RISK AND OPPORTUNITY REPORT

Risk report

Risk management system

MLP considers risk management as the use of a comprehensive array of instruments for managing risks in line with the strategy set out by the Executive Board, as well as the risk-bearing ability process. Due to the potential growth and extra earnings they can offer, risks should be addressed and taken in a conscious and controlled manner within the scope of internal control/monitoring procedures.

The operational and organisational structure, the risk management and controlling processes, as well as the special Risk Controlling, Compliance and Internal Audit functions represent key components of the Group-wide risk management system.

Group-wide risk management

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

- 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
- FEREAL AG, Bad Homburg v.d. Höhe
- FERI Trust (Luxembourg) S.A., Luxembourg
- DOMCURA AG, Kiel
- Nordvers GmbH, Kiel
- nordias GmbH Versicherungsmakler, Kiel

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 Banking AG, which as per Article 11 of the Capital Requirements Regulation (CRR) is the controlling body of the MLP Financial Holding Group (MLP FHG) as the depository institution, ensured appropriate control and monitoring of the significant risks at Group level through suitable processes. This approach encompasses in particular

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

In the context of the strategy process and the risk inventory MLP Banking AG, acting as a controlling company of the Financial Holding Group, obtains an overview of the risks in the Group on a regular and ad hoc basis. Based on the risks identified in the individual companies and their relative weighting, the "MaRisk scope of consolidation" is formed, which defines the scope of the Group-wide risk management system. In principle, all risks identified as significant within the Group by the controlling company are taken into account. Group-wide regulations and policies for establishing Group-wide risk management at 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 and/or the Managing Directors are responsible for proper organisation of the business and its further development:

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

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

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

MLP engages in comprehensive risk communication, including risk reporting.

Detected risks are reported to the responsible management levels openly and without restriction. The Executive Board and/or the Managing Directors are informed in a comprehensive and timely manner (if necessary ad hoc) of the risk profile of the relevant risks, as well as the profit and losses in 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 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 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.

Identification, assessment, control, monitoring and communication of the key risks is guaranteed with the help of and on the basis of Group-wide risk management at MLP. Risk management is a key component of the value-driven management and planning system 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, liquidity management and stress tests

Risk capital management – risk-bearing ability

Risk capital management is an integral part of the Group management system in the MLP Financial Holding Group. 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 defines the risk capital based on business policy targets and controls the risk profile taking into account the risk coverage fund. The focus is on the key risks for 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. 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 general business risks and reputation risks (other risks) also represent significant risk types, although they are currently not quantified. Amongst other things, these are taken into account in calculating the risk-bearing ability in the form of additional buffers.

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

Pursuant to the minimum risk management requirements of the German Federal Financial Supervisory Authority ("MaRisk"), we primarily pursue the objective of safeguarding the continued existence of the MLP Financial Holding Group 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 examined from an economic perspective within the scope of the liquidation approach. Among other things, this is applied in the form of stress scenarios.

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

At 41.0%, the Banking segment allocates the largest portion of the risk coverage fund in the MLP Financial Holding Group. This is due to the risk inherent to the banking business.

Liquidity capacity

Securing appropriate liquidity capacity is based on the notion of establishing an appropriate risk-return structure, while at the same time ensuring solvency of the companies in the MLP FHG at all times. The concept of and compliance with the liquidity capacity is also derived from Pillar 2 of the Basel Accord.

Concentration of risk

Risk concentrations can occur, regardless of the risk type. Alongside unilaterally aligned structures with regard to debtors or the investment structure, these can also be caused by unilateral focusing on individual products (earnings concentrations) or risk types. Potential risk concentrations are in particular analysed within the scope of the stress tests that are to be performed regularly.

In its private client business, MLP continues to focus clearly on the target group of academics. The continuous and focused further development of individual client groups by definition leads to concentration on individual products, such as medical practice financing. However, appropriate diversification and limitation are pursued within this framework. Focusing on the target group facilitates an attractive risk/return ratio, particularly when taking into account cross-selling effects from the holistic consulting approach, which reduces the earnings concentrations in the Group.

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

In addition to this, balance sheet items are balanced by applying a maturity-congruent strategy as a way of minimising market price and liquidity risks – taking into account both supervisory and internal stipulations.

Operational risks that can cause serious damage are hedged to the maximum possible extent.

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

Stress tests

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

Organisation

The Executive Board is responsible for establishing an appropriate and effective system of risk management 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

As a member of the management, 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, an independent risk control 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. Early detection systems support risk monitoring, identify potential problems early on and thereby enable the prompt planning of measures.

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

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 through the risk models for controlling the risks, as well as the underlying quantification methods are subject to regular reviews by risk control, 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 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 Banking AG and the MLP Group. The objective of the ICS is to secure complete and accurate recording, processing and documentation of all business transactions in accordance with the regulations, standards and guidelines of applicable legislation and the company's Articles of Association.

The units involved in the accounting process are particularly subject to the quantitative and qualitative requirements placed on them, which MLP meets with 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 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 key accounting-related processes. The key processes of the accounting-based ICS are documented and specified in work instructions that are regularly updated and published in the organisation manual.

The bank's separate financial statements, as well as the consolidated financial statements, are generally drawn up using standard software. Group Accounting secures the completeness and accuracy of the relevant disclosures on the basis of the information provided.

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

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.

Compliance function

The main duty of the internal audit department at MLP Banking AG is to assess the effectiveness and appropriateness of risk management in general and of the internal control system in particular. Audit tasks are performed throughout the Group on the basis of service level agreements and outsourcing contracts with the key Group companies, as well as the function of MLP Banking AG as a controlling company pursuant to § 10a (2) of the German Banking Act (KWG). The focus is on compliance with legislative requirements, supervisory requirements, guidelines, regulations and internal provisions for business processes. To this end, audit procedures are performed using a systematic and targeted approach on the basis of the COSO model to assess the effectiveness and appropriateness of risk management, the controls, as well as the management and monitoring processes. Risk-oriented audits are performed at regular intervals and the results are reported. The internal audit department monitors rectification of any issues detected. In addition to this, it performs independent advisory services with a view to creating added value and improving business processes.

Internal audits

The minimum requirements for risk management governing the internal audit function are complied with throughout the Group. 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 general business risks and reputation risks. The risks are taken into account following risk-reducing measures such as insurance policies.

The key risk types in the respective segments are presented below:

Segments	Default risks	Market price risks	Liquidity risks	Operational risks	Other risks
Holding and Other	x		x	x	x
Banking	x	x	x	x	x
Financial consulting	x		x	x	x
FERI	x	x	x	x	x
DOMCURA	x			x	x

Counterparty default risks

The counterparty default risk is the risk of a loss due to the defaulting of or deterioration in creditworthiness of a business partner. Alongside the credit risk, the counterparty default risk encompasses the contracting party risk (re-covering risk, as well as performance and counterparty settlement risk), the issuer's risk, the investment risk and the risks related to specific countries, although the latter 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 (more than 95%) is limited to borrowers domiciled in the Federal Republic of Germany.

Credit management

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

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 specialised 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. These are in particular mortgages on residential and commercial property, life insurance policies, securities, as well as assignments of 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 corresponding allowances for bad debts. You can find detailed information on the process, as well as development of loan loss provisions in the notes. Identified non-performing loans are transferred to specialist departments, where they are individually managed by experts. We use deferral in line with article 178 of the Capital Requirements Regulation (CRR) as the definition of default. As a matter of basic principle, allowances for losses on individual accounts are performed on a case-by-case assessment.

In addition to the 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. Alongside interest rate and share price risks, there are spread risks on proprietary investments. The investment currency is generally the euro. There are currently only very minor open risk items in foreign currency and commodities. Speculative use of financial instruments with a view to making profits in the short term was not conducted in the year under review, nor is it envisaged for the future. The MLP Banking AG continues to hold the status of a non-trading book institute. The subcategory of market price risk, which is important for us, represents the general interest risk.

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 risk-bearing capacity assessments, the interest risk is assessed using shifts in the interest rate curve in comparison with a constant interest rate structure of the interest-bearing and interest rate-sensitive items. Depending on the approach adopted, the change in net interest that is recognised in the income statement or a change in value of cash and cash equivalents is applied for one year with a simulated increase/reduction in the interest rate.

The possible effects of different interest development scenarios are portrayed via planning and simulation calculations. Within the scope of presenting the changes in present value of all items in the asset ledger relative to equity, applying the interest rate steps stipulated by the Federal Financial Supervisory Authority, all interest-bearing and interest rate-sensitive items are simulated. 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.

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	
	2019	2018	2019	2018
Total	3.7	–0.1	–0.9	–0.4

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

Operational liquidity control

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

Structural liquidity control

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

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

The general aim when examining the liquidity risk within the scope of the risk-bearing ability is to determine the additional costs that occur in the context of the structural refinancing requirements. To determine the additional refinancing costs, the liquidity value-at-risk (LVaR) is 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 cash flow scenarios, and thereby also on the liquidity situation of MLP, are analysed using the funding matrix. The additional monitoring metrics (AMM) serve as supplementary information here.

When determining the LVaR as of December 31, 2019, 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 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.

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.

Operational risks are identified and assessed at local level throughout the Group in the individual organisational units of the main companies. 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. By collecting damage data, loss events can be detected and analysed in order to identify trends and any concentration of operational risks. The results are collated and checked for feasibility by risk control and then made available to the Executive Board and the controlling units.

Risks from internal procedures

The operational and organisational structure of the MLP Financial Holding Group is comprehensively documented and set out in internal organisation guidelines and the organisation manual. 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.

A Business Impact Analysis (BIA), performed within the scope of Business Continuity Management (BCM), is used to identify critical company processes, 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. The BCM is documented in the organisation manual and is in this way available to the business segments and employees.

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

Risks from human errors and employee availability

The MLP Financial Holding Group places great value on having 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. Staff resources and necessary qualification/training of employees are secured by the responsible specialist departments. We reduce the risk of staff shortages through appropriate 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. It is the goal of our own Corporate University to ensures standard of consultant training as high has possible. Indeed, each consultant attends extra-occupational training to become a Financial Consultant and then later 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 various providers. However, we bring in internal and external 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 in order to secure the confidentiality, authenticity and integrity of our data.

Risks from external events

Companies operating in the financial services sector are focusing on their core competencies, 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 control and management processes with continuous risk identification, assessment, control and reporting (outsourcing analysis). The MLP Financial Holding Group operates a central system of outsourcing management. Responsibilities for outsourced processes are clearly defined here. 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.

Potential 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 internally and externally). 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 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 and the MLP Group 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.

Legal risks

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

Taxation risks

Changes that emerge in tax law are continually checked and reviewed with regard to the potential effects they may have on the Group. Compliance with the fiscal requirements of the controlling company, MLP SE, 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 315 and 316 of the Capital Requirements Regulation (CRR). On this basis the capital charge is 15% of the average gross proceeds of the last three financial years, whereby only positive gross proceeds are taken into account.

Other risks

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

Reputation risks

Reputation is defined as the reputation of MLP as a whole or of individual Group companies in terms of expertise, integrity and trustworthiness that results from the perception of different stakeholder groups. The stakeholders, for example, include clients, employees, consultants and office managers, shareholders and creditors, other institutes, ratings agencies, the press and the world of politics. Reputation risk is understood to mean an existing or future risk regarding income, equity or liquidity as a result of reputation damage.

Management of reputation risks in the MLP Financial Holding Group 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. Besides that, comprehensive documentation is provided of 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, sustainability risks or technical progress. Achieving the planned results can potentially be jeopardised as a result of inadequate alignment of the company to the respective business environment, which may have changed abruptly. The necessary alignment, for example with individual products or a special client segment, also bears the risk of making the operating results excessively dependent on the earnings contribution of these products or this client group. Risks due to earnings concentrations can potentially occur as a result of changes in the market. Strategic risks can 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.

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

General business risks 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 the MLP Financial Holding Group.

The ongoing period of low interest rates has further intensified competition in the sale of financial services in Germany and accelerated consolidation of the heavily fragmented market. New competitors have entered the market in the form of fintechs and insuretechs, focusing 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. The potential effects resulting from amendments to the Life Insurance Reform Act (LVRG) involve a certain degree of uncertainty.

In the mid-to-long-term perspective, the forecast demographic development in the Federal Republic of Germany will lead to a significant pension shortfall that is likely to result in increased demand for private provision measures (in old-age provision, wealth management and real estate). The scepticism being displayed by the population with regard to political efforts to eliminate the pension shortfall would seem to support this. However, the prolonged low interest rate environment and the reduced attractiveness of long-term, fixed-rate investments associated with this are leading to reservations when it comes to signing old-age provision contracts. The discussion on transaction platforms in the field of life insurance are also negatively impacting trust among consumers. In addition to this, the low unemployment rate – which is actually pleasing from the perspective of client potential – and the resulting increase in competition for qualified staff represents a challenge for MLP in terms of winning over new consultants.

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.

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, the MLP Financial Holding Group primarily 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 2019, 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 € 105 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 53.7% and 38.4% respectively, counterparty default risks and operational risks take up the majority of the risk coverage fund available.

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

Risk-bearing ability of the MLP Financial Holding Group

Risk bearing ability	2019 Utilisation (in %)	2018 Utilisation (in %)
Risk and capital commitment	77.4	74.6
thereof:		
Counterparty default risk	78.7	73.4
Market price risk	61.4	53.4
Operational risk	82.1	83.4
Liquidity risk	0.0	0.0

Capital adequacy requirements under banking supervisory law

A consistent minimum ratio of 4.5% continues to be required for the backing of risk assets with eligible own funds for Tier 1 common capital. As in the previous year, these requirements have not changed during the financial year 2019.

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, treasury stock and goodwill reduce Tier 1 common 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 2019. The relationship between the risk assets and equity capital on the balance sheet date is illustrated below.

Supervisory KPIs

Shareholders' equity (in € million)	2019	2018
Tier 1 common capital	289.6	288.9
Tier 1 additional capital	–	–
Tier 2 capital	–	–
Eligible own funds	289.6	288.9
Capital adequacy requirements for counterparty default risks	89.5	77.6
Capital adequacy requirements for operational risk	31.1	40.1
Core capital ratio (in %)	19.21	19.64
Tier 1 common capital ratio (in %)	19.21	19.64

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 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 2019.

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

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

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

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

Opportunity report

Opportunity management

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

This takes place within the scope of a standardised business strategy process, performed by the Executive Board once a year. To this end, assumptions made about relevant influential factors for future development are subject to an ad hoc check. Such reasons can, for example, include major acquisitions, regulatory changes or changes in the market environment. MLP's corporate strategy, and the opportunities associated with this, are derived from its corporate mission, which is reviewed and updated by the Executive Board on an annual basis. The current internal and external framework conditions, as well as influential factors, are then analysed and summarised using established processes. A comprehensive analysis of the current environment always forms the basis of this process. Among other things, this includes the macroeconomic and regulatory framework conditions, developments in the product area and also the competition. With regard to client and sales potential, we also use available market data alongside our own assessments. The analysis culminates in a comprehensive SWOT analysis (strengths, weaknesses, opportunities, threats).

Within the scope of MLP's opportunity management, the market and competitive environment is continuously monitored from different company perspectives. This process is organised locally in the responsible departments, which regularly report their findings to the respective member of the Executive Board. Product Management is a key player here, as it determines opportunities through intensive contact with product providers and industry experts, mostly in the form of product innovations. In addition to this, Client 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 future business development can be subject to both external and internal influences.

Opportunities from changing framework conditions

The economic forecasts for the year 2020 suggest only limited opportunities for MLP. Economic experts are still predicting that Germany will enjoy further growth, albeit with little momentum. Should the German economy enjoy better development than that assumed in our forecast, this will only have an indirect influence on short-term operating developments.

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, as administration 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. Overall, the number of providers is likely to reduce. At the same time, this development could lead to a situation in which qualified brokers from other market actors display a stronger desire to work for MLP. 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 increasingly focusing on our business with corporate clients and institutional investors. In cooperation with our Group companies TPC, DOMCURA, nordias and FERI, we will further expand our portfolio for corporate clients and institutional investors in the areas of occupational pension provision, non-life insurance, wealth management and risk management.

Interlinking these areas with one another and with the private client business will furthermore enable us to create corresponding revenue potential. 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 business field, in which MLP clearly sets itself apart from the market through its highly transparent price model, yet also in the non-life insurance business field, in which MLP is developing the business of its subsidiary DOMCURA. In addition to this, there is potential to further develop the real estate business – in particular following integration of the DEUTSCHLAND.Immobilien Group.

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

Business performance opportunities

As a service provider, our operational tasks comprise sales, product selection and sales support. Following the mid-year acquisition of a majority stake in DI Deutschland.Immobilien AG and its subsidiaries, project business in the area of property with nursing care and senior citizen housing has been added.

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 business fields, 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 business field and provides comprehensive solutions for both private and commercial business – in part 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 applications, even greater support for our consultants – for example in product selection – and even more effective service from the back office in Wiesloch. Furthermore, the ongoing development of the training programme offered at our Corporate University to our self-employed client consultants, which, thanks to its perfectly tailored modules, fulfils the individual training requirements of the consultants, as well as the completed realignment of the university segment with a clear focus on the recruitment of young consultants, are also making a contribution to this. Should we be more successful in recruiting new consultants than anticipated in our current planning, this could also lead to additional potential. The service centre of our subsidiary MLPdialog also plays a key part. As an underwriting agency, the DOMCURA Group has also extended the added value chain of the MLP Group for standard products in the non-life insurance business field with its processes and expertise and will continue to do so in the future. The goal of these measures is to allow our consultants to focus even more on their core task, namely advising and supporting their clients. This provides important revenue potential for the future.

Opportunities in the real estate business that goes beyond current planning could arise due to planned projects being implemented more quickly and cost-effectively or indeed through implementation of a greater number of projects.

Opportunities from development of asset and risk positions

Positive business/market developments with lasting effects on earnings can be beneficial for the capital/financial situation of MLP and facilitate greater scope for action in terms of business model and risk profile. 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 segment, MLP also engages in current account and credit card business beside the classic lending business. These business activities focus on cross-selling and are subject to acceptance of counterparty default risks. Special profit opportunities arise for MLP through its preferred 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. Opportunities could also present themselves through a possible expansion of the banking business. However, these can also be associated with risks.

Interest rate developments also have an influence on the MLP's interest rate portfolio. Depending on the positioning/alignment and interest rate development, they could potentially lead to risks but also to opportunities. Regardless of this, MLP manages its interest rate book with the objective of continuing to secure a healthy liquidity situation.

Summary

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