Risk report 2024

The following are excerpts from the MLP Group's 2024 Annual Report regarding the risk report and the summary of the risk report.

Within the Annual Report, the risk and opportunity report are presented in one chapter, which is why individual excerpts from the opportunity report are also included below.

## Risk report

### Risk management system

MLP defines risk management as the use of a comprehensive set of tools for managing risks in accordance with the strategy defined by the Executive Board and the associated risk-bearing capacity process. Risks should be consciously and systematically taken within the framework of internal control procedures, taking into account the associated profit opportunities and growth potential.

The operational and organisational structure, particularly the risk management and controlling processes, along with the dedicated function of risk controlling, compliance and internal audit represent essential 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).

Risk management is based on normative and economic management perspectives. In the economic control perspective, a present value-oriented approach is applied. The economic risk-bearing capacity is determined on the basis of the IFRS scope of consolidation, with an immediate risk look-through applied to Group companies under CRR, while other companies included in the IFRS consolidated financial statements are considered on an equity-based method. The equity method, determined using established business valuation methods, encompasses the profit-and-loss-driven, non-bank-regulated part of the MLP Group. From this, equity risks are derived and hidden reserves/liabilities are considered in the risk coverage potential. The quantified risks are determined at a confidence level of 99.9% or comparable.

The present value of the risk coverage capital is derived using a present value-based method.

### Group-wide risk management

Similarly to the scope of consolidation as per IFRS, all companies of the MLP Group with material risks are incorporated into the Group-wide system of risk management as part of the risk management activities.

These companies, together with the immaterial, subordinate companies of the MLP Group, form the MLP Financial Holding Group (MLP FHG). Within the MLP FHG, MLP SE, as the licensed financial holding company, is the superordinate undertaking of the Group pursuant to § 10a (2) of the German Banking Act (KWG) and Art. 11 of the Capital Requirements Regulation (CRR). As the deposit and CRR financial institution, MLP Banking AG is subordinated to this. 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 SE has therefore ensured appropriate control and monitoring of the material risks at Group level through suitable processes. This approach particularly includes:

- defining Group-wide strategies,
- ensuring the Group's risk-bearing capacity,
- establishing organisational and procedural rules for the Group,
- implementing Group-wide risk management and controlling processes and
- establishing a Group-wide risk controlling, compliance and audit function.

In the context of the strategy process and the risk audit, MLP SE, acting as the superordinate undertaking of MLP FHG, obtains an overview of the risks in the Group on both a regular and ad hoc basis.

Based on the risks identified at the individual companies and their severity, all risks identified as material within the Group by the superordinate undertaking are taken into account. When identifying sustainability risks, relevant ESG risk drivers are identified for the risk types of counterparty default risk, market price risk, liquidity risk, operational risk and other risks. Group-wide regulations and policies for establishing 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. For the purposes of determining the risk-bearing capacity, companies can be incorporated on a consolidated basis with their inherent risks (look-through) or through their inherent equity holding risk (without a detailed look-through of individual company risks and capital positions). Accordingly, the following companies are reviewed using the look-through approach in the same way as the group under CRR:

- MLP SE, Wiesloch
- MLP Banking AG, Wiesloch
- FERI AG, Bad Homburg v. d. Höhe
- FERI (Luxembourg) S.A., Luxembourg

The remaining companies that pose key risks are presented using the equity method.

The names of the companies in the MLP Group are provided in the list of shareholdings in the notes. 34 fully consolidated companies are recognised pursuant to IFRS.

## Risk policies

As the superordinated undertaking of the MLP Group, the Executive Board at MLP SE defines the business strategy and a corresponding risk strategy that is consistent with this for the MLP FHG. The Group-wide risk appetite is then derived from the risk strategy. On this basis, the risk strategy defines the framework conditions for risk management at MLP FHG. The risk appetite is regularly reviewed and adjusted, as necessary.

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

### The Executive Board is responsible for the 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), as well as 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 both 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 prepares a statement on the adequacy of the risk management procedures.

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

The Executive Board of the superordinate undertaking and the members of the Executive Board or Managing Directors of the subordinate companies ensure that a comprehensive approach, covering all key risk types, is integrated into 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 the identification and conscious handling of risks with a view to ensuring 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 the facilitation and promotion of transparent and open dialogue on risk-relevant questions within the Group.

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 exposures 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.

The risk culture is, for example, substantiated on the basis of the requirements regarding new product processes, change processes and projects, each of which uses requests to determine the reason, the economic effects and corresponding risks. These requests promote an orderly process flow. To this end, approval processes are stipulated by both front and back-office functions up to Executive Board level. With regard to the ongoing assurance of risk awareness, the so-called "MaRisk Steering Committee" has been set up to monitor the processing of work packages resulting from new regulatory requirements, audits, etc. Suitable early warning indicators are also established as derivatives of the abstract risk culture in the operational areas. The Executive Board is notified of these in regular reports. Targets contribute to embedding the risk culture down to the employee level. This ensures that employees are encouraged to act in a risk-appropriate manner.

MLP engages in comprehensive risk communication, including risk reporting:

Identified risks are reported to the responsible management levels openly and without restriction. The Executive Board of the superordinated undertaking is informed in a comprehensive and timely manner (if necessary ad hoc) of the risk profile of the relevant risks, as well as profits and losses at the MLP FHG. The Supervisory Board receives the information required to fulfil its legal obligations. Internal risk communication and risk reporting are complemented by comprehensive external publications that address the interests of the shareholders of the MLP Group and the capital market while also complying with regulatory requirements.

**MLP sets targets based on profitability and risk**

The starting point for the risk strategy is the concept of earnings-oriented company management with the objective of achieving a sustainable increase in company value, as provided by the framework conditions of the business strategy. MLP implements this through a systematic and integrated earnings and risk management concept that is linked to the individual segments and companies. All decisions with business policy relevance are aligned with the goal of achieving appropriate profitability, while taking the relevant risks into account. With regard to the allocation of capital/risk coverage capital, management of the Minimum Requirements for Risk Management (MaRisk) is performed on the basis of the waiver from a Group perspective. Risk identification is performed at Group level, incorporating the risk organisation of the Group. The risks of the Group are compared against the risk coverage capital at Group level for the risk-bearing capacity assessment. The risk organisation, which encompasses the Group segments, facilitates risk management within the individual Group companies that are exposed to material risks.

Based on these premises, MLP generally assumes a position that adequately caters to risks in terms of its business policy alignment. This means that risks are consciously taken into account and managed while ensuring the risk-bearing capacity, particularly when there is a favourable risk-to-opportunity profile. In the case of a less favourable profile, risks are typically compensated for or reduced.

The risk-return ratio is a decision-making criterion used when assessing individual risk assumptions or a specific portfolio. For example, the risk costs determined for counterparty default risks across the entire portfolio are generally covered by corresponding risk premiums earned in the market or through cross-selling revenues.

Depending on the nature, scope and controllability of the risk, a decision is then to be reached on a case-by-case basis as to whether the respective risk should be

- avoided (risks are deliberately not taken),
- reduced (reduction of the likelihood of occurrence and/or the level of potential losses, improvement in terms of the controllability of the risks),
- transferred (risks are transferred to third parties, such as insurance companies), and/or
- accepted.

### Risk capital and liquidity management

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

The Group's risk management is based on the results of the risk audit and the material risks derived from it. To this end, processes have been implemented to ensure adequate capital and liquidity.

Risks are only accepted within limits derived from risk-bearing capacity considerations in order to achieve adequate returns, while taking risk/return factors into account. In particular, this is intended to avoid risks that could jeopardise the viability of the business model. Based on the business policy orientation and the risk coverage capital derived from the risk coverage potential, the Executive Board determines the allocation of capital and liquidity required to cover the overall risk profile.

As part of the economic risk-bearing capacity calculations in the capital view, the key types of risks, including counterparty default, market price, liquidity, and operational risks, are quantified. Other risks (in particular strategic risks, sales risks, reputational risks and tax risks) also represent a significant risk type, albeit one that is not quantified with a model. Other risks are incorporated via buffers when calculating the risk-bearing capacity.

In addition to this, sustainability risks, which can occur in the form of transitional or physical risks, can manifest as cross-cutting risks within the aforementioned risk categories, which is why these are considered as risk drivers of existing risks. Furthermore, concentration risks are considered as multi-disciplinary risks, taking into account both inter- and intra-risk concentrations.

In addition to this management of economic risk and economic risk capital, risk-bearing capacity is managed on an equal footing on the basis of regulatory capital adequacy requirements and the regulatory risks defined in accordance with the Capital Requirements Regulation (CRR) in the normative risk capacity calculation on the basis of a multi-year planning horizon, whereby adverse developments are taken into account in planning scenarios.

The risk appetite derived from the business and risk strategy is further specified through target settings for capital adequacy, allocated risk coverage potential, defining materiality thresholds and alert thresholds for risk limit utilisation, the overall safety level of risk quantification, as well as other key indicators and the design of the business organisation.

## Economic perspective

In the economic perspective, ensuring adequate risk-bearing capacity is guided by the principles of asset protection and protecting creditors from economic losses. The main drivers are appropriate margins relative to the expenses and risks incurred by the MLP FHG. As part of the risk capacity calculation, incorporated risks are therefore quantified/assessed by applying strict risk measures. This includes a confidence level of 99.9%. The risk coverage potential is generally calculated from equity plus hidden reserves/minus hidden liabilities. The risk coverage potential and the risks are determined in the first step via a look-through of the companies in the regulatory group under CRR.

The other fully consolidated subsidiaries of the IFRS-consolidated Group, as well as other companies within the meaning of the Capital Requirements Regulation (CRR), are presented using an equity method, the values of which are derived using a discounted cash flow (DCF) method and the capital asset pricing model (CAPM). The difference between the present value of the equity holdings and the carrying amounts in the consolidated balance sheet of the regulatory scope of consolidation (CRR) is added to or deducted from the risk coverage potential as hidden reserves or hidden liabilities. This equity method serves as the basis for determining equity holding risks.

The hidden reserves or hidden liabilities in the interest book are also added as a difference between the carrying amount and present value and this amount is reduced by the administration costs and risk costs to be recognised. The present value added to the risk coverage potential from the commission business ("transaction-heavy earnings potential") of the regulatory scope of consolidation represents a perpetual annuity adjusted for one-off effects on the basis of a historical 5-year average. Intangible assets of the regulatory scope of consolidation are deducted. The current result is also deducted.

The risk coverage potential determined in the 1st quarter of a financial year is used to derive a risk coverage capital on a pro rata basis, which corresponds to at least the available risk coverage potential during the year. The partial allocation aims to reflect method-related intra-year fluctuations in the present value-based risk coverage potential, thereby ensuring a stable risk decision-making process.

## Normative perspective

The normative perspective aims to ensure the continuity of MLP FHG while adhering to relevant regulatory ratios and indicators.

A balance sheet and income statement for the Group and the regulatory scope of consolidation are planned annually for a period of four financial years on the basis of the Long Range Plan (LRP). Planning is performed for both a standard scenario and at least one adverse scenario. The regulatory capital requirements are derived from these plans and then compared to the available own funds. A comparison is made with the regulatory capital requirements and expectations, including the total SREP capital requirement (TSCR), overall capital requirement (OCR) and capital adequacy recommendation. The supplementary conditions which must be strictly met, such as the LCR (liquidity coverage ratio), the sNSFR (simplified net stable funding ratio), the leverage ratio, as well as compliance with the large exposure limits, are also planned and analysed. The impact of the material risks from the economic perspective must also be taken into account in terms of the associated effect on the normative perspective. With this process, an emerging bottleneck in the capital requirements or unfavourable developments in the balance sheet structure can also be detected and addressed early on from the control perspective characterised by commercial law in order to introduce corresponding countermeasures.

### Risk-bearing capacity under the liquidity perspective

Within the scope of short-term liquidity control at Group level, liquidity risk is assessed and controlled in particular using the liquidity coverage ratio (LCR). The LCR is based on a supervisory-assumed stress scenario with a 30-day observation period. The additionally implemented approach of control through liquidity at risk (LaR) describes the anticipated maximum net funding requirement resulting from all payments, which is not exceeded with a likelihood of 99.9%.

Structural (mid-to-long-term) liquidity control of the Group is performed primarily on the basis of liquidity maturity balance sheets, which illustrate the development of liquidity over medium and long-term time horizons. Stress scenarios of varying severity are used here.

### Concentration of risk

To assess the risk concentrations associated with material risks, MLP initially relies on the risk values collected as part of ongoing risk management or regular risk reporting (for example unsecured loan volumes or risk measures such as value at risk). In doing so, potential risk concentrations are identified and, where possible, assessed on the basis of quantitative standards. The concentrations are differentiated between intra-risk and inter-risk concentrations. The former have an effect within the same risk due to insufficient diversification, while the latter are the result of interdependencies between various risks. A supplementary, qualitative assessment that builds on this is then performed pursuant to the risk tolerances set out in the risk strategy (including an evaluation of any potential need for more stringent control measures).

The following are considered material intra-risk concentrations for material risks:

- Credit risk: Concentrations on debtors/groups of connected clients; concentrations by risk class, concentrations on the healthcare sector, concentrations on products and individual business partners
- Counterparty risk: Concentration with regard to large loans to financial institutions
- Interest risk (periodic): Concentration on short-term maturities on the equity side of the balance sheet
- Insolvency risk in local currency: Asymmetrical contractual periods between the long-term, less liquid loans/receivables and the client deposits, which generally have a short-term maturity.

The following are identified as significant inter-risk concentrations of material risks:

- Reputational risks: There are dependencies with the insolvency risk, strategic risks and the sales risk. Material risk concentrations are regularly monitored and taken into account in risk management operations.

### Stress tests

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

In principle, univariate and multivariate stress tests can be distinguished based on 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 corresponding increase in capital requirements are analysed in relation 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 simultaneously. The effects are derived from a predefined, typically macroeconomic scenario. Both extraordinary and plausible scenarios are simulated as part of this analysis. The multivariate stress tests also include a climate stress test.

The MLP Financial Holding Group differentiates between two forms of inverse stress tests. In the case of the inverse stress test on risk-bearing capacity, one or more parameters are stressed until the risk coverage potential is fully utilised.

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.

### Backtesting and validation

In accordance with Section 4.1 Subsection 9 of the Minimum Requirements for Risk Management (MaRisk), the appropriateness of the methods and procedures used to quantify risk must be reviewed at regular intervals or as required. Any model risks should also be assessed as part of the validation, which should include both qualitative and quantitative components. If there are any indications of deficiencies, these must be appropriately classified, their causes identified and recommendations for action formulated. The affected processes should then be corrected within an appropriate time frame in accordance with the severity of the deficiencies. Management must be informed of the deficiencies identified and the timetable for their rectification. There must be a clear separation of personnel between the developers of the model and the validating employee. The specific procedure must be defined in a procedural instruction for the appropriateness test and validation that is comprehensible to third parties.

## Organisation

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

In order to fulfil its tasks, MLP SE uses a risk organisation that follows the established segment management of financial reporting and includes the sub-segments pursuant to IFRS 8 in the process organisation of Group-wide risk management. The companies above the segments are responsible for the risk management measures to be implemented in the respective sub-segments.

### 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 reviewed. 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 are regularly reviewed and assessed by Internal Audit and Compliance, and adapted to internal and external developments in a timely manner.

### Group Risk Manager

As a member of management at the superordinated undertaking MLP SE, 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 provides 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 Group risks.

## Risk management and controlling processes

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

In particular, the Risk Management department at MLP SE, in which the risk controlling function is located at Group level, is responsible for identifying and assessing risks and monitoring limits. This also involves reporting the risks to both the Executive Board and Supervisory Board. Early warning systems assist in monitoring risks, identifying potential problems at an early stage, and enabling timely action plans.

Appropriate guidelines and effective monitoring also ensure that the regulatory requirements for risk management and controlling are observed by the risk organisation units in the MLP FHG.

The methods used in the 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 the planning processes and the continuous monitoring of earnings trends. 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 with the corresponding target figures within the scope of daily, weekly and monthly reporting. This provides continuous transparency for the management team.

## Internal controlling system in the financial reporting 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 in 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 departments involved in the financial reporting 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 financial reporting 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 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 are also subject to the internal monitoring system, are 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 function has been established to counteract the risks that may arise for the MLP FHG from non-compliance with the main legal regulations and requirements. 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, non-compliance with which could put assets at risk or lead to a material reputation risk. Compliance plays a key part in identifying risk potential through monitoring rules of conduct, as well as within the scope of managing 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 the 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 as needed. 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.

## Information security

The requirements of the EU Digital Operational Resilience Act (DORA) will be observed in the 2025 financial year for the risk management of information and communication technology (ICT), which will further develop the ICT risk management framework and contribute to maintaining an acceptable level of digital operational resilience. MLP uses the existing Three Lines of Defence organisation, where the management - supported in particular by information security as the so-called ICT risk control function - monitors digital operational resilience within a decentralised ICT risk management organisation based on central guidelines.

In addition, the requirements of information security must be observed in terms of information security management. These take into account the protection goals of "availability", "integrity", "confidentiality" and "authenticity". If information security incidents violate the aforementioned protection goals, they must be analysed and follow-up measures must be initiated.

### 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 regulatory requirements.

The Internal Audit department, which operates throughout the Group, also performs regular process and system audits in all sections of the Group and monitors the 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, the 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, as 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.

**Descriptions of risks**

The MLP FHG is exposed to financial risks. These in particular comprise counterparty default, market price and liquidity risks. Alongside financial risks, there are also operational and other risks.

The material risks for the Group are identified at least annually or on an ad hoc basis, based on a materiality assessment that considers the impact of the risks on net assets, financial position or results of operations. Since a statement on the materiality is made at Group level, the following risk types are presented per segment for the purpose of transparency. These units significantly contribute to the material group risks.

**Types of risk**

| Segments | Counterparty default risks | Market price risks | Liquidity risks | Operational risks | Other risks |
|---|---|---|---|---|---|
| Holding and Others | x | | x | x | x |
| Banking | x | x | x | x | x |
| Financial Consulting* | x | | x | x | x |
| FERI | x | | x | x | x |
| DOMCURA* | | | | x | x |
| Industrial Broker* | | | | x | x |
| DI Deutschland.Immobilien* | x | | | x | x |

*Specifically the risks of the segments Financial Consulting, DOMCURA, Industrial Broker and DI Deutschland.Immobilien are quantified as equity holding risk.

## 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 primary credit risk, the counterparty risk encompasses the migration risk, contracting party risk, sovereign risk and equity holding risk. The guarantee risk, country risk, utilisation risk and rental default risk are currently not material.

Counterparty default risks are primarily included in the proprietary and client business positions. The maximum default risk is expressed as the carrying amounts or present values of the financial instruments recognised in the balance sheet (in particular originated loans and receivables, as well as derivative financial instruments and guarantees (off-balance-sheet items)). Lending is generally limited to borrowers domiciled in the Federal Republic of Germany, who make up the majority of the loan-bearing instruments at 96%.

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 advice 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.

### Credit risk – Strategy and credit policy

The client credit business, targeting academics and primarily operating in the German core market, mainly focuses on medical practice and mortgage financing, as well as loans with fixed interest rates for five or ten years. These loans are predominantly secured by wealth deposit accounts at MLP Banking AG or by surrender values and investment units in life insurance or unit-linked policies (premium loans), as well as mass-market lending. 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 health professionals, to ensure a sustainable increase of company value. Accordingly, the client credit business is only impacted comparatively mildly by ESG risks due to the focus on these domestic client segments, as well as regional and portfolio diversification. These are primarily seen in terms of climate risks due to flood damage or, in the case of transitory risks, the impact on debtors' business models.

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. Default criteria, such as arrears of 90 days, or criteria of the German Insolvency Code (InsO) lead to default status. If a default event occurs, a scenario-based impairment test should be performed that also includes any collateral realisation.

### Credit risk - credit processing

Decision-making authority is defined 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 debtor or debtor unit. Individual credit decisions are reached by specialised employees in accordance with clearly defined rules based on the size, creditworthiness and collateral of the respective debtor. 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.

Our client deposits are reinvested, taking into account an appropriate maturity transformation risk, primarily in the client credit business, but also in overnight and term deposits, bonds, debentures and other financial instruments. Currency and trading risks are not incurred in any significant scope.

### Credit risk - Control

The responsibilities in the lending business – from application, through authorisation to completion and including periodic monitoring with regular creditworthiness analyses – have been defined and documented in our organisation manual. Appropriate control metrics are defined and monitored. Early warning indicators are implemented, including monitoring of arrears of 30 days or more, thresholds of internal ratings and concentrations in sectors.

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. At MLP, this ratio is significantly below the regulatory monitoring threshold of 5%. Accordingly, no explicit strategy is defined for the NPL portfolio. The key figure is continuously monitored. Non-performing loans, which are identified at MLP, are transferred to specialist departments, where they are individually managed by experts. 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 the regulatory group under CRR, the NPL ratio as of December 31, 2024 was 1.2% (previous year: 0.5%) and is therefore significantly below the regulatory monitoring threshold of 5%.

In the portfolio monitoring of the client credit business, the various loan types are regularly measured and presented in the risk report by product class, sector and size class. Individual product classes, sectors and product classes of client credits are currently not limited, although attention is paid to ensuring a balanced mix of the aforementioned attributes. 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.

Depending on the rating status, regulatory methods of calculation are used for the economic perspective of the risk capacity calculation.

For the positions classified internally using the VR rating system, the economic risks are calculated on the basis of the IRB method and the present values of the business positions relative to the confidence level of 99.9%. For debtors that have not been classified 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 classified debtors are treated the same as internally classified 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 the development of loan loss provisions, in the notes.

Additionally, there are specific counterparty risks associated with proprietary trading that extend beyond the risks outlined above. Set against the background of the current market trend, risks in investment management, in particular those resulting from defaults of counterparties, are also limited by the strict quality standards set out in the capital investment directives. As part of this, the allocation of available funds is determined based on specifications regarding investment categories and products, maturities, economic sectors and regions. Funds are generally invested in euros. In principle, all investment decisions must always take into account the documented competencies and other regulations.

### Equity holding risk

There are also risks associated with equity holdings. In the normative perspective, these are evaluated using the standardised approach to credit risk. In the economic perspective, the importance of the equity holding risk has been defined more broadly for risk quantification. Risks within the regulatory group under CRR are therefore analysed with a look-through according to the risk types defined in this risk strategy. For the remaining commission-based part of the Group ("non-bank part"), the equity holding risk of the part of the Group not included in the regulatory group under CRR is measured for reasons of information efficiency and consistency with Basel Pillar 1. This is performed on the basis of the business segments or cash-generating units (non-look-through). The basis for the risk assessment is therefore the ratings of the cash-generating units analysed in Group accounting pursuant to IFRS using a business valuation method and the CAPM. Suitable risk factors (for example, an increase in market risk premiums and reduction in cash flows) are applied to the cash flows used or the discount factor on the basis of historical data in a multivariate stress test in order to determine the risk value. In accordance with the general strategic guidelines, the result should be a risk assessment that is at least equivalent to a univariate 99.9% confidence level.

### Quantification

As of December 31, 2024, the MLP FHG has a counterparty default risk of €429.0 million (previous year: €368.4 million). Of this amount, the credit risk was €119.0 million (previous year: €117.9 million). The equity holding risk of the "non-banking part" of the MLP FHG, which has been quantified since this financial year, is €310.0 million (previous year: €250.5 million). This increase can essentially be attributed to lower discount factors as a result of lower interest rates.

As of December 31, 2024, the quantified equity holding risk is distributed among the segments as follows, and not directly allocated to the equity holdings in the group under CRR:

| Segment[1] | Risk impact in € million | |
|---|---|---|
| | 2024 | 2023 |
| Financial Consulting | 152.5 | 124.3 |
| DOMCURA | 60.6 | 49.8 |
| Deutschland.Immobilien | 38.9 | 29.3 |
| Industrial Broker | 54.3 | 44.7 |
| Other equity holdings[2] | 3.6 | 2.4 |
| Total | 310.0 | 250.5 |

[1] For the Banking, FERI and Holding segments, the counterparty default, market price, liquidity and operational risks are assessed directly. There are no equity holding risks for these segments.

[2] Other equity holdings include equity holdings of the MLP FHG pursuant to IFRS that belong to the Banking, FERI and Holding segments but are not taken into account in the regulatory group under CRR.

Due to the continued special risk situation of the Deutschland.Immobilien segment, an increased risk value is quantified using individual risk factors.

### Market price risks

The MLP FHG defines market price risks as the uncertainty surrounding changes in market prices and rates (including interest rates, share prices, exchange rates, commodity prices, as well as option transactions and implicit options), the correlations between them and their volatilities. Alongside interest rate risks, there are also credit spread risks on own proprietary investments. The periodic and the present value interest risk were identified as material risks for the Group. The investment currency is generally the euro. The institute in the MLP FHG is a non-trading book institution.

In the 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 business on own account. There are currently only very minor open exposures in foreign currency in the portfolio. There are also no appreciable derivatives positions.

Possible effects of various interest development scenarios at Group level are presented 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.

Within this framework, the changes in the present value of all items in the interest book are disclosed in relation to equity for economic management purposes using the interest rate steps specified by the Federal Financial Supervisory Authority via the so-called EVE in the regulatory shock scenario. The simulation is conducted across all interest-bearing and interest rate-sensitive positions of the regulatory group under CRR. The bank-specific scenario, which is constantly re-parameterised and reflects an appropriately long market data history, is relevant for economic management.

Various guiding principles have been implemented to control the interest rate risk. These include the strategic positioning as a non-trading book institution, management of the difference in asset-liability duration, management of the terms remaining to maturity of the transactions and the target bandwidth of the present value outlier test (Supervisory Outlier Test – Economic Value of Equity, abbreviated to SOT-EVE) and the periodic outlier test (Supervisory Outlier Test – Net Interest Income, abbreviated to SOT-NII).

Credit spread risks in the asset ledger are not considered to be material, as a holding strategy is pursued for bonds in the portfolio, meaning that the full nominal value is generally recognised at maturity. Spread risks may therefore temporarily affect present values but will not materialize as reduced repayments over the total period. Nevertheless, these are monitored in the form of sensitivity analyses.

Equally immaterial or non-existent are: foreign currency risk, market value risk, real estate in the company's own portfolio (in particular due to hidden reserves), option risks, as well as settlement and delivery risks.

### Quantification of interest risks

With the transition to economic risk management, the present value interest risk is determined from the more conservative result of the two internal risk scenarios of interest rate increase and interest rate decrease. The present value interest risk of the companies in the risk look-through is €11.5 million as of December 31, 2024 at a confidence level of 99.9% for the interest rate increase scenario (previous year: €15.1 million).

As of December 31, 2024, simulations were modelled in the scenario of rising interest rates on the basis of 1 day or 10 years at +400 BP or +302 BP were simulated in the 1-day and 10-year interest rate rise scenario (previous year: +400 BP and +302 BP). In the interest rate cut scenario, it was -429 BP and -164 BP for 1 day and 10 years respectively (previous year: -430 BP and -166 BP).

**Interest rate risks of the MLP FHG in the SOT-EVE supervisory outlier test**

**Simulated scenario** | **Effect in € million**

| | 2024 | 2023 |
|---|---|---|
| Parallel shift +200BP | -9.8 | -11.0 |
| Parallel shift -200BP | 11.9 | 13.8 |
| Steepening of the interest rate curve | -10.7 | -11.1 |
| Flattening of the interest rate curve | 9.0 | 9.2 |
| Short rates shock up | 5.6 | 5.3 |
| Short rates shock down | -5.7 | -5.5 |

The SOT-EVE (present value) as a ratio of the impact in the worst-case scenario to core capital is therefore 2.9% (previous year: 3.3%). The relevant scenario as of the reporting date was "steepening of the yield curve" (previous year: Parallel shift +200 BP for the interest rate risk coefficient).

The SOT-NII (periodic), which represents a change in the rolling 12-month net interest income with constant total assets in relation to core capital, is 4.68%. This is due to the parallel shift -200 BP scenario and was to be determined for the first time in 2024.

## Liquidity risks

The MLP FHG defines liquidity risks as the uncertainty regarding the insufficient availability of funds to fulfil payment obligations or to reduce exposures, or the availability of funds only at less favourable conditions. 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 liquidity coverage ratio (LCR). Liquidity at risk (LaR) also describes the expected net funding requirement from unplanned payments that will not be exceeded with a specified probability. The utilisation of liquidity at risk is considered "appropriate" at a confidence level of 99.9% for values up to 90% and is rated with the traffic light colour green. Values of 90%-100% are rated as "tense" and assigned the traffic light colour yellow. If the utilisation rate rises above 100%, the traffic light colour red indicates "exceeded", which may, for example, require an adjustment of the disposable liquidity via a management resolution.

Structural liquidity control

Structural (mid-to-long-term) liquidity control of the Group is performed on the basis of liquidity maturity balance sheets and projections, which highlight the anticipated development of liquidity over various time horizons (up to three years). The liquidity maturity balance sheet compares a forecast net profit or loss with the refinancing potential (free liquidity reserve) for each time horizon under stress assumptions. 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) also compares the available refinancing with the required stable refinancing. 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 capacity 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 calculated for the capital requirements which are determined on the basis of the liquidity flow statement, at a confidence level of 99.9%. 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, the impacts of various scenarios on cash flows, and therefore also on MLP's liquidity situation, are analysed using liquidity maturity balance sheets. The additional monitoring metrics (AMM) serve as supplementary information here.

Categorised as immaterial: The insolvency risk in foreign currency and the liquidity spread risk.

### Quantification

Calculation of the LVaR as of December 31, 2024, indicates a positive compliance with limits for the year. Similarly to the previous year, a survival horizon of 12 months was always maintained in the financial year. There are no (previous year: none) expected additional refinancing costs. If, contrary to expectations, net cash outflows that go beyond the estimated levels occur, further liquidity reserves are available.

The liquidity risk in the MLP FHG results primarily from MLP Banking AG as the depository institution. The refinancing structure is based largely on client deposits here. 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, 2024, the MLP FHG had a refinancing cost risk of €0.0 million (previous year: €0.0 million).

The free liquidity reserves of the MLP FHG were €1,164.9 million on the reporting date (previous year: €1,009.2 million).

## Operational risks

By analogy with Article 4 of the CRR, operational risks are understood as the risk of losses occurring as a result of the inadequacy or failure of internal processes, systems or people, or as a result of external events. This definition includes legal risks.

Within the Group, operational risks are identified and evaluated on a decentralised basis in the individual organisational units of the segments and the main companies identified via the risk organisation in the form of self-assessments and damage data pools. This is based on a Group-wide inventory of operational threats. Plausibility checks on risk measurements by organizational units are conducted during risk workshops and subsequently consolidated into an overall rating for the Group.

Irrespective of the specific risk profile, the following core statements apply to all companies in the MLP FHG:

- All material operational risks are to be identified and 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 appropriate insurance policies,
- 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, together with a reduction in the frequency and level of associated losses, is primarily to be achieved through the implementation of continuous improvement of control actions, 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 time-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. Time-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 the 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 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, insufficient 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 Internal Audit, Compliance and Risk Controlling in the sense of Germany's Minimum Requirements for Risk Management (MaRisk). 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. 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 exposures 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 on 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.

The greatest asset of MLP is its consultants and employees, which is why special emphasis is placed on the qualification of our 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 is consistent 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 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 cyberattacks.

The 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 and Cloud platforms, 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, malware protection that is aligned to the current state of the art, as well as other comprehensive security systems. Due to the existing virtualisation of the workplace, the option for location-independent work is technically feasible.

MLP operates a Group-wide information security management system in order to identify and appropriately address potential information security risks arising from its own operations or those of IT service providers. This is incorporated into the assessment and control of operational risks. In terms of protective measures, we ensure that our technology remains state-of-the-art and have this regularly reviewed by external experts. Digital innovations are developed in a laboratory environment as a way of keeping risks to a minimum during the development phase. In a separate strategy on digital operational resilience, with the aim of achieving an appropriate level of resilience, a framework is provided that in particular includes the following aspects: Target protection measures for ICT systems and ICT third-party service providers, especially for critical or important functions, to reduce ICT risks; setting up and operating a process for detecting, resolving, and reporting ICT-related incidents. MLP is thereby preparing itself more effectively to combat cyber threats, which are posing an ever greater threat.

### 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 focusing on their core competencies, 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 Minimum Requirements for Risk Management (MaRisk), key outsourcing activities in the 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 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 set up in such a way that any attempts at fraud, burglary or theft are prevented before they occur. In order to prevent external cyber risks, such as hacker attacks and malware, appropriate measures are taken, including the implementation of common standards such as firewalls, intrusion prevention/detection systems, antivirus software, as well as active patching and vulnerability management of 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 in the 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 management of legal risks is essentially handled by the Legal department. In addition to consulting on corporate decisions and designing business processes, its tasks include following and assessing current legal disputes. Possible legal risks are to be identified at an early stage and possible solutions for minimising, limiting or preventing such risks are to be presented. 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 that may be necessary. According to our review, the pending or threatening legal proceedings against MLP FHG do not represent risks that could endanger the Group's continued existence.

Due to its authorisation to conduct banking and financial service transactions, the MLP FHG is subject to special risks with regard to potential non-compliance with regulatory requirements. This also applies to statutory solvency requirements, which require a minimum regulatory capital. Comprehensive guidelines and workflows have been implemented to comply with regulatory requirements 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 the identification and monitoring of the key legal provisions and requirements. Non-compliance can potentially jeopardise the assets of the 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.

#### Quantification

Operational risks are quantified using a dedicated model. This 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.

As of December 31, 2024, the total operational risk according to the MLP FHG's internal calculation from the risks described above was €3.8 million (previous year: €3.8 million).

### Other risks

Other risks include strategic risks, sales risks, reputational risks, pension risks and tax risks. The strategic risks or "business risks" also include potential step-in risks for a non-consolidated company insofar as the support is provided without any contractual obligation. In particular, the measured equity holdings of the Group companies in the non-look-through are subject to such business risks. As part of Group management, other risks are taken into account using a generic risk amount ("risk buffer") in the sense of Section 4.1 Paragraph 5 of the Minimum Requirements for Risk Management (MaRisk). 50% of the transaction-based earnings potential is retained for other risks within the regulatory group under CRR. For other immaterial risks of MLP FHG, the minimum of €10 million or 1% of the risk coverage potential is retained.

#### Strategic risks

Strategic risks include risks that result from the business model in interaction with the external environment. These include, for example, the behaviour of competitors and clients, as well as technological advancements and risk factors arising from the ESG context. Achieving the planned results can unexpectedly be jeopardised as a result of inadequate alignment of the company with the respective business environment, which may have changed abruptly. Secondly, a focus of this kind, for example on individual products or a specific client segment, harbours the risk of excessive dependence of operating results on the contribution of these products or client groups to the overall success. Risks due to earnings concentrations can potentially occur as a result of changes in the market. Since these risks are reflected in the expected cash flows, they are implicitly recognised in the analysis of the equity holding risk of the MLP FHG companies not included under the CRR group. In addition, increased business risks must be assumed in the economic view of the earnings potential from commission-based business. Risks that materialise can directly limit future commission flows.

Strategic risks can also occur as a result of an inadequate strategic decision-making process, which is for example associated with unforeseeable discontinuities in the market, products and services that have not been properly matched to the market or poor implementation of the chosen strategy, as well as monitoring of its implementation.

Strategic risks: Overall economic risks

Geopolitical risks and macroeconomic changes in economic and political factors can also have an impact on MLP's business model and development. 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 offers us particular support in this regard.

Strategic risks: Business environment and sector-related risks

The crises of recent years have also further intensified the competitive situation for the sale of financial services in Germany and accelerated consolidation of the highly fragmented market. New competitors have entered the market in the form of FinTechs and InsurTechs, focusing on sub-processes in the financial and insurance sectors. Social changes, judgements, new regulatory requirements and competitors, as well as discernible trends in client behaviour, are all factors which can have a significant influence on MLP's business. One example is the discussion about a ban on commission for finance brokers. MLP considers itself well prepared for the changes that lie ahead. The quality of our consulting and our products, as well as our focus on selected client groups, give us a very good 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. The interest rate development is the determining factor for further development in these markets. The real estate segment will remain important for the Group if the market situation stabilises, as this segment offers an additional investment option as part of the holistic investment strategy.

Strategic risks: Corporate strategy risks

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

Corporate strategy control at MLP is primarily the responsibility of the Executive Board or the governing body of the respective unit within the Group. Changes and developments in both the national and international markets, as well as the business environment, are analysed based on 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 proactively 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.

The strategic risk is classified as material. It must therefore be taken into account in risk management. This takes place in the form of a risk buffer as part of the ICAAP.

### Sales risks

Sales risks have a similar effect on the income statement as strategic risks. However, these are primarily driven by external factors, such as a recession leading to reduced demand or ineffective positioning/services by the sales force. In this respect, the potential measures differ quite markedly.

The risk is classified as material. It must therefore also be taken into account in risk management. This takes place in the form of a risk buffer as part of the ICAAP.

### 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 various stakeholder groups. The stakeholders for example include clients, employees, consultants, heads of the university teams and branch 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 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 a case 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.

In terms of reputational risk, there are significant inter-risk concentrations with insolvency risk, strategic risks and sales risks. These are therefore taken into account in the risk management process in the form of stress tests.

### Tax risks

Tax risks are defined as the risk arising from interest on arrears or fees resulting from tax payments and tax arrears, as tax arrears or refunds balance out in present value over time as opposed to being recognised directly in the tax return. 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, as well as the documents pertaining to these that are issued by the fiscal authority. Corresponding provisions are formed for subsequent payments that are to be anticipated. Developments in the accounting law are monitored and implemented in the respective specialist departments.

Tax risks are classified as a material risk. They must therefore also be taken into account in risk management. This takes place in the form of a risk buffer as part of the ICAAP.

## Cross-cutting risks

### Sustainability risks

We consider sustainability risks to include events or conditions resulting from the environment, social issues or corporate management, whose occurrence can have actual or potentially significantly negative effects on the net assets, result of operations or liquidity situation; this 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 based on ESG risk drivers. They are taken into account in risk management in accordance with the principle of materiality. Sustainability risks were identified as immaterial within the scope of the risk audit. A climate stress test is also being derived and calculated to improve identification of these cross-sectional risks.

Immaterial sustainability risks, for example, include risk drivers such as severe weather incidents, in particular flooding, in the counterparty default risk or the accusation of greenwashing in the other risks or reputational risks.

### Concentration risks

To assess the risk concentrations associated with material risks, MLP initially uses the risk values defined within the scope of ongoing risk management or regular risk reporting (for example unsecured loan volumes or risk measures such as the value at risk). In doing so, potential risk concentrations are identified and, where possible, assessed based on quantitative standards. The concentrations are differentiated between intra-risk and inter-risk concentrations. The former have an effect within the same risk due to insufficient diversification, while the latter are the result of interdependencies between various risks. A supplementary, qualitative assessment that builds on this is then performed pursuant to the risk tolerances set out in the risk strategy (and therefore also an estimate of a potential need for action with regard to more stringent control measures).

The following are considered significant intra-risk concentrations for material risks:

- Credit risk: Concentrations on debtors/group of connected clients; concentrations by risk class, concentrations on the healthcare sector, concentrations on products and individual business partners
- Counterparty risk: Concentration with regard to large-scale loans issued to financial institutions
- Interest risk (periodic): Concentration on short-term maturities on the equity side of the balance sheet
- Insolvency risk in local currency: Asymmetrical contractual periods between the long-term, less liquid loans/receivables and the client deposits, which generally have a short-term maturity.

The following are identified as significant inter-risk concentrations for material risks:

- Reputational risks: There are dependencies with the insolvency risk, strategic risks and the sales risk.

In the case of material risks, significant risk concentrations are taken into account appropriately in the management of the ICAAP / ILAAP (for example through stress scenarios) or managed through adequate metrics or analyses.

**Superordinate and macroeconomic risk position**

Following the strong tightening of monetary policy to combat high inflation, the central banks of the major industrialised countries have now embarked on a course of monetary easing and have made their first interest rate cuts. So far, monetary policy has remained restrictive. In 2025, a continuation of monetary easing is initially expected, without returning to the low interest rate levels. This is because, in the long term, a number of structural factors are pushing in the direction of systemically higher inflation. These include the increasing shortages in the labour market due to demographic trends, the resulting wage increases, higher costs due to increased deglobalisation trends and the enormous investments required to manage the ecological transformation.

Due to a sustained phase of economic weakness, mainly in the manufacturing industry in Germany, there is a possibility of increased impairment requirements in these sectors of the economy, although these do not represent the focus of MLP's business. In the past, the German economy benefited from the strong position of industry and its strong foreign trade orientation, including the dynamic development of the Chinese market. These long-standing advantages currently represent disadvantages for the German economy.

In 2025, the focus is likely to shift towards global trade: in the hegemonic conflict between the USA and China, the process of a mutual decoupling of economic areas is expected to continue and new trade barriers are possible as general shock factors for the global economy. New geopolitical conflicts appear particularly likely in East Asia and could once again have a significant impact on value chains all the way to Europe. All of these factors can have a noticeable impact on MLP's economic environment, as well as the economic situation of business partners.

The public debt of major industrialised nations such as the USA, France and Italy, which is over 100% of GDP, offers potential for new sovereign debt crises. However, the danger is not limited to states alone, as it could also result from the private sector, as was the case in 2007. Another threat to the Group is increasingly disproportionate and costly regulation. Countertrends are currently only moderately apparent, meaning that a further increase in bureaucratisation is to be expected.

The real estate sector seems to have bottomed out and, given interest rate expectations, a further deterioration is considered rather unlikely. Opportunities will continue to be utilised if they fit into the Group's strategic framework.

**Risk-bearing capacity & capital requirements**

The economic risk-bearing capacity concept ensures that the risks assumed are always adequately covered by risk coverage potential. Within the framework of the economic risk-bearing capacity concept, MLP FHG uses a present-value approach to manage material risks with a confidence level of 99.9% and compares them with the risk coverage potential derived from the present value.

### Risk coverage potential and risk coverage capital

Among other items, the risk coverage potential of the economic perspective, determined in the financial year 2024 using the present value method, includes the following positions:

- Balance sheet (Group) equity and carrying amounts of all assets and liabilities (for present value-based risk-bearing capacity) as per the CRR
- Present value contribution of hidden reserves and liabilities, including the present value contribution of all assets and liabilities as well as off-balance sheet items (or hidden reserves/charges from the value difference between the carrying amount and present value in the case of present value-based risk-bearing capacity), and hidden reserves from the measurement of the equity holdings of the group under IFRS without companies of the regulatory group under CRR and minus direct equity holdings in the regulatory consolidated balance sheet (CRR) (since no look-through was performed for the non-regulated companies of the group under IFRS).
- Deduction of the present value for anticipated inventory liquidation costs, in particular the present value of administration costs for continuation and administration of the items, expected losses in the lending business, as well as anticipated operational risk of the regulatory group under CRR.
- Deductions for cautious valuation, in particular deduction of current earnings, as well as intangible assets of the regulatory group under CRR.

**Risk coverage capital**

| Position (in € million) | Dec. 31, 2024 | Dec. 31, 2023 |
|---|---|---|
| Balance sheet equity (group under CRR) | 617.4 | 575.3 |
| Present value of undisclosed reserves and undisclosed liabilities | 583.4 | 460.9 |
| Present value of expected inventory liquidation costs | -121.3 | -102.8 |
| Deduction for conservative valuation | -173.8 | -174.7 |
| Other positions | 37.7 | 28.0 |
| **Risk coverage potential** | 943.4 | 786.6 |
| **Allocated risk coverage capital** | 710.0 | 690.0 |
| Risk buffer | -29.3 | -24.3 |
| **Total limit for quantified risks** | **680.7** | **665.7** |

A total of €710.0 million (previous year: €690.0 million) from the risk coverage potential will be utilised as risk coverage capital. The risk coverage capital is used to cover the risk types classified as material by MLP. These are the counterparty default risk, the market price risk, the liquidity risk, as well as operational and other risks. The risks undertaken were consistently covered by the established risk limits throughout the financial year.

After deducting the total risk buffer for other risks of €29.3 million (previous year: €24.3 million), this results in the following limit utilisations for the MLP FHG as of December 31, 2024:

| Risk type (in € million) | | | Dec. 31, 2024 | | | Dec. 31, 2023 |
|---|---|---|---|---|---|---|
| | Limit | Risk | Utilisation | Limit | Risk | Utilisation |
| Counterparty default risk | 537.8 | 429.0 | 79.8% | 466.0 | 368.4 | 79.0% |
| Market price risk | 61.3 | 11.5 | 18.8% | 59.9 | 15.1 | 25.2% |
| Operational risk | 61.3 | 3.8 | 6.1% | 119.8 | 3.8 | 3.1% |
| Refinancing cost risk | 20.4 | 0 | 0.0% | 20.0 | 0.0 | 0.0% |
| **Total** | **680.7** | **444.3** | **65.3%** | **665.7** | **387.3** | **58.2%** |

The special risk situation in the DI Deutschland.Immobilien segment (DI), primarily driven by continued adverse trends in the real estate market, is addressed by implementing more stringent assumptions regarding the quantified equity holding risk. The equity holding risk of DI is therefore increased to the contributions based on the equity method.

### Capital adequacy requirements, capital control under banking supervisory law and normative control perspective

A primary objective of equity management is to ensure that the statutory solvency requirements for the operation of banking and financial services businesses, which stipulate a minimum capital adequacy, are met and that the quantitative and qualitative equity base is strengthened. At MLP, the assessment for minimum capital requirements in compliance with statutory solvency requirements has been conducted on a consolidated basis (group) since January 1, 2014, in accordance with the Capital Requirements Regulation (CRR), Regulation (EU) No. 575/2013 of the European Parliament and the Council of June 26, 2013, on prudential requirements for financial institutions and investment firms, as per Articles 7 and 11 et seq." Since January 1, 2017, MLP has been drafting an independent IFRS consolidation on the regulatory scope of consolidation. The disclosures are based on the legal foundations in place and valid on the reporting date.

In accordance with 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.

The relevant group pursuant to § 10a (2) of the German Banking Act (KWG) in conjunction with Article 11 of the Capital Requirements Regulation (CRR) includes MLP SE, Wiesloch, as the superordinate undertaking, MLP Banking AG, Wiesloch, FERI AG, Bad Homburg v. d. Höhe and FERI (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, (II) retention of a portion of the earnings, and (III) making transfers to the statutory reserve to strengthen Tier 1 common capital.

As per Article 25 et seq. of the Capital Requirements Regulation (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, which also include the earnings from equity holdings in other subsidiaries accounted for using the equity method. Among other factors, core capital is reduced by intangible assets, goodwill and the deduction for qualifying equity holdings in accordance with Art. 89 (1) and (3) in conjunction with Art. 36 (1) k) of the Capital Requirements Regulation (CRR), whose corresponding earnings are only recognised under equity after the annual earnings have been allocated in the following year.

To determine the risk-weighted exposure values (counterparty default risk), MLP applies the credit risk standardized approach pursuant to Article 111 et seq. of the Capital Requirements Regulation (CRR). The basic indicator approach is used to determine the capital requirement for the operational risk (Article 315 et seq. of the Capital Requirements Regulation (CRR)).

**Regulatory capital adequacy (Pillar I)**

| Shareholders' equity (in € million) | 2024 | 2023 |
|---|---|---|
| Tier 1 common capital | 365.6 | 330.4 |
| Tier 1 additional capital | – | – |
| Tier 2 capital | – | – |
| Eligible own funds | 365.6 | 330.4 |
| Capital adequacy requirements for counterparty default risks | 125.1 | 121.0 |
| Capital adequacy requirements for operational risk | 27.4 | 24.9 |
| Core capital ratio (in %) | 19.2 | 18.1 |
| Tier 1 common capital ratio (in %) | 19.2 | 18.1 |

Amounts on the basis of submitted statement

From a multi-year normative risk-bearing capacity perspective, the MLP Group also meets the capital requirements under CRR for the financial years 2025 to 2028, taking into account the anticipated effects of CRR III from the financial year 2025 onwards, based on the current business and capital planning, including the adverse planning scenarios.

## Summary of the risk and opportunity report

**Risk report summary**

MLP's business development is essentially influenced by financial risks, operational risks and other risks. We use our risk management system for the early identification, assessment, control, monitoring and communication of our material risks with regard to both current and future developments. The information provided ensured prompt introduction and prioritisation of risk management measures without exception.

In 2024, the MLP FHG consistently operated within its risk-bearing capacity, maintaining strong capital and liquidity positions.

Business continuity management ensures that business operations continue to run smoothly even in the event of disruptions. Our risk monitoring and control systems and the consistent alignment of our business model to our risk-bearing capacity 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 regulatory implementation are also checked at regular intervals by both external and internal auditors.

The above-mentioned risks, and such risks which are not yet known to us or are currently considered immaterial, 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 financial year. No material risks arose after the balance sheet date that could have a significant impact on the continued existence of MLP FHG.

**Opportunity report summary**

MLP sees several key opportunities across multiple areas, particularly the areas of corporate strategy and business performance, as well as asset and risk position.