The employment upturn in Germany continued in the reporting year. According to data published by Germany's Federal Employment Agency, the annual average number of registered jobseekers fell by 104,000 year-on-year to approximately 2.7 million persons in 2016. The corresponding unemployment rate of 6.1% (2015: 6.4%) is the lowest level in 25 years. The employment market continued to offer opportunities for highly skilled employees. According to Germany's Federal Employment Agency, the unemployment rate among academics remained very low at just 2.4%.

Employment market development remains robust

According to the German government, the healthy situation on the employment market led to significant salary increases. Indeed, net wages increased by 3.7% in 2016. According to data published by the German Federal Statistical Office, the disposable income of private households increased by 2.8%. The savings rate in Germany increased slightly in the last financial year, reaching 9.8% in 2016. It was 9.7% in 2015.

ECONOMIC REPORT

Industry situation and competitive environment

Traditionally, the vast majority of MLP's total revenue is generated from the following three core fields of consultancy: old-age provision, health insurance and wealth management. In the financial year 2016, these fields together represented 73.4% of total revenue. Revenues in the fields of old-age provision and health insurance are generated in the financial services segment. Wealth management revenue is generated at the FERI segment and the financial services segment. The non-life insurance consulting field become significantly more important through the acquisition of the DOMCURA Group in 2015. Alongside the DOMCURA segment, revenue in this consulting field is also generated at MLP Finanzdienstleistungen AG. The share of non-life insurance increased accordingly in the financial year 2016 to 17.9% (2015: 11%).

The main factors that had a particular influence on the market environment and the results of operations in the four aforementioned consulting fields in 2016 are described below.

Old-age provision

As had already been the case in previous years, the ongoing period of low interest rates and the reservations being displayed by many consumers when it comes to signing long-term contracts continued to dampen the market environment in the old-age provision segment in Germany in the financial year 2016. The situation is being made even more acute by the new requirements as per Solvency II, which have been in force since January 1, 2016 and have a significant impact on both the insurance sector and the capital investment strategies of companies. You can find further information on this in the chapter entitled "Competition and regulation".

Among other things, life insurers are addressing these challenges with innovations in the product landscape. They are increasingly choosing to offer old-age provision products with flexible guarantees or even no guarantees at all. Several life insurers have already dispensed with traditional guarantee products altogether. However, the classic collateral pool remains an efficient instrument for generating guarantee components for many other products.

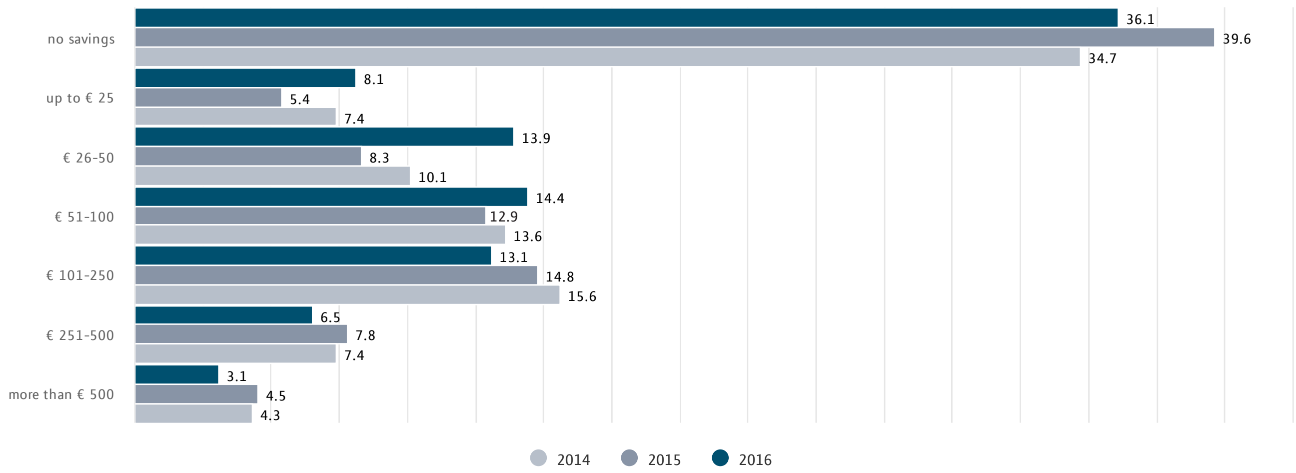
A survey conducted by market research institute YouGov on behalf of MLP underlines the ongoing need for advisory services in the field of old-age provision. Based on this survey, just under 32% of German citizens do not have any clear idea of how much statutory pension they will receive, while a further 27% only have a "rough idea".

Saving rates falling

According to the 2016 Wealth Barometer of the DSGV (German Savings Bank Association), around one third of the population (36%) is currently not setting any money aside for provision in their old age. The lower the income, the higher this ratio becomes. 46% of households with a net income between € 1,000 and € 1,500 save nothing, but this figure increases to 59% among households with a maximum net income of € 1,000 per month.

The average saving rates decreased in comparison with previous years: Only 23% of respondents stated that they set more than € 100 aside per month for their old age. In 2015, this figure was 28%. The AXA Germany Report indicates that more than half of all those in gainful employment in Germany (55%) are no longer looking to sign any new old-age provision policies as a result of the low interest rates.

Monthly savings for old-age provision (all amounts in %)



Source: 2016 Wealth Barometer of the DSGV (German Savings Bank Association)

Young generation primarily saves for holidays and training

The most popular savings goal among young people aged between 17 and 27 is a holiday trip. 64% regularly set aside money for this, while 42% save for training or university courses and only one in three (35%) saves towards their old age. These were the findings of a survey performed by TNS Infratest.

Massive reservations despite state subsidies

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

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

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

Alongside the statutory pension, basic provision (1st tier) also includes the basic pension or Rürup pension, whose premiums can be offset against income tax. Alongside freelancers and self-employed people that are not obliged to pay into the statutory pension insurance fund, the basic pension is also open to salaried staff. Starting in 2015, the German government supplemented and injected dynamism into the former funding framework for the basic pension to make it more attractive. The maximum tax-deductible amount in 2016 was € 22,766 for single persons (€ 45,532 for married couples). In 2016, taxpayers were able to offset up to 82% of capital invested into a basic provision policy over the course of the year against income tax up as special expenses.

Improved incentives for basic pension still not having any real impact

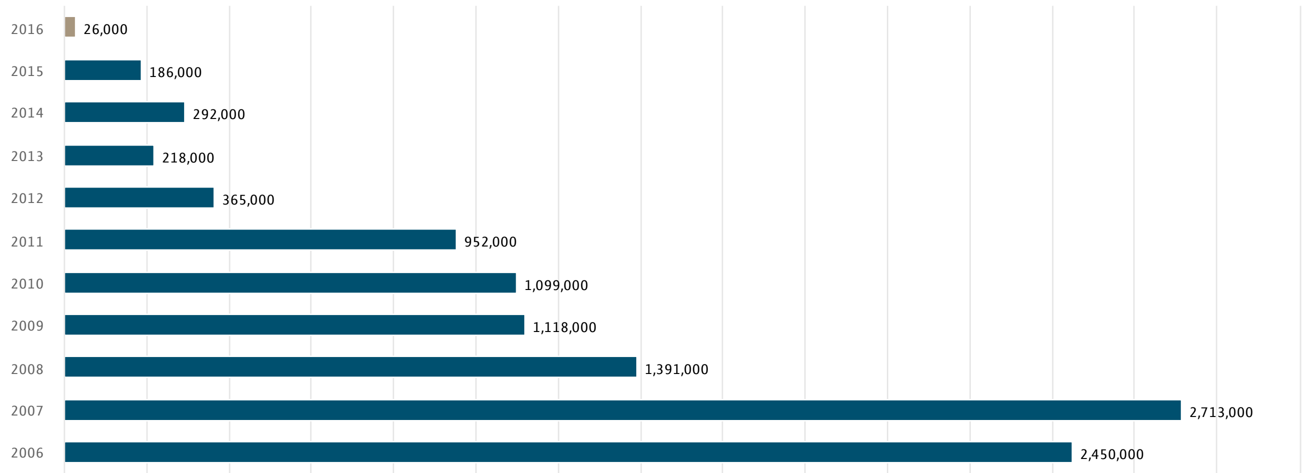
Despite this significant tax incentive, data published by the German Insurance Association (GDV) indicates that only 94,900 new basic annuity contracts had been concluded throughout the market by the reporting date on December 31, 2016. This corresponds to a drop of 3.4%, with the number of policies concluded having already displayed a downward trend in the last 3 years.

The supplementary pension provision (2nd tier) essentially comprises occupational pension provision and the Riester pension. Half (53.7%) of those with statutory pension insurance in Germany also have a Riester pension or occupational pension in place as supplementary provision. According to a study published by the Prognos Institute, around 20% of these have a Riester pension, while 22.7% are covered though an occupational pension scheme and 11% are using both forms of investment to save for their old age.

"Wohn-Riester" state-subsidized housing financing remains popular

The sector-wide downward trend in sales also continued for new Riester contracts signed in the reporting year. According to the German Federal Ministry of Labor and Social Affairs, 26,000 new contracts were concluded by the end of Q3 2016 (financial year 2015: 186,000). There were therefore approximately 16.5 million Riester policies in place – which is only slightly more than on December 31, 2015. As had already been the case in the previous years, an increase of new contracts for the "Wohn-Riester" state-subsidized housing financing was recorded in the reporting year. However, the number of insurance policies once again displayed a slight downward trend.

New Riester pension contracts (2006 until 2016)



*Date: September 30, 2016, source: German Federal Ministry of Labor and Social Affairs

The overall significance of occupational pension provision as a further component of 2nd tier provision is fundamentally great. One reason is that it qualifies for tax and social security breaks. Yet despite this, occupational pension provision is still struggling to gain further ground among employees. According to a survey performed by the University of Würzburg on behalf of the Federal Finance Ministry, the ratio has remained stable in the last few years at around 60%. The penetration rate of occupational pension provision is well below the average, particularly among low-income employees, as well as employees working for small and medium-sized companies (SMEs). The study therefore recommends that further proliferation of the occupational pension provision concept should be supported by additional reform measures on the part of the state. The German Federal Ministry of Labour and Social Affairs already reacted and presented a corresponding draft bill in the autumn of 2016. You can find more information on this in the forecast section under → "Competition and regulation".

Occupational pension provision: Market penetration stagnating

The 3rd tier is also still displaying stifled development, not least due to the lowering of the guaranteed interest rate at the start of 2015. The 2016 Wealth Barometer states that almost one in two German citizens (47%) currently holds a private life insurance policy and more than one in three (37%) holds a private pension insurance policy. According to the German Insurance Association (GDV e.V.), the number of new classic life and pension insurance policies signed in the reporting year is below the previous year's level at 778,112 (-11.5%). 46% of new contract wins is attributable to new guarantee products, following 37% in 2015, 31% in 2014 and 24% in 2013.

Life and pension insurance policies only slightly above the previous year throughout the market

Due to the difficult market environment described and the reservations still being displayed among the population when it comes to signing long-term contracts, provisional figures provided by the German Insurance Association (GDV e.V.) indicate the brokered premium sum of new business in the reporting year was € 147.65 billion, which is only slightly above the low figure of the previous year (€ 145.46 billion).

Health insurance

Health insurance continued to face a difficult market environment in the financial year 2016 – particularly in the case of comprehensive private insurance. According to data published by the Association of Private Health Insurers (PKV), the number of persons holding comprehensive health insurance declined for the fifth time in succession. At 8.77 million persons on December 31, 2016, the figure is 13,300 lower than the previous year. As such, there are now around 203,000 fewer holders of comprehensive health insurance policies than in 2011.

Fewer and fewer holders of comprehensive health insurance policies in Germany

The experts at ratings agency Assekurata also do not anticipate any reversal in this trend for the reporting year. The industry shares this assessment. In a study undertaken by Assekurata Solutions GmbH, two thirds (66.7%) of brokers surveyed, rate the current business situation in the fully comprehensive private health insurance segment as poor.

No reversal of trends to be anticipated in the fully comprehensive private health insurance segment

Since 2015, statutory health insurance funds are entitled to charge an additional premium alongside the general premium rate of 14.6%. In 2016, two thirds of the insurance funds raised their premiums over the previous year. Only one statutory health insurance fund did not levy any additional premiums in 2016. The premiums in the reporting year ranged from 14.6% to 16.3% of gross income.

Additional premiums at statutory health insurance funds

According to the 2016 Continentale Study, private policy holders are significantly more satisfied than those on statutory insurance. Indeed, 87% of private policy holders stated that they were satisfied with the services received, while 73% said they were happy with the price. Among statutory health insurance policy holders, only 60% said they were satisfied with the price they pay, which is 8% fewer than in the previous year. According to the survey, one likely reason for this is the increase in additional premiums in the statutory health insurance funds. 71% of statutory insurance policy holders were satisfied with the services they received.

Private policy holders more satisfied than statutory insurance policy holders

The trend toward bolstering the scope of services covered by statutory health insurance through private provision also continued in the reporting year. According to the latest figures published by the Association of Private Health Insurers, the number of supplementary insurance policies increased by 1.7% in 2015 to 24.77 million contracts. Supplementary dental insurance policies recorded particularly strong growth. With a net increase of 539,000 policies according to data published by the Association of Private Health Insurers, the figure has actually more than doubled. The positive development in the supplementary insurance segment continued up to the end of 2016.

Number of supplementary insurance policies still on the rise

The second Act to Strengthen Long-term Care came into force on January 1, 2016. For the first time, all persons in need of nursing care now have equal access to the services of long-term care insurance, regardless of whether they are suffering from a physical or mental condition. However, key sections of the new legislation will not take effect until 2017. 2016 was used to prepare for the practicalities of the new evaluation procedure and the switchover to the new system with five care levels. Since January 1, 2016, family members caring for loved ones are entitled to care consultations. You can find more information on this in the → forecast section.

New rules for care

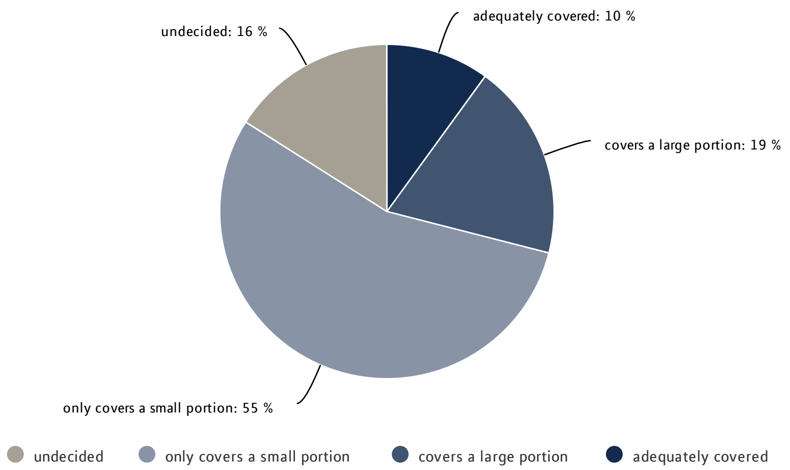
Supplementary long-term care insurance continues to represent the second growth pillar in the supplementary insurance segment. The number of state-supported supplementary long-term care insurance policies ("Pflege-Bahr") increased by 22.4% to 683,500 contracts in 2015. The number of supplementary long-term care insurance policies without state support increased by 4.2% to 2.59 million. This resulted in a total increase of 228,200 policies. For the first time ever, almost as many non-subsidized supplementary long-term care insurance policies as tax-privileged policies were concluded. Yet new contracts in the long-term care annuity insurance segment, which represents the most comprehensive coverage, displayed a downward trend. Please refer to the chapter entitled → "Old-age provision".

Long term care provision becoming more important

There are massive doubts among the population regarding the current performance of the statutory long-term care insurance system. This was one of the findings of a survey performed by the Allensbach Institute for Public Opinion Research within the scope of the MLP Health Report. Only 10% are convinced that the statutory long-term care insurance system provides adequate financial cover, while only 19% believe that at least a significant portion of care costs will be covered. The majority are of the opinion that the services of the statutory long-term care insurance system are not even close to meeting demands and can only cover a small portion of the costs associated with nursing care.

Major doubts regarding the performance of the statutory long-term care insurance system

How well-protected German citizens feel with the statutory long-term care insurance system (all amounts in %)



Source: MLP Health Report 2016

As a result of the amendment earmarked for 2017, as well as the associated increase in media coverage of long term care provision, the Assekurata ratings agency is predicting rising sales figures.

Wealth management

In the reporting year, the market environment in the wealth management segment was characterized by the ongoing period of low interest rates and high volatility on the stock markets. Global uncertainty became apparent, primarily following the unexpected result of the UK referendum on exiting the EU and also in the course of Donald Trump's surprising victory in the US presidential election. Meanwhile, the recovery of the global economy remains weak, susceptible to disruption and exposed to numerous risks. The financial markets are being influenced by high levels of private and public debt on the one hand and low growth, low inflation and low interest rates on the other.

Worldwide wealth increasing more slowly

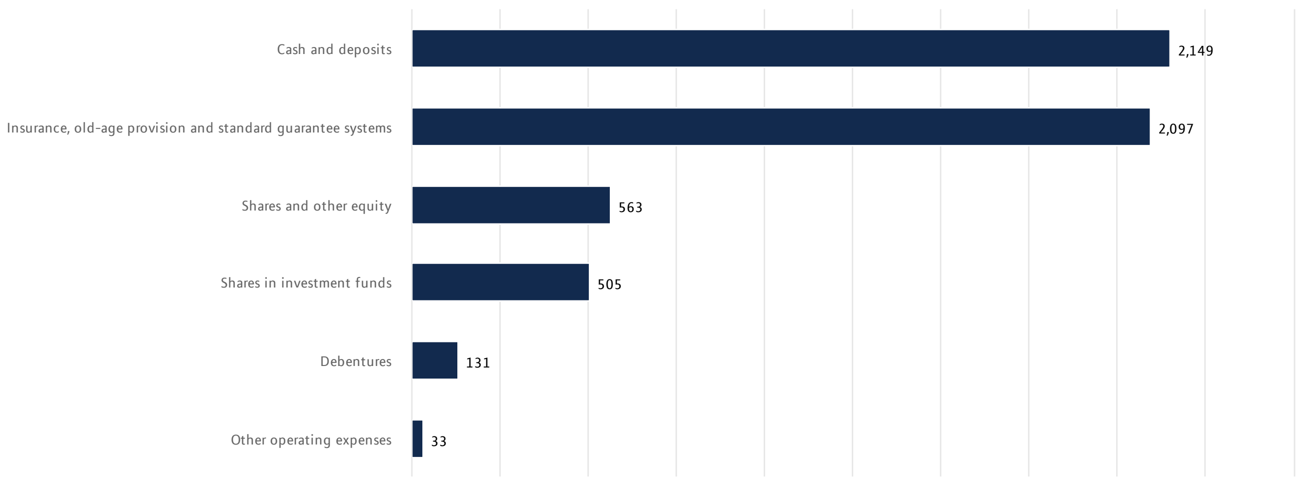
Global private wealth is growing – albeit somewhat more slowly. According to the 2016 Global Wealth Report published by the Boston Consulting Group (BCG), the worldwide assets of private households increased by 5.2% to US$ 168 trillion in 2015 – which represents slower growth than in 2014 (+7.5%). This applies to all regions worldwide with the exception of Japan. In Western Europe, the speed of growth slowed noticeably to 3.2% in 2015, compared with 6.9% in 2014. In Germany, private assets grew by 4.0%, following an increase of 4.4% in the previous year.

According to the 2016 Global Wealth Report published by Allianz, the average net assets of German citizens increased by 6.5% to € 47,681 in 2015. The increase recorded in the previous year was around 1%.

Appetite for returns on the rise among private households

Based on the latest figures of the German Bundesbank, the trend towards liquid and low-risk investments also continued in the reporting year in Germany. The total monetary assets of private households in Germany at the end of Q3 2016 were € 5,477.5 billion – and therefore more than 5.0% higher than one year previously. In the first nine months of 2016, inflows into funds were essentially recorded for claims against insurance companies and pension schemes of € 66.6 billion, as well as for demand deposits (including cash) of € 54.1 billion.

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



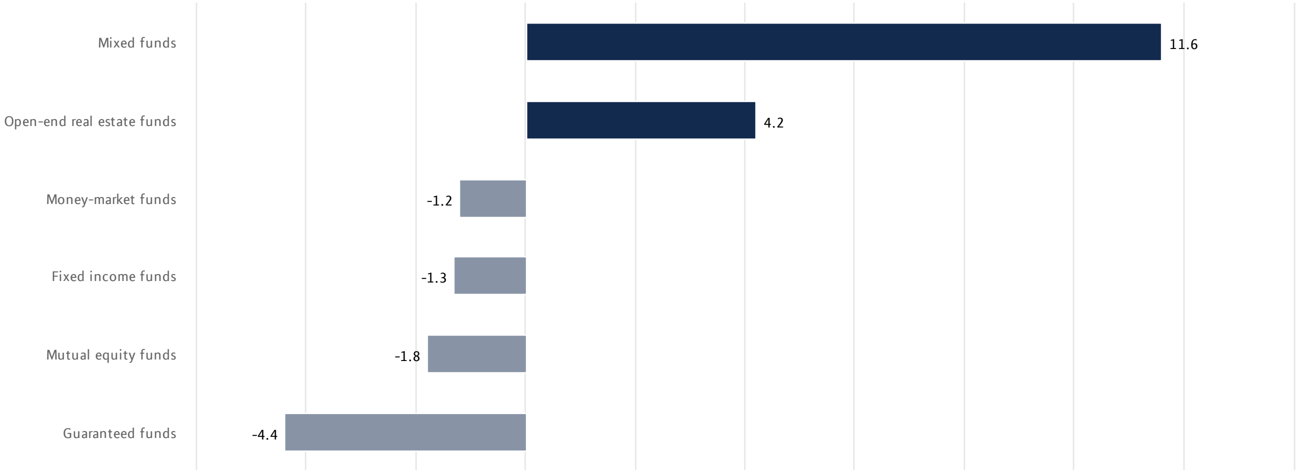
Source: German Bundesbank, as at: September 30, 2016

Mixed and special funds on the rise

Investment funds also recorded positive cash inflows in the reporting year. Based on information provided by the German Association of Investment and Asset Management (BVI e.V.), the total assets managed by the German investment industry in Germany as of December 31, 2016 were € 2,801 billion, which is 7.7% higher than one year previously. Institutional investors made a significant contribution to this, meaning that investments in special funds increased by 10.6% from € 1,340 billion to € 1,482 billion. This market is relevant for the MLP Group due to the services provided by FERI.

As of December 31, 2016, mutual funds recorded a total increase of 3.6% to € 915 billion compared to the previous year. By far the greatest inflows into funds were recorded in mixed funds at € 11.6 billion, followed by open-end real estate funds at € 4.2 billion. In contrast to 2015, investors actually withdrew money from mutual equity funds again in the reporting year.

Cash inflows and outflows of various types of mutual funds in Germany from January to December 2016 (in € billion)



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

Ongoing consolidation in private banking and wealth management

The market for providing consulting and asset management services to high net-worth individuals, which we serve via FERI, has become significantly more complex and fiercely contested since the financial and economic crisis. Alongside the challenging conditions on the capital market, the competitive environment is also characterized by ongoing consolidation in the private banking and wealth management segments.

From the client perspective, it is also important to note that the decision-making cycles of investors remain long and the willingness to sign new contracts remains fairly low. In light of the low-interest environment, institutional investors in particular are increasingly looking for alternative investments.

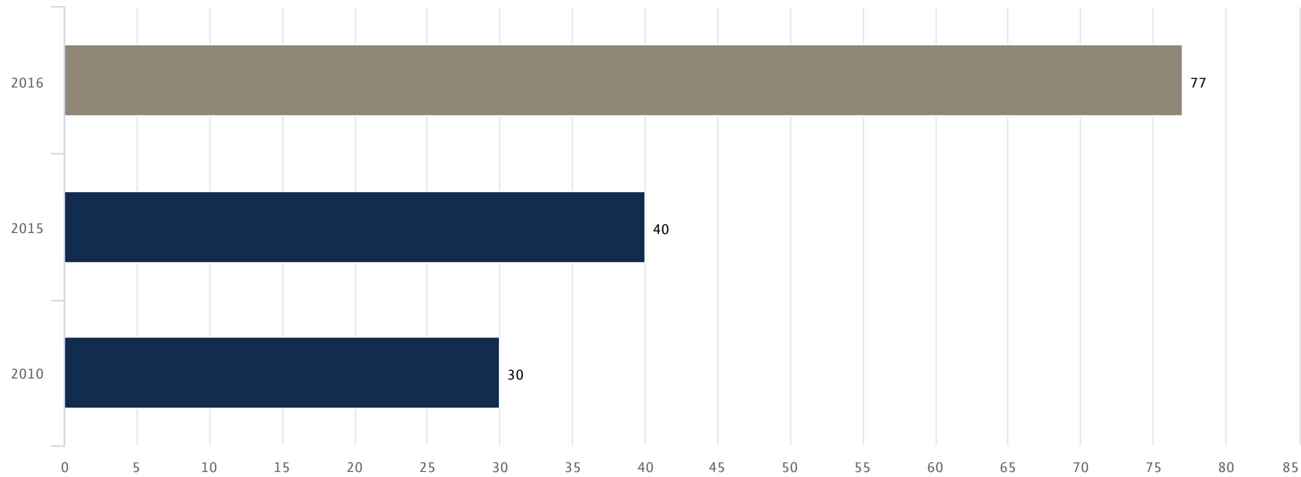
Real estate remains popular

Due to the ongoing period of low interest rates, investments in both owner-occupied and investment properties are becoming increasingly more important for long-term capital accumulation. According to the 2016 Wealth Barometer, 59% of German citizens consider owner-occupied property the most suitable form of investment for this purpose. This figure has risen by six percentage points compared to 2015. 29% prefer to invest in investment properties for capital accumulation.

Non-life insurance

The non-life insurance business has become more important for insurance brokers in the last few years. According to a survey performed by AssCompact, more than three quarters (77%) of brokers surveyed consider the private non-life insurance business to be highly relevant. In 2015, this figure was just 40%. Most of those taking part in the survey believed that the Life Insurance Reform Act (LVRG) was the key reason for this increased significance of the non-life insurance business, as it is putting pressure on other areas of the brokerage business. Since this time, the non-life insurance business has been helping many insurance brokers stabilise their business model.

High importance of the non-life insurance business for insurance brokers (all figures in %)



Source: AssCompact AWARD – Private non-life insurance business 2015/2016

Brokers rate the business situation as good

According to a survey undertaken by Assekurata, the current business situation among insurance brokers in the non-life insurance segment is promising. Virtually three out of every four respondents (72.1%) rate the situation as good. More than half (55.7%) also share this assessment for commercial non-life insurance products.

High degree of willingness to switch providers in the vehicle insurance segment

German citizens display a high degree of willingness to switch car insurers. According to a survey performed by LVM Versicherung, 70% of German citizens have already switched car insurer at least once. The most common reason for switching was a lower premium offered by a different company. One in two Germans (55%) uses the internet to find out more about car insurance offers. Yet despite this, the personal contact to a consultant remains the most popular approach for 46% of those taking part in the survey.

Risks due to forces of nature increasing

According to the Natural Hazard Report of the German Insurance Association (GDV e.V.), storms, hail and heavy rain caused material damage of € 2 billion for policy holders in 2016. Half of the damage was caused by two storms in spring. In the last few years, non-life insurers have had to pay out an average of € 2.4 billion for damage caused by natural hazards.

Many homeowners in Germany underestimate the risk of suffering flooding. According to a survey conducted by the German Insurance Association (GDV e.V.), around two thirds of homeowners believe they will never be affected by this. Around 37% of residential buildings throughout Germany are insured against natural disasters such as heavy rain or flooding. This also means that around 11 million of the 17.5 million homeowners in Germany do not have adequate protection in place for damage caused by forces of nature. There is potential here, as DOMCURA is already successfully active in this business segment and enjoys an excellent market position thanks to numerous awards.

With regard to premium increases, the German Insurance Association (GDV) is anticipating growth in the property and casualty insurance segment in 2016.

Competition and regulation

The competitive situation in the German market for financial services did not change significantly for the MLP Group in 2016 compared to the previous year. The sector remains very heterogeneous and is characterised by consolidation trends. The providers include numerous banks, insurance companies and free finance brokers. However, the quality of consulting provided by these companies can vary quite markedly. In addition to this, competitive pressure is growing throughout the entire sector as a result of new, digitally-oriented market members (so-called fintechs).

Altered framework conditions drive consolidation

To sustainably increase the degree of transparency and consulting quality in the market, the legislator has already implemented various regulatory changes in the last few years. These changes also had a lasting effect on the framework conditions in the last financial year, and their implementation will continue to promote consolidation of the market. MLP was an early adopter of numerous requirements that the legislator is now stipulating with new sets of rules and standards. We see this as a competitive advantage.

Stricter banking regulation in Europe

As was already the case in previous years, clarification of details regarding implementation of Basel III in the European Union (EU) continued to occupy the banking world in Europe during the reporting year. As a financial institution, these regulations also apply to MLP Finanzdienstleistungen AG and thereby to the MLP Group. Various capital buffers were substantiated in 2016, focusing in particular on the requirements of the capital conservation buffer, which will increase in steps from 0.625% in the reporting year to 2.5% in 2019.

In addition to this, on February 19, 2016 the Federal Financial Supervisory Authority (BaFin) published the consultation paper for the fifth amendment to the minimum requirements of risk management at credit institutions (MaRisk BA). The amendment encompasses comprehensive changes, such as extended requirements of data management, data quality and aggregation of risk data, the IT infrastructure, as well as risk reporting.

Life Insurance Reform Act (LVRG) having lasting effects

The Life Insurance Reform Act (LVRG), which already came into force in 2015, also had lasting effects on the competitive situation in the market as a whole during the reporting year. Ratings agency Assekurata expects the current level of commission to decrease further in a second wave of adjustment as a result of the Life Insurance Reform Act (LVRG). Analyses also reflect a transition from acquisition commission to portfolio commission.

Solvency II is moving the insurance sector

The law transposing the Solvency II EU Directive into German law came into force on January 1, 2016. Insurance companies therefore now have to adhere to new supervisory rules that rest on three pillars and are designed to fundamentally modernise and harmonise insurance regulation throughout Europe. The first pillar requires insurers to submit a risk-based/fair value-based measurement of their investments and benefit obligations. The second pillar presents additional requirements pertaining to business organization (governance), while the third pillar extends the reporting obligations of insurers.

Life insurers are reacting to the challenges associated with Solvency II with innovations in the product landscape and are increasingly seeking to extend their portfolio of old-age provision products with flexible guarantees or no guarantees at all. The growing complexity of the products presents opportunities for quality-driven brokers with the necessary consulting expertise, such as MLP.

The first Financial Market Reform Act came into force in July 2016 and represents the first part of a comprehensive amendment to the laws of the financial market. The objectives are to strengthen the rights and protection of small private investors and increase the transparency of the financial markets. As the introduction of the amended Markets in Financial Instruments Directive (MiFID II) has been postponed by one year to January 3, 2018 by the European Commission, the initially coherent Financial Market Reform Act will be split up. You can find further information on this in the → Forecast section.

Greater transparency and better investor protection in focus

The act on the implementation of the EU directive on credit agreements for consumers relating to residential immovable property came into force in Germany on March 21, 2016. The new law requires banks to investigate the financial and economic situation of clients particularly carefully when issuing mortgages. In addition to this, mortgage brokers must hold a certificate of proficiency, be registered and sign up for professional liability insurance. The local chambers of industry and commerce are responsible for organising the competence tests. The transitional period ended on March 21, 2017.

Directive on credit agreements for consumers relating to residential immovable property

MLP is also active in the brokerage of mortgages. All our consultants are well-trained for this consulting field. However, some consultants still need to present their new certificate of proficiency. In the current reporting year, we already prepared consultants at our Corporate University for the necessary examination at the respective chambers of industry & commerce. Further training measures are to take place at the start of 2017.

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

According to the most recent Sales Channel Survey performed by corporate consultancy Towers Watson, independent brokers like MLP (i.e. brokers that do not offer any of their own products) were the third most important specialist consulting channel in the industry for the sale of life insurance policies. Their market share of brokered new business was 26.3%. Tied agents, which represent just one company, took 2nd place with 27.5%, just behind the banks at 30.4%.

Demand for independent consulting services remains high

According to Towers Watson, independent consultants also continue to play a key role in the brokerage of private health insurance policies. With a market share of 33.5%, they are the second most important consultant group after the tied agents (48.1%).