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 capacity 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, and in particular 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.

The risk management system is also used to comply with the requirements of an early risk detection system pursuant to § 91 (2) of the German Stock Corporation Act (AktG).

Group-wide risk management

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

- MLP SE, Wiesloch
- MLP Banking AG, Wiesloch
- MLP Finanzberatung SE, Wiesloch
- MLPdialog GmbH, Wiesloch
- FERI AG, Bad Homburg v. d. Höhe
- FERI Trust GmbH, Bad Homburg v. d. Höhe
- FERI Trust (Luxembourg) S.A., Luxembourg
- DOMCURA Aktiengesellschaft, Kiel
- Nordvers GmbH, Kiel
- DI Deutschland.Immobilien AG, Hannover
- Vertrieb Deutschland.Immobilien GmbH, Hannover
- Projekte Deutschland.Immobilien GmbH, Hannover
- Projekte 2 Deutschland.Immobilien GmbH, Hannover
- RVM GmbH, Wiesloch
- RVM Versicherungsmakler GmbH, Eningen unter Achalm

These companies together with the immaterial, controlled companies of the MLP Group form the MLP Financial Holding Group (MLP FHG). Within MLP FHG, MLP SE, as the licensed financial holding company, is the superordinated undertaking of the Group pursuant to § 10a (2) of the German Banking Act (KWG) and Art. 11 of the Capital Requirements Regulation (CRR). MLP Banking AG as the deposit and CRR financial institution is subordinated to it. In July 2022, MLP SE took over from MLP Banking AG as the parent company after receiving authorisation to act as the financial holding company. As such, MLP Banking AG is no longer the superordinated undertaking of the MLP FHG pursuant to the German Banking Act (KWG), although it remains within the scope of consolidation. In the sense of § 25a (3) of the German Banking Act (KWG) and in conjunction with Section 4.5 of Germany's "MaRisk"

Minimum Requirements for Risk Management, the Executive Board at MLP SE has therefore ensured appropriate control and monitoring of the significant risks at Group level through suitable processes. This approach encompasses in particular

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

In the context of the strategy process and the risk audit, MLP SE, acting as a controlling company of MLP FHG, obtains an overview of the risks in the Group on a regular and ad hoc basis. Based on the risks identified in the individual entities 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. To identify sustainability risks, relevant ESG risk drivers are recorded for risks previously identified as significant. Group-wide regulations and policies for establishing Group-wide risk management at MLP FHG are defined taking into account the type, scope, complexity and risk content, as well as the different application options provided by corporate law on an individual basis.

Risk policies

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

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

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

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

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

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

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

An appropriate risk culture is critical for effective risk management. MLP sees its risk culture as the way in which employees handle risks within the scope of performing their duties. Our risk culture promotes identification and conscious handling of risks and is to ensure that decision-making processes lead to results that are also balanced in terms of risk criteria. Our risk culture is characterised by the clear commitment of the Executive Board to risk-appropriate conduct, strict observance of the risk appetite communicated by the Executive Board on the part of all employees, as well as facilitation and promotion of transparent and open dialogue on risk-relevant questions within the Group. A strong, group-wide awareness of risks across all divisions that goes beyond each employee's own area of responsibility and a corresponding risk culture are encouraged through appropriate organisational and incentive structures. In line with the requirements regarding pay systems, these are set out in such a way that negative incentives which could otherwise encourage managers and employees to enter into disproportionately high risk positions are avoided and no risk-taking is encouraged above the level of the risk appetite set out by the Executive Board. The appropriateness of the risk management and controlling system is continuously monitored and any adjustments that become necessary are implemented as quickly as possible. Appropriate quality standards are established and subjected to continuous reviews.

MLP engages in comprehensive risk communication, including risk reporting.

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

Objective

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

Identification, assessment, control, monitoring and communication of the key risks is guaranteed with the help of and on the basis of Group-wide risk management at MLP. Risk management is an integral component of the value-driven management and planning system at MLP FHG. Moreover, the Group's risk culture is continuously consolidated and efforts are made to communicate information relevant to risk across all business segments.

Risk capital management, liquidity management and stress tests

Risk capital management – risk-bearing capacity under the capital view

Risk capital management is an integral part of the Group management system at MLP FHG. Active control to provide sufficient financial capital, in compliance with supervisory requirements, ensures that risk-taking is always in line with capital backing.

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

The Executive Board specifies the necessary capital allocation for covering the overall risk profile on the basis of the business policy orientation and the risk coverage fund derived from the risk coverage potential. The focus is on the key risks for MLP FHG, which are identified at least once a year within the scope of a risk audit performed throughout the Group. The Group-wide risk profile represents the basis for both risk capital management and the risk management and controlling processes.

The key risk types of counterparty default, market price, liquidity and operational risks are in particular quantified within the scope of the risk-bearing ability. The general business risks and reputation risks (other risks) also represent significant risk types, although they are not quantified per model. Amongst other things, these are taken into account in calculating the risk-bearing ability in the form of additional capital buffers. In addition to this, sustainability risks (that can in particular occur in the form of transitory or physical risks) can manifest themselves within the aforementioned risk types, which is why these are taken into account as drivers of existing risks.

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

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

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 of the financial year 2023, MLP will perform risk management based on a refined so-called normative and economic perspective as per the guiding principles of the Federal Financial Supervisory Authority (BaFin).

Risk-bearing capacity under the liquidity view

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

Concentration of risk

Irrespective of the risk type, risk concentrations can occur and manifest themselves as intra-risk concentrations or inter-risk concentrations. Examples of intra-risk concentrations are blocks of credit risks at the same debtor or individual sales products that are critical to total income (earnings concentrations). A typical inter-risk concentration at a bank, on the other hand, is a reputation risk that materialises and triggers increased liquidity outflows through client deposits. Risk concentrations are reviewed regularly as part of the risk audit.

To preemptively reduce the emergence of risk concentrations in proprietary trading, this is managed via corresponding directives, including minimum requirements for external ratings, the tradability of shares, as well as issuer and sector limits and a corresponding maturity structure. To this end, capital investment directives are implemented at the key companies.

The "non-banking part of the MLP Group" has a large exposure due to the Group structure and the requirements of the Capital Requirements Regulation (CRR) relating to the formation of the supervisory scope of consolidation[1]. This is being continuously monitored and included in the risk reporting.

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

The risk concentrations are regularly monitored, taken into account in the stress scenarios and reported.

Stress tests

Pursuant to Section 4.3.3 in conjunction with Section 2.2 of the Minimum Requirements for Risk Management (MaRisks), stress tests are performed on a regular and ad hoc basis for significant risks of MLP FHG. Their effects are also reflected when assessing the risk-bearing capacity.

Univariate stress tests can be distinguished from multivariate stress tests on the basis of historical and hypothetical scenarios. When performing sensitivity analyses ("univariate stress tests“), only one risk parameter of one risk type is varied. In this way, the sensitivity of risk parameters and the increasing capital requirements associated with this are investigated with regard to the underlying risk factors. Interactions between various risk factors are not considered here. In scenario analyses (multivariate stress tests), on the other hand, multiple risk parameters are varied at the same time. The effects are derived from a predefined, typically macroeconomic scenario. Both extraordinary and plausible scenarios are simulated here.

The MLP Financial Holding Group differentiates between two forms of inverse stress tests. In the case of inverse stress tests of the risk-bearing capacity, one or more parameters are subjected to stress up to a limit (set at 100 % for individual risk types) or until the entire liquidity reserve runs out – i.e. the capital made available or the liquidity has been fully used up. Within the scope of inverse stress tests relating to survivability, an analysis is performed to determine how severely risk factors must negatively change in order to jeopardise the Group's survivability across all risks.

On the basis of the overall risk profile, the stress tests take into account various factors, including write offs relating to notable commitments, credit rating downgrades, changes in the yield curve and unanticipated cash outflows, as well as combinations of these risk parameters.

[1] Pursuant to Art. 18 and 19 of the Capital Requirements Regulation (CRR), MLP Banking AG, MLP SE, FERI AG, FERI Trust GmbH and FERI Trust (Luxembourg) S.A. are all consolidated. The remainder of the Group represents the "non-banking part of the MLP Group".

Organisation

The Executive Board at MLP SE, which is the superordinated undertaking in the sense of § 10a of the German Banking Act (KWG), is responsible for establishing an appropriate and effective risk management system at MLP FHG. Set against this background, operational and organisational precautions are put in place.

Functional separation

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

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

Group Risk Manager

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

Risk controlling function

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

Risk management and controlling processes

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

The Risk Management department at MLP SE, which also includes the risk controlling function, is in particular responsible for the identification and assessment of risks, as well as monitoring of limits. This is accompanied by reporting the risks to the Executive Board and the business units that control the risks. Early detection systems support risk monitoring, identify potential problems early on and thereby enable prompt planning of measures.

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

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

Controlling monitors earnings trends

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

To monitor planned and target variables, the revenue and earnings figures actually achieved are compared 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 SE and the MLP Group. The objective of the ICS is to secure complete and accurate recording, processing and documentation of all business transactions in accordance with the regulations, standards and guidelines of applicable legislation and the company's Articles of Association.

The units involved in the accounting process are especially subject to quantitative and qualitative requirements, which MLP meets through a clear organisational, corporate and control structure. To this end employees tasked with performing the accounting process receive regular training. Group Accounting is the central point of contact for all questions in connection with accounting issues.

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

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

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

The financial statements of MLP SE and significant Group companies, as well as the consolidated financial statements are generally drafted 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

A compliance office has been established to handle risks that can result from non-compliance with the key legal provisions and requirements for MLP FHG. These in particular include supervisory provisions on avoiding money laundering, financing of terrorist activities and other criminal conduct or relating to financial sanctions, embargoes and the account screening procedure (in the following referred to as prevention of money laundering & fraud), prevention of insider trading, provision of ancillary securities services, protection of client assets, data and consumer protection, outsourcing management, as well as all other institute-specific provisions, whose non-compliance could put assets at risk or lead to a significant reputation risk. Compliance plays a key part in identifying risk potential through monitoring rules of conduct, as well as within the scope of management of conflicts of interest. As part of the risk management approach, the internal control system and the Internal Audit department represent key components of the processes used to identify new risks and ensure both the effectiveness and appropriateness of the risk management systems.

The Compliance function advises and supports management, as well as the responsible specialist departments. It works towards implementation of effective procedures ensuring compliance with substantive provisions and internal regulations as well as corresponding control measures performed by responsible units. It also provides regular reports, including ad-hoc reports on its activities to both management and the Supervisory Board when and where necessary. The compliance function also promotes and strengthens the Group-wide risk culture.

This in turn also leads to the control and reduction of operational risks.

Internal Audit

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

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

Risk reporting

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

Risk reports are submitted to the Executive Board, as well as the Supervisory Board. Prompt and comprehensive information is provided on any changes to relevant influential factors.

Statement of risks

MLP FHG is exposed to various financial risks. These in particular comprise counterparty default, market price and liquidity risks. Alongside financial risks, there are also operational and other risks, such as general business risks and reputation risks. The values stated refer to MLP FHG, as presented within the scope of internal risk management. To increase transparency regarding the controlled risks, quantitative disclosures on the risk types were added in the reporting year.

The key risk types in the respective segments as of December 31, 2022 are presented below:

Types of risk

Segments	Counterparty default risk	Market price risks	Liquidity risks	Operational risks	Other risks
Holding and Others*	x	x	x	x	x
Banking	x	x	x	x	x
Financial Consulting	x		x	x	x
FERI	x		x	x	x
DOMCURA	x			x	x

*The operational risk and other risk identified in the Industrial Broker business segment have been assigned to the Holding and Others segment in the statement of risks.

**The counterparty default risks, market price risks, liquidity risks and operational risks identified in the DI Deutschland.Immobilien business segment have been assigned to the Holding and Others and Financial Consulting segments.

Counterparty default risks

The counterparty default risk is the risk of a loss due to the defaulting of or deterioration in creditworthiness of a business partner. Alongside the credit risk, the counterparty risk comprises the counterparty risk (replacement risk, as well as advance performance and settlement risk), the issuer's risk, the specific country-related risk, as well as risks resulting from securitisations and investments.

Counterparty default risks are included in the proprietary and client business positions. The maximum default risk is expressed as the carrying amounts (following impairments) of the financial instruments recognised in the balance sheet (in particular originated loans and receivables), off-balance-sheet items (in particular revocable and irrevocable credit commitments, as well as sureties), as well as derivative financial instruments with positive market value. Bank lending is limited primarily to borrowers domiciled in the Federal Republic of Germany, who represent the majority of loan-bearing instruments (95 %).

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

Overall, the lending policy at MLP is characterised by only accepting risks that are both known and also appear reasonable in terms of their volume. Bad debts are written down accordingly. We are anticipating a moderate rise in the level of loan loss provisions due to the increase in volume of new business, as well as an increase in the average default rate due to potential liquidity bottlenecks of our clients, triggered by the high interest rate currently being encountered and rising living costs caused by inflationary factors. The non-performing loan (NPL) quota is the ratio of bad loans relative to the total volume of loans and credits, including deposits at banks and central banks. For the supervisory scope of consolidation, the NPL ratio as of December 31, 2022 is 0.4 % (0.4 %) and is therefore significantly below the supervisory monitoring threshold of 5 %. Non-performing loans, which are identified at MLP, are transferred to specialist departments, where they are individually managed by experts.

Credit management

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

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

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

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

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

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

In addition to this, potential default risks are continuously measured and evaluated by comparing allowances for bad debts with the credit volumes subject to risk. You can find detailed information on the measurement process, as well as development of loan loss provisions in the notes.

Exposures to shadow banks can arise in lending and proprietary trading as well as from trade receivables. The trade receivables result from wealth management, investment consulting and brokerage as well as from financial portfolio management in the field of financial investments, especially funds, and are of a short-term nature. For this reason, these positions are not monitored separately, but rather they are included in the standard procedure as part of the counterparty default risk. For the sum of exposures to shadow banks from lending and proprietary trading as well as from trade receivables, the Group's large exposure limit applies as a strict upper limit.

There are also issuer's risks within the scope of proprietary trading that go beyond the risks described above. In the light of the current market trend, risks in investment management, in particular those resulting from defaults of issuers, are also limited through the high credit standards set out in the capital investment directives. The capital investment directives stipulate restrictions applying to the investment of available funds regarding the various investment categories and products with the corresponding maturities, and also in general regarding investments in various sectors. The investment currency is generally the euro. The documented competencies and further provisions must always be taken into account when making investment decisions.

Unrated receivables beside MLP Banking AG

With the exception of MLP Banking AG, the other companies in MLP FHG are subject to counterparty default risks that essentially result from financial assets and receivables, as well as other assets including commission receivables, receivables from the real estate business, receivables from the underwriting business and trade receivables. The standardised approach to credit risks, based on the regulatory formulae as per the Capital Requirements Regulation (CRR), is used for these risk items as unrated debtors.

Quantification of bank deposits, as well as commission receivables due from rated insurance companies, is performed using an IRB approach that is itself based on the Capital Requirements Regulation (CRR).

As of December 31, 2022, MLP FHG has a counterparty default risk of € 44.2 million (€ 40.7 million).

Market price risks

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

At MLP FHG, market risks essentially comprise the incomplete congruency of interest rate agreements between loans granted by MLP and their refinancing. In addition to this, there are market price risks within the scope of proprietary trading activities. There are currently only very minor open exposures in foreign currency in the portfolio. There are also no appreciable derivatives positions.

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

In this context, cash value changes of all items in the interest book are also shown in relation to equity via the so-called interest rate risk coefficient, applying the interest rate steps stipulated by the Federal Financial Supervisory Authority (BaFin). The simulation is performed by automated means for all the interest-bearing and interest-sensitive items. It is in this manner that the controlling of the interest risk is ensured. It also determined whether the change in value is always below the threshold of 20 % of equity.

Interest rate risks at MLP FHG.

	Interest risk: Change in net interest recognised in the income statement			
	Change in value rising interest scenario		Change in value falling interest scenario	
in € million	2022	2021	2022	2021
Net profit/loss	0.4	1.6	–3.6	–3.1
Quantification*			**–3.6**	**–3.1**

*lower value than risk value

Due to the dynamic development observed in the financial year, the underlying interest rate assumptions are generally calculated each quarter on the basis of the current data. As of December 31, 2022, simulations were modelled in the scenario of rising interest rates on the basis of 1 day or 10 years at +77 BP or +210 BP. In the scenario of falling interest rates, simulations were performed at –330 BP for 1 day and –134 BP for 10 years.

Interest rate risks at MLP FHG due to interest rate shock.

Simulated scenario	Effects in € million	
	2022	2021
Parallel shift +200BP	–4.3	1.2
Parallel shift +200BP	5.8	3.9
Steepening of the interest rate curve	–6.7	–10.8
Flattening of the interest rate curve	5.9	13.6
Short rates shock up	4.2	12.2
Short rates shock down	–4.5	–3.5

The interest rate risk coefficient for MLP FHG, defined as a quotient of the loss in net present value and equity, is 1.3 % (0.4 %).

Real estate risks MLP FHG

As part of the market price risks, significant real estate risks of DI Deutschland.Immobilien AG and its subsidiaries are taken into account while factoring in the capital share held by MLP.

Risk quantification is performed on the basis of a VaR approach that uses historic performance with a confidence level of 97 %. The real estate risk as of December 31, 2022 is € 4.0 million (€ 0.8 million).

The interest risk from MLP Banking AG of € 3.6 million (€ 3.1 million) results in a market price risk of € 7.6 million (€ 3.9 million).

Liquidity risks

MLP FHG understands liquidity risks to mean uncertainty in terms of the availability of funds to meet payment obligations or reduce exposures which are either insufficient or which can only be secured by accepting higher rates. Key components of the liquidity risk include both the insolvency risk (operational liquidity risk) and the refinancing risk (structural liquidity risk).

Operational liquidity control

Within the scope of strategic or short-term liquidity control at Group level, the liquidity risk is assessed and controlled in particular using the KPI from the Liquidity Directive and the Liquidity Coverage Ratio (LCR). In addition, the liquidity at risk (LaR) describes the anticipated net funding requirement from all autonomous payments, which will not be exceeded at a defined level of probability. Additionally an expected shortfall is monitored for the assessment of any outliers. Short-term liquidity requirements were covered in the Group by sufficient funds at all times.

Structural liquidity control

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

The net stable funding ratio (NSFR) compares the available refinancing with the stable refinancing required. This performance indicator serves as a key balance sheet ratio. The simplified net stable funding ratio (sNSFR) is used to calculate it.

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

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

Calculation of the LVaR as of December 31, 2022 indicates a continuously positive year-on-year liquidity portfolio. As in the previous year, a survival horizon of 12 months remains in place. There are no anticipated additional refinancing costs (previous year: none). If, contrary to expectations, net cash outflows should occur, sufficient cash reserves are available. The liquidity risk at MLP FHG results primarily from MLP Banking AG as the deposit-taking bank. The refinancing structure is based largely on client deposits. Appropriate short and medium-term credit lines have also been agreed to safeguard against a possible short-term liquidity shortfall.

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

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

As of December 31, 2022, the liquidity risk at MLP FHG is € 1.2 million (€ 0 million). The available liquidity reserves of MLP FHG are € 1,202.6 million (€ 1,396.9 million).

Operational risks

The management of operational risks is based on the definition of Article 4 of the Capital Requirements Regulation (CRR). As such, operational risk is the risk of losses caused by inadequacy or failure of internal procedures and systems, people or by external events. This definition includes legal risks.

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

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

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

Risks from internal procedures

Risks resulting from internal procedures can, in particular, occur due to processing errors within the internal organisation and communication, as well as in Sales, Compliance, Data Protection & Money Laundering and due to contractual obligations/arrangements.

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

Business impact analyses (BIA) are used to identify critical company processes, whose failure can have a significant influence on the Group's business activities. To this end, suitable measures are defined in the form of BCM strategies. In the event of an emergency, these measures allow business operations to continue, albeit with reduced performance. The critical processes and the effectiveness of the defined measures are subject to regular monitoring and continuous development. BCM documentation is available for the business units and employees. The Internal Audit department, which operates throughout the Group, also performs regular process and system audits in all sections of the Group and monitors correction of any issues detected during the respective audits. This also includes auditing of IT systems.

A possible error in client consulting, investment and acquisition brokerage or finance portfolio management and associated claims for damages can present a consulting and liability risk. The potential consulting risk is minimised by securing continuously high-quality consulting which, among other things, is backed up by IT-supported tools. Consultations with clients and the results of these are documented in accordance with legal requirements.

Within the scope of defined adjustment processes in the event of changes to operational processes or structures, acquisitions and mergers, as well as the process for introducing new products - or rather when expanding activities to include new markets or via new sales channels - it is ensured that prior to implementing planned measures, potential key risks are identified and a corresponding concept is drawn up involving all relevant functions at MLP.

Risks from human errors and employee availability

Risks resulting from human error and employee availability occur in particular due to a lack of employee qualification and availability, as well as unauthorised, fraudulent and criminal actions, health & safety at work and other human error.

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

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

Demographic changes and their effects on the workforce structure are systematically reviewed by MLP. We used a staff turnover simulation to analyse various scenarios and learn more about the effects on the workforce (including key positions). A dynamisation of the age curve, as well as an increasing average age of the workforce can be observed here. To counter this trend and continue thriving in the face of increasing competition, the material and non-material framework conditions are continuously optimised for the employees. The aim is to further strengthen our profile as a family-friendly employer offering flexible models in terms of working hours and places of work, as well as family-friendly conditions and fringe benefits. This was manifested with the workandfamily audit successfully performed in 2019, as well as the recertification of the audit in 2022. The certificate as a family-friendly employer is combined with an agreement on various measures and targets for further development of the family-friendly workplace over the course of the next three years. In order to counteract the predicted skills shortage, MLP has established a dedicated junior staff development programme and a management development programme. Alongside this, MLP traditionally invests in sustainable recruiting of talented young employees and, in addition to various training professions, also offers a university of cooperative education degree programme with many different fields of specialisation. The changes to the organisational structure of the HR department were completed in December 2021, also with the objective of further expediting the specialisation and professionalisation of the employees responsible for recruiting.

In line with the requirements regarding pay systems, these are set out in such a way that negative incentives which could otherwise encourage managers and employees to enter into disproportionately high risk positions are avoided and no risk-taking is encouraged above the level of the risk appetite set out by the Executive Board. To avoid incentives of this kind for employees, in particular those holding positions of responsibility, attention is paid when setting out such pay and incentive systems to ensure that these do not contradict the objectives defined in the strategies and that any risk of conflicts of interest is ruled out. Any change in strategy triggers a simultaneous review and, where necessary, adaptation of pay and incentive systems.

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

The Supervisory Board is responsible for the pay and incentive systems at management level, while the management team is responsible for the system used for employees. The pay systems are reviewed at least once a year by the Legal department and any necessary amendments are implemented.

MLP's greatest asset are its employees, which is why such emphasis is placed on qualified employees and managers. Nevertheless, human errors cannot be completely ruled out. In this context, we employ an open culture of constructive criticism with the objective of detecting mistakes early on, continuously improving our processes and strengthening our innovative capacity. This also lines up with MLP's mission statement, its core values of performance and trust, as well as its leadership principles. The risk of staff shortages is reduced through an active personnel and succession planning as well as targeted personnel marketing measures. Employees working with confidential information undertake to observe the respective regulations and handle the information responsibly. A clear separation of management and control functions restricts the risk of breaching internal and external regulations. Defined deputisation regulations secure our business and decision-making processes.

IT risks

IT risks result in particular from any failure of critical IT processes, applications, IT systems, as well as IT infrastructures, including potential cyber attacks.

MLP FHG pursues an IT strategy in order to effectively minimise potential IT risks. When selecting IT systems, the primary focus is on sector-specific software. If necessary, business-specific proprietary IT applications are developed by qualified internal and external specialists. The correct functioning of IT systems is secured by performing comprehensive system tests and pilot phases before they are commissioned. Databases are protected from a potential data loss by conventional means through the outsourcing of data centre operations to service providers with various locations, back-up systems and mirror databases, as well as establishment of a defined contingency plan.

IT systems are protected from unauthorised access through the access and authorisation concept, state-of-the-art malware protection, as well as other comprehensive security systems. MLP operates a Group-wide information security management system in order to identify potential risks with regard to information security and then take any appropriate action. In terms of the protective measures, we ensure that our technology always reflects the state of the art and have this regularly checked by external experts. Digital innovations are developed in a laboratory environment as a way of keeping risks to a minimum during the development phase.

Risks from external events

Risks resulting from external events include outsourcing, legislation and politics, criminal and fraudulent activities (external), as well as natural disasters and force majeure.

The trend towards industrialisation and a reduced vertical range of manufacture has increased in the financial services sector. Companies are increasingly focussing on their core skills, i.e. production of financial services products, support and information services, specialist consulting expertise and sales expertise. In this market environment, MLP makes use of external partners for activities that are not part of its core business. Based on Germany's "MaRisk" minimum risk management requirements, key outsourcing activities at MLP FHG are incorporated into risk management within the standard scope of risk controlling and management processes with continuous risk identification, assessment, control and reporting. MLP has clearly regulated responsibility for the outsourced processes and installed a central system of outsourcing management. This ensures that any potential organisational, structural or process-based risks that may occur due to outsourced business activities are closely controlled.

In addition to this, 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 set up in such a way that any attempts at fraud, burglary or theft are prevented upfront. To prevent external cyber risks, such as hacker attacks and malware, corresponding precautions are taken, including firewalls, intrusion prevention / detection systems, virus scanners, as well as active patch and vulnerability management for systems.

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

Potential risks arising for the institutes of MLP FHG from fraudulent or other criminal conduct are identified and regularly assessed within the scope of the risk analysis performed to identify potential hazards caused by criminal conduct (both internally and externally). Both the risk assessment and the individual measures implemented to avoid criminal conduct are performed by the relevant section at the respective central office pursuant to § 25h of the German Banking Act (KWG) and are also incorporated into the operational risk audit process.

Legal risks.

Legal risks arise from the above-mentioned categories if they are of specific legal relevance.

The legal department controls legal risks. In addition to consulting on corporate decisions and designing business processes, its tasks include following and assessing current legal disputes. Possible legal risks are detected at an early stage and possible solutions for minimising, limiting or preventing such risks are shown. The legal department coordinates the commissioning and integration of external lawyers. Within the scope of risk mitigation, the legal department checks and monitors the existing insurance coverage for economic loss and initiates any adjustments which may be necessary. According to our review, the pending or threatening legal proceedings against MLP FHG do not represent risks which could endanger the Group's continued existence.

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

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

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

Tax risks

Tax risks can arise, for example, from an unexpected or unplanned tax burden due to current legal developments or other events.

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

Capital charge based on a proprietary model

Operational risks are measured using a dedicated model. The quantification is carried out on the basis of the average or maximum frequency of occurrence and amount of loss from the results of the self-assessment and the historical loss data. For those companies for which the data basis is insufficient, in particular with regard to the loss history, the basic indicator approach is used as an alternative in accordance with the CRR. The same applies to all new group companies to be taken into account up until the time of conversion to the proprietary model. Within the scope of the basic indicator approach, the supervisory capital charge for the operational risk is determined using a fixed calculation scheme. 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.

As of December 31, 2022 the operational risk of MLP FHG is € 21.1 million (€ 21.1 million).

Other risks

Other risks include reputation risks, as well as general business risks (including strategic risks). These also include potential step-in risks for a non-consolidated company, insofar as the support is provided without contractual obligation. Other risks (reputational and general business risks) are taken into account within the framework of group management with the help of a flat risk amount ("risk buffer"). A risk buffer of 5 % is deducted from the risk cover funds for other risks at group level. A second risk buffer of 5 % is then deducted from the risk cover to be distributed in order to do justice to the other risks at the level of the control units.

Reputation risks

Reputation is defined as the reputation of MLP as a whole or of individual Group companies in terms of expertise, integrity and trustworthiness that results from the perception of different stakeholder groups. The stakeholders, for example include clients, employees, consultants and office managers, shareholders and creditors, other institutes, ratings agencies, the press and the world of politics.

Reputation risk is understood to mean an existing or future risk regarding income, equity or liquidity as a result of reputation damage.

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

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

General business risks

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

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

Overall economic risks

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

Business environment and sector-related risks

The crises of the last years have further intensified competition in the financial services business in Germany and accelerated consolidation of the heavily fragmented market. New competitors have entered the market in the form of FinTechs and InsureTechs, focussing on sub-processes in the financial and insurance sectors. Social changes, new regulatory requirements and competitors, as well as identifiable trends in client behaviour are all factors which can have a significant influence on MLP's business.

MLP is addressing the upcoming changes proactively. The quality of our consulting and our products as well as our focus on selected client groups and our independence give us a strong market position. Furthermore, the consolidation of the market provides acquisition opportunities for the Group.

Within the scope of its business activities, MLP in particular provides wealth management, old-age provision and insurance services. However, the real estate business is becoming more important for the Group; this segment offers additional investment opportunities within the scope of the holistic investment strategy.

Corporate strategy risks

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

Corporate strategy control at MLP is primarily the responsibility of the Executive Board. Changes and developments in both the national and international markets, as well as the business environment are analysed on the basis of intensive observation of the competitive environment. Measures are then derived to ensure the Group's long-term corporate success. Target values are laid down based on a projected assessment of success factors. The achievement of these values is constantly monitored. The strategic positioning is regularly reviewed on the basis of target/performance comparisons.

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

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

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

Sustainability risks

We consider sustainability risks to include events or conditions resulting from the environment, social issues or corporate governance, whose occurrence can have actually or potentially significantly negative effects on MLP's net assets, financial position and results of operations, as well as its reputation. This also includes climate-related risks in the form of physical risks and transition risks. Sustainability risks can manifest themselves in all risk types, which is why we do not rate them as a dedicated risk type, but rather based on issues encountered within the scope of the respective relevant risk type. Identification of sustainability risks in existing risk types occurs on the basis of ESG risk drivers. They are taken into account in risk management in accordance with the principle of materiality.

Superordinate and macroeconomic risk position

Following decades of low inflation rates, the topic of sharply rising prices is the most important parameter for global economic performance and the capital markets. Having enjoyed a phase of expansive monetary policy that continued up to 2022, the global situation was then negatively impacted by sharply rising prices for raw materials and energy sources as a result of Russia's invasion of Ukraine. This served to accelerate the process of rising inflation even further. With the major central banks having underestimated the inflation trend for quite some time, first the US Federal Reserve and then the European Central Bank corrected its course with measures to fight inflation, focussing in particular on increasing interest rates. In addition, China's "Zero COVID" policy led to higher industrial procurement costs and reduced availability of further raw materials in the second half of 2022. In the near term, this trend is expected to continue, albeit at a somewhat slower pace.

Further interest rate rises by the ECB to fight inflation should therefore still be anticipated, following on from the interest rate turnaround already observed in 2022.

At MLP, these developments will primarily lead to rising costs. The observable changes in interest rates are having a positive impact on the interest margin, although reductions in present value relating primarily to the credit portfolio have also been observed in the short to mid term. The rise in interest rates also led to a value-induced reduction in securities portfolios. Declining capital markets had a negative impact on assets under management at MLP, although this was softened by an increase in net cash inflows. Volatile capital markets should also be anticipated for 2023.

The strategic orientation of the Group is not significantly influenced by the influential factors described above, as the diversified business model ensures a cushioning effect in the event of risks occurring. Opportunities are taken if they are in line with strategies. Among other things, the present value interest risks are managed using the interest rate risk coefficient. Fourteen-day monitoring of total deposits is also used to monitor the liquidity situation.

Risk-bearing ability & capital requirements

The risk-bearing capacity concept ensures that the risks incurred are offset against sufficient risk coverage potential at all times. Within the scope of the risk-bearing capacity concept, MLP FHG controls its risks until December 31, 2022 primarily using a going-concern approach with a confidence level of 97 %. This is based on meeting the minimum capital backing required by law and thereby a continuation of the business operations of MLP FHG. Free equity capital that is available after meeting the regulatory ratios for minimum capitalisation and an additional buffer therefore serve as risk coverage potential.

The Executive Board set up a risk coverage fund of € 115 million in 2022 (as of December 31, 2021: € 115 million). The risk coverage fund is used to cover the risk types classified as significant by MLP. These are the counterparty default risk, the market price risk, the liquidity risk, as well as operational and other risks.

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

After deducting the risk buffer for other risks (5 %) from MLP FHG's risk cover funds and a risk buffer (5 %) for further risks, the following limits remain for MLP FHG as of December 31, 2022:

Type of risk (in € million)		**Dec. 31, 2022**			**Dec. 31, 2021**	
	Limit	**Risk**	**Utilisation**	**Limit**	**Risk**	**Utilisation**
Counterparty default risk	67.5	44.2	65.4 %	69.1	40.7	58.9 %
Market price risk	8.1	7.6	93.7 %	7.1	3.9	55.4 %
Operational risk	26.6	21.1	79.3 %	26.1	21.1	81.0 %
Liquidity risk	1.5	1.2	81.7 %	1.5	0.0	0.0 %
Total	**103.8**	**74.1**	**71.4 %**	**103.8**	**65.8**	**63.4 %**

The special risk situation in the DI Deutschland.Immobilien segment, which can essentially be attributed to the negative developments in the real estate market, is taken into account in the risk load with an additional risk of € 8.5 million.

Capital adequacy requirements and capital control under banking supervisory law

A primary objective of equity control is to ensure that the legal solvency regulations for banking and financial services businesses, which prescribe a minimum capital adequacy, are fulfilled and that the quantitative and qualitative equity base is strengthened. At MLP, the examinations performed for the purpose of complying with the Capital Requirements Regulation (CRR), which came into force on January 1, 2014, as well as Article 7 and Article 11 et seq. of EU Directive No. 575/2013 of the European Parliament and Council from June 26, 2013 regarding the supervisory requirements of financial institutions and investment firms, are performed on a consolidated basis (Group). Since January 1, 2017, MLP has been drafting an independent IFRS consolidation on the supervisory scope of consolidation. The disclosures are based on the legal foundations in place and valid on the reporting date.

At the request of MLP SE and with authorisation letter issued by the Federal Financial Supervisory Authority (BaFin) on June 30, 2022 that came into effect as of July 8, 2022, MLP SE is classified as the parent financial holding company of the MLP Financial Holding Group. While MLP Banking AG assumed the function of the controlling company pursuant to § 10a (2) of the German Banking Act (KWG) from January 1, 2022 up to the point of reclassification of MLP SE, this function was transferred to MLP SE from the point of reclassification.

In the sense of the legal provisions associated with the Capital Requirements Regulation (CRR), MLP employs both an appropriate organisational structure and appropriate internal control/monitoring procedures such that proper consolidation of the corporate group is ensured.

As per § 10a (2) of the German Banking Act (KWG) in connection with Article 11 of the Capital Requirements Regulation (CRR), the relevant Group includes MLP SE, Wiesloch, MLP Banking AG, Wiesloch, FERI AG, Bad Homburg v. d. Höhe, FERI Trust GmbH, Bad Homburg v. d. Höhe, FEREAL AG, Bad Homburg v. d. Höhe, FERI Trust (Luxembourg) S. A., Luxembourg.

The following means and measures for controlling and adjusting the equity capital of the Group are available to MLP: (I) issuing new shares and (II) retention of a portion of the earnings (III) making transfers to the statutory reserve to strengthen Tier 1 common capital.

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

MLP applies the standardised approach to credit risk for determining the risk-weighted exposure values (counterparty default risks) in accordance with Article 111 et seq. of the Capital Requirements Regulation (CRR). The basic indicator approach is used for determining the amount for the operational risk (Article 315 et seq. of the CRR).

Supervisory KPIs (Pillar I)

Shareholders' equity (in € million)	2022	2021
Tier 1 common capital	321.3	276.1
Tier 1 additional capital	–	–
Tier 2 capital	–	–
Eligible own funds	321.3	276.1
Capital adequacy requirements for counterparty default risks	105.5	104.4
Capital adequacy requirements for operational risk	22.6	18.8
Core capital ratio (in %)	20.06	17.39
Tier 1 common capital ratio (in %)	20.06	17.39

Amounts on the basis of submitted statement

The investments in other subsidiaries are now taken into account using the equity method. Application of the equity method in Basel Pillar I and the resulting increase in equity associated with this, as well as the increase in corresponding exposures from investments leads to an increase in Tier 1 common capital by € 14.9 million to € 321.3 million.

Summary

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

Both MLP FHG as a whole as well as the business segments always acted within the scope of their financial risk-bearing ability in 2022.

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

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

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

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