# JOINT MANAGEMENT REPORT

In addition to the MLP Group, the following joint management report also encompasses MLP AG in accordance with § 315 (3) in connection with § 298 (3) of the German Commercial Code (HGB).

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.

The Previous year's values of the consolidated income statement and the consolidated balance sheet have been adapted and are disclosed accordingly in the following tables. Information is provided in → Note 3.

## FUNDAMENTAL PRINCIPLES OF THE GROUP

### *Business model*

#### MLP – 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. Four brands, each of which enjoy a leading position in their respective markets, are used to offer a broad range of services:

- **MLP Finanzdienstleistungen AG:** The dialogue partner for all financial matters
- **FERI AG:** The investment expert for institutional investors and high net-worth individuals
- **DOMCURA AG:** The underwriting agency with a focus on private and commercial non-life insurance products
- **TPC GmbH:** The specialist in occupational pension provision management for companies

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

Client requirements in focus

Since the company was founded by Manfred Lautenschläger and Eicke Marschollek in 1971, MLP Finanzdienstleistungen AG has consistently striven to establish long-term relationships with its clients. This requires a profound understanding of their individual requirements. Each of our approximately 2,000 client consultants 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, all the way up to financing, real estate brokerage and banking business.

MLP Finanzdienstleistungen AG: Focus on individual professional groups

As a financial institution, MLP Finanzdienstleistungen 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.

Supervisory requirements

As an insurance broker, MLP Finanzdienstleistungen AG is also committed to selecting the most suitable product options for clients from the broad scope of offers 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.

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

Transparent partner and product selection process

In addition to its private client business, the MLP Group has also been establishing an extensive portfolio for corporate clients, institutional investors and very high net worth individuals since 2004. Since 2014, we have also strengthened our activities in the field of real estate brokerage. In addition to this, MLP has developed new potential in the field of non-life insurance since 2015 with the acquisition of the DOMCURA Group (DOMCURA) and has positioned itself as a provider for other market members. The integration of DOMCURA was successfully completed in the reporting year. With the continuous expansion of our business model and new additions to our core competencies, we have created further stable pillars to secure the sustainable success of our company.

Diversification at an advanced stage

The aforementioned acquisition of Schwarzer Familienholding GmbH (hereinafter referred to as the DOMCURA Group/DOMCURA) in the first half of 2015 and its successful integration into the MLP Group was another key milestone in the diversification of revenue streams in the reporting year. As an underwriting agency, DOMCURA designs, develops and implements its extensive coverage concepts for private and commercial clients in the field of non-life insurance. These concepts are used by market members such as brokers and other agents. In addition, the DOMCURA Group also includes specialist brokers for commercial and industrial insurance. An initial joint hedging concept was already developed and successfully launched to market by DOMCURA and MLP in 2016. You can find more information on this in the chapter entitled → “Performance”.

DOMCURA – The non-life insurance specialist

FERI – Wealth management with independent research

As an investment house for institutional investors and high net-worth individuals, the FERI Group (FERI) offers services in the areas of investment management, investment consulting and investment research.

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

FERI further sharpened its focus on this core business in the reporting period by selling FERI EuroRating Services AG.

TPC: Sector concepts for occupational pension provision management

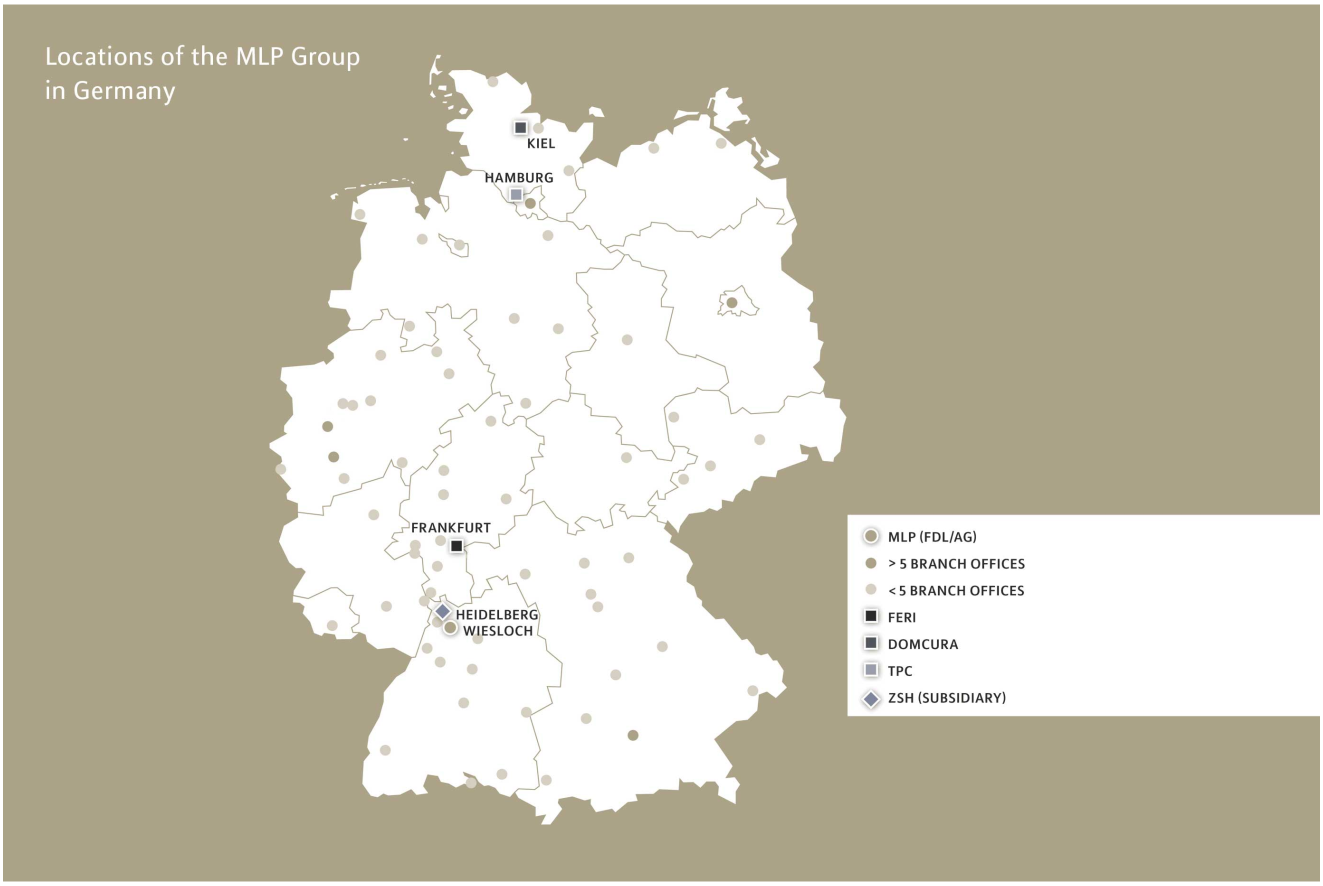
As a specialist in occupational pension provision management, TPC GmbH (TPC) offers companies and associations consultancy services covering all issues relating to occupational pension provision and remuneration. Companies benefit from a full portfolio of services – ranging from needs analyses, to individual concept development and implementation, right through to continuous inspection of existing occupational 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 at tax advisers, auditors, solicitors, physicians and architects.

Further training of key importance

Further training plays an important part in our company's ability to ensure sustainably high quality consulting services. You can find more detailed information on this in the chapter entitled "→ Employees and consultants".

Represented throughout Germany

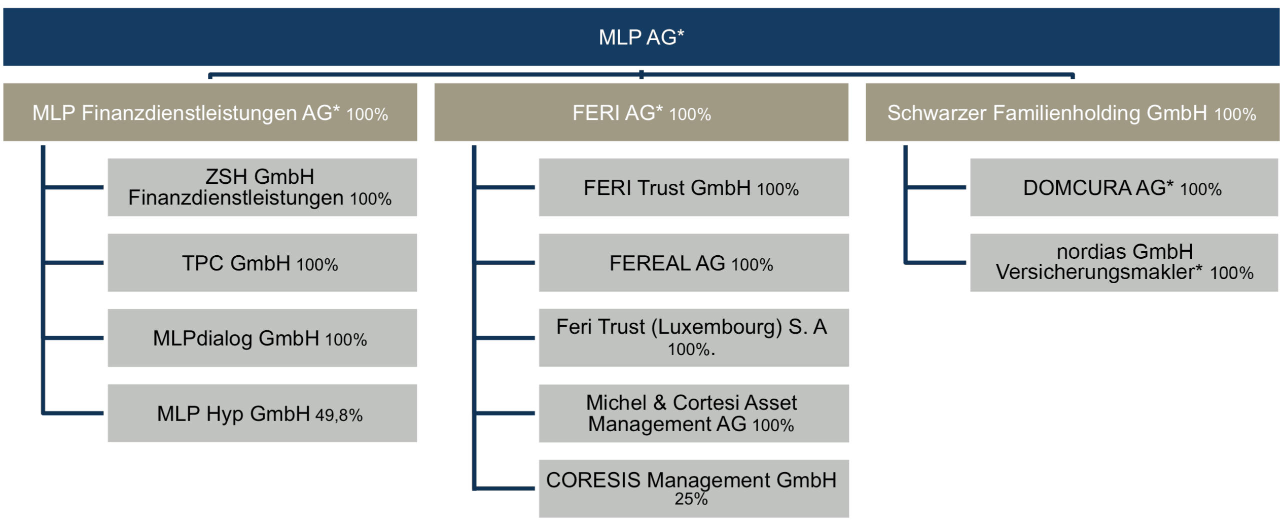
The registered office of MLP AG, the holding company, and also MLP Finanzdienstleistungen AG is in Wiesloch, Germany, where all internal divisions are centralised. Additionally we are represented by our client consultants and offices in all German urban centers, including all important university locations. DOMCURA has its headquarters in Kiel, while TPC operates out of Hamburg. Alongside its HQ in Bad Homburg vor der Höhe, FERI also maintains further national and international locations in Munich, Düsseldorf, Zurich, Luxembourg and Vienna.




## 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 AG. The three subsidiaries MLP Finanzdienstleistungen AG, FERI AG and Schwarzer Familienholding GmbH (DOMCURA Group) are directly subordinate to it (see figure). The business divisions each carry end-to-end accountability for results. This organisation reflects the Group's strategic goals and client requirements.

### Current Group structure of operating companies




* Plus further direct and indirect subsidiaries

MLP Finanzdienstleistungen AG holds a banking license and is registered as an insurance broker for the brokerage of insurance contracts. MLP Finanzdienstleistungen AG includes TPC GmbH in Hamburg, ZSH GmbH Finanzdienstleistungen in Heidelberg, MLPdialog GmbH in Wiesloch and MLP Hyp GmbH in Wiesloch, which we operate together with the mortgage broker Interhyp AG in Munich.

FERI AG's main fields of business are investment management, investment consulting and investment research, each of which is offered both to institutional and private clients by FERI Trust GmbH, Bad Homburg v.d.H. The issuance and structuring services for alternative investments and fixed asset investments are centralised at FEREAL AG, which is approved as a capital management company by the Federal Financial Supervisory Authority (BaFin).

FERI AG sold FERI EuroRating Services AG in the reporting year. The transaction was concluded on August 1, 2016. With this move FERI is continuing to focus on its core areas of expertise and on strategic further development to become the leading investment company in Germany, Luxembourg, Switzerland and Austria.

The main companies and affiliations in Germany and abroad include FERI Trust (Luxembourg) S.A., which acts as fund manager and coordinates the entire fund structuring and fund floating process, as well as Michel & Cortesi Asset Management AG (Switzerland), which offers investment solutions for private and institutional investors. In the field of real estate, FERI AG holds investments in CORESIS Management GmbH.

The main subsidiaries of the DOMCURA Group include DOMCURA AG, which specialises in designing, developing and implementing comprehensive coverage concepts in the non-life insurance segment for both private and commercial clients. In the course of the ongoing focus on the corporate structure in the DOMCURA Group, companies including Ralf W. Barth GmbH and F&F Makler AG among others were merged into nordias GmbH Versicherungsmakler in the financial year. All activities of the broker business segment have been pooled in this company, including specialist brokers for commercial and industrial products.

## Factors affecting business development

Economic developments in Germany have a significant impact on the business model of the MLP Group, as the company generates almost all of its revenue in this country. Particularly important indicators in this regard are economic growth, developments on the employment market, salary levels and the general savings rate. These indicators are described in further detail in the chapter entitled → "Economic report – National economic climate". The results of operations are influenced even more acutely by market conditions in the consultancy areas of old-age provision, health insurance and wealth management, which are analysed in the corresponding chapters of the → "Economic report". Another important factor is the regulatory environment, which is examined in more detail in the chapter entitled → "Economic report – regulation and competition".

## Organization and administration

The Executive Board at MLP AG comprises three members. The positions on the Board continue to be held by Dr. Uwe Schroeder-Wildberg (Chairman of the Executive Board), Manfred Bauer (Product Management) and Reinhard Loose (Finance).

The Supervisory Board, which is, among other things, required to monitor the actions of the Executive Board under German law, comprises six members. There were no changes to the personnel on this committee in the reporting year.

At FERI AG, the Executive Board contract of Dr. Matthias Klöpper (Finance) expired in the reporting period. As of January 1, 2017, Marcel Renné was appointed as a new member of the Executive Board with responsibility for Operations. Chairman of the Executive Board, Arndt Thorn, assumed responsibility for Finance from this date on.

Both the Executive Board and Supervisory Board seek to change the company's corporate form from MLP AG to an SE (Societas Europaea). This proposal is to be put to the shareholders during the 2017 Annual General Meeting. The objective of the change in corporate form is primarily to secure the current flexibility of the work performed by the two committees for the future. To date this has been achieved through a six-member Supervisory Board commensurate to the size of the company, among other measures.

# 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 targets for key controlling figures in the strategic and operating planning process. Any deviations from our targets then become transparent within the scope of ongoing controlling processes. Based on these developments we then derive actions for our corporate management. We also continually monitor developments in the market and the competitive environment.

## Corporate management

EBIT and sales revenue as the most crucial key performance indicators

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

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

| | Financial services | FERI | DOMCURA |
|---|---|---|---|
| Old-age provision | X | | |
| Health insurance | X | | |
| Wealth management | X | X | |
| Non-life insurance | X | | X |

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

Beside the important key performance indicators of EBIT and revenue, other KPIs include administrative expenses (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 area, 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). 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 end-to-end incorporation of all organizational 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 obligatory ISA process (applied consistently throughout the Group), the target achievement level of each unit is defined through our established planning and reporting processes. ISA provides the Executive Board with a high degree of transparency in the value-added process.

Risk management: Important management and control element

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 area, and brokered new business in the field of old-age provision, as these two areas represent a significant portion of commission income.

Keeping consultant turnover low

Our objective is not only to win over the best consultants in the industry to our business model, but also to keep them loyal to our company in the long term. We therefore continually monitor our employee turnover rate and aim for a maximum annual turnover rate for self-employed consultants of 10%.

You can find further information on this in the chapters entitled → "Performance" 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.

# ECONOMIC REPORT

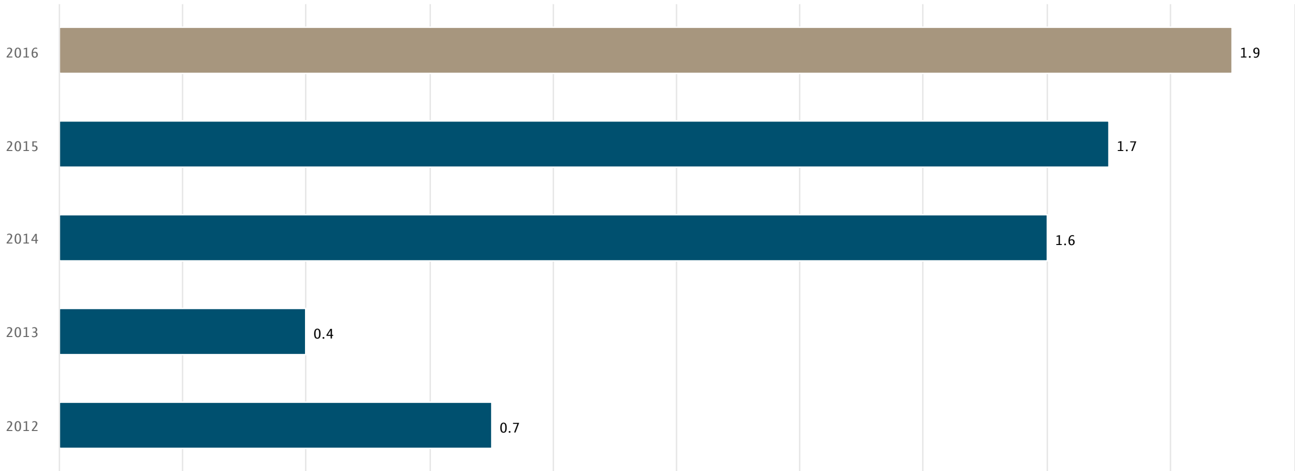
## *Overall economic climate*

### Overall economic situation

The recovery in the eurozone continued in the reporting year. According to estimates provided by FERI Investment Research, economic growth for the eurozone was 1.5% in 2016 – and was thereby slightly below the previous year (2015: 1.9%). The expansive monetary policy of the European Central Bank was the key contributing factor to the recovery in the eurozone.

In Germany, growth in the last financial year continued to be bolstered by a comparatively robust domestic economy. In its autumn forecast, the German government stated the low oil price as another reason for the positive development. According to calculations performed by FERI, inflation-adjusted gross domestic product (GDP) in Germany increased slightly to 1.9% in 2016.

Economic growth in Germany (in %)




Source: FERI Investment Research, changes to gross domestic product, price-adjusted

Consumer confidence stabilising at a high level at the end of the year

Consumers in Germany continue to display a highly positive attitude, as underlined by the Consumer Sentiment Index of the German Consumer Research Association (GfK). The Index stood at 9.8 points in December 2016, compared with 9.3 points twelve months earlier. In September 2016, it even surpassed the 10-point mark with 10.2 points. According to the study performed by the German Consumer Research Association (GfK), one reason for the very positive overall sentiment is the fact that consumers are displaying resilience to a range of risk factors, such as the result of the US election, the Brexit decision, the financial crisis flaring up again in Italy following the unsuccessful referendum and Renzi's resignation from the government, as well as the ongoing threat of terrorism. In addition to this, the employment market remains solid and private household incomes are displaying good development. The Consumer Sentiment Index of the German Consumer Research Association (GfK) is considered one of the most important indicators of behaviour among German consumers and of economic stability.

The overall mood in the German economy remains positive. The recovery remained intact in Germany right to the end of the year. The ifo business climate index was unchanged in November 2016 at 110.4 points – having been at just 107.4 points in January 2016. In December 2016, it increased even further to 111.0 points – representing its highest level since February 2012.

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.

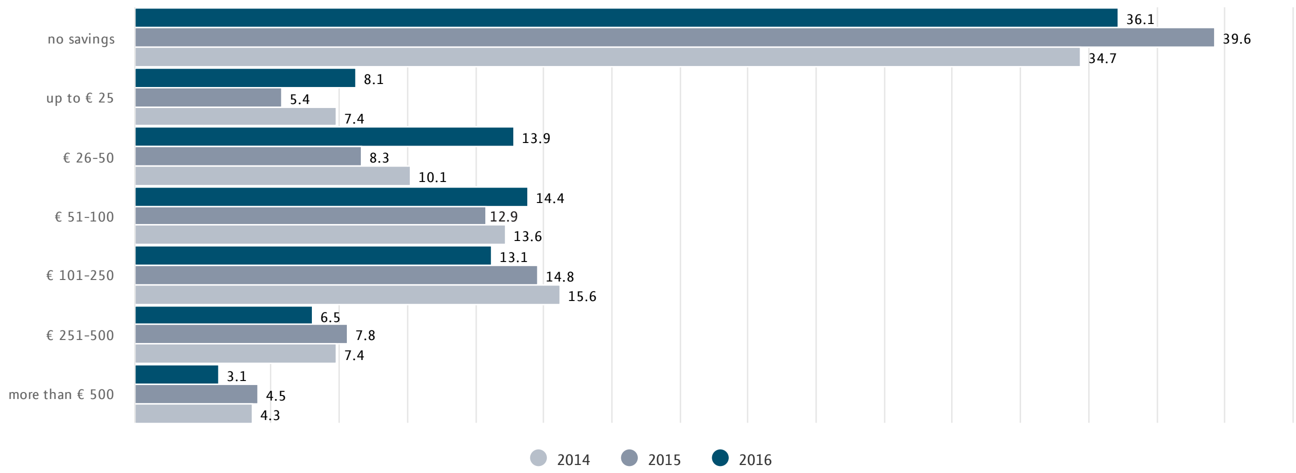
A survey conducted by market research institute YouGov on behalf of MLP underlines the ongoing need for advisory services in the field of old-age provision. Based on this survey, just under 32% of German citizens do not have any clear idea of how much statutory pension they will receive, while a further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

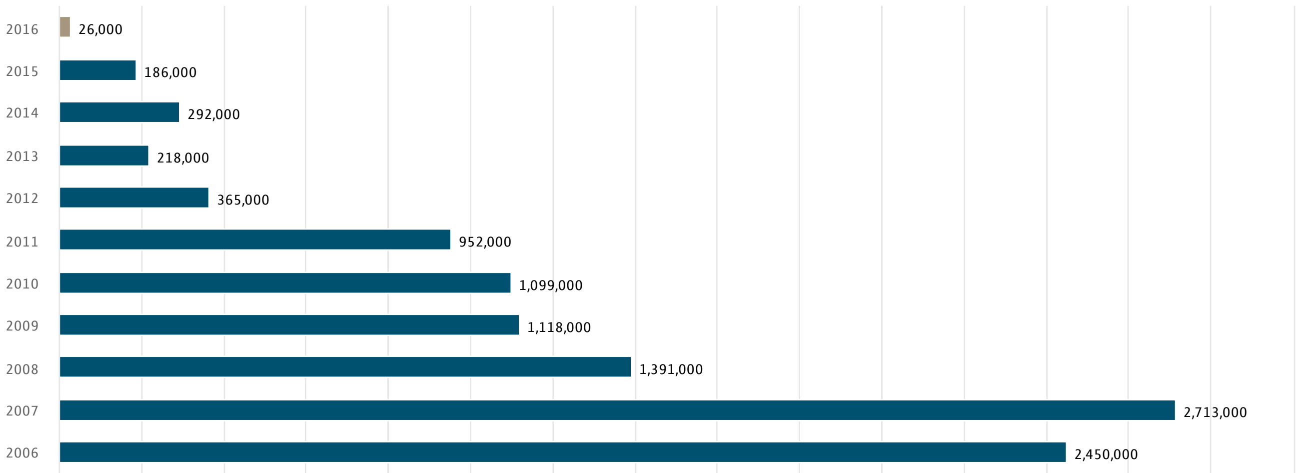
Despite this significant tax incentive, data published by the German Insurance Association (GDV) indicates that only 94,900 new basic annuity contracts had been concluded throughout the market by the reporting date on December 31, 2016. This corresponds to a drop of 3.4%, with the number of policies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

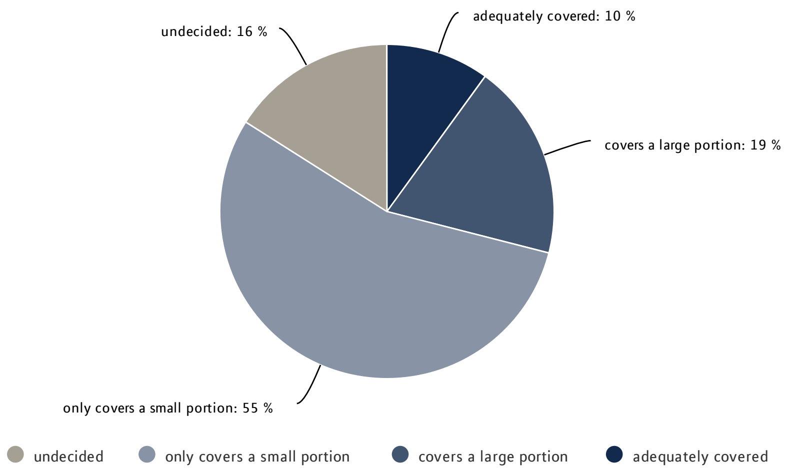
Supplementary long-term care insurance continues to represent the second growth pillar in the supplementary insurance segment. The number of state-supported supplementary long-term care insurance policies ("Pflege-Bahr") increased by 22.4% to 683,500 contracts in 2015. The number of supplementary long-term 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

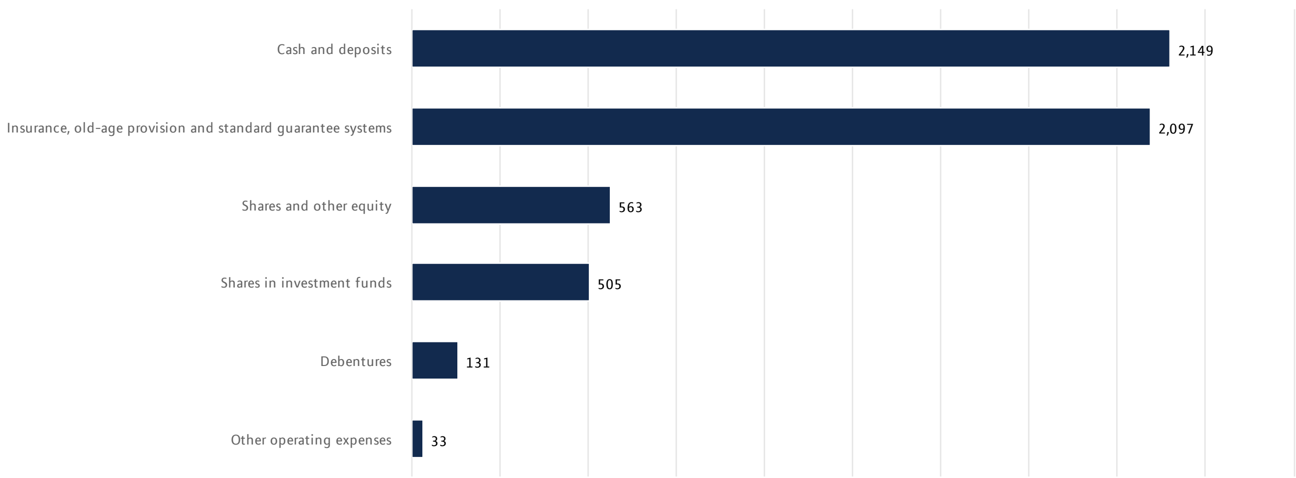
Global private wealth is growing – albeit somewhat more slowly. According to the 2016 Global Wealth Report published by the Boston Consulting Group (BCG), the worldwide assets of private households increased by 5.2% to US$ 168 trillion in 2015 – which represents slower growth than in 2014 (+7.5%). This 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)



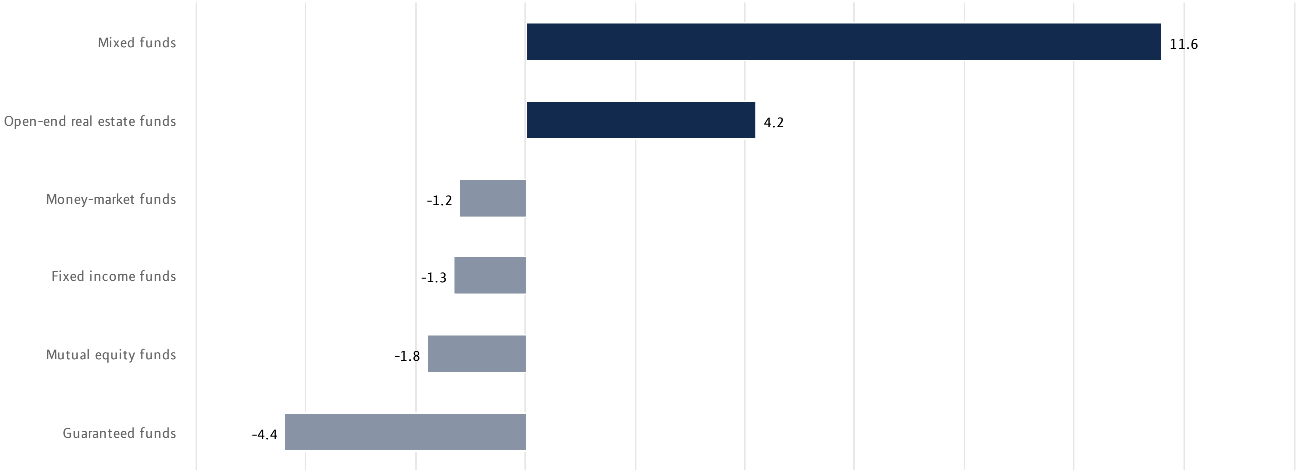

Source: German Bundesbank, as at: September 30, 2016

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.

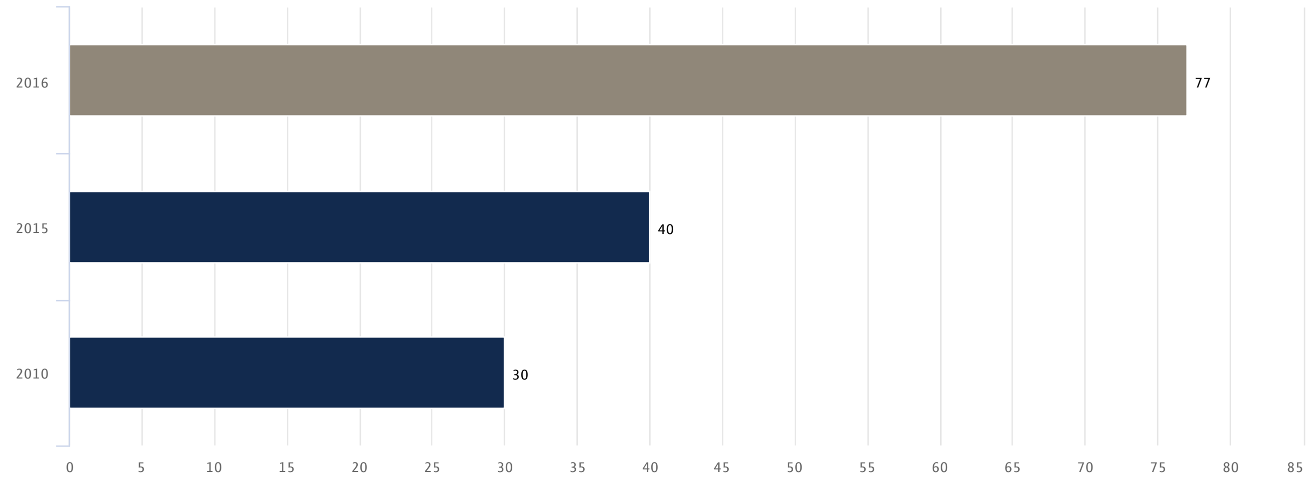
**Real estate remains popular**

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%).

# *Business performance*

In the old-age provision area, the ongoing period of low interest rates and critical media reports on life insurers throughout the market were the main factors that led to continued reservations in terms of signing long-term contracts. However, MLP was able to gain an advantage in this area by being quick to recognise and adapt to the growing significance of new guarantee products, which are proving a popular alternative to classic concepts among clients. Indeed, these guarantee products already represented 72% of all newly concluded contracts at MLP in 2016. Occupational disability insurance also provided positive stimulus here. Total revenue in the old-age provision area was slightly above the previous year's level in the reporting year.

In the health insurance area, we continued to encounter reservations in terms of signing new comprehensive private insurance policies. Factors such as premium increases in this area and a critical media coverage contributed to this development. Yet despite this, our revenues in the health insurance area displayed stable development. This is thanks to our good client basis, as well as the close and intensive support our clients receive. As anticipated, the supplementary insurance area also displayed positive development in 2016.

Together with our subsidiary FERI, we have developed the wealth management area into a key revenue pillar in the last few years. FERI was able to acquire new clients in all business segments in the reporting year. 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, hedge funds and real estate).

With the divestment of ratings agency FERI EuroRating Services AG in the reporting period, FERI now concentrates on its three core business segments of investment research, investment management and investment consulting.

Total revenue in the wealth management area remained at the previous year's level. In terms of assets under management, we exceeded our forecast and are above the previous year's level. This development also continued to be supported by net cash inflows at MLP Finanzdienstleistungen AG.

As anticipated, revenues in the non-life insurance area were considerably above the previous year's level. This was due to the first consolidation of DOMCURA for a full financial year. Alongside the existing business of the DOMCURA Group, the cooperation with MLP provided positive stimulus, for example through the implementation of new concepts (see below).

Portfolio extended in the real estate segment

As expected, it was not quite possible to repeat the previous year's record result in the property financing segment. Other commission and fees, an item that primarily reflects the brokerage of real estate objects, remained at the previous year's level. Reasons for this development were above all the shortage of listed buildings, which together with existing real estate had been the focus of brokerage activities. To expand the revenue basis, MLP extended its portfolio in the reporting year to include new buildings, as well as existing and concept-driven properties (microliving, nursing care properties).

Diversification of revenue streams is progressing

MLP further diversified its revenue basis in 2016. The successful integration of the DOMCURA Group represents a key contribution to this strategic objective, whereby business with other market members (sales partners) continued to enjoy positive development. One important advancement in this regard was the introduction of a new online calculation tool for commercial insurance policies. MLP consultants also receive comprehensive process support in the non-life insurance segment. Aside from this, an initial joint concept for private clients ("DOMCURA comprehensive cover") was also developed and successfully launched to market in the period under review. The positive developments observed in the wealth management and health insurance areas also made an important contribution to diversification of the revenue basis.

Adjustment to the way we count clients

As announced at the start of the year, MLP adjusted the way it counts clients to the modified corporate structure in the reporting year. Since Q1 2016, we have been reporting according to family clients served at MLP Finanzdienstleistungen AG and in the FERI Group and according to corporate and institutional clients. These include clients in the occupational pension provision area and institutional clients at FERI as well as sales partners at DOMCURA. On the basis of this definition, the Group served 517,400 family clients as of December 31, 2016 (December 31, 2015: 510,200). The gross number of newly acquired family clients increased by 10.8% to 20,500 in 2016. In addition to this, the MLP Group provided its services to a total of 19,200 corporate and institutional clients (December 31, 2015: 18,200).

New distribution of revenues due to DOMCURA acquisition

The distribution of revenues has changed since the reporting year. Although MLP generates a large proportion of its revenues in the final quarter, the acquisition of DOMCURA has also made the first quarter significantly more important. This is due to the seasonal nature of the DOMCURA business model. Accordingly, the subsidiary records high sales revenue and comparably high earnings in the first quarter of each year and subsequently records a loss from Q2 to Q4. Examining the whole year, earnings are significantly positive.

Client service center further extended

To increase the productivity of our consultants, we increased the staffing level at the MLPdialog GmbH client service center in Bad Segeberg in the reporting year and further extended the service for our consultants and clients.

Digitalisation strategy successfully pressed ahead

Within the scope of implementing our online strategy, MLP intensified its cooperation with the fintech company massUp in the reporting year. Since the roll-out at the start of the year, our clients have also been able to sign up for basic insurance products online using the MLP client websites mlp.de and mlp-financify.de. During this period, a total of 1,000 contracts have already been concluded, including electronics insurance, bicycle insurance and in particular travel health insurance policies. Plans for further expansion are currently underway. In addition to this, vehicle insurance policies can also be concluded online at MLP. Video conferencing was once again made available to all consultants in the reporting year. The pilot group for the eSignature was expanded in a step-by-step approach in 2016. Another roll-out is planned for 2017.

Social media activities as a way of acquiring new clients

Within the scope of our online strategy, MLP further increased its presence on social media platforms such as Facebook, YouTube and Twitter in the reporting year. In addition to this, we worked on permanently improving our websites. These two approaches each help win participants online for seminars held at the branch offices and develop consulting needs. In the survey "Customer-oriented websites of listed companies 2016" conducted by consultancy Service Value for the German daily newspaper "Die Welt", MLP's revised online presence was rated as the best overall offer of a listed financial services provider. MLP FinancePilot, which offers our clients various online options including processing of their day-to-day banking needs, received new functionalities in 2016. These include the SecureGo process, as well as the GiroCode function, with which invoices can be scanned via QR code.

New client portal launched

In 2016, the foundations were laid for an extended client portal. The MLP client portal is an application which has been adapted to the modern design of the MLP homepage and in particular links up FinancePilot Banking and Report and provides them with new features. The main focus is on the "digital budget book", which presents financial topics such as client income and expenditure in a clearly structured way. With the infrastructural basis of the client portal already in place and planned extensions, MLP now offers an application which clients can use to access further individual MLP applications just by logging in and which makes it particularly easy for them to manage their financial matters. The pilot phase for the client portal was launched at the end of 2016, and across-the-board roll-out is planned for early 2017.

Roll-out of new consultant applications

In 2016, MLP introduced a new application for the selection of products. This new application offers considerable operating and process benefits over the previous software. It offers consultants valuable support – from selecting products, the entire application process right through to the advisory documentation. The new MLP.net Intranet was also launched at the end of October 2016. It facilitates targeted information transfer to both consultants and employees, while promoting the exchange of professional information with one another.

We are consistently working on further developing our consulting approach, which is being supported by a new consulting application ("Budget guide"). This was successfully tested and combined with a comprehensive training concept in 2016. A further, step-by-step roll-out is due to follow from 2017 onward. In parallel to this, the counterpart for advising young clients has been developed in the form of the "Budget guide easy" application. The application was released for testing in November and the roll-out (together with corresponding training sessions) is scheduled for 2017. You can find further information on this in the section entitled → "Anticipated business development".

Recruiting initiative starting to bear fruit

As in the previous year, acquiring new consultants continued to be a key topic in the reporting year. The new further training allowance introduced in 2015 for those wishing to begin a career as a client consultant has established itself as an important concept within our recruiting initiative. You can find further information on this in the section entitled → "Employees and freelance client consultants".

Financial Planning master's programme launched

The Corporate University has been collaborating with the School of Management and Innovation at the Steinbeis University in Berlin since September to offer an MSc course in "Financial Planning and Management". The extra-occupational master's course is aimed both at experienced MLP consultants and those who are working for MLP after completing their bachelor's degree. It therefore represents a supplementary instrument of our recruiting initiative and an additional further training opportunity for our consultants.

Consistent efficiency management programme supports growth strategy

As the market environment remains challenging, in February 2016 MLP introduced measures to again significantly reduce costs in the financial year 2017 and subsequent years and to achieve a positive EBIT effect of € 15 million compared to the financial year 2015. This incurred one-off expenses of approximately € 15 million in the financial year 2016. The savings predominantly relate to material costs. In addition to this, MLP chose not to fill positions that became vacant and instead relied more on synergies between the Group companies in the back office. MLP already lowered administrative costs by around € 60 million between 2008 and 2012.

Changes in corporate structure

In the reporting year, FERI AG announced the sale of FERI EuroRating Services AG. 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.

Within the scope of the additional focus of the corporate structure in the DOMCURA Group, companies including Ralf W Barth GmbH and F&F Makler AG were merged into nordias GmbH insurance brokers in the reporting year. All activities of the broker business segment have been bundled in this company including specialist brokers for commercial and industrial solutions.

# *Results of operations*

The previous year's figures under financial position, net assets and results of operations offer only limited comparability year on year. This is due to DOMCURA being included in the Group consolidation scope for a full year for the first time in the financial year 2016. In the financial year 2015, it was only included for the months from August to December.

## Development of total revenue

Total revenue significantly up

Despite the continually challenging market conditions already described, MLP was able to increase total revenue in the reporting period by 10.1% to € 610.4 million (€ 554.3 million). This growth was primarily driven by the increase in commission income from € 514.3 million to € 570.1 million. Here it should be noted that the revenues of the DOMCURA Group were included for a full financial year for the first time. DOMCURA's contribution to Group revenue was € 70.7 million in the financial year 2016 (share from August to December 2015: € 20.0 million). Revenue from the interest rate business fell to € 20.5 million (€ 21.4 million) due to the ongoing low interest rate environment. Following € 18.7 million in the previous year, other revenue increased to € 19.8 million.

New business in the old-age provision area significantly above the previous year

The market environment in the old-age provision area remains challenging, not least due to the ongoing low interest rate environment, as well as the ongoing negative press on life insurers and their products. Yet despite this, revenues in the old-age provision area increased by 2.7% to € 221.5 million (€ 215.7 million) – even when taking into account a one-off positive effect due to the correction of an incorrect settlement by a product partner in the previous year. This successful development is primarily down to a strong closing quarter, in which revenue rose by 7.4% to € 94.3 million (Q4 2015: € 87.8 million). This means that MLP recorded gains in the old-age provision area for three quarters in succession. At € 3.7 billion, the premium sum of new business generated in the financial year was 5.7% above the previous year (2015: € 3.5 billion), while growth in the overall market was just 1.5%. One key reason for the excellent development enjoyed by MLP was its ability to adapt fast to the new product portfolio. While just under 50% of contracts in the market were brokered with classic guarantees in 2016, this figure was just 14% at MLP. Instead, 72% of clients at MLP opted for new types of guarantees and 14% preferred purely unit-linked policies.

Health insurance at the previous year's level

At € 45.8 million, revenue in the health insurance area was up on the previous year (€ 45.9 million). Accordingly, MLP recorded stable development, despite the reservations regarding private health insurance being felt by many German citizens throughout the market, not least due to the negative press regarding premium increases.

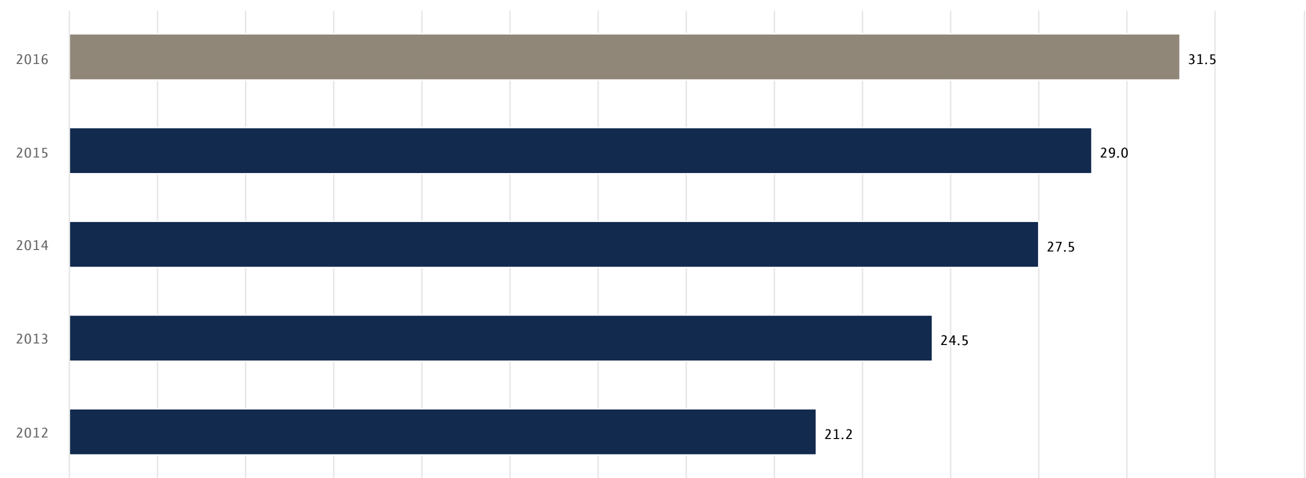
Non-life insurance enjoys significant growth

The non-life insurance area recorded significant growth. Indeed, revenue for the year almost doubled to € 105.6 million (€ 54.9 million). Our subsidiary DOMCURA, which was acquired mid-2015 made a particularly significant contribution to this. In 2016 the revenues generated by DOMCURA were included in the income stated for the first time for a full year. Its contribution was € 68.7 million (August to December 2015: € 20.0 million).

At € 166.4 million, revenue in the wealth management area remained at the previous year's record level (€ 166.0 million). The assets under management by FERI and MLP Finanzdienstleistungen AG continued to display positive development and were € 31.5 billion as of December 31, 2016 (September 30, 2016: € 30.0 billion).

Assets under management rises to € 31.5 billion

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




At € 15.4 million, revenue in the loans and mortgages area was not quite able to reach the previous year's record level (€ 16.2 million). At € 1.7 billion, the brokered financing volume was also slightly down on the previous year (€ 1.8 billion). At € 15.4 million, other commission and fees, which are mainly attributable to the brokerage of real estate objects, remain at the previous year's level.

Loans and mortgages slightly below the previous year's level.

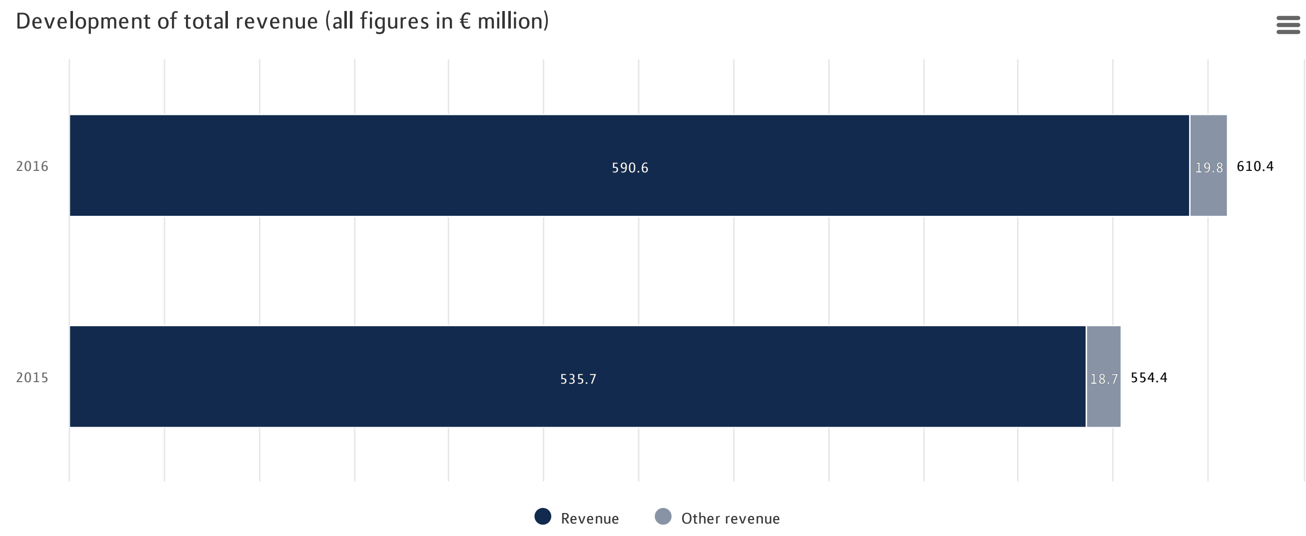
In the last financial year, MLP successfully implemented the announced efficiency programme and thereby laid the foundations for permanently reducing the cost base for 2017 and subsequent years. Administrative expenses (defined as the sum of personnel expenses, amortization expenses and impairments, as well as other operating expenses), which for the first time also included an entire financial year of administration expenses at DOMCURA in the financial year 2016, were € 290.9 million (€ 270.1 million). These include € 15.4 million in total one-off expenses accrued in 2016 within the scope of the efficiency programme. The administrative expenses of DOMCURA, which were only included in the previous year from August 2015 due to its first-time consolidation (€ 10.5 million), were around € 24.3 million for the full year 2016.

Efficiency program successfully implemented – cost base permanently reduced

Operating EBIT (before one-off expenses) increased by 14.3% to € 35.1 million (€ 30.7 million) in the financial year. Taking into account one-off expenses of € 15.4 million, EBIT amounted to € 19.7 million (€ 30.7 million). The one-off expenses also have an effect on the net profit for the period of € 14.7 million (€ 19.8 million).

## Analysis of the change in revenue

Sales revenue increased to € 590.6 million (€ 535.7 million) in the reporting period. At € 70.7 million, revenue generated by DOMCURA had a significant influence on this (€ 20.0 million). At € 19.8 million, other revenue was up on the previous year (€ 18.7 million). Following € 554.3 million in the previous year, total revenue rose to € 610.4 million.




The increase in commission income from € 514.3 million to € 570.1 million had a positive influence on revenue development and was largely due to the increase in revenues in the non-life insurance area. At € 20.5 million, interest income was below the previous year (€ 21.4 million). This was due to the ongoing period of low interest rates. The old-age provision area continued to make the greatest contribution in terms of commission income with a share of 38.9% (41.9%), followed by wealth management with a share of 29.2% (32.3%). With a 18.5% contribution to revenue (10.7%) and 92.3% growth in revenue, the non-life insurance area too, made an important contribution in the last financial year. The following table provides a detailed overview:

Old-age provision above previous year – non-life insurance enjoys significant growth

### Distribution of revenue

| All figures in € million | 2016 | 2015 | Change in % |
|---|---|---|---|
| Old-age provision | 221.5 | 215.7 | 2.7% |
| Wealth management | 166.4 | 166.0 | 0.2% |
| Non-life insurance | 105.6 | 54.9 | 92.3% |
| Health insurance | 45.8 | 45.9 | -0.2% |
| Loans and mortgages | 15.4 | 16.2 | -4.9% |
| Other commission and fees | 15.4 | 15.6 | -1.3% |
| **Total commission income** | **570.1** | **514.3** | **10.8%** |
| Interest income | 20.5 | 21.4 | -4.2% |
| **Total** | **590.6** | **535.7** | **10.2%** |

## Analysis of expenses

Commission expenses primarily comprise performance-linked commission payments to our consultants. They represent the largest single item under expenses. This item also comprises the commissions paid in the DOMCURA segment, which were included in this item for the first time for a full financial year in 2016. These variable expenses occur due to the remuneration of brokerage services in the non-life insurance business. Added to these are the commissions paid in the FERI segment, which in particular result from the activities in the field of fund administration. Variable expenses are, for example, accrued in this business segment due to remuneration of the depository bank and fund sales. Largely due to the first-time inclusion of the commissions paid in the DOMCURA segment for a full year, this item increased to € 298.5 million (€ 253.6 million). Net provision income therefore rose to € 271.6 million (€ 260.7 million).

Commission income above the previous year

Interest expenses fell to € 1.7 million (€ 1.9 million) due to the ongoing low interest rate environment. Net interest was € 18.8 million in total, following € 19.5 million in the previous year.

Gross profit (defined as total revenue less commission expenses and interest expenses) improved to € 310.2 million (€ 298.8 million).

In the past year, MLP laid the foundations for permanently reducing the cost base of administrative expenses relative to 2015 from 2017 onwards. This incurred one-off expenses of € 15.4 million in 2016, € 14.9 million of which can be attributed to administrative expenses. The administrative expenses of the MLP Group, including the administrative expenses of DOMCURA for a full financial year, amounted to € 282.4 million in 2015. In the last financial year, this figure was € 276 million before one-off expenses. However, it is important to note that the previous year's figure of € 270.1 million only covers the administrative expenses of DOMCURA for the months from August to December. Including one-off expenses, administrative expenses were € 290.9 million in 2016.

Administrative expenses before one-off expenses down

### One-off expenses due to efficiency measures by segment (all figures in € million)

| Segment | |
|---|---|
| Financial services | 14.4 |
| FERI | 0.2 |
| DOMCURA | – |
| Holding | 0.8 |
| **Total** | **15.4** |

Personnel expenses increased to € 121.8 million (€ 113.5 million), essentially due to the described effect of DOMCURA. Among other things, these include € 105.0 million (€ 98.1 million) for salaries and wages, € 14.3 million (€ 12.9 million) for social security contributions and employer-based old-age provision allowances of € 2.5 million (€ 2.4 million). Expenses accrued within the scope of our efficiency program are also included in this figure. Depreciation/amortization and impairment charges increased to € 24.0 million (€ 15.1 million), largely due to one-off expenses. Other operating expenses increased to € 145.1 million (€ 141.5 million), also as a result of one-off expenses.

### Breakdown of expenses

| All figures in € million | 2016 | In % of total expenses | 2015 | In % of total expenses | Change in % |
|---|---|---|---|---|---|
| Commission expenses | 298.5 | 50.5% | 253.6 | 48.2% | 17.7% |
| Interest expenses | 1.7 | 0.3% | 1.9 | 0.4% | -10.5% |
| Personnel expenses | 121.8 | 20.6% | 113.5 | 21.6% | 7.3% |
| Depreciation and impairments | 24.0 | 4.1% | 15.1 | 2.9% | 58.9% |
| Other operating expenses | 145.1 | 24.5% | 141.5 | 26.9% | 2.5% |
| **Total** | **591.1** | **100.0%** | **525.6** | **100.0%** | **12.5%** |

MLP Hyp once again displayed very encouraging business development in the last financial year. We hold a 49.8% stake in this company, which is operated as a joint venture together with mortgage broker Interhyp. As a result of the excellent business development, our allotted earnings from the company increased to € 2.1 million (€ 1.8 million). This is reflected in the income statement under the item "Earnings from investments accounted for using the equity method".

Operating EBIT significantly up

Operating EBIT before one-off expenses increased by 14.3% to € 35.1 million (€ 30.7 million) in the financial year. The main drivers of this increase were revenues in the old-age provision area, which were up once again, as well as the profit contribution of DOMCURA. As announced, one-off expenses were accrued within the scope of the efficiency programme. These expenses amounted to € 15.4 million, resulting in an EBIT of € 19.7 million (€ 30.7 million).

Finance cost significantly increased

The finance cost rose to € -0.9 million (€ -2.8 million) in the last financial year. Significantly lower other interest and similar expenses, which fell from € -3.3 million to € -1.9 million, were the main reason behind this increase. In the previous year, this development could be attributed to interest charges due on a retrospective tax payment resulting from MLP's international activities that were ceased back in 2007. In the light of one-off expenses, earnings before tax (EBT) were € 18.7 million (€ 28.0 million). Accordingly, income tax expenditure also declined to € 4.1 million (€ 8.2 million). In the previous year, this had also been impacted by the retrospective tax payment described above.

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

**Structure and changes in earnings in the Group**

| All figures in € million | 2016 | 2015 | Change in % |
|---|---|---|---|
| Total revenue | 610.4 | 554.3 | 10.1% |
| Gross profit [1] | 310.2 | 298.8 | 3.8% |
| Gross profit margin (%) | 50.8% | 53.9% | |
| EBIT | 19.7 | 30.7 | -35.8% |
| EBIT margin (%) | 3.2% | 5.5% | |
| Operating EBIT | 35.1 | 30.7 | 14.3% |
| Operating EBIT margin (%) | 5.8% | 5.5% | |
| Finance cost | -0.9 | -2.8 | >-100% |
| EBT | 18.7 | 28.0 | -33.2% |
| EBT margin (%) | 3.1% | 5.1% | |
| Income taxes | -4.1 | -8.2 | -50.0% |
| Net profit | 14.7 | 19.8 | -25.8% |
| Net margin (%) | 2.4% | 3.6% | |

[1] Definition: Gross profit is the result of total revenue less commission expenses and interest expenses.

Group net profit fell to € 14.7 million (€ 19.8 million) in the financial year 2016. This decline can be attributed to one-off expenses within the scope of our efficiency programme. The diluted and basic earnings per share were € 0.13.

**Net profit**

| All figures in € million | 2016 | 2015 | Change in % |
|---|---|---|---|
| Continuing operations | 14.7 | 19.8 | -25.8% |
| GROUP | 14.7 | 19.8 | -25.8% |
| Earnings per share in € (basic) | 0.13 | 0.18 | -27.8% |
| Earnings per share in € (diluted) | 0.13 | 0.18 | -27.8% |
| Number of shares in millions (basic) | 109.3 | 108.5* | 0.7% |

*Weighted average number of shares

## Appropriation of profits

At the start of the past financial year, we announced that we would persist with our dividend policy of paying 50% to 70% of Group net profit to our shareholders in the form of dividends. We paid our shareholders € 0.12 per share in the form of a regular dividend for the financial year 2015. The total dividend paid was therefore € 13.1 million.

For the financial year 2016, Executive Board and Supervisory Board will propose a dividend of € 0.08 per share at the Annual General Meeting on June 29, 2017. This corresponds to a total dividend payout of € 8.7 million and a payout ratio of around 60%.

# *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

In the light of today's group structure, MLP expects increased capital requirements for the next few years in order to meet the revised definition of equity and stricter requirements of Basel III.

Equity ratio at 19.7%

The Group's equity capital backing and liquidity remain good. As of the balance sheet date, shareholders' equity amounted to € 383.6 million and remained at the previous year's level (€ 385.8 million). The Group net profit of € 14.7 million for the financial year 2016 had a significant effect on this. However, this was counteracted by the dividend payment of € 13.1 million for the financial year 2015. Due to the higher balance sheet total, the equity ratio declined from 22.0% to 19.7%. The regulatory equity ratio was 14.2% (14.3%) on the balance sheet date.

At present, we are not using any borrowed funds in the form of securities or promissory note bond issues to finance the Group. Our non-current assets are financed in part by non-current liabilities. Current liabilities due to clients and 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 € 1,308.8 million (€ 1,125.7 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 € 1,217.5 million (€ 1,143.0 million) in receivables from clients and financial institutions in the banking business.

Since provisions only account for 4.7% (4.9%) of the balance sheet total, they have no significant financing function for the Group. Other liabilities increased to € 146.9 million (€ 140.2 million) on the balance sheet date, Current liabilities rose to € 143.1 million (€ 137.2 million). These are essentially liabilities from operating activities. Current liabilities are offset on the assets side by cash and cash equivalents of € 184.8 million (€ 77.5 million), which are attributable to temporarily higher deposits at the Deutsche Bundesbank, and financial investments of € 162.3 million (€ 147.9 million), as well as other current assets of € 109.4 million (€ 99.3 million).

On the balance sheet date of December 31, 2016 there were financial commitments from rental and leasing agreements amounting to € 15.8 million (€ 14.5 million). These mainly constitute liabilities from the renting of our branch offices, as well as leasing of motor vehicles and office equipment. They can result in potential total liabilities of € 70.9 million (€ 70.4 million) by the year 2022.

## Liquidity analysis

Cash flow from operating activities increased to € 144.7 from € 58.8 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 € -18.0 million to € -41.3 million. A higher volume of new investments in financial assets were made in the reporting period than in the same period of the previous year.

### Condensed statement of cash flow

| All figures in € million | 2016 | 2015 |
|---|---|---|
| **Cash and cash equivalents at beginning of period** | **94.5** | **72.1** |
| Cash flow from operating activities | 144.7 | 58.8 |
| Cash flow from investing activities | -41.3 | -18.0 |
| Cash flow from financing activities | -13.1 | -18.3 |
| **Change in cash and cash equivalents** | **90.3** | **22.4** |
| **Cash and cash equivalents at end of period** | **184.8** | **94.5** |

As of the balance sheet date, December 31, 2016, the MLP Group has access to cash holdings of around € 265.0 million. A good level of liquid funds therefore remains available. Thus there are sufficient cash reserves available to the MLP Group. Alongside cash holdings, free lines of credit are also in place. In 2016, the MLP Group was capable of meeting its payment obligations at all times.

## Capital expenditure analysis

MLP generally finances capital expenditures from cash flow. The total investment volume in intangible assets and property, plant and equipment increased to € 18.4 million in the last financial year (€ 12.8 million). This increase can essentially be attributed to greater investments in sales-supporting IT systems and software.

### Capital expenditure

| All figures in € million | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Intangible assets** | **13.7** | **7.9** | **8.9** | **19.5** | **7.8** |
| Goodwill | – | – | – | – | – |
| Software (developed in house) | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Software (purchased) | 2.5 | 0.4 | 1.1 | 0.6 | 0.4 |
| Other intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payments on account and assets under construction | 11.0 | 7.1 | 7.4 | 18.5 | 7.0 |
| **Property, plant and equipment** | **4.7** | **4.8** | **6.6** | **2.9** | **6.7** |
| Land, leasehold rights and buildings | 0.5 | 0.7 | 0.4 | 0.4 | 0.4 |
| Other fixtures, fittings and office equipment | 3.0 | 3.1 | 4.2 | 1.8 | 5.4 |
| Payments on account and assets under construction | 1.2 | 1.0 | 2.0 | 0.8 | 0.9 |
| **Total capital expenditures** | **18.4** | **12.8** | **15.4** | **22.5** | **14.5** |

At € 16.6 million, the overwhelming majority of capital expenditure in the last financial year was related to investments in the financial services segment. These investments were made in operating and office equipment and here in particular in sales-supporting IT systems. They contribute to the continuous improvement of consulting support and client service. Alongside these capitalizable investments, we also use other intensive resources for these projects which are recognized as expenses in the income statement. Capital expenditure in the FERI segment was € 0.6 million, which we invested in operating & office equipment, as well as in IT. The investments in the DOMCURA segment amounted to € 0.7 million and were aimed in particular at operating & office equipment, as well as IT.

### Capital expenditure by segment

| | Total capital expenditure | | Change in % |
|---|---|---|---|
| **All figures in € million** | 2016 | 2015 | |
| Financial services | 16.6 | 11.2 | 48.2% |
| FERI | 0.6 | 0.8 | -25.0% |
| DOMCURA | 0.7 | 0.5 | 40.0% |
| Holding | 0.3 | 0.3 | 0.0% |
| **Total** | **18.4** | **12.8** | **43.8%** |

# Net Assets

Further increase in balance sheet total

As of the reporting date of December 31, 2016 the balance sheet total of the MLP Group increased to € 1,944.1 million (€ 1,752.7 million).

Intangible assets – essentially including the client base, brand and goodwill – decreased to € 168.4 million (€ 174.5 million) as of the balance sheet date. This decline can essentially be attributed to the amortization of software. Fixed assets were declined within the scope of depreciation and amortization to € 63.4 million (€ 65.7 million).

Receivables from clients in the banking business increased to € 626.5 million (€ 542.7 million). This can essentially be attributed to an increase in own-resource loans, higher investment volumes in promissory note bonds and a greater volume of promotional loans being passed on to our clients. Receivables from banks in the banking business amounted to € 591.0 million (€ 600.3 million). Around 58% of receivables from banks and clients in the banking business have a term to maturity of less than one year.

As of the balance sheet date financial investments increased to € 162.3 million (€ 147.9 million) due to redeployment of other forms of investment. The tax refund claims declined to € 12.1 million (€ 14.9 million). This can be attributed to a reimbursement of corporation tax overpayments.

Other receivables and assets rose to € 122.8 million (€ 112.5 million). This item essentially contains commission receivables from insurers resulting from the brokerage of insurance products.

As a result of reporting-date factors, cash and cash equivalents increased to € 184.8 million (€ 77.5 million), reflecting temporarily higher deposits at the Deutsche Bundesbank. At the same time, the profit transfers of MLP Finanzdienstleistungen AG and FERI AG boosted the figure. 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”.

Non-current assets held for sale and disposal groups fell from € 6.0 million to € 0.0 million on the closing date. A property included in this item was sold in the financial year 2016.

Equity capital backing remains good

The equity capital backing of the MLP Group remains good. As of December 31, 2016, shareholders’ equity was € 383.6 million (€ 385.8 million). Due to the higher balance sheet total, the equity ratio was 19.7% (22.0%). Based on Group net profit of € 14.7 million, we therefore achieved a return on equity of 3.8% (5.1%).

Provisions increased to € 91.2 million (€ 86.5 million), essentially due to higher provisions for cancellation risks and pensions. This was offset by the release of provisions in connection with the participation model.

The deposits of our clients (liabilities due to clients in the banking business) increased to € 1,271.1 million (€ 1,102.6 million) at the end of the reporting period. This increase is primarily attributable to short-term deposits held in bank accounts, credit cards and instant access savings accounts. Liabilities due to banks in the banking business rose to € 37.7 million (€ 23.1 million). This 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.

Following € 4.0 million in the previous year, tax liabilities amounted to € 3.6 million. Other liabilities were € 146.9 million (€ 140.2 million). This item essentially comprises current liabilities due to our consultants and branch managers in connection with open commission claims (please also refer to the section entitled → "Financial position").

## General statement on the economic situation

The corporate management still considers the Group's economic situation to be positive, both at the end of the reporting period and at the time of preparing the Group management report. This also applies to our financial position. Liquidity remains at a good level. The equity capital backing also remains good.

## Comparison of the actual and forecast development of business

At the start of the financial year, we issued a forecast for the operating EBIT that indicated a slight increase over the previous year. We also made a qualitative estimate regarding the revenue performance.

In the old-age provision area, we were able to slightly exceed our expectation of maintaining constant revenues. Revenues in both the wealth management and health insurance areas remained at the previous year's level and were therefore slightly below our expectations. In the non-life insurance area, we were able to increase revenues significantly in the anticipated scope.

Before one-off expenses associated with our efficiency measures, we anticipated administrative expenses of € 277.0 million for the past financial year. With administrative expenses of € 275.5 million before one-off expenses, we were able to remain slightly below this level.

With operating EBIT of € 35.1 million (before one-off expenses), we were able to achieve an increase in line with our forecast.

# *Segment report*

The financial services segment reflects revenue from all fields of consulting – i.e. old-age provision, health and non-life insurance, wealth management and loans & mortgages. The FERI segment primarily generates revenue from the wealth management field of consulting, while the DOMCURA segment generates most of its revenue from the non-life insurance business. The industry situation for the Group described in the individual fields of consulting applies accordingly to the segments.

## Financial services segment

Total revenue in the financial services segment rose to € 410.8 million (€ 406.0 million) in the financial year 2016. This can essentially be attributed to the increased commission income in the old-age provision and wealth management segments. Development of the other consulting fields (wealth management, health insurance and other consulting services, which essentially reflect revenue from real estate brokerage) was in line with the overall development in the Group. At € 20.5 million (€ 21.4 million), revenue from the interest rate business was below the previous year. This was due to the continued low interest rate level.

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

Commission expenses increased to € 183.6 million (€ 172.5 million). This increase can be attributed to higher commission income and greater expenses within the scope of our further training allowance for young consultants, as well as payments to our consultants within the scope of a participation programme and increased participation on the part of our branch office managers. At € 1.7 million (€ 1.9 million), interest expenses were below the previous year's level. The reason for this lies in the continued low level of interest rates.

Personnel expenses increased from € 74.2 million to € 76.0 million, essentially due to one-off expenses accrued within the scope of our efficiency programme. Depreciation/amortisation and impairments increased to € 19.1 million (€ 9.5 million) also affected by one-off expenses. In the light of one-off expenses, other operating expenses rose to € 126.8 million after € 124.3 million in the previous year.

Total one-off expenses of € 14.4 million were accrued in the financial services segment within the scope of our efficiency program.

EBIT declined to € 4.8 million (€ 25.6 million) which is attributable to the efficiency programme and higher commissions paid. Along with this the EBIT margin fell to 1.2% (6.3%).

## 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.

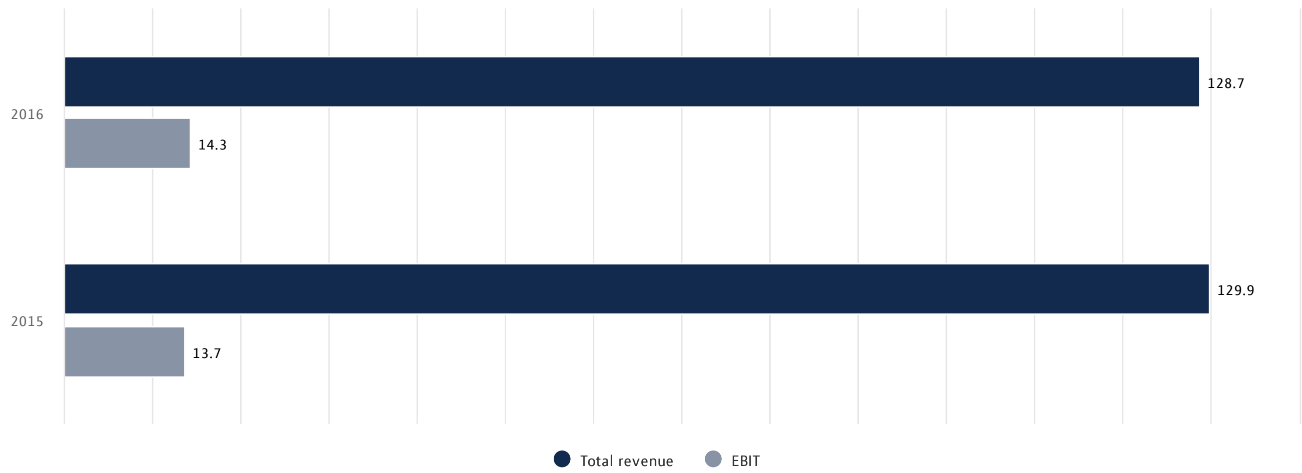
At € 128.7 million, total revenue remained at the previous year's record level (€ 129.9 million), despite the fact that the performance-based remuneration which FERI receives for the performance of client portfolios (performance fees) was lower in 2016 than in the previous year. The sale of FERI Eurorating Services AG also had a revenue-reducing effect in 2016.

At € 72.1 million, commission expenses remained at the previous year's level (€ 70.7 million). Personnel expenses fell to € 28.1 million (€ 30.4 million). The previous year's higher figure was due to greater variable remuneration. Depreciation/amortization and impairment was € 1.5 million (€ 1.8 million). Other operating expenses declined to € 11.8 million (€ 13.4 million). The previous year was influenced by several factors, including higher consulting costs in connection with acquiring a license to operate as a capital management company.

Total one-off expenses of around € 0.2 million were accrued in the FERI segment within the scope of our efficiency measures.

In light of lower overall administrative expenses, EBIT increased to € 14.3 million (€ 13.7 million). In this context, the EBIT margin improved to 11.1% (10.5%). The finance cost was € -0.1 million, following € -0.3 million in the previous year. Accordingly, EBT rose to € 14.2 million (€ 13.4 million).

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




## DOMCURA segment

The previous year's figures in the DOMCURA segment report offer only limited comparability with the figures of the financial year 2016, as only the time period from the point of acquisition up to December 31, 2015 (around 5 months) was taken into account in the previous year. At DOMCURA, revenues are primarily generated in the non-life insurance consulting fields.

DOMCURA's business model is characterised by a high degree of seasonality. Accordingly, the subsidiary records high sales revenue and comparably high earnings in the first quarter of each year and subsequently records a loss from Q2 to Q4.

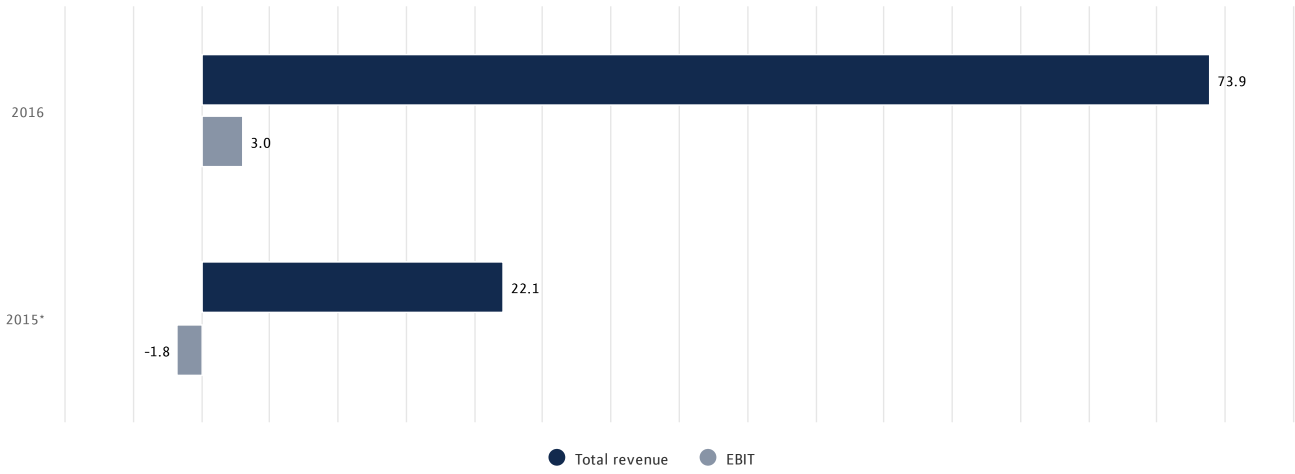
DOMCURA generated revenue of € 70.7 million (€ 20.0 million) in the reporting year. Other revenue was € 3.2 million (€ 2.1 million). Accordingly, total revenue was € 73.9 million (€ 22.1 million).

Commission expenses amounted to € 46.6 million (€ 13.5 million). These are essentially accrued as variable remuneration for brokerage services.

Following € 10.5 million in the previous year, administrative expenses rose to € 24.3 million. Thereof personnel expenses accounted for € 14.1 million (€ 5.1 million). Depreciation/amortization and impairment was € 1.4 million (€ 0.7 million). Other operating expenses amounted € 8.8 million, following € 4.7 million in the previous year.

EBIT was € 3.0 million in the first year of full consolidation (€ -1.8 million). With a finance cost of € 0.0 million (€ 0.0 million), EBT was € 3.0 million (€ -1.8 million).

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




*Period from the point of acquisition of DOMCURA up to December 31, 2015 (approximately 5 months)

## Holding segment

The Holding segment does not have active operations. Total revenue in the reporting year increased to € 13.7 million (€ 11.0 million). This rise is mainly attributable to a settlement payment made in connection with judicial proceedings.

Personnel expenses were € 3.6 million (€ 3.8 million). Depreciation/amortisation and impairments fell to € 1.9 million (€ 3.2 million). In the previous year a substantial one-off write-down due to revaluation of a property in the previous year had to be recognized. At € 10.5 million (€ 10.6 million), other operating expenses remained at the same level as the previous year.

In the light of higher total revenue and lower amortisation expenses, EBIT increased to € -2.4 million (€ -6.7 million). Finance cost also improved to € -0.6 million, following € -2.3 million in the previous year. As described at Group level, the previous year's higher figure was attributable to interest payments due on a retrospective tax payment. EBT therefore rose to € -3.0 million (€ -9.0 million).

Total one-off expenses of € 0.8 million were accrued in the Holding segment within the scope of our efficiency programme.

# *Employees and self-employed client consultants*

As MLP is a knowledge-based service provider, qualified and motivated employees and consultants represent the most important foundation for sustainable company success. Continuous development and refinement of personnel work for employees, establishing the availability of a comprehensive range of training courses for consultants and winning new consultants were therefore also key focuses in 2016.

Low staff turnover rate

The number of employees in the MLP Group declined slightly in the reporting year 2016. On the reporting date, December 31, 2016, a total of 1,768 employees worked for MLP. This development can be attributed to two key factors. The first focuses on the effects of the efficiency programme (please refer to the section entitled → "Performance" for further details), while the second revolves around a reduction in the number of temporary staff in the financial services segment. The sale of FERI EuroRating with effect from August 1, 2016, had an impact on staff numbers in the FERI segment. At 6.3%, employee turnover at the company HQ increased slightly in 2016 due to the aforementioned measures (2015: 5.5%). The average age of employees at MLP AG, MLP Finanzdienstleistungen AG, FERI AG and DOMCURA is currently 41.

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

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

| Segment | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Financial services* | 1,275 | 1,300 | 1,303 | 1,306 | 1,265 |
| FERI | 223 | 235 | 232 | 244 | 251 |
| DOMCURA | 264 | 261 | – | – | – |
| Holding | 7 | 7 | 7 | 9 | 8 |
| **Total** | **1,768** | **1,802** | **1,542** | **1,559** | **1,524** |

Date: December 31, 2016
*incl. TPC, ZSH and MLPdialog

To offer our employees even better development opportunities, we launched a modular “management programme” for team leaders in 2015, which was further optimised and successfully continued in the reporting year. The objective here is to train existing managers in relevant topics and support them in their role with personnel responsibility. We welcomed a new group of participants to our “Top Talents” programme for junior staff in the reporting year 2016. This programme has been established since 2013. The goal is to systematically identify talented junior staff from within the company and then provide these with targeted and sustainable development opportunities for future specialist and management duties.

Development programmes for managers and junior staff

In the course of developing and refining our personnel work, a new works agreement was reached in 2016 that precisely defines the obligations for advertising internal positions and stipulates selection guidelines for posts to be filled. In addition to this, the focus in the reporting year was on the practical implementation of the works agreements reached in 2015 regarding introduction of a new remuneration system, as well as holding appraisal meetings. The objective here is to establish a fair, transparent and motivating remuneration system that rewards personal experience, expertise and achievements on the part of employees, while at the same time remaining in line with market conditions.

New works agreements implemented and established

One focus in 2016 was the digitalisation of personnel work. In the last financial year, software for a new digital personnel file was introduced for all employees. Work on transferring the data to the digital personnel files has already begun and will continue in 2017. The next step will be the implementation of talent management software. MLP is also planning to perform its payroll accounting in-house again from 2017, having outsourced this process to external service providers in the past. This will allow adjustments to be made to salary statements and personnel files more quickly and efficiently.

Digitalisation of personnel work now underway

As of December 31, 2016, MLP operated 146 representative offices with a total of 1,940 consultants (2015: 1,943), who work as self-employed commercial agents. The average age of consultants is currently 44. The loyalty displayed by existing consultants remains very pleasing, as underlined by our employee turnover rate. This figure was 7.9% in 2016 – and thereby significantly below the target variable of around 10%.

Consultant turnover at a low level

As in the previous year, acquiring new consultants continued to be a key topic in the reporting year. The further training allowance introduced in 2015 for new client consultants has established itself as an important concept within our recruiting initiative. To give our activities in this field a boost, we further intensified internal collaborations between the University Management and Recruiting departments in 2016. The objective here is to increase our presence at universities. In this connection, we have opened a new office in the university city of Bielefeld and are preparing to open further branch offices.

Progress in the process for recruiting new consultants

Following a significant increase in applications in the field of financial consulting in the previous year, this figure remained largely stable at the increased level in the financial year 2016. The recruiting offensive launched in 2015 is therefore starting to display positive effects, which we are keen to build on in 2017. You can find further information on recruiting planning in the section entitled → "Anticipated business development".

Internship programme and dual study programme established

The internship programme, launched in 2014, has established itself. In the reporting year, some 144 school-leavers and students took the opportunity to get a better idea of what it is like working as an MLP consultant. The "Sales" dual study course, which we launched in 2013 to help students prepare for a career as a consultant at the offices, represents another successful recruiting instrument. Some 21 dual study course students and 28 trainees are currently working at the various offices (previous year: 24 and 22), while 23 dual study course students and 20 trainees are working at the company HQ (previous year: 25 and 23).

Comprehensive range of training offers are the key to success

MLP operates in a complex and constantly changing market and competitive environment and aims to be a long-term dialogue partner for all financial matters of its discerning clientele.

A high-quality range of training courses represent an indispensable prerequisite in achieving this. At the heart of the development of the training programme lies the MLP Corporate University (CU) which is based in Wiesloch. Since 2012 the CU has been accredited by the Financial Planning Standards Board Deutschland e.V. (FPSB Deutschland) for the Certified Financial Planner (CFP) qualification. Since this time, more than 140 consultants have successfully gained their Financial Planner qualification and further consultants are already preparing for this. Following an extensive certification process, in 2013 the CU was the first corporate university to be awarded the "Certified Corporate University" international seal of approval from the Foundation for International Business Administration Accreditation (FIBAA). The training programme offered by the CU therefore complies with the international requirements of the European Credit Transfer and Accumulation System (ECTS), which simplifies cooperation with state universities.

Master's programme launched

A new cooperative degree course was launched in autumn 2016: The Corporate University has been collaborating with the School of Management and Innovation at the Steinbeis University in Berlin since September to offer an MSc course in "Financial Planning and Management". The extra-occupational master's course is aimed both at experienced MLP consultants and those who are working for MLP after completing their bachelor's degree. The degree course therefore offers our consultants an additional opportunity to gain further qualifications – which also makes it a valuable instrument within the scope of our recruiting initiative.

Comprehensive training programme

Numerous seminars and events serve to underline the scope of our training offer. In 2016, around 21,700 individual events (including online seminars) were held at the CU. Alongside numerous training courses addressing specialist and consulting topics, one focus was on offering training in the brokerage of real estate. In addition to this, we helped our consultants familiarise themselves with the new application for product selection with a comprehensive eLearning package. Within the scope of four "consultant power days", all consultants had the opportunity to learn about the latest specialist and consulting topics in a total of 21 modules. In addition to this, a comprehensive range of training courses was prepared in the last financial year to accompany the further roll-out of the new "Budget guide" consulting application in 2017. You can find further information on this in the section entitled → "Anticipated business development".

Total expenditure on qualifications and further training in the last financial year was around € 7.6 million, which is roughly the same as in the previous year.

A big thank you to our employees

The Executive Board would like to take this opportunity to express its sincere thanks to all employees and consultants for the trust, cooperation and excellent commitment they showed in the past financial year. We would also like to thank the members of the works council for its constructive collaboration which, among other things, is documented by the signing of four works agreements. The key now is to maintain this open and responsible dialogue as effectively as possible in future for the benefit of all employees.

# *Remuneration report*

Principles of Executive Board remuneration

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

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

In contractually more closely specified boundaries, the immediate payment and the deferred payment are also subject to an adjustment right, which can be used at the discretion of the Supervisory Board. Here, the Supervisory Board is authorized, 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 €. For both bonus parts, a maximum of 150% of the basic figure is stipulated as the cap with an assumed EBIT of € 100 million.

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

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

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

- the company's share of voting rights changes in accordance with §§ 21, 22 of the German Securities Trading Act.
- the company is reorganized in line with the provisions of the German Reorganization of Companies Act (UmwG). This does not apply if the company changes its corporate form, outsourcings in line with § 123 (3) of the German Reorganization of Companies Act or for mergers in accordance with the provisions of the Reorganization 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 (7) of the Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV), the Supervisory Board is entitled to reduce the benefits to which said member is entitled at its discretion when said member resigns from his position voluntarily.
- The members of the Executive Board undertake not to engage in any personal hedging or other counter-measures as a way of limiting or even eliminating the risk-orientation of remuneration.
- Pursuant to § 25a (5) of the German Banking Act (KWG), the variable remuneration component must not exceed 200% of the fixed remuneration component for each member of the Executive Board. An AGM resolution that proposes increasing the variable remuneration cap from 100% to 200% of the fixed remuneration component, and thereby deviates from § 25a (5) Sentence 2 of the German Banking Act (KWG), has been submitted.

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

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

| Allocation | Dr. Uwe Schroeder-Wildberg | | Reinhard Loose | | Manfred Bauer | | Muhyddin Suleiman | |
|---|---|---|---|---|---|---|---|---|
| | Chairman of the Board | | Chief Financial Officer | | Member of the Board for Products and Services | | Member of the Board for Sales | |
| | | since Jan 1, 2003 | | since Feb 1, 2011 | since May 1, 2010 | | until Mar 31, 2014 | |
| **All figures in €'000** | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** |
| Fixed compensation | 550 | 550 | 360 | 360 | 360 | 360 | 0 | 0 |
| Fringe benefits | 30 | 30 | 17 | 17 | 27 | 26 | 0 | 0 |
| **Total fixed compensation** | **580** | **580** | **377** | **377** | **387** | **386** | **0** | **0** |
| One-year variable compensation | 239 | 194 | 158 | 129 | 160 | 129 | 0 | 0 |
| Multi-year variable compensation | 290 | 216 | 186 | 151 | 232 | 172 | 0 | 209 |
| Bonus 2011 (2011-2014) | 290 | 0 | 186 | 0 | 232 | 0 | 0 | 209 |
| Bonus 2012 (2012-2015) | 0 | 216 | 0 | 151 | 0 | 172 | 0 | 0 |
| Other | -27 | 0 | -17 | 0 | -23 | 0 | 0 | 0 |
| **Total fixed and variable compensation** | **1,083** | **990** | **703** | **657** | **756** | **688** | **0** | **209** |
| Pension benefits | 297 | 224 | 140 | 140 | 150 | 150 | 0 | 0 |
| **Total compensation (in accordance with the German Corporate Governance Code (DCGK)** | **1,380** | **1,213** | **843** | **797** | **906** | **838** | **0** | **209** |

## Granted remuneration

| Benefits granted | | | | Dr. Uwe Schroeder-Wildberg | | | | Reinhard Loose |
|---|---|---|---|---|---|---|---|---|
| | | | | Chairman of the Board | | | | Chief Financial Officer |
| | | | | since Jan 1, 2003 | | | | since Feb 1, 2011 |
| All figures in €'000 | 2015 | 2016 | 2016 (Min) | 2016 (Max) | 2015 | 2016 | 2016 (Min) | 2016 (Max) |
| Fixed compensation | 550 | 550 | 550 | 550 | 360 | 360 | 360 | 360 |
| Fringe benefits | 30 | 30 | 30 | 30 | 17 | 17 | 17 | 17 |
| **Total fixed compensation** | **580** | **580** | **580** | **580** | **377** | **377** | **377** | **377** |
| One-year variable compensation | 194 | 130 | 91 | 169 | 129 | 87 | 61 | 113 |
| Multi-year variable compensation | 283 | 376 | 0 | 990 | 189 | 250 | 0 | 660 |
| Bonus 2015 (2015-2018) | 283 | 0 | 0 | 0 | 189 | 0 | 0 | 0 |
| Bonus 2016 (2016-2019) | 0 | 376 | 0 | 990 | 0 | 250 | 0 | 660 |
| **Total fixed and variable compensation** | **1,058** | **1,086** | **671** | **1,740** | **695** | **714** | **438** | **1,150** |
| Pension benefits | 297 | 224 | 224 | 224 | 140 | 140 | 140 | 140 |
| **Total compensation (in accordance with the German Corporate Governance Code (DCGK)** | **1,354** | **1,310** | **895** | **1,963** | **835** | **854** | **578** | **1,290** |

| Benefits granted | | | | Manfred Bauer | | | | Muhyddin Suleiman |
|---|---|---|---|---|---|---|---|---|
| | | | | Member of the Board for Products and Services | | | | Member of the Board for Sales |
| | | | | since May 1, 2010 | | | | until Mar. 31, 2014 |
| All figures in €'000 | 2015 | 2016 | 2016 (min.) | 2016 (max.) | 2015 | 2016 | 2016 (min.) | 2016 (max.) |
| Fixed compensation | 360 | 360 | 360 | 360 | 0 | 0 | 0 | 0 |
| Fringe benefits | 27 | 26 | 26 | 26 | 0 | 0 | 0 | 0 |
| **Total fixed compensation** | **387** | **386** | **386** | **386** | **0** | **0** | **0** | **0** |
| One-year variable compensation | 129 | 87 | 61 | 113 | 0 | 0 | 0 | 0 |
| Multi-year variable compensation | 189 | 250 | 0 | 660 | 0 | 0 | 0 | 0 |
| Bonus 2015 (2015-2018) | 189 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bonus 2016 (2016-2019) | 0 | 250 | 0 | 660 | 0 | 0 | 0 | 0 |
| **Total fixed and variable compensation** | **705** | **724** | **447** | **1,159** | **0** | **0** | **0** | **0** |
| Pension benefits | 150 | 150 | 150 | 150 | 0 | 0 | 0 | 0 |
| **Total compensation (in accordance with the German Corporate Governance Code (DCGK))** | **855** | **874** | **597** | **1,309** | **0** | **0** | **0** | **0** |

As of December 31, 2016, pension provisions totalling € 16,139 thsd (€ 17,631 thsd) were in place for former members of the Executive Board.

## Remuneration of the members of the Supervisory Board

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

### Individualised Supervisory Board remuneration

| All figures in €'000 (without tax) | Remuneration 2016 | Remuneration 2015 |
|---|---|---|
| Dr. Peter Lütke-Bornefeld (Chairman) | 135 | 135 |
| Dr. h. c. Manfred Lautenschläger (Vice Chairman) | 100 | 100 |
| Dr. Claus-Michael Dill | 90 | 90 |
| Johannes Maret* | – | 25.3 |
| Tina Müller** | 55 | 23.6 |
| Burkard Schlingermann | 55 | 55 |
| Alexander Beer | 65 | 65 |
| **Total** | **500** | **494** |

* until June 18, 2015
** as of June 18, 2015

In the financial year 2016 € 17 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

The following companies are examined within the scope of Group-wide risk management (scope of consolidation pursuant to § 25a of the German Banking Act (KWG) - Germany's "MaRisk" minimum risk management requirements consolidation scope): MLP AG, Wiesloch, MLP Finanzdienstleistungen AG, Wiesloch, ZSH GmbH Finanzdienstleistungen, Heidelberg, FERI AG, Bad Homburg v. d. Höhe, FERI Trust GmbH, Bad Homburg v. d. Höhe, FEREAL AG, Bad Homburg v. d. Höhe, FERI Trust (Luxembourg) S.A., as well as Schwarzer Familienholding GmbH, Kiel, DOMCURA AG, Kiel and NORDVERS GmbH, Kiel.

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

| Segment | Company | IFRS scope of consolidation | MaRisk scope of consolidation (§25a German Banking Act (KWG)) |
|---|---|---|---|
| Holding | MLP AG | x | x |
| | MLP FDL AG | x | x |
| | TPC GmbH | x | |
| | ZSH GmbH | x | x |
| | MLPdialog GmbH | x | |
| Financial services | MLP Hyp GmbH * | x | |
| | FERI AG | x | x |
| | FERI Trust GmbH | x | x |
| | FEREAL AG | x | x |
| FERI | FERI Trust (Luxembourg) S.A. | x | x |
| | Schwarzer Familienholding GmbH | x | x |
| | DOMCURA AG | x | x |
| | NORDVERS GmbH | x | x |
| | nordias GmbH Insurance Broker | x | |
| | Willy F. O. Köster GmbH | x | |
| DOMCURA | Siebert GmbH Insurance Broker | x | |

* accounted for using the equity method

In the sense of § 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 Finanzdienstleistungen AG, which as per Article 11 of the Capital Requirements Regulation (CRR) is the controlling body of the MLP Financial Holding Group 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 order to evaluate the risks of the MLP Financial Holding Group, MLP Finanzdienstleistungen AG, acting as a controlling company, obtains an overview of the risks in the Group on a regular and ad hoc basis within the scope of the strategy process and the risk inventory. 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 the MLP Financial Holding Group 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 the MLP Financial Holding Group. The Group-wide risk propensity is derived from the risk strategy, taking into account the risk-bearing ability. On this basis, framework conditions for risk management in the MLP Financial Holding Group are then defined. The readiness to take risks is regularly checked and adjusted as necessary.

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

**The Executive Board is responsible for proper organisation of the business and its further development:**
This responsibility includes defining appropriate strategies and setting up appropriate internal control procedures in particular – thereby assuming responsibility for all significant elements of risk management. The task of defining the business and risk strategy cannot be delegated. It is the responsibility of the Executive Board to implement the strategies, assess the risks associated with them and also put in place and monitor measures to ensure that these risks are limited.

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

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

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

## Objective

Entrepreneurial activity invariably involves taking risks. For MLP Financial Holding Group, "risk" means the danger of possible losses or lost profits. This danger can be 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. Our risk management system currently records risks in particular. In addition to this, we also focus on business opportunities. Particularly in Product Management and Purchasing, business opportunities in the market are identified in a targeted process for the individual product segments. Implementation is then tested and initiated, taking into account the chances of success and the associated risks. You can find a detailed description of the significant opportunities for the MLP Financial Holding Group in the separate opportunity report.

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

### Risk capital management and stress tests

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

Risk capital management – risk-bearing ability

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

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

The key risk types of counterparty default, market price, liquidity and operational risks are in particular quantified within the scope of the risk-bearing ability. The strategic risks and reputation risks (other risks) also represent significant risk types, although these are currently not quantified. These are incorporated via additional buffers when calculating the risk bearing ability.

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

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

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

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

As it has the largest business volume and greatest earning potential, MLP Finanzdienstleistungen AG bears the greatest risks within the Financial Holding Group. This is also reflected in the allocation of 75% of the risk coverage fund to the financial services segment.

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. Comprehensive analyses have therefore been implemented, both at the level of the individual risk types and across all risk types. The effects of potential concentrations of risks are also taken into account here.

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

## Organisation

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

Functional separation

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

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

Group Risk Manager

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

Risk controlling function

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

Risk management and controlling processes

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

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

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

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

Controlling monitors earnings trends

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

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

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

The checks in the accounting process aim to ensure that the individual and consolidated financial statements are drafted in line with the provisions of German commercial law and International Financial Reporting Standards (IFRS), 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 subject to a comparable internal monitoring system, is also incorporated into the management report.

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

The consolidated financial statements, are drawn up using standard software. Group Accounting secures the completeness and accuracy of the relevant disclosures on the basis of the information provided.

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

Compliance function

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

The internal audit department, which assumes audit tasks in major Group companies on the basis of outsourcing contracts, as well as MLP Finanzdienstleistungen AG in the form of a controlling company in accordance with § 10a (2) of the German Banking Act (KWG), constitutes an important element of the internal control/monitoring system. The internal audit department performs regular, systematic risk-oriented inspections with regard to compliance with legal, supervisory and internal specifications. The department monitors the functional separation and effectiveness of the risk management system, and performs follow-up procedures on audit recommendations. In addition to this, it performs independent advisory services with a view to creating added value and improving business processes. The minimum requirements for risk management governing the internal audit function are complied with throughout the Group.

Internal audits

The internal audit department operates in an independent capacity throughout the Group on behalf of the Executive Board.

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 reporting

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

The MLP Financial Holding Group is exposed to various financial risks. These in particular comprise counterparty default, market price and liquidity risks. Alongside financial risks, there are also operational and other risks, such as strategic risks and reputation risks.

**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 |
| Financial services | x | x | x | x | x |
| FERI | x | x | x | x | x |
| DOMCURA | x | | | x | x |

### Financial risks

Counterparty default risks

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

The counterparty default risks of the MLP Financial Holding Group are essentially made up of the client credit business under the company's own liability, the company's own business and the commission receivables against our product partners. There are no significant risks related to specific countries, since the majority of lending (95%) is limited to borrowers domiciled in the Federal Republic of Germany.

Concentration of risk

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

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

In the private client business, potential concentrations in ratings classes with high failure rates should be avoided. This is achieved by focusing on retail products of credit cards and accounts in connection with the targeted client segments. In addition to this, the minimisation of large individual risks with a low credit rating is a further central component of the credit policy in place at the MLP Financial Holding Group. Focusing on the target group of academics and other discerning private clients allows an attractive profit margin to be achieved due to relatively small default risks.

Credit management

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

We also monitor and control any potential default risks from advances paid to consultants and office managers via a layered warning system, in which any incidents are quickly detected and active receivables management is guaranteed.

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

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

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

In addition to this, potential default risks are continuously measured and evaluated by comparing allowances for bad debts with the credit volumes subject to risk. For accounts that are regarded as carrying acute risk, we build up appropriate allowances for bad debt (see table for the development of loan loss provisions). Loans that are recognised as being problematic are transferred to certain specialist departments and managed by experts.

### Loan loss provisions

| Amount in € million (previous year) * | Opening balance | Allocations | Reversals | Utilisation | Closing balance |
|---|---|---|---|---|---|
| Specific allowance for doubtful accounts | 6.7 (7.7) | 2.1 (1.3) | 1.0 (1.1) | 0.3 (1.2) | 7.5 (6.7) |
| General allowance for bad debts | 4.5 (5.4) | 0.4 (0.0) | 0.0 (0.1) | 1.4 (0.9) | 3.4 (4.5) |
| General allowance for doubtful accounts | 4.5 (5.3) | – (–) | 1.2 (0.8) | – (–) | 3.3 (4.5) |
| Provisions | 0.2 (0.3) | – (–) | 0.0 (0.1) | – (–) | 0.2 (0.2) |
| **Total** | **15.9 (18.7)** | **2.5 (1.4)** | **2.2 (2.1)** | **1.8 (2.1)** | **14.4 (15.9)** |

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

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

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

## Market price risks

The MLP Financial Holding Group 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. There are currently only very minor open risk items in foreign currency and commodities. In the year under review, no speculative use was made of financial instruments – such as securitisation transactions – with a view to making profits in the short term, nor is this envisaged for the future. The MLP Financial Holding AG continues to hold the status of a non-trading book institute.

Interest rate and price risks represent the sub-categories of the market price risk which are important for us.

Interest rate risks

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

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

Possible effects of different interest development scenarios are portrayed via planning and simulation calculations. The risks and their effects are made transparent based on assumptions of multilayer interest scenarios. In this context, cash value changes of all items in the asset ledger are shown in relation to the equity, with the application of the changes in interest rates prescribed by the Federal Financial Supervisory Authority. The simulation is performed by automated means for all the interest-bearing and interest-sensitive items. It is in this manner that the controlling of the interest risk is ensured. The change in value determined in the reporting period always remained significantly below the threshold of 20% of equity – a threshold which, if exceeded, would give us the status of an institute with increased interest risk.

### Interest rate risks of the MLP Financial Holding Group

| Amount in € million | Interest rate shock/parallel shift | | | |
|---|---|---|---|---|
| | Change in value +200 BP | | Change in value -200 BP | |
| | 2016 | 2015 | 2016 | 2015 |
| Total | -8.4 | -15.1 | 4.5 | 6.5 |

Price risks

Shares, bonds, and funds held can be subject to a share price risk due to fluctuations in the market interest rate or changes in creditworthiness. Through constant monitoring and evaluation of our portfolio, possible effects on results caused by strong exchange rate fluctuations can be addressed early on. We thereby ensure a prompt reaction to market changes. We use a value-at-risk calculation when performing risk measurements. The nominal change in value of share price-based securities is determined for the significant price risks. A holding period of 250 trading days and a confidence level of 97.0% are assumed here.

## Liquidity risks

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

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

Operational liquidity control

The central instruments and control variables of operational and short-term liquidity control at the MLP Financial Holding Group include itemisation of financial assets and refinancing sources in the company's own business as per the balance sheet date within the scope of cash management, but also the liquidity and observation ratios of the liquidity regulation. In addition to this, within the scope of liquidity control the volume of daily net cash inflows and outflows is observed and incorporated into the risk assessment based on the liquidity at risk (LaR). The LaR describes the anticipated cash payment surplus (net funding requirement) which will not be exceeded at a defined level of probability within a given period of time. Sufficient funds were available to cover short-term liquidity requirements at any time.

Structural liquidity control

The funding matrix is the central instrument of structural liquidity control at the MLP Financial Holding Group and also a preliminary step towards economic analysis of additional refinancing costs. It indicates for each time frame whether there is a surplus or possible shortfall of financing means and thereby allows open liquidity items to be controlled. The liquidity value at risk (LVaR), which indicates the additional refinancing costs required to close open liquidity items, represents a key instrument of structural liquidity control and is also used in risk capital management. When determining the LVaR as of December 31, 2016, 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 in the MLP Financial Holding Group results primarily from MLP Finanzdienstleistungen 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 Finanzdienstleistungen AG has established a simple cost allocation system to allow the internal allocation of the respective liquidity costs, liquidity benefits and liquidity risks to be monitored and controlled.

Compliance with the supervisory liquidity KPIs is a key component of risk measurement and risk control. Alongside monitoring the current liquidity coefficient pursuant to current the Liquidity Directive, the MLP Financial Holding Group calculates, checks and reports the liquidity coverage ratio (LCR on the basis of the CRR). The LCR requires maintenance of a liquidity buffer, which must at least cover net cash outflows occurring within 30 days under standard market and idiosyncratic stress conditions. Corresponding measures serve to secure short-term solvency, in particular by maintaining an appropriate liquidity reserve.

## Operational risks

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

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

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

In addition to this, any loss/damage occurring at the MLP Financial Holding Group is continuously recorded and analysed. Collecting all loss/damage data allows loss events to be identified and evaluated as a way of detecting trends and any concentration of operational risks. The results are collated and checked for feasibility by risk controlling and then made available to the Executive Board and the controlling units.

Risks from internal procedures

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

Within the scope of the Business Impact Analysis (BIA), critical company processes are identified, whose disruption or failure can have a significant influence 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. A documentation by the Business Continuity Management (BCM) is available to the business segments and employees in the organisation manual.

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

Human resources risks

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

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

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

IT risks

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

Risks from external events

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

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

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

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

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

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

Legal risks

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

Taxation risks

Changes that emerge in tax law are continually checked and reviewed with regard to potential effects they may have on the Group. The compliance with fiscal requirements of the controlling company, MLP AG, is checked by internal and external experts in accordance with the tax regulations and all accompanying documentation issued by the fiscal authority. Corresponding provisions are formed for subsequent payments to be anticipated.

Capital charge according to the basic indicator approach

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

## Other risks

Reputation risks

Reputation is defined as "the public reputation of the MLP Financial Holding Group overall or of individual Group companies in terms of expertise, integrity and trustworthiness that results from the perception of different stakeholder groups". Stakeholder groups for example include clients, employees, equity suppliers, other institutes, ratings agencies, the press or politicians. The risk of damage to reputation is classed as reputation risk.

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. In addition to this, comprehensive documentation is provided of consultations with clients.

General business risks

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

The low interest rate environment, which continues to suppress the willingness of German citizens to save, as well as the lasting effects of the Life Insurance Reform Act (LVRG) have introduced a degree of uncertainty. The ever stricter regulations associated with supervisory requirements in the banking and financial services sectors, such as the finalisation of Basel III (some market members are already talking about Basel IV) or MiFID II are having a significant effect. In addition to this, we are facing growing competitive pressure in the financial sector, also from new, innovative and digital market members (fintechs). You can find more detailed information on the environment, sector and competitive situation in the section entitled "Economic report and forecast".

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

Leverage risk

Risk-based capital adequacy requirements are of essential importance to ensure availability of sufficient equity to cover unanticipated losses. As underlined by the assessments of the European Parliament, however, the banking and financial crisis has shown that these requirements alone are not enough to prevent institutes from taking leverage risks which are simply untenable in the long term.

The leverage ratio KPI establishes a connection between regulatory equity and the non-risk-weighted items both on and off the balance sheet. The Group's leverage ratio is integrated into the risk reporting submitted to the Executive Board and to the Supervisory Board to allow any necessary measures to be derived early on.

The established leverage ratio results show that the MLP Financial Holding Group is not currently subjected to any significant leverage risk.

Results of the analysis of risk-bearing ability

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

In 2016, the Executive Board made a risk coverage fund available based on the risk coverage potential (sum of free supervisory equity and plan EBT) up to an upper threshold of € 100 million to cover the following risk types that MLP categorises as significant: counterparty default risk, market price risk, liquidity risk, operational and other risks.

With a share of 48%, counterparty default risks and operational risks with a share of 42% take up the majority of the risk coverage fund available. At 75% the financial services segment ties up the majority of risk capital among all risk types.

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 | 2016 Utilisation (in %) | 2015 Utilisation (in %) |
|---|---|---|
| Risk and capital commitment | 75.0 | 75.2 |
| thereof: | | |
| Counterparty default risk | 77.8 | 79.6 |
| Market price risk | 71.6 | 53.7 |
| Operational risk | 75.9 | 80.5 |
| Liquidity risk | 0.0 | 0.0 |

## Capital adequacy requirements under banking supervisory law

The backing of risk assets with eligible own funds for tier 1 capital generally requires a minimum ratio of 4.5%. As in the previous year, these requirements have not changed during the financial year 2016.

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

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

As was also the case in the previous year, the MLP Financial Holding Group fulfilled all legal requirements relating to minimum capital adequacy throughout the financial year 2016. The relationship between the risk assets and equity capital on the balance sheet date is illustrated below:

**Supervisory KPIs**

| Shareholders' equity (in € million) | 2016 | 2015 |
|---|---|---|
| Tier 1 common capital | 214.7 | 211.2 |
| Tier 1 additional capital | – | – |
| Tier 2 capital | – | – |
| Eligible own funds | 214.7 | 211.2 |
| Capital adequacy requirements for counterparty default risks | 75.5 | 70.4 |
| Capital adequacy requirements for operational risk | 45.8 | 47.5 |
| Core capital ratio (in %) | 14.16 | 14.33 |
| Tier 1 common capital ratio (in %) | 14.16 | 14.33 |

## Summary

MLP's business development is essentially influenced by financial, operational 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 the MLP Financial Holding Group as a whole as well as the business segments always acted within the scope of their financial risk-bearing ability in 2016.

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 expect to see any negative development in 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 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 examined 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).

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

## Opportunities

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

Opportunities from changing framework conditions

The economic forecasts for the year 2017 suggest only limited opportunities for MLP. Although economic experts are assuming that Germany will enjoy further growth, the aforementioned reservations on the part of clients when it comes to signing long-term savings contracts will hinder progress. In the mid to long term, however, the greater need for private and also occupational pension provision is likely to increase demand for these two products significantly again – particularly among MLP's target groups. Should the German economy enjoy better development than assumed in our forecast, this will only have an indirect influence on short-term operating developments. However, should the reservations disappear altogether (contrary to our expectations) when it comes to signing long-term contracts, this would have direct positive effects for MLP.

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 administrative costs increase and processes in the company have to be adapted. However, the regulation also tightens the quality standards required of market actors. This will accelerate consolidation of the market, as individual brokers will not be able to comply with the stricter requirements. The supply side of the market will reduce in size overall. With our consulting approach, which focuses on clients and their financial matters, we are able to clearly differentiate ourselves in the marketplace. In addition to this, we were quick to align our operations to the new framework conditions over the last few years, which will enable us to benefit from this development in the mid-term.

Corporate strategy opportunities

We see corporate strategy opportunities primarily in MLP's positioning as a partner for all financial matters, a position which has been particularly strengthened over the last few years. Alongside support for private clients, we are now also increasingly focusing on our business with corporate clients and institutional investors. In cooperation with our Group companies TPC, DOMCURA and FERI, we will further expand our portfolio for corporate clients and institutional investors in the areas of investment, risk management, non-life insurance and occupational pension provision. MLP could benefit from additional opportunities as a result of the increased state support for occupational pension provision in Germany – as presented by the German Federal Ministry of Labour and Social Affairs in a draft bill in November 2016.

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

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

Business performance opportunities

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

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

More targeted penetration of our client base, particularly in the wealth management and non-life insurance areas, 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 agents and other brokers in the non-life insurance area and provides comprehensive solutions for both private and commercial business – partly 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 further development of our consulting programmes, even greater support for our consultants – for example in product selection – and even more effective service from the back-office in Wiesloch. The MLPdialog service centre also makes an important contribution to this. 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 area with its processes and expertise and will continue to do so in future. The goal of these measures is to allow our consultants to focus even more on their core task, namely advising and supporting their clients. This provides important revenue potential for the future.

Opportunities from development of asset and risk positions

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

In the banking area, MLP also engages in 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 clientèle 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.

Interest rate developments also have an influence on the interest book of MLP. Depending on the positioning/alignment and interest rate development, they could potentially lead to risks but also to opportunities, which could be reflected in a continuously comfortable 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. However, we believe that the changing framework conditions will only present limited opportunities. The opportunities described, as well as those which are not yet known to us or are currently considered insignificant, could lead to a positive deviation from the disclosures made in our forecast.

# FORECAST

## *Future overall economic development*

The economic dynamism in the eurozone remains positive, although it is likely to weaken somewhat in 2017 as a result of the worsened outlook for exports to Great Britain. Key impulses for greater growth are lacking in terms of both foreign and domestic trade. Political risks resulting from the consequences of the referendum in Italy, election of a new president in France and the German parliamentary elections are increasing uncertainty. As a result of this, FERI Investment Research is anticipating economic growth of 1.3% for the eurozone in 2017.

Moderate growth anticipated in Germany

For Germany, the experts at FERI Investment Research expect that the recovery will continue to be carried by a robust domestic economy, although this will be weakened by the effects of Brexit and the fragile dynamics of the eurozone. FERI Investment Research is now forecasting economic growth of just 1.5% for Germany in 2017.

Employment market prospects remain favourable

Based on estimates of the Institute for Employment Research of the German Federal Employment Agency (IAB), employment market developments in Germany remain robust. In terms of the annual average for 2017, unemployment is expected to drop by a further 70,000 to 2.6 million persons. Given the number of refugees entering the country, however, the seasonally adjusted unemployment figure could potentially increase again temporarily over the course of the next year. According to FERI Investment Research, the level of employment remains high overall. The employment market experts at the IAB are therefore predicting an increase in total employment figures of around 480,000 persons in 2017. However, the IAB also warns of the future challenges presented by digitalisation, demographic changes and the integration of refugees.

Increasing salaries and wages to be anticipated

The German government is forecasting a 3.7% increase in gross salaries and wages in 2017 and that private households in Germany will enjoy a 2.8% increase in disposable income. The framework conditions for private households therefore remain favourable. According to a forecast provided by the German government, the price-adjusted consumption expenditure of private households will increase by 1.6% in 2017. In its latest annual report for 2017, the Council of Economic Experts forecasts a savings rate of 9.7% in Germany (2016: 9.8%).

# *Future industry situation and competitive environment*

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

## Old-age provision

In future, private and occupational pension provision are likely to assume an increasingly important role in Germany. Despite the latest proposals of the German Federal Ministry of Labour and Social Affairs, the objectives of which include strengthening the statutory pension, in its 2016 Pension Insurance Report the German government is keen to stress that constant reduction of the guaranteed statutory pension levels is necessary in order to keep the premiums stable. This can be compensated through additional provision.

Higher subsidy for the basic pension from 2017

The state supports supplementary old-age provision in Germany. In 2017, the maximum tax-deductible amount in Tier 1 is to increase from € 22,766 to € 23,362 for single persons (joint allowance with spouse € 45,532). At the same time, the percentage of premiums paid that is taken into account by the tax authorities is set to increase from 82% to 84%. A maximum of € 19,624 can therefore be deducted as special expenses in 2017. These figures are doubled for married couples. Furthermore the state support levels for the Riester pension remain the same as in 2016.

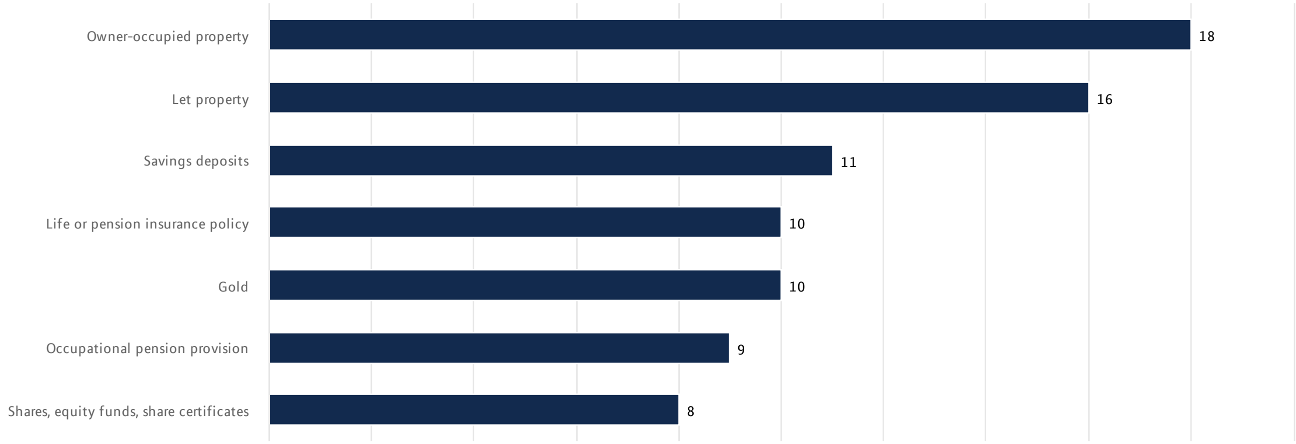
Vast majority understands the importance of supplementary old-age provision

A survey conducted by the German Consumer Research Association (GfK) indicates that most German citizens are aware of the urgency of private old-age provision. Four out of every five respondents (80%) consider it extremely important to put financial provisions in place for their old age. Many Germans also take a pessimistic view of their personal pension prospects, as reported by a survey undertaken by TNS Infratest on behalf of Industrial Union of Metalworkers (IG Metal): According to this, 64% do not think that they will be able to live well off their statutory pension when they retire. This figure increases even further to almost three quarters (73%) in the 18 to 34-year old bracket. A study of investors commissioned by Gothaer Asset Management AG highlighted that 59% of German citizens are still struggling to achieve their old-age provision saving goals in light of the ongoing period of low interest rates. 32% are of the opinion that this has actually become even more difficult.

Worries about a drop in standard of living in later life

The vast majority of German citizens are worried about the risk of old age poverty, as underlined by a Forsa survey commissioned by Gothaer: Accordingly, three out of every four German citizens (75%) are worried or extremely worried about their old age prosperity and fear impoverishment. A survey performed by Axa suggests that those in gainful employment in Germany are predominantly choosing real estate as investments to cover their old age living costs. Indeed, more than one in four (27%) is planning to purchase property either to live in or rent out. One in ten Germans in active employment is keen to invest in savings deposits, private pension/life insurance policies or occupational pension provision to provide for their old age.

Which forms of investment do people in gainful employment intend to use for securing their pension income? (amounts in %)




Source: AXA Germany Report 2016; adjusted by possible multiple responses, 27% of all people in gainful employment intend to purchase property (owner-occupied or buy-to-let)

Statutory pension continues to decline in stages

According to the latest Pension Insurance Report published by the German government, the standard pension level is already at 48%. This figure is likely to drop further to 44.5% by 2030. In its most recent forecasts, the official group of estimators expects the pension level to fall to 41.7% by 2045 and the premium rate to increase to 23.6%. The pension shortfalls are even greater for citizens that enjoy a high income.

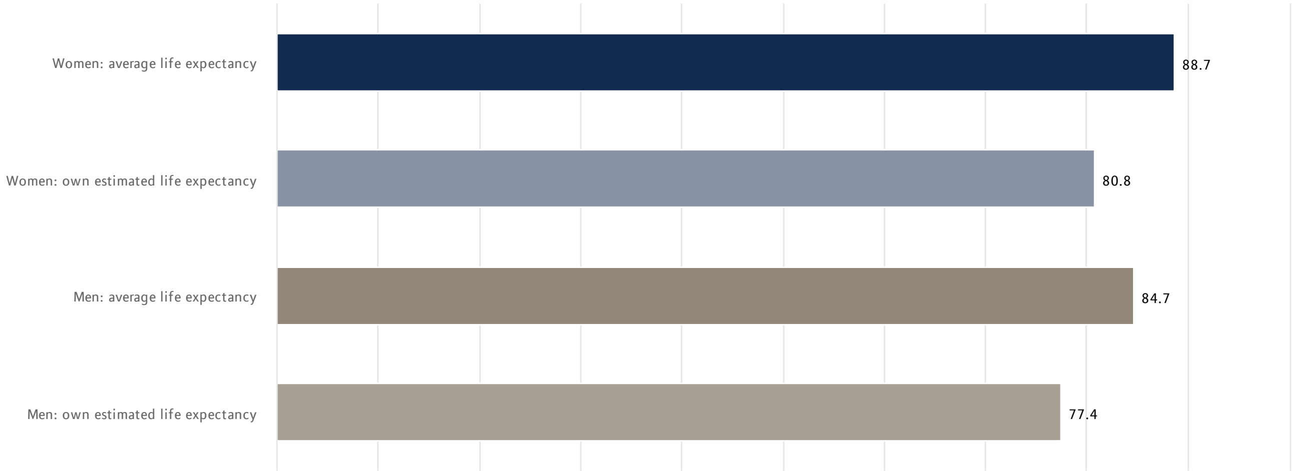
According to a survey conducted by market research institute YouGov on behalf of MLP, almost two thirds (62%) of German citizens do not believe that the government can prevent a decline in the pension level. The results show that neither an increase to the statutory retirement age nor higher premiums would be accepted by the population as a way of stabilising the statutory pension system. Only 10% / 13% of those with statutory pension insurance who have not yet retired would be willing to do this. 58% prefer other approaches to stabilise the declining pension level, such as occupational pension provision.

Own life expectancy underestimated

According to the generation mortality tables of the German Federal Statistical Office, the average life expectancy in Germany is 84.7 years for men and 88.7 years for women. However, the results of a Forsa survey indicate that 90% of German citizens underestimate their actual life expectancy – and thereby also how long their old-age provision will need to last. Based on this, men live an average of seven years longer than they expect, while women live almost eight years longer.

New calculations performed by Cologne-based economist Eckart Bomsdorf suggest that life expectancy is likely to continue increasing quite markedly. Based on the figures provided, girls born in 2016 are likely to live to an average age of 93 years, while boys are likely to reach 90 years – meaning they would have a very long period of retirement. According to official German pension insurance figures, the average pension benefit period has doubled from 10 to 20 years over the course of the last five decades. In 2015, it was 18.8 years for men and 22.8 year for women.

German women and men significantly underestimate their actual life expectancy (in years)




Source: German Federal Statistical Office; Forsa

Despite all of these factors – including state subsidies/allowances for private and occupational pension provision, the declining pension level and increased life expectancy – German citizens continue to display reservations when it comes to signing long-term contracts for old-age provision. Although the market potential remains promising in the mid-term, Assekurata, for example, is forecasting stagnating sector growth.

New stimuli anticipated for occupational pension provision

The German government is planning to launch a pension concept for the statutory pension before the 2017 parliamentary elections. Among other things, this new concept will stipulate harmonisation of the pensions in eastern and western Germany. Compulsory provision for self-employed persons is also being discussed and the foundations for strengthening occupational pension provision have already been laid. The planned legislation to strengthen occupational pension provision in Germany has been available as a draft bill since November 2016 and could provide positive stimulus for occupational pension provision in Germany. It is expected to enter into force in 2018. Among other things, the draft bill will provide for an expansion of the existing tax benefits. The ceiling for tax incentives on premiums paid into pension funds, pension schemes and direct insurance is set to be increased from its current level of 4% to 8% of the income threshold. You can find more details on the planned amendments in the forecast section entitled “Competition and regulation”.

Maximum technical interest rate down again; also impacting occupational disability insurance premiums

On January 1, 2017, the legislator once again reduced the maximum technical interest rate for life and pension insurance policies – from 1.25% to 0.9%. Based on the estimates of ratings agency Assekurata, this reduction represents another challenge for life insurers, as it is becoming increasingly difficult to maintain gross premiums in the coverage assets. Indeed, this can now only be guaranteed for long contractual periods.

The reduction is also leading to higher premiums for new contracts in the occupational disability insurance segment. Model calculations performed by MLP show that the monthly premiums could rise by up to 5%, depending on age group and coverage period.

The further reduction of the maximum technical interest rate is likely to contribute to further reservations among German citizens in the financial year 2017. On the product side, concepts with new types of guarantees are likely to gain ground throughout the sector.

## Health insurance

Further reforms are to be expected in the health insurance area over the course of the next few years, particularly following the German parliamentary elections in the autumn of 2017. In future, statutory health insurance funds will face financing challenges, while the private health insurance sector will face challenges resulting from the low interest rate.

Statutory health insurance funds anticipating significant premium increases

For 2017, Germany's Federal Ministry for Health announced that the average additional premium for statutory health insurance will remain stable at 1.1%. From 2018 onwards, however, those with statutory health insurance should expect significant premium increases. According to estimates provided by Association of Health Insurance Companies (vdek), the additional premiums paid exclusively by employees will increase. According to the forecast, this increase is likely to be 1.4% in 2018 and rise to 1.6% by 2020 to ultimately reach 1.8%.

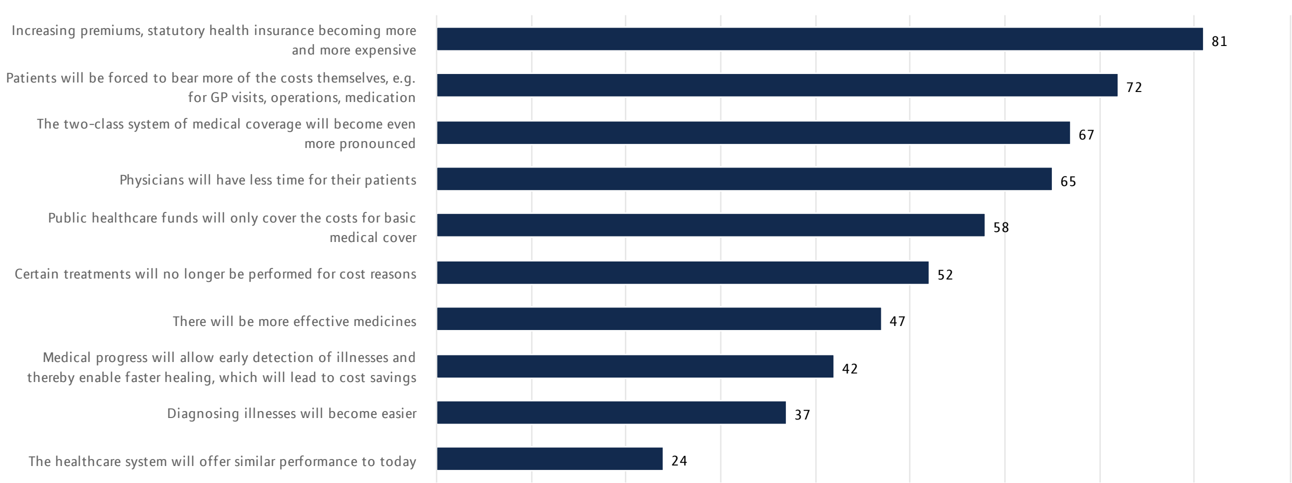
MLP believes that the willingness of numerous statutory health insurance policy holders to switch to a private policy will be boosted as a result of the increasing additional premiums. This in turn should once again inject more dynamism into the private health insurance market in the mid-term. According to ratings agency Assekurata, however, no such desire to switch to private policies should be anticipated in the short-term in the comprehensive private insurance segment. The experts are therefore predicting portfolio losses to continue at a similar rate until the 2017 German parliamentary elections. This view is also shared by the other market members. Based on a survey performed by Assekurata Solutions GmbH, more than half of insurance brokers surveyed (52%) expect business developments in the comprehensive insurance segment to deteriorate in the next twelve months.

Significant majority considers additional private health provision necessary

The long-term potential of private health insurance is also underlined by various studies. The "Continentale Survey 2016" concluded that many of those paying into the statutory health insurance system remain sceptical about the future of the healthcare system in Germany. Almost two thirds (64%) of German citizens surveyed do not believe that the statutory health insurance system will be able to provide them with proper medical care in future. More than three quarters (81%) believe that good healthcare provision can only be secured through additional private provision either now or in the future.

The MLP Health Report 2016 also comes to similar conclusions. A large percentage of German citizens are anticipating increasing statutory health insurance premiums (81%) and are worried about having to pay for a greater proportion of their medical care costs out of their own pocket (72%). More than one in two respondents (58%) expect the healthcare funds only to cover the costs of basic medical care.

What do German citizens expect from the healthcare system over the next ten years? (amounts in %)




Source: MLP Health Report 2016

A survey performed by market research institute YouGov came to the conclusion that private supplementary health insurance offers excellent sales potential. Based on this, one in ten policy holders (11%) aged between 18 and 59 is considering signing up for one or more policies over the next six months. Just under one in five (19%) stated they consider it.

Supplementary insurance policies need to catch up

The majority of those paying into the statutory health insurance system believe that private provision plays an important part in ensuring good medical care. According to the Continentale survey, they believe long-term care (78%) and dentistry (77%) are the key areas in which they need to have additional insurance coverage. The latest Healthcare Barometer published by PricewaterhouseCoopers indicates that just under two thirds (61%) of statutory insurance policy holders in Germany currently do not have any supplementary insurance in place. Ratings agency Assekurata therefore sees great growth potential for products such as supplementary dental insurance.

Long-term care provision offers significant growth potential

The third part of the Care Enhancement Act (PSG) is likely to inject new impetus into the private long term care provision market. With the care reform, the three former care levels were replaced by five degrees of care on January 1, 2017. (You can find more detailed information on this in the → "Competition and regulation" chapter). Due to the increased coverage in the media associated with this, the topic of insurance cover for long-term care remains very much in the public mind. Based on estimates of ratings agency Assekurata, this could again boost sales of supplementary long-term care insurance policies, as statutory long-term care insurance provision will remain just a partial solution even after the change in legislation.

Occupational health insurance attractive for employees

Looking ahead to the German parliamentary elections in 2017, a reform of the healthcare system could once again become a key issue with potential to improve the tax conditions for occupational health insurance schemes. At a time when skilled specialists are in short supply, positive stimuli can also come from employers that have recognised the power of occupational health insurance cover as an instrument for winning the best staff and keeping them loyal. To date, the occupational health insurance policies offered by insurers have essentially comprised discounted standard products with pricing modules. However, ratings agency Assekurata expects more individual and innovative product solutions to hit the market over the next few years.

Employers consider occupational health insurance highly attractive. Indeed, according to a survey performed by Gothaer Versicherung, they actually value it over benefits such as company cars, job tickets or company phones. 61% of respondents stated that they would like to have occupational health insurance in place, but only 4% of employees have received a corresponding offer of additional occupational coverage from their employer. Supplementary dental insurance policies are the most popular, followed by supplementary outpatient coverage policies.

The advantages for employers are clear. Almost two thirds of employees surveyed (64%) stated that receiving occupational health insurance as an additional benefit would strengthen their loyalty towards their employer. Almost half (43%) go further and consider the combination of occupational health insurance with workplace health management a key factor when selecting a future employer.

## Wealth management

Growing need for wealth management advisory services

The need for high-quality wealth management services is set to increase in the long term, due to the constantly growing number of high net-worth individuals. In its 2016 Global Wealth Report, the Boston Consulting Group (BCG) expects global private assets to increase at an annual rate of 6% and exceed US$ 224 trillion by 2020. The percentage of millionaires in the German population is likely to increase from 1.1% today to around 1.6% by 2020. According to the BCG survey, these individuals will together control 31.5% of all assets in the country. The current level is 27.6%. A survey conducted by consultancy Capgemini also suggests that there is massive growth potential for wealth management companies. To date, only 32% of assets owned by dollar millionaires are managed by wealth management companies.

Shares slowly becoming more attractive to savers

The European Central Bank's interest rate policy is slowly motivating German citizens to rethink the way they invest their savings. According to a Union Investment survey, 41% of savers now consider it prudent to channel at least a portion of their money into investments offering a better return. This is 5% more than at the end of 2015. Just over a third (36%) consider shares an attractive investment. In addition to this, investors are optimistic about the price trend. Three quarters of those taking part in the survey expect the prices to remain stable or improve slightly.

The European Central Bank's monetary policy and its effects on personal financial investments are motivating more Germans to seek investment advice. According to Union Investment, one in two German citizens consider it important to attend a personal meeting with a consultant as a way of finding the right investment in a sea of choices.

Wave of inheritance in Germany

Over the next few years, we expect to see major shifts in funds due to inheritances. According to a survey performed by the German Pension Institute (DIA), private households in Germany alone will inherit around € 3.1 trillion by the year 2024 – representing just under 30% of the entire assets held by private German households. Based on the DIA survey, an average of € 363,000 will be handed down per inheritance.

The topic of inheritance already commands a great deal of attention in modern society. Indeed, a survey undertaken by Deutsche Bank indicates that the majority of German citizens (52%) have inherited or expect to do so. Just under half of potential heirs stated they would use their inheritance for financial investments, capital accumulation and old-age provision.

Retirement planning becoming increasingly important

The 50+ generation is the only population group in Germany that is continuously growing. It also controls 75% of all assets. We already serve clients in this age group and the group itself is likely to become even more important over the course of the next few years. The primary focus of retirement planning activities is on determining what assets clients have already acquired and how these values can best be invested to meet their specific needs and achieve their goals.

Given the significance of this topic, we will be both further expanding the training offers at our CU and extending our range of services for clients in 2017.

Ongoing consolidation in the wealth management area

For years, the independent wealth management market has been characterised by ongoing consolidation under massive cost pressure. Clients are increasingly demanding customised solutions, multi-asset concepts and passive investments. The key with investment management services, such as those we offer through FERI Trust GmbH, is therefore to seek greater diversification with comprehensive hedging of risks through a wider, more diverse portfolio. This commitment paired with an ever increasing regulation of the finance sector and the loss of confidence among investors requires well-founded research.

Based on a survey performed by Universal Investment, alternative investments are proving increasingly popular among institutional investors in light of the low interest rate environment. Accordingly, four out of every ten investors are keen to invest three to six percent of their funds in alternative investments in future. One in four is looking to increase their alternative investment quota to between nine and twelve percent, while slightly more than one in ten will be seeking to invest more than twelve percent in this asset class.

Alternative investments increasingly in demand among large-scale investors

PwC expects that around US$ 15.3 trillion of global assets under management will be invested in alternative investments in 2020.

In light of low interest rates, the ongoing debt crisis and geopolitical risks, the capital market environment is likely to be characterised by pronounced volatility and remain challenging in the financial year 2017. Within this context, in the long term we expect to see an increased need for consulting services in the professional wealth management area among all of the Group’s target client groups.

Market environment remains difficult

## Non-life insurance

Non-life insurance will play an increasingly important role in the market. According to a survey performed by AssCompact, 81% of insurance brokers expect the private non-life insurance business to become much more important over the next few years. The brokers taking part in the survey believe that commercial non-life and homeowners’ insurance policies hold particular potential. More than half of the brokers surveyed are anticipating a significant increase in revenue here.

According to a survey performed by Assekurata, just under 40% of brokers believe that private non-life insurance policies will enjoy positive development in the coming year, while one in three (34%) expect the same of commercial non-life insurance policies. 60% expect the market to remain more or less stable.

Brokers anticipate positive business development

The AssCompact survey also suggests that many insurance brokers are worried about losing their standardised bulk business to the internet. Indeed, more than half of the brokers surveyed are concerned about strong competition from direct insurers or price comparison websites. After all, many of the newly founded fintechs/insurtechs are focusing their attention on the non-life insurance sector with the goal of using simple apps to push their non-life portfolio.

Ratings agency Fitch is anticipating slightly lower growth of around 2% for the property and casualty insurance segment in 2017.

## Competition and regulation

The entire market for financial services and the insurance sector are facing consolidation. Germany is considered to be the market with the greatest potential in Europe, in which both national and international service providers are competing. Due to stricter regulations, pressure is in particular mounting on low-level providers, which will lead to a further reduction in the number of market actors. In addition to this, competitive pressure is growing throughout the entire sector as a result of new, digital market members (so-called fintechs). Ratings agency Assekurata also believes that digital competitors will play an increasing part in the mid-term. According to a survey undertaken by the German Consumer Research Association (GfK) for the German Insurance Association (GDV e.V.), four out of every five Germans (82%) are already using the internet to gain more information prior to signing up for an insurance policy. However, the majority (55%) cannot ever see themselves signing up for an insurance policy on the internet, even in the future.

The number of registered insurance brokers also declined again in 2016, as the sector lost around 5,100 brokers. Since reaching its peak at the start of 2011, the number of brokers has fallen by 35,200. As regulatory requirements are becoming ever stricter, this trend is unlikely to change in future. At the same time, it presents MLP with many opportunities as a quality-driven provider.

Further consolidation among statutory health insurance funds

Further consolidation is likely to be expected in the healthcare sector due to increasing cost pressure. The number of statutory health insurance policyholders already dropped quite sharply in previous decades. While there were 1,815 health insurance funds in 1970, this number had already almost halved to 960 by 1995 and currently stands at just 118 (previous year: 124). Today, there are just 132 healthcare funds, and this number is likely to drop even further in future. According to a survey performed by PwC, the statutory health insurance funds believe consolidation to be indispensable as a way of reducing costs and increasing efficiency. Two thirds of respondents believe that 40 to 100 statutory health insurers will be enough in future.

New definition of "need for care" as of 2017

The second part of the Care Enhancement Act (PSG) came into force on January 1, 2017. With this step, a new definition of the "need for care" is being implemented in practice – with five degrees of care instead of the three previous care levels. In future, physical and mental disabilities will both be taken into account equally when classifying the need for long-term care. In addition to this, the statutory long-term care insurance premium increased in 2017 – by 0.2% points to 2.55% for parents and to 2.8% for those without children.

Legislation set to strengthen occupational pension provision from 2018 onwards

Within the scope of the planned pension reform, the German government is keen to offer greater incentives for occupational pension provision. The German Federal Ministry of Labour and Social Affairs presented a draft bill of the legislation to strengthen occupational pension provision in Germany in November 2016. The strategy being employed to boost this market is to offer a larger subsidy framework and make it easier for employers to get on board. The key issues of the draft bill include increased tax relief from the current level of 4% to 8% of the income threshold, a state subsidy for those on low incomes, as well as the opportunity to opt for defined contribution commitments rather than minimum or guaranteed services in terms of the target pension, thereby eliminating liability risks for employers. In addition to this, the basic allowance for the Riester pension is to be increased from € 154 to € 165 p.a. The legislation is scheduled to come into force at the start of 2018.

Maximum technical interest rate down to 0.9%

In the course of implementing Solvency II, the German government discussed dispensing with the maximum technical interest rate, but ultimately decided to keep it. However, the rate was reduced from 1.25% to 0.9% on January 1, 2017. This further reduction not only impacts pension insurance policies. Higher premiums for new policies are also to be anticipated in the term life insurance area and especially in the occupational disability and nursing care insurance areas. Based on a statement issued by the president of BaFin, the need for a guaranteed interest rate is to be reviewed again in 2018.

MiFID II on the home straight

After the European Commission postponed the introduction of the Markets in Financial Instruments Directive MiFID II by one year to January 2018, the Federal Finance Ministry presented the draft bill for the "Second Financial Market Reform Act" in the autumn of 2016. The goal is for the guideline to be transposed into national law by July 2017 and then applied with effect from January 2018. The objectives include greater transparency and better investor protection, both of which MLP generally welcomes. Consultation records in their present form are to be abolished and replaced by a so-called "suitability declaration".

As is the case for all other market actors, MiFID II and the Financial Market Reform Act will lead to significant implementation costs for MLP in areas including IT systems, cost transparency, customer information and reporting. With MLP's current position in the field of wealth management, however, we believe that we are well positioned to handle implementation of the requirements.

In the course of transposing MiFID II into German law, focus is once again shifting toward fee-based investment advisory services. If this leads to additional market potential, MLP is in an ideal position to exploit it, as its approach to new business in the wealth management area has been equivalent to fee-based remuneration for several years.

Product information sheets now only to be introduced in 2018

The European Commission has postponed the start date for the Packaged Retail and Insurance-Based Investment Products Regulation (PRIIPs) by one year to January 1, 2018. In future, providers of financial products are to draft a uniform product information sheet that describes the most important features in a brief and comprehensible way. The PRIIIP regulation applies to investment products such as funds and certificates, as well as to insurance investment products.

To improve the comparability of state-supported old-age provision products, a compulsory product information sheet has already been introduced at national level with the Old-Age Provision Reform Act (AltvVerbG). To this end, the Produktinformationsstelle Altersvorsorge GmbH (PIA) initiative has drawn up a uniform and binding standard for determining risk-return profile classes and calculating the actual costs of tax-privileged old-age provision products. Since January 1, 2017, providers of Riester and basic pensions must use a standardised product information sheet to inform clients of the main product characteristics when concluding a contract. In addition they must have the risk-return class of their own products certified by the PIA and document this accordingly. We generally welcome this step towards greater transparency. However, during a transitional period there will be a difference in the disclosure of costs between tax-privileged and non-tax-privileged products. This contradicts the objectives of greater cost transparency and, in particular, better comparability of products for clients.

Final sprint towards Insurance Distribution Directive (IDD)

In November 2016, the Federal Ministry of Economics presented the draft bill of the legislation for transposing the EU Insurance Distribution Directive (IDD) into German law. The ban on passing on commission in the insurance sector is to remain intact. However, there are no plans to issue a general ban on commissions. The draft bill also provides for the introduction of fee-based insurance consulting. In addition to this, the IDD sets important standards for better quality consulting with uniform principles throughout Europe. For example, brokers will in future not only have to provide evidence of their basic training, but also of their ongoing vocational further training. The transposition into national law must be completed by February 2018.

The analysts at Assekurata believe that the IMD will present insurers, financial services providers and broker pools with particular challenges in 2017. Business models and consulting processes need to be adapted to the new directive. However, no major effects on MLP's business model should currently be anticipated. MLP has always placed great emphasis on further training for consultants.

Bank regulation remains in focus

The capital requirements pursuant to Basel III will increase further up to 2019. The capital conservation buffer will increase in stages from 0.625% in 2016 to 2.5% in 2019. At the same time, intensive discussions to finalise Basel III are taking place. Due to the scope involved, however, many market members are already talking about a new package of regulations, Basel IV. These could potentially lead to even stricter capital requirements for the sector, which would also impact MLP.

Well equipped to handle new regulatory requirements

In summary, we consider our current competitive situation as good, thanks largely to the sustainable diversification of our business model. MLP was an early adopter of numerous requirements that will become binding law in future. Implementation expertise is required in order to comply with the legal documentation, qualification and transparency obligations. MLP believes it is well prepared for this. But irrespective of this, the regulatory developments will certainly represent a challenge for all market actors.

# *Anticipated business development*

In the field of old-age provision, MLP expects reservations regarding signing long-term old-age provision policies to continue throughout the market. This is primarily due to the low interest rate phase and the further reduction to the maximum technical interest rate performed on January 1, 2017. These are driving forward changes in the product landscape of the old-age provision area. Alternative guarantee concepts are enjoying ever increasing demand and gaining ground throughout the market. MLP has already assumed a pioneering role in the brokerage of these concepts and we are increasingly benefiting from this. The planned legislation to strengthen occupational pension provision in Germany is also likely to provide positive stimulus for occupational pension provision. In the field of old-age provision, we are anticipating recording new business and revenues in 2017 that will be around the previous year's level.

In the field of health insurance, public discussions regarding the possible introduction of "citizens insurance" could lead to uncertainty in the run-up to the German parliamentary elections in 2017. At the same time, higher premiums throughout the market could have a negative impact on the market for private comprehensive health insurance. The supplementary insurance area holds growth potential. Overall, we expect MLP to record a small increase in revenues in the health insurance area in 2017. We are anticipating positive stimulus from the additional premiums likely to be charged in the statutory health insurance segment, which will increase the willingness of statutory insurance policy holders to switch to private providers. Due to their above-average income, this is likely to have a pronounced effect on those MLP clients currently holding statutory insurance. We also believe that the occupational health insurance area has a promising 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 of the Group's target client groups. More and more clients in the consumer business of MLP Finanzdienstleistungen AG are approaching the age at which financial investments become significantly more important, not least due to their increasing personal wealth. At FERI, we benefit from our comprehensive expertise in alternative forms of investment, particularly given the current framework conditions.

However, we also expect the capital market environment to remain difficult overall with high volatilities. It is therefore safe to assume that investors – both private and institutional – will continue to display risk-averse behaviour. Volume-based and performance-based remuneration could also decline. In an unchanged market situation with no radical events or severe effects on the capital markets, we expect to record stable revenues in the wealth management segment for 2017 and a slight increase in the assets under management segment.

On the basis of the successful integration of DOMCURA, we are anticipating further slight increases in revenue for the non-life insurance area in 2017. The commercial non-life insurance business is one area that offers growth potential. Some initial new concepts are currently being developed for the corporate clients served by MLP in this field of consulting, such as practice owners. MLP's private client base provides further potential for growth. We have established comprehensive system support through DOMCURA to leverage this.

Alongside listed buildings, we are also continuously expanding our brokerage activities for new, existing and concept-driven properties as a way of establishing a broader basis for our consulting services in and around the real estate area. We expect "Other commission and fees" to remain at the same level as the previous year in 2017.

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

**Sales revenue estimates: 2017 (in comparison with the previous year)**

| 2017 | |
|---|---|
| Revenue from old-age provision | Unchanged |
| Revenue from health insurance | Slight increase |
| Revenue from wealth management | Unchanged |
| Revenue from non-life insurance | Slight increase |

Strategic restructuring accelerated

In order to also sustainably increase the earnings level in spite of the ongoing difficult market conditions in the field of old-age provision, MLP has further accelerated the strategic restructuring since the beginning of 2016. Initiated and successful growth initiatives will be continued to this end.

Further acquisitions possible

Further acquisitions and joint ventures that offer potential for profitable inorganic growth are generally possible in the market of our subsidiaries FERI and DOMCURA.

MLP also expects the ongoing consolidation of the broker market to continue. Should brokerage companies in the core business of MLP Finanzdienstleistungen AG become available for purchase in future, the Executive Board will undertake accurate analyses to determine whether their structure and culture fit in with MLP.

We are also driving the further diversification of our revenue basis through continuous expansion of our consulting fields beyond old-age provision, focussing in particular on non-life insurance and wealth management.

Digitalisation remains in focus

With the relaunch and added functionality of our websites, our activities on social media platforms and the launch of online policy sales, we made important progress within the scope of our digitalisation strategy in 2016. Measures planned for 2017 that will build on this include further establishment and expansion of online product sales as a way of winning new clients and self-service for existing clients. At the same time, MLP is continuing to expand its client acquisition activities on social media platforms. The new MLP client portal, which began its pilot phase at the end of 2016, is also to be made available to all clients in the coming financial year. The application will run on smartphones and, alongside banking functionalities, will include a “digital budget book”. With our combination of individual consulting and supplementary digital offers, we believe that we are well-positioned to compete with fintechs.

Alongside client-facing activities, however, the processes performed in the back office are particularly crucial. Unlike many fintechs, we have taken an important step with the integration of DOMCURA and are keen to use this to help our consultants develop the non-life insurance business as efficiently as possible. We are currently developing a further functionality which will enable users to optimise non-life insurance policies in an app. We will continue to drive these process improvements throughout the Group in 2017.

New applications support client consultants

In the reporting year, we developed two new applications which provide our consultants with targeted support during client meetings. Once the pilot phase has been successfully completed, both the “Budget guide” application and its counterpart “Budget guide easy” for the provision of consultancy services to young clients will be rolled out in stages starting in 2017. The introduction will be supported by a comprehensive training concept.

Winning new consultants also remains a focus of investments in 2017. We have laid important foundations in the last two years with activities such as the introduction of a training allowance for new client consultants or closer networking between university management and recruiting. Our aim is to increase our presence at universities over the course of the next few years. We will therefore bundle all cross-location activities of MLP in the university segment. To this end, MLP has appointed a new divisional board member for the university segment, who will work alongside the four other divisional board members for the regions. The objective here is to further accelerate the acquisition of new clients and young consultants. In support of this, we will further intensify our recruiting activities through our online and social media presences. We are anticipating a stable net development of consultant numbers for 2017. Although the changes made at our subsidiary ZSH within the scope of our efficiency programme will initially lead to a slight decline throughout the Group, we then expect to record a slight increase again over the course of the year as a result of our announced focus on the university segment and the intensified activities to win new consultants associated with this. Our overall assessment is based on the fact that annual consultant turnover will not exceed the target limit of around 10%.

Consultant recruiting remains a key focus

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

## Forecast

To accompany and support the aforementioned growth initiatives, MLP implemented comprehensive efficiency measures in 2016 to further significantly reduce the cost base in the financial year 2017 and subsequent years. As announced, this incurred one-off expenses of € 15.4 million, which will lead to a drop in the administrative cost base of around € 15 million in 2017 relative to 2015 – based on the administrative expenses of DOMCURA for the whole of 2015.

Administrative expenses down

We will continue to develop and optimise MLP in 2017. The forecast administrative expenses therefore still include expenses for future investments.

Alongside administration expenses, the cost of sales (primarily commission expenses) are also relevant for our cost structure. Alongside expenses in the financial services and FERI segments, commission expenses at DOMCURA, which was acquired in August 2015 were included for a full year for the first time from the start of 2016. Since 2015, MLP has also offered a training allowance for new client consultants to support them in their start to self-employment. These costs are also recognised under commissions paid. In 2017, we expect to record a comparable overall ratio of commission income to commission expenses as in the reporting year.

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

Based on our expected revenues and costs, we are anticipating a significant increase in EBIT for the financial year 2017 over both 2016 and also 2015 (€ 30.7 million). Our forecast therefore still corresponds to the assessment we presented for 2017 in the 2015 Annual Report.

Forecast: Significant increase in EBIT anticipated

Despite markets that remain challenging and the need for comprehensive capital expenditure, including investments to support the ongoing implementation of the digitalisation strategy and the winning of new consultants, we still expect to record profitable growth. This forecast is based on the assumption that the framework conditions in our core markets will not become significantly worse.

As was already the case in the previous year, we once again expect the finance cost to be slightly negative. The tax rate in 2016 was 21.6%. Set against the background of a significant rise in anticipated earnings, we also expect the tax rate to increase significantly in 2017.

In February 2017 MLP decided to further optimise the corporate structure of the Group. This will result in one-off expenses. This matter and its effects on the forecast are outlined under → events subsequent to the reporting date.

Dividends of € 0.08 per share

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

On this basis, the Executive Board and Supervisory Board will propose a dividend of € 0.08 per share at the Annual General Meeting on June 29, 2017. The one-off expenses accrued within the scope of our efficiency measures had an impact on Group net profit in 2016 and thereby also on the dividends. The distribution rate is around 60%. However, we will continue to pay out between 50% and 70% of Group net profit as dividends in future.

## Planned financing activities and investments

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

Our investment volume was € 18.4 million in the last financial year, whereby the focus remained on IT. You can find more detailed information on this in the chapter entitled → "Economic report – Performance". We will continue to make investments in the financial year 2017, focusing primarily on IT. Due to the capital expenditure of the last few years, however, we anticipate an annual investment volume significantly below the 2016 level. Within our projects, we use further funds that will flow directly into our income statement as expenses. We expect to be able to finance all investments from cash flow.

Significant increase in return on equity anticipated

The return on equity declined from 5.1% to 3.8% in the financial year 2016. This decrease can essentially be attributed to the one-off expenses accrued within the scope of our efficiency measures. However, we are anticipating a significant increase for 2017.

The Group's liquidity rose from € 174 million to around € 265 million in the financial year 2016. However, the overall liquidity situation remains good. Liquidity will be reduced by the intended dividend payment of € 8.7 million for the financial year 2016. It will increase again in the second half of 2017 thanks to the typical year-end business. Acquisitions which we finance with cash holdings would also have a negative effect on the Group's liquidity and capital adequacy. We are not anticipating any liquidity squeezes for the coming financial year.

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

MLP anticipates that the challenging market conditions will continue throughout the financial year 2017. As a result of the successfully implemented efficiency measures, we are anticipating a significant increase in EBIT over the 2015 figure of € 30.7 million – and also the 2016 figure. We therefore expect to see a positive overall development within the Group. We are financially strong and, in combination with our strong market position as an independent consulting firm, this will enable us to further expand our competitive position.

## *Prognoses*

*This documentation includes certain prognoses and information on future developments founded on the conviction of MLP AG's Executive Board, as well as on assumptions and information currently available to MLP AG. 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 AG accepts no liability to the general public for updating or correcting prognoses. All prognoses and predictions are subject to various risks and uncertainties, which can lead to the actual results differing from expectations. The prognoses reflect the points of view at the time when they were made.*

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

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

## *Business and general conditions*

### General company situation

MLP AG is the holding company for the MLP Group. The company's primary role is to manage the Corporate Group. It defines strategic goals and ensures coordinated and aligned corporate policy within the Group. Three subsidiaries are arranged under the umbrella of MLP AG: MLP Finanzdienstleistungen AG is the Group's consulting company for private and corporate clients. It holds a banking licence and, as an insurance broker, is registered for brokering insurance policies. The second subsidiary FERI AG (including its own subsidiaries) primarily looks after wealthy private clients and institutional investors. As an underwriting agency, DOMCURA examines all offers in the market when designing, developing and implementing its extensive coverage concepts for private and commercial clients in the field of non-life insurance. In addition, the DOMCURA Group also includes specialist brokers for commercial and industrial insurance. You can find more information on this in the chapter entitled → "Performance" in the joint management report of the MLP Group.

### Business development at MLP AG

The following changes were made to the corporate structure in 2016. FERI AG announced the sale of FERI EuroRating Services AG in the reporting period. 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.

In the course of the ongoing focus on the corporate structure in the DOMCURA Group, companies including Ralf W. Barth GmbH and F&F Makler AG amongst others were merged into nordias GmbH Versicherungsmakler in the financial year. All activities of the broker business segment have been bundled in this company, which includes specialist brokers for commercial and industrial products.

Due to the profit/loss transfer agreements in place, business performance at MLP AG is largely determined by the economic development of its investments, the performance of which is also described in the Group report. A profit/loss transfer agreement was concluded between MLP AG and the DOMCURA Group over the course of the year 2016 and then approved by the MLP AG Annual General Meeting on June 16, 2016.

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 → "National economic climate" and → "Industry situation and competitive environment".

# Results of operations

The German Accounting Directive Implementation Act (BilRUG) came into force on January 1, 2016. This led to a redefinition of revenues. Based on the new rules, revenues must now also be disclosed alongside other operating income.

Revenue in the reporting year was € 5.7 million. These essentially include income from the letting of buildings to affiliated companies. Other operating expenses were € 12.3 million, following € 11.0 million in the previous year. If it had already been necessary to apply the changes resulting from the German Accounting Directive Implementation Act (BilRUG) in the previous year, this would have led to revenue of € 6.6 million and other operating income of € 4.4 million in 2015. On this basis the increase in other operating income can among other things be attributed to the sale of a property and a settlement payment made in connection with judicial proceedings.

Personnel expenses were down from the previous year to € 4.0 million. This reduction can be attributed to lower expenses for salaries and wages, as well as lower expenses for pension commitments as a result of an interest rate adjustment.

At € 3.7 million, amortisation of intangible assets and property, plant and equipment remained virtually constant (€ 3.8 million). Other operating expenses rose to € 10.6 million (€ 9.7 million). Among other factors, this was due to higher consulting expenses. This item also includes expenses of € 0.8 million accrued within the scope of our efficiency programme.

The results of operations of MLP AG are influenced to a great extent by the business development of its largest subsidiary MLP Finanzdienstleistungen AG. As is also the case with FERI AG and the Schwarzer Familienholding GmbH (DOMCURA Group), a profit/loss transfer agreement is in place with this company that is reflected in the finance cost.

The finance cost dropped from € 22.7 million (€ 33.7 million) in the reporting period. Higher profit transfers from FERI AG and DOMCURA were more than offset by the lower profit transfer from MLP Finanzdienstleistungen AG, caused by one-off expenses within the scope of our efficiency programme.

The tax expense dropped to € 4.0 million (€ 8.8 million) in the last financial year. This decrease can be attributed to increased expenses in the previous year pertaining to a retrospective tax payment, as well as a lower assessment basis in 2016. The net profit recorded was therefore € 18.2 million (€ 15.6 million).

# Net Assets

The balance sheet total of MLP AG was € 413.3 million (€ 406.7 million) on December 31, 2016.

On the assets side of the balance sheet, the item "Property, plant and equipment" declined slightly from € 42.1 million to € 36.3 million due to the sale of a property. Financial investments increased to € 258.0 million (€ 248.0 million) which is attributable to redeployments of other forms of investment.

The receivables and other assets declined to € 36.6 million (€ 51.6 million). The receivables from affiliated companies included in this item also declined to € 24.1 million. This increase is primarily attributable to receivables due from subsidiaries of MLP AG, resulting from profit/loss transfer agreements in place with these companies. Other assets declined to € 12.2 million (€ 15.1 million). This development was in particular influenced by lower overall receivables from income taxes.

The item “Cash on hand and on deposit with the Deutsche Bundesbank, bank deposits and cheques"” increased to € 79.7 million (€ 63.2 million). This increase can essentially be attributed to the payment received from the sale of a property.

On the equity side of the balance sheet, shareholders’ equity increased slightly to € 392.9 million (€ 387.6 million), while share capital and capital reserves remain unaltered at € 109.3 million and € 139.1 million respectively.

At € 17.1 million, provisions were slightly above the previous year’s level (€ 16.1 million), whereby at € 10.8 million (€ 10.6 million) provisions for pensions and similar obligations remained virtually unchanged year on year. Tax reserves rose to € 2.5 million (€ 0.3 million). Other provisions declined to € 3.8 million (€ 5.1 million). The previous year’s higher figure is essentially due to the provisions for interest established that year within the scope of the general tax audit.

## *Financial position and dividends*

As of the balance sheet date, December 31, 2016, MLP AG had cash holdings (cash on hand and on deposit with the Deutsche Bundesbank, bank deposits and checks) of € 79.7 million (€ 63.2 million). This item was reduced by the dividend payout to our shareholders with a total volume of € 13.1 million at € 0.12 per share, while the profit transfers from our subsidiaries had the opposite effect.

At 95.0% (95.3%), the equity ratio remained virtually constant. MLP AG therefore continues to enjoy a good equity capital backing. In addition to this, MLP AG has open lines of credit of € 50.0 million as of the balance sheet date.

As of the balance sheet date, the liabilities of MLP AG increased to € 3.6 million (€ 3.0 million). This was primarily due to an increase in trade payables from € 0.3 million to € 0.6 million, as well as an increase in other liabilities to € 0.9 million (€ 0.6 million). The liabilities at MLP AG are all current liabilities. Cash and cash equivalents therefore exceed current liabilities several times over.

The dividend payments of MLP AG 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 2016 will be between 50% and 70%. In concrete terms, the Executive Board and Supervisory Board will propose a dividend of € 0.08 per share at the Annual General Meeting on June 29, 2017. This corresponds to a distribution rate of around 60% of the Group’s net profit.

# *Comparison of the actual and forecast development of business*

Business development at MLP AG is essentially dependent on the business development of the MLP Group. We therefore make reference to the comparison of actual business development with the forecast development of the MLP Group.

Despite market conditions that generally remained difficult for its subsidiaries, MLP AG was overall able to meet its own objectives and expectations in 2016.

# *Employees*

In the last financial year, MLP AG employed an average of 7 employees, following 7 employees in the previous year.

Stipulations for promoting equal participation of women in management positions pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act (AktG) apply equally to MLP AG and the MLP Group. We make reference to stipulations of the MLP Group for promoting equal participation of women in management positions pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act (AktG) in this regard. For details see the → corporate governance report of the MLP Group.

# *Remuneration report of MLP AG*

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

# *Risks and opportunities at MLP AG*

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

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

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

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

## *Forecast for MLP AG*

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

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

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

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

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

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

## Composition of capital

As of December 31, 2016, 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 AG'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 AG has been notified of two shareholders who directly or indirectly exceeded 10% of the voting rights:

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

* Status known to MLP AG as of December 31, 2016

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

## Shares with special control rights

Shares which confer special control rights have not been issued.

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

Where MLP AG has in the past issued shares to employees within the scope 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 appointment and replacement of members of the Executive Board are governed by §§ 84 and 85 of the German Stock Corporation Act (AktG). The company's Articles of Association specify that the Executive Board must comprise at least two people. The members of the Executive Board are appointed for a maximum of five years. A further appointment or extension of the time in office, each for a maximum of five years, is permitted. The Supervisory Board can terminate the appointment of a member of the board before the time in office expires for important reasons. Such reason could be a gross breach of duty, inability to manage the company properly or a vote of no confidence by the Annual General Meeting. The Supervisory Board decides on the number of Executive Board members, their appointment and the revocation of their appointment as well as the conclusion, amendment and termination of the employment contracts with Executive Board members. The Supervisory Board may appoint a Chairman and one or more Vice Chairmen (Chairmen deputies).

## Amendments to the company's Articles of Association

In accordance with § 179 (1) of the German Stock Corporation Act (AktG), each amendment to the Articles of Association requires a resolution by the Annual General Meeting. In deviation from § 179 (2) Sentence 1 of the German Stock Corporation Act (AktG), § 17 (4) of the company's Articles of Association stipulates that resolutions on amendments to the Articles of Association can be passed by the Annual General Meeting with a simple majority of the share capital votes entitled to vote on the resolution, unless a greater majority is required due to overriding legal requirements. However, the Supervisory Board is authorized, pursuant to § 21 of the company's Articles of Association, to make amendments to the company's Articles of Association that affect the version.

## Authority of the Executive Board to issue or buy back shares

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

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

A resolution passed at the Annual General Meeting on June 6, 2013 also authorised the company, as per § 71 (1) No. 8 of the German Stock Corporation Act (AktG) to purchase up to 10% of the share capital during the authorisation period up to June 5, 2018. No shares were bought by the company on the basis of this authorisation up to December 31, 2016.

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

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

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

The contracts of employment between the company and the Chairman of the Board, Dr. Uwe Schroeder-Wildberg, and Executive Board members Manfred Bauer and Reinhard Loose contain a clause stating that said members are entitled to terminate their contracts with a notice period of one month in the event that a third party who had a share in MLP of less than 10% at the time at which the contracts were concluded acquires a share of at least 50% of the voting rights. If any of these Executive Board members chooses to exercise this right to terminate, MLP is obliged to pay said member remuneration corresponding to four times (4x) the respective fixed annual salary if the contract has not been terminated as a result of the change in control, provided that the respective contract is terminated more than two years before it reaches its normal termination date. For all members of the Executive Board, the remuneration to be paid in the event of a "change of control" corresponds to no more than twice the average remuneration, based on the total remuneration of the last full financial year prior to termination of their contract and the total anticipated remuneration for the year still in progress when their contract is terminated. The service contract of Dr. Uwe Schroeder-Wildberg is set to run until December 31, 2017, the service contract of Mr. Bauer is set to run until April 30, 2020 and the service contract of Mr. Reinhard Loose is set to run until January 31, 2019. In the case of a termination of contract within two years of the scheduled termination date, the severance payment will only be paid pro rata temporis.

# CORPORATE GOVERNANCE REPORT – DECLARATION ON CORPORATE GOVERNANCE

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

## *Compliance with the Corporate Governance Code*

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

Pursuant to § 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board of MLP AG hereby declare that the company has complied with and will continue to comply with the recommendations of the "German Corporate Governance Code" government commission (version dated May 5, 2015) since the last Declaration of Compliance was issued. Only the recommendations specified in Sections 4.1.5 and 4.2.3 page 10, Section 4.2.3 pages 11 to 13, Section 5.1.2. sentence 2, Section 5.1.2 sentence 8 and Section 5.4.1 (2) were not and will not be followed.

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

### Section 4.1.5 (compliance with diversity at management level)

Based on the recommendations of the German Corporate Governance Code, the Executive Board must pay attention to diversity when filling management positions and aim for an appropriate consideration of women. The Executive Board sets out targets for the proportion of women at the two management levels below the Executive Board.

Throughout the current financial year, the Executive Board has strengthened its efforts to secure diversity when filling management positions and in particular aim for an appropriate consideration of women at the management levels within the company. The Executive Board at MLP AG has already implemented measures in the past with the objective of making it easier for staff to combine their career with a family. It also continued to review these measures in the financial year 2016 to determine their effectiveness and passed a complete concept back in November 2013 to ensure that appropriate consideration is given to women in the company's management ranks, taking into account the company's specific situation. Guidelines on diversity-compliant staff promotion also form part of this concept, although these still need to be finalized. No criteria for specific selection decisions when filling vacant positions have therefore been defined to date. Nevertheless, the Executive Board at MLP AG only passed a resolution for a 0% percentage of women at the first management level below the Executive Board, since MLP AG is a holding company with very limited staffing and few managers. In addition to this, there is no second management level below the Executive Board at MLP AG.

The measures are therefore not yet fully compliant with the requirements of Section 4.1.5 of the Code. As was also the case in the financial year 2016, MLP declares not to follow this recommendation in the financial year 2017.

## Section 4.2.3 Sentence 10 (specification of the targeted level of benefits)

Based on the recommendations of the German Corporate Governance Code, the Supervisory Board should specify the targeted level of benefits in each case when making benefit obligations – including the total service time on the Executive Board – and then take into account both the annual and long-term costs associated with these benefits for the company.

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

Therefore the Supervisory Board is of the opinion that the implementation progress made to date is not yet sufficient to fulfil the requirements of Section 4.2.3 Sentence 10 of the Code in full. As was also the case in the financial year 2016, MLP declares not to follow this recommendation in the financial year 2017.

## Section 4.2.3 Sentence 11 to 13 (severance payment cap)

As per the recommendations of the German Corporate Governance Code, attention must be paid when concluding Executive Board member contracts to ensure that any payments to members of the Executive Board do not exceed the value of two years' remuneration including fringe benefits (severance payment cap) of these Executive Board members, should their position be terminated prematurely without serious cause. If the employment contract is terminated for an important reason, for which the member of the Executive Board in question is responsible, no payments are made to said member of the Executive Board. Calculation of the severance payment cap should be based on the total remuneration of the previous financial year and, if available and appropriate, also the total anticipated remuneration of the current financial year. In the event of premature termination of Executive Board membership due to a change of control, any commitment for payments should not exceed 150% of the severance payment cap.

In the course of the financial year 2011, MLP changed all service contracts with members of the Executive Board to a new remuneration system. Following on from this, particular attention was paid in 2014 to ensuring compliance with the requirements the German Banking Act (KWG) and the Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV). MLP has been complying with the aforementioned recommendations since the changeover in 2011.

There is no entitlement to severance payment in the case of termination of contract by mutual agreement. For contractual reasons, provisions regulating severance payment arrangements concerning the termination of contracts by mutual agreement can in any case only be seen as a guideline. And the parties involved are free to deviate from these provisions at any time with mutual consent. For this reason, any provisions of this nature would be no more than a formality.

As was also the case in 2016, MLP has therefore once again elected not to comply with this recommendation in 2017.

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

Based on the recommendations of the German Corporate Governance Code, the Supervisory Board should also pay attention to diversity in the composition of the Executive Board and in particular aim for an appropriate consideration of women. Based on this, the Supervisory Board is to set out targets for the proportion of women on the Executive Board.

The Supervisory Board at MLP AG aims at increasing its efforts in respecting diversity and, in particular, ensuring appropriate consideration of women in future appointments of Executive Board members. The Supervisory Board gives specific consideration to applications from suitable women in its selection procedures. It continued to address this topic in the financial year 2014 and will implement further measures so that appropriate consideration is also given to women on the company's Executive Board, following on from the Group-wide overall concept passed by the Executive Board for implementation of the recommendation in the Code pursuant to Section 4.1.5 (taking into account diversity when filling managerial positions), considering the company's specific situation. Irrespective of this, the Supervisory Board at MLP AG intends to continue basing its selection decisions primarily on personal and professional qualifications. For this reason, the Supervisory Board has set a target of 0% for the proportion of women on the Executive Board – which currently only has three members anyway.

The Supervisory Board is of the opinion that the implementation progress made to date is not yet sufficient to fulfil the requirements of Section 5.1.2 Sentence 2 of the Code in full. As was also the case in the financial year 2016, MLP declares not to follow this recommendation in the financial year 2017.

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

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

MLP did not follow this recommendation in 2016. No age limit is set for members of the Executive Board at MLP. The appointment of members of the Executive Board should be based solely on their knowledge, skills and specialist experience. As was the case in 2016, MLP has therefore also opted not to follow this recommendation in 2017.

## Section 5.4.1 (2) (age limit and overall limit regarding the length of membership in the Supervisory Board)

Based on the recommendations of the German Corporate Governance Code, an age limit and an overall limit regarding the length of membership in the Supervisory Board should be set and taken into account when considering proposals for the election of Supervisory Board members.

MLP did not follow this recommendation in 2016. No age limit or overall limit regarding the length of membership is specified for members of the Supervisory Board. In light of the knowledge, skills and specialist experience stipulated in Section 5.4.1 Sentence 1 of the Code, it seems inappropriate to specify an age limit or overall limit regarding the length of membership. As was the case in 2016, MLP has therefore also opted not to follow this recommendation in 2017.

## Section 5.4.1 (2) (specification of concrete objectives for the composition of the Supervisory Board)

Based on the recommendations of the German Corporate Governance Code, the Supervisory Board is to stipulate concrete objectives regarding its composition. As well as giving consideration to the company's specific situation, these objectives also take into account the company's international operations, any potential conflicts of interest, the number of independent members of the Supervisory Board in the sense of Section 5.4.2, an age limit to be specified for members of the Supervisory Board and diversity. These concrete objectives should, in particular, stipulate an appropriate degree of female representation. Recommendations by the Supervisory Board to the respective selection committees should also take these objectives into account. Based on this, the Supervisory Board is to set out targets for the proportion of women on the Supervisory Board. The objectives and present status of implementation are to be published in the corporate governance report.

MLP did not follow this recommendation in 2015. In its meetings during the financial years 2010, 2012, 2014, 2015 and 2016, the Supervisory Board at MLP AG addressed the topic of setting concrete targets for the composition of the Supervisory Board, paying particular attention to diversity. In the past, assuming equivalent professional and personal suitability of the candidates, the Supervisory Board set itself the goal of filling at least 25% of the positions on the Supervisory Board on the shareholder side with suitable female members. Meanwhile however, the legal standpoint predominantly taken is that the Supervisory Board should set a target for the entire Supervisory Board – and not just for shareholder or employee representatives. Based on this, the entire Supervisory Board at MLP AG has set itself the target of filling at least 16.5% of the positions on the Supervisory Board with suitable female members. However, largely due to the low number of members that sit on the Supervisory Board as per the company's Articles of Association, the Supervisory Board does not currently consider it prudent to specify a concrete timetable for implementation of this objective. Therefore, it is currently also not possible to report on any concrete measures for the achievement of objectives in the corporate governance report. Nevertheless, in 2015 the Supervisory Board submitted the resolution to the Annual General Meeting of electing one woman to the company's Supervisory Board. The Annual General Meeting approved this resolution. The target was therefore reached.

Nevertheless, MLP declares – as it also did in the financial year 2016 – that it will not follow this recommendation in the financial year 2017, since MLP has not approved any such targets and instead prefers to appoint members based on their respective qualifications.

Wiesloch, December 2016

MLP AG The Executive Board, The Supervisory Board"

In December 2016, the Executive and Supervisory Boards issued the above Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders via the company's website. You can also view the text of the Declaration of Compliance from December 14, 2016 at ↗ www.mlp-ag.com.

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

# *Corporate governance*

Responsible and value adding management

By mainly complying with the stipulations of the German Corporate Governance Code (GCGC) in the version of May 5, 2015, MLP continues to reinforce the confidence of its shareholders, clients, employees and other stakeholders in the management of the company. Responsible management geared toward long-term added value is a high priority for us. The Executive and Supervisory Boards ensure that MLP continues to review and develop corporate governance across the Group.

## Management and controlling structure

Executive Board

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

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

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

Supervisory Board

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

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

Supervisory Board composition

The Supervisory Board currently consists of six members. These are four shareholder representatives, elected by the Annual General Meeting in 2013, and two employees' representatives, also elected in 2013 by the employees. The members of the Supervisory Board are currently Ms. Tina Müller, Dr. Peter Lütke-Bornefeld (Chairman of the Supervisory Board), Dr. h.c. Manfred Lautenschläger, Dr. Claus-Michael Dill, Mr. Burkhard Schlingermann (employee representative) and Mr. Alexander Beer (employee representative).

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

The Supervisory Board has set itself concrete targets for its composition. One item worthy of particular note here is a requirements profile for Supervisory Board candidates, which was passed in the financial year and which summarises the knowledge, skills, professional experience and personal aptitude characteristics necessary for candidates to be considered. In addition to this, appraisals were made regarding diversity and the number of independent members. You can find further information on the equal participation of women and men in the Supervisory Board in the disclosures on corporate governance practices provided below.

As per the new revisions to § 100 (5) of the German Stock Corporation Act (AktG) that became effective in 2016, members of the Supervisory Board no longer need to meet the personal independence prerequisites due to legal obligations. Instead, the Supervisory Board should comprise what it deems to be an appropriate number of independent members as per Section 5.4.2 of the German Corporate Governance Code (DCGK). For this reason, the Supervisory Board continues to adhere to the requirement for independence. The Supervisory Board considers itself as already consisting of a suitable number of independent members who have no business or personal relationship with the company or members of the Executive Board which could form grounds for a conflict of interest. The Supervisory Board has also set itself the additional goal of filling at least 16.5% of Supervisory Board member positions with suitable female members, in the presence of candidates of equal professional and personal suitability. However, largely due to the low number of members that sit on the Supervisory Board as per the company's Articles of Association, the Supervisory Board does not currently consider it prudent to specify a concrete timetable for implementation of this objective. Nevertheless, this quota was already reached over the course of the year 2015 with the election of Ms. Müller to the company's Supervisory Board. The Supervisory Board also reviewed the knowledge and experience required of the Supervisory Board members and of the Chairman of the Audit Committee under the German Corporate Governance Code with regard to reporting and internal control procedures. The Chairman of the MLP AG Audit Committee fully complies with these requirements.

Efficiency of the Supervisory Board

In the absence of the Executive Board, the Supervisory Board also reviewed the efficiency of its own activities in 2016. Particular attention was paid to the efficiency of the procedures in the Supervisory Board, the information flow between the committees and the Supervisory Board and the timeliness and sufficient content of reporting by the Executive Board to the Supervisory Board. Further measures aimed at increasing efficiency were drafted in the course of intensive discussions.

Supervisory Board committees

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

Corporate governance in the Supervisory Board

In 2016, the Executive and Supervisory Boards of MLP AG again dealt intensively with the German Corporate Governance Code and further new legislation significant to the work performed by the Supervisory Board and its committees. The Code, and its amendments passed on May 5, 2015, were the object of intensive discussions by the Supervisory Board. Stipulations were analysed and corresponding adjustments to the internal regulations and procedures followed by the Supervisory Board were either proposed or submitted for verification.

Cooperation between Executive Board and Supervisory Board

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

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

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

# *Transparency*

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

As of December 31, 2016, the shares held by the members of the company's Executive and Supervisory Boards were distributed as follows:

| Supervisory Board member | Number of shares as of Dec. 31, 2016 | Number of shares as of Dec. 31, 2015 |
|---|---|---|
| Dr. Peter Lütke-Bornefeld | 190,000 | 150,000 |
| Dr. h.c. Manfred Lautenschläger[1] | 25,383,373 | 25,383,373 |
| Tina Müller | – | – |
| Dr. Claus-Michael Dill | – | – |
| Burkhard Schlingermann | 55 | 55 |
| Alexander Beer | – | – |

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

| Executive Board member | Number of shares as of Dec. 31, 2016 | Number of shares as of Dec. 31, 2015 |
|---|---|---|
| Dr. Uwe Schroeder-Wildberg | – | – |
| Manfred Bauer | 11,254 | 11,254 |
| Reinhard Loose | 10,000 | 10,000 |

## Directors' Dealings

Directors' Dealings

Pursuant to § 15a of the German Securities Trading Act (WpHG), persons discharging managerial responsibilities as an issuer of shares must notify the issuer and the Federal Financial Supervisory Authority (BaFin). This duty also applies to persons with a close relationship to such a person.

Pursuant to § 15a of the German Securities Trading Act (WpHG), four transactions were reported to us in the financial year 2016. These can be viewed on our website ↗ www.mlp-ag.com.

## Compliance

Compliance regulations

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

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

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

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

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

## Corporate management practices

Defined company values

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

MLP managers:

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

In accordance with the recommendation of the Corporate Governance Code in Section 4.1.5., the Executive Board has further reinforced its efforts to secure diversity when filling management positions. It will also continue to test the effectiveness of the adopted measures in the financial year 2017 and either make any changes deemed necessary or implement additional measures to ensure that women are given appropriate consideration at the management levels of the company, taking into account the company’s specific situation.

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

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

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

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

Based on the experience gained within the scope of implementing the individual measures, MLP will stick to the targets already achieved for management levels and thereby comply with the minimum legal requirements stipulated for June 30, 2017. For MLP AG, these are 25% on the shareholder side of the Supervisory Board. Since both the Executive Board and the first management level below the Executive Board now comprise fewer members, we do not consider a fixed quota to be expedient. There is no second management level below the Executive Board, since MLP AG is a holding company and does not employ any further managers beyond its three-person Executive Board and one first level manager. For this reason, we have chosen to continue applying the existing ruling. The Supervisory Board and Executive Board targets at MLP Finanzdienstleistungen AG are the same as those at MLP AG. Targets of 11.11% and 20.69% have been set respectively for the first and second management levels below the Executive Board. In the financial year 2016, the quotas were 21.05% and 18.75% respectively. The changes can be attributed to female managers being promoted from the second to the first management level below the Executive Board, as well as new hirings. In addition to this, MLP has set internal rules for the composition of its Executive Board and Supervisory Board. These stipulate a 25% proportion of women, assuming equal personal and professional aptitude. MLP will also continue to consistently pursue its objective of increasing the number of women in management positions.

## Information

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

Provision of information to all target groups

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

## Accounting and audit

Group accounting is performed in line with International Financial Reporting Standards (IFRS). KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was appointed as auditor by the Annual General Meeting and has audited the 2016 consolidated financial statements. The Supervisory Board gave its assurance that the relations existing between the auditors and MLP or its governing bodies give no cause for doubting the independence of the auditor. The Supervisory Board at MLP AG also discusses the annual and Group financial statements.