has already run on the basis of empirical values. The period in which MLP is obliged to refund portions of the commissions due to the premature loss of a policy is determined either by the statutory provisions of the German Insurance Act or the distribution agreements that have been concluded with the product providers.

### Share-based payments

Share-based payments in line with IFRS 2 "Share-Based Payment" comprise remuneration systems paid for in cash.

The proportion of the fair value of share-based payments settled in cash attributable to services provided up to the valuation date is recognised as personnel expenses or as commission expenses and at the same time as a provision. The fair value determined based on the Monte-Carlo simulation or another suitable valuation model is recalculated on each balance sheet date and on the payment date. The recognition of the anticipated expenditure arising from this system demands that assumptions be made about turnover and exercise rates. Any change to the fair value is to be recognised in profit or loss. At the payment date, the fair value of the liability corresponds to the amount which is to be paid to the eligible employee.

You can find further details on the share-based payments in → Note 32.

## 7 Reportable business segments

The division of MLP into business segments follows the structure in place for internal reporting. The MLP Group is subdivided into the following reportable business segments:

- Financial services
- FERI
- DOMCURA
- Holding

Due to the similarity of the products and services offered, as well as reliance on the same client base and identical sales channels, MLP pooled the "financial services" and "occupational pension provision" business segments under the reportable "financial services" business segment in accordance with IFRS 8.12. The reportable **Financial services** business segment consists of consulting services for academics and other discerning clients, particularly with regard to insurance, investments, occupational pension provision schemes and loans and mortgages, as well as the brokering of contracts concerning these financial services. This segment also includes finance portfolio management, the trustee credit business and the loan and credit card business. The financial services segment incorporates the divisions focused on the brokerage business of MLP Finanzdienstleistungen AG, TPC GmbH, ZSH GmbH Finanzdienstleistungen, MLPdialog GmbH and the associate MLP Hyp GmbH.

The business operations of the reportable **FERI** business segment cover wealth and investment consulting. This segment comprises FERI AG, FERI Trust GmbH, FERI Trust (Luxembourg) S.A. and FEREAL AG.

The business operations of the reportable **DOMCURA** business segment encompass the design, development and implementation of comprehensive coverage concepts in the field of non-life insurance as a so-called underwriting agency. The segment also engages in brokerage activities. It is made up of Schwarzer Familienholding GmbH, DOMCURA AG, Nordvers GmbH, nordias GmbH insurance brokers, Willy F.O. Köster GmbH and Siebert GmbH insurance brokers.

The **Holding** business segment consists of MLP AG. The main internal services and activities are combined in this segment.

Intrasegment supplies and services are settled in principle at normal market prices. In the case of intra-group allocations, an appropriate general overhead surcharge is levied on the direct costs actually incurred.

The management makes decisions on the allocation of resources and determines segment performance on the basis of the income statement for that segment. MLP employs the accounting policies applied in the consolidated financial statements to determine financial information on the segments.

The financial services and DOMCURA segments perform their economic activities predominantly in Germany. The FERI segment conducts its business activities in Germany and in Luxembourg.

In the financial year, revenue of € 290,152 thsd was generated with three product partners in the financial services, FERI and DOMCURA business segments. In the previous year, revenue of € 179,988 thsd was generated with two product partners in the financial services, FERI and DOMCURA business segments.

## Information regarding reportable business segments

| All figures in €'000 | Financial services | | | FERI | | DOMCURA | | Holding | Consolidation | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015* |
| Revenue | 400,446 | 395,515 | 123,583 | 123,885 | 70,664 | 20,007 | – | – | –4,134 | –3,757 | 590,559 | 535,651 |
| of which total inter-segment revenue | 3,825 | 3,242 | 309 | 515 | – | – | – | – | –4,134 | –3,757 | – | – |
| Other revenue | 10,313 | 10,498 | 5,081 | 6,021 | 3,212 | 2,052 | 13,694 | 10,995 | –12,490 | –10,900 | 19,810 | 18,667 |
| of which total inter-segment revenue | 1,916 | 2,017 | 7 | 8 | 1,095 | – | 9,473 | 8,875 | –12,491 | –10,900 | – | – |
| **Total revenue** | **410,759** | **406,014** | **128,664** | **129,906** | **73,876** | **22,059** | **13,694** | **10,995** | **–16,624** | **–14,656** | **610,369** | **554,318** |
| Commission expenses | –183,578 | –172,542 | –72,072 | –70,693 | –46,574 | –13,454 | – | – | 3,719 | 3,105 | –298,505 | –253,584 |
| Interest expenses | –1,719 | –1,923 | – | – | – | – | – | – | 8 | 2 | –1,711 | –1,921 |
| Loan loss provisions | –839 | 161 | –768 | 73 | 2 | 58 | –13 | –137 | – | – | –1,619 | 156 |
| Personnel expenses | –76,015 | –74,187 | –28,114 | –30,361 | –14,114 | –5,144 | –3,604 | –3,765 | – | – | –121,847 | –113,457 |
| Depreciation | –8,704 | –7,889 | –1,545 | –1,762 | –1,370 | –686 | –1,908 | –2,003 | – | – | –13,528 | –12,339 |
| Impairments | –10,399 | –1,584 | – | - | – | – | –36 | –1,190 | – | – | –10,434 | –2,774 |
| Other operating expenses | –126,766 | –124,316 | –11,848 | –13,434 | –8,804 | –4,672 | –10,534 | –10,586 | 12,815 | 11,482 | –145,137 | –141,528 |
| Earnings from investments accounted for using the equity method | 2,106 | 1,836 | – | – | – | – | – | – | – | – | 2,106 | 1,836 |
| **Segment earnings before interest and tax (EBIT)** | **4,845** | **25,569** | **14,316** | **13,729** | **3,015** | **–1,839** | **–2,400** | **–6,686** | **–83** | **–67** | **19,694** | **30,706** |
| Other interest and similar income | 362 | 178 | 361 | 50 | 44 | 21 | 172 | 286 | –33 | –26 | 906 | 509 |
| Other interest and similar expenses | –686 | –468 | –480 | –370 | –21 | –3 | –777 | –2,598 | 113 | 176 | –1,851 | –3,263 |
| **Finance cost** | **–324** | **–290** | **–119** | **–319** | **23** | **19** | **–605** | **–2,312** | **79** | **149** | **–946** | **–2,753** |
| **Earnings before tax (EBT)** | **4,521** | **25,279** | **14,198** | **13,409** | **3,039** | **–1,820** | **–3,005** | **–8,998** | **–4** | **82** | **18,748** | **27,953** |
| Income taxes | | | | | | | | | | | –4,052 | –8,170 |
| **Net profit** | | | | | | | | | | | **14,696** | **19,783** |
| **Investments accounted for using the equity method** | **3,751** | **3,481** | – | – | – | – | – | – | – | – | **3,751** | **3,481** |
| **Investments in intangible assets and property, plant and equipment** | **16,632** | **11,208** | **645** | **768** | **730** | **454** | **344** | **346** | – | – | **18,351** | **12,776** |
| **Major non-cash expenses:** | | | | | | | | | | | | |
| Impairments/reversal of impairments on receivables | 1,189 | 12 | 768 | –73 | –2 | –58 | 13 | 137 | – | – | 1,968 | 18 |
| Increase/decrease of provisions/accrued liabilities | 53,178 | 42,961 | 8,125 | 9,624 | 3,558 | 1,239 | 2,036 | 2,612 | – | – | 66,897 | 56,435 |

*Previous year's figures adjusted. The adjustments are disclosed under Note 3.