Risk report

Risk management system

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

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

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

By moving away from the balance sheet-oriented going concern and gone concern approaches to risk capacity calculation in favour of the economic and normative risk control perspective, the risk management system was transitioned to the new control perspectives of the ICAAP in the financial year 2023. For the economic perspective, a new present value-oriented approach is adopted. In particular, this led to the following key changes over the previous year:

- The economic risk-bearing capacity is determined on the basis of the IFRS group, whereby an immediate risk look-through in the Group companies under CRR is performed and further companies incorporated in the IFRS-consolidated financial statements are considered on an equity-based method.
- The equity method, determined using established company 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. Therefore, the real estate risks of the DI Deutschland.Immobilien segment, which were previously considered separately, are now incorporated within the market price risk as part of the equity holding risk. In addition, the operational risk that was previously considered in the look-through is notably reduced due to transfer of companies outside the CRR group into the equity holding risk.
- Risks are determined at a confidence level of 99.9% or comparable.
- The present value risk coverage buffer is derived using a present value-based method.

Group-wide risk management

Similarly to the group under IFRS, all companies of the MLP Group with significant 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 MLP FHG, MLP SE, as the licensed financial holding company, is the superordinated undertaking of the Group pursuant to § 10a (2) of the German Banking Act (KWG) and Art. 11 of the Capital Requirements Regulation (CRR). MLP Banking AG as the deposit and CRR financial institution is subordinated to it. In the sense of § 25a (3) of the German Banking Act (KWG) and in conjunction with Section 4.5 of Germany's "MaRisk" Minimum Requirements for Risk Management, the Executive Board at MLP SE has therefore ensured appropriate control and monitoring of the significant risks at Group level through suitable processes. This approach encompasses in particular:

- defining Group-wide strategies,
- securing the Group's risk-bearing ability,

- establishing structural and organisational regulations for the Group,
- implementing Group-wide risk management and controlling processes and
- establishing a Group-wide risk controlling, risk compliance and risk audit role.

In the context of the strategy process and the risk audit, MLP SE, acting as the superordinated undertaking of MLP FHG, obtains an overview of the risks in the Group on a regular and ad hoc basis. Based on the risks identified at the individual companies and their severity, all risks identified as significant within the Group by the superordinated 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 the 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 (no 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 Management AG, Bad Homburg v. d. Höhe
- 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 stated in the list of shareholdings in the notes. In total, 39 fully consolidated entities under IFRS are evaluated for risk management purposes at the group level on a consolidated basis in the look-through or through equity holding risks as part of the counterparty default risk.

Risk policies

The Executive Board at MLP SE, as the superordinated undertaking of the MLP Group, defines the business strategy and a 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 the risk management at MLP FHG. The risk appetite is regularly checked and adjusted as necessary.

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

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

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

Board regularly draws up a declaration of the appropriateness of the risk management procedures adopted.

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

The Executive Board at the superordinated undertaking and the members of the Executive Board or Managing Directors at the subordinate companies ensure that a comprehensive approach, incorporating all key risk types, is integrated in the company and that suitable steps are taken to implement the risk strategy.

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

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

The risk culture is, for example, substantiated on the basis of the requirements regarding new product processes, change processes and projects, each of which use 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 process of assuring risk awareness, the so-called "MaRisk Steering Committee" has been established 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. The targets set help anchor the risk culture down to employee level. This ensures that employees are both motivated and required to display risk-appropriate behaviour.

MLP engages in comprehensive risk communication, including risk reporting:

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

MLP sets targets based on profitability and risk

The starting point of 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 via 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, taking into account the relevant risks. With regard to the capital/risk coverage buffer allocation, the Minimum Requirements for Risk Management (MaRisk) are managed based on 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 buffer 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 significant 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 risk 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 criterion used in assessing individual risk assumptions or a specific portfolio. As a general rule, corresponding risk premiums are collected in the market or earned in the form of cross-selling revenue, for example for the risk costs determined for the counterparty default risks throughout the entire portfolio.

Depending on the nature, scope and influenceability 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, for example insurance companies), and/or
- accepted.

Risk capital and liquidity management

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

Risk capital management is an integral part of the Group management system at MLP FHG. The alignment of risk-taking with capital adequacy at all times is ensured through active management of normative and economic capital adequacy in accordance with supervisory requirements as per the Minimum Requirements for Risk Management (MaRisk) issued by the Federal Financial Supervisory Authority (BaFin) and the corresponding guidelines of BaFin on the design of the Internal Capital Adequacy Assessment Process (ICAAP).

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

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

The key risk types of counterparty default, market price, liquidity and operational risks are in particular quantified within the scope of the economic risk capacity calculation. 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 ability. In addition to this, sustainability risks, which can occur in the form of transitory or physical risks, can manifest themselves within the aforementioned risk types as risks addressed from a multi-disciplinary perspective, which is why these are taken into account as 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 managing economic risk and risk capital, there is also an equal emphasis on managing risk-bearing capacity based on regulatory capital adequacy requirements and the regulator-defined risks as per the Capital Requirements Regulation (CRR) in the normative risk capacity calculation over a multi-year planning horizon, taking into account adverse developments in scenario planning.

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 or 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. As part of the risk capacity calculation, incorporated risks are therefore quantified/assessed applying strict risk measures. This includes the confidence level of 99.9%. Since January 1, 2023, the risk coverage potential has been determined at present value and derived from the aggregated present value of assets, off-balance-sheet items and debts of the IFRS-consolidated group. In the first step, the risk coverage potential (RCP) and the risks are determined on the basis of a look-through of the companies in the regulatory group under CRR. The other companies in the IFRS-consolidated group are accounted for using the equity method, which forms the basis for assessing the equity investment risks. The differential amount between the present value of the investments and the carrying amounts in the consolidated balance sheet of the regulatory scope of consolidation is added to or subtracted from the risk coverage potential as a hidden reserve or charge. This results in an interconnection of the present values derived from the cash flows of the business activities of these companies, as they form the basis for both the hidden reserves allocated within the risk coverage potential and the equity holding risk. Administration costs to be paid for the stock positions, as well as expected losses (in particular risk costs) from the RCP still need to be deducted from the present value of the transactions of the regulatory group (CRR). A difference between the carrying amount and present value of the items is also deducted from the balance sheet equity using a present value-based approach. The administration costs and risk costs are also deducted from this amount. The present value applied to the RCP from the commission business ("transaction-based earnings potential") of the regulatory scope of consolidation represents a perpetual annuity adjusted for historical 5-year averages excluding special effects. Intangible assets of the regulatory scope of consolidation are deducted.

A risk coverage buffer is proportionately derived from the risk coverage potential initially determined in Q1 of a financial year, corresponding to at least the available RCP during the year. As a result of the non-complete allocation, the fluctuations in the present value-based risk coverage potential that are encountered during the year and relate to the methods employed should be taken into account, resulting in a stable RDM.

Normative perspective

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

To this end, a balance sheet of the Group and of the regulatory scope of consolidation is planned each year for the time frame of four financial years on the basis of the long-range plan (LRP). The regulatory financial requirements are derived from this expectation and held against the available own funds. A check is performed against the regulatory capital requirements and expectations, including the total SREP capital requirement (TSCR), overall capital requirement (OCR) and target equity ratio (TER). 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 effect of the significant 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 counter-measures.

Risk-bearing capacity under the liquidity view

Within the scope of short-term liquidity control at Group level, the liquidity risk is assessed and controlled in particular using the liquidity coverage ratio (LCR). The LCR is based on a supervisory-assumed stress scenario that has a review period of 30 days. 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 gap analyses, which highlight the development of liquidity over medium and long-term time horizons. Stress scenarios of varying severity are used here.

Concentration of risk

Irrespective of the risk type, risk concentrations can occur and manifest themselves as intra-risk concentrations or inter-risk concentrations. Examples of intra-risk concentrations include credit risk concentrations in proprietary trading or individual sales products that are critical to total income (earnings concentrations). A typical inter-risk concentration at a bank, on the other hand, is a reputational risk that materialises based on investor behaviour and can trigger increased liquidity outflows through client deposits. Risk concentrations are reviewed regularly as part of the risk audit.

To pre-emptively reduce the emergence of risk concentrations in proprietary trading, diversification is pursued - among other things by means of minimum requirements for external ratings, the tradeability of the shares, as well as issuer and sector limits and a corresponding maturity structure. To this end, capital investment directives are implemented at the key companies.

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

Significant risk concentrations are regularly monitored and taken into account in risk management operations.

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

Stress tests

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

Univariate stress tests can be distinguished from multivariate stress tests on the basis of historical and hypothetical scenarios. When performing sensitivity analyses ("univariate stress tests“), only one risk parameter of one risk type is varied. In this way, the sensitivity of risk parameters and the increasing capital requirements associated with this are investigated with regard to the underlying risk factors. Interactions between various risk factors are not considered here. Multivariate stress tests involve simultaneously altering multiple risk parameters. The effects are derived from a predefined, typically macroeconomically derived scenario. Both extraordinary and plausible scenarios are simulated here. The climate stress test also falls under the scope of multivariate stress tests.

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

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

Backtesting and validation

Pursuant to Section 4.1 Paragraph 9 of the Minimum Requirements for Risk Management (MaRisk), the adequacy of the methods and procedures used for risk quantification is reviewed at regular intervals or as needed. 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 are classified, their causes explored and recommended actions derived. The affected processes should then be remedied within an appropriate time frame in accordance with the severity of the deficiencies. The Executive Board is also to be informed of any deficiencies determined, as well as the schedule for their rectification.

The changes introduced in the 7th MaRisk Amendment regarding model risk management, specifically in relation to AT 4.3.5 MaRisk, are also being considered.

Organisation

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

To fulfil the duties, MLP SE employs a risk organisation that follows the established segment control of financial reporting and, pursuant to IFRS 8, incorporates sub-segments into the process organisation of the Group-wide risk management system. The companies overseeing the segments are responsible for the risk management control 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 checked. A crucial element of these principles is a clear organisational and operational distinction between the individual functions and activities of risk management.

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

Group Risk Manager

As a member of the management of 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 gives regular reports on this to the entire Executive Board and Supervisory Board.

Risk controlling function

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

Risk management and controlling processes

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

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

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

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

Controlling monitors earnings trends

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

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

Internal controlling system in the accounting process

With regard to the accounting and management reporting processes, the Internal Control System (ICS) is used to provide an accurate picture of actual conditions in terms of the net assets, financial position and results of operations at MLP SE and the MLP Group. The objective of the ICS is to secure complete and accurate recording, processing and documentation of all business transactions in accordance with the regulations, standards and guidelines of applicable legislation and the company's Articles of Association.

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

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

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

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

The financial statements of MLP SE and significant Group companies, as well as the consolidated financial statements are generally drafted using standard software. Group Accounting secures the completeness and accuracy of the relevant disclosures on the basis of the information provided.

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

Compliance function

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

components of the processes used to identify new risks and ensure both the effectiveness and appropriateness of the risk management systems.

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

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

Internal Audit

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

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

Risk reporting

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

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

Statement of risks

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

The significant 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 operation. 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 risk	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 default risk encompasses the migration risk, the guarantee risk, the counterparty risk, the sovereign risk, the country risk, the utilisation risk, the equity holding risk, as well as rental default risks. With the economic perspective, focus shifted in particular to the migration risk, which was therefore added to the risk catalogue.

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)). Bank lending is limited primarily to borrowers domiciled in the Federal Republic of Germany, who represent the majority of loan-bearing instruments (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 consulting and brokerage as well as from financial portfolio management in the field of financial investments, especially funds, and are of a short-term nature. For this reason, these positions are not monitored separately, but rather they are included in the standard procedure as part of the counterparty default risk. For the sum of exposures to shadow banks from lending and proprietary trading as well as from trade receivables, the Group's large exposure limit applies as a strict upper limit.

Credit risk – Strategy and credit policy

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

These risks are primarily seen in terms of climate risks due to flood damage or transient risks affecting 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 laid down in the authority regulations, which themselves are based on the risk content and processes of the transactions. Land charges in particular serve as collateral for MLP when issuing client loans. A process that is scaled on the basis of volume and employs external support is established for measuring this collateral.

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

Our client deposits are reinvested primarily in the client credit business, yet also in instant access and time deposits, bonds, debentures, funds and other financial instruments, with due consideration being given to ensuring an appropriate maturity transformation risk. Currency and trading risks are not incurred in any significant scope.

Credit risk - Control

The responsibilities in the credit business - from application, through authorisation to completion and including periodic monitoring with regular creditworthiness analyses - have been defined and documented in our organisational policies. 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%, therefore, there is currently no explicit strategy 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, 2023 is 0.5% (0.4%) and is therefore significantly below the regulatory monitoring threshold of 5%.

The various types of loans are measured regularly during portfolio monitoring of the client credit business and presented in the risk reporting 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 positions classified internally using VR ratings, 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 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 standard credit risk approach. In the economic perspective, the importance of the equity holding risk has been defined more broadly for risk quantification. Accordingly, risks within the regulatory group under CRR undergo a look-through based on the risk types defined in the risk strategy. For the remaining, performance fee-based part of the Group ("non-banking part"), a risk assessment of equity holdings not covered under the regulatory group under CRR is conducted based on considerations of information efficiency and consistency in line with Basel Pillar 1. This is performed on the basis of the operating segments or cash-generating units (non-look-through). The basis for the risk assessment is therefore the valuations of the cash-generating units under IFRS, using a business valuation method and the CAPM (Capital Asset Pricing Model). This approach approximates the value of a theoretical divestment. The cash flows used and the discount factor have appropriate risk factors applied (for example increasing the market risk premiums and reducing the cash flows) and are subjected to multivariate stress testing on the basis of historic data in order to determine the risk value. As per the general strategic stipulations, this should lead to a risk assessment that is at least equivalent to a univariate 99.9% confidence level.

Quantification

As of December 31, 2023, MLP FHG has a counterparty default risk of €368.4 million (€44.2 million).

The credit risk is €117.9 million (€44.2 million) of this.

The equity holding risk of the "non-banking part" of MLP FHG, which has been quantified since this financial year, is €250.5 million (€0 million). The change compared to the previous year is primarily

attributable to the anticipated present values of equity holdings, which include the profit and loss-related business of the "non-banking part" of the MLP FHG.

The quantified equity holding risk as of December 31, 2023, is distributed among the segments, and not directly to the equity holdings in the group under CRR, as follows:

Segment[1]	Effect in € million
	2023
Financial Consulting	124.3
DOMCURA	49.8
Deutschland.Immobilien	29.3
Industrial Broker	44.7
Other equity holdings[2]	2.4
Total	250.5

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

[2] Other equity investments include equity investments of MLP FHG under 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 ongoing particular risk position of the Deutschland.Immobilien segment, an increased risk value is quantified through individual risk factors.

Market price risks

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

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

Possible effects of different interest development scenarios at Group level are portrayed via planning and simulation calculations. The basis of this is our interest management tool. Within this context and for economic management purposes, the change in present value of all positions in the interest book is illustrated as a ratio of the regulatory equity of the Group through the so-called interest rate risk coefficient. The simulation is conducted across all interest-bearing and interest-sensitive positions of the regulatory group under CRR. For fixed interest positions, contractual maturities are used. Variable interest rate positions are parameterised according to assumptions on interest rate progression, which are derived from historical observations and correlations. For economic management purposes, an interest rate scenario on the basis of historical market observations, which has been determined since 2007, is applied to this and then subjected to a holding period of 250 trading days. The scenario of +/- 200 BP movement, as stipulated by the supervisory authorities, is used to determine the interest rate risk coefficient. The interest rate risk coefficient should not exceed 20%.

To manage interest rate risk, additional control metrics have been implemented. These include controlling the difference in asset-liability duration, the remaining terms to maturity of the transactions, as well as the target bandwidth of the interest rate risk coefficient.

Credit spread risks are of minor economic significance, since a holding strategy is in place for the bonds held in the portfolio. Yet despite this, the risk is approximated and assessed from an economic perspective using various measures, including an assumption of deterioration in the key counterparty rating.

The following are also either of minor significance or not present at all: foreign currency risk, market value risk, real estate in the trading portfolio, real estate in the company's own stock (in particular due to undisclosed reserves), option risks and settlement/delivery risks.

Quantification of interest risks

With the transition to economic risk management, the present value interest rate 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 rate risk of the companies in the risk review amounts to €15.1 million as of December 31, 2023, with a confidence level of 99.9% for the interest rate increase scenario. In the previous year, quantification was carried out through changes of the interest result affecting P+L amounting to €3.6 million at a confidence level of 97.0% for the interest rate decrease scenario.

Due to the ongoing dynamic development observed in the financial year, the underlying interest rate assumptions are generally calculated each quarter on the basis of the current data. As of December 31, 2023, 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 respectively (+77 BP or +210 BP respectively). In the scenario of falling interest rates, it was -430 BP for 1 day and -166 BP for 10 years (-330 BP or -134 BP respectively).

Interest rate risks at MLP FHG due to interest rate shock

Simulated scenario	Effect in € million	
	2023	2022
Parallel shift +200BP	-11.0	-4.3
Parallel shift -200BP	13.8	5.8
Steepening of the interest rate curve	-11.1	-6.7
Flattening of the interest rate curve	9.2	5.9
Short rates shock up	5.3	4.2
Short rates shock down	-5.5	-4.5

The interest rate risk coefficient of MLP FHG, defined as a quotient of the loss in net present value and equity, is 3.3% (1.3%). This is a result of the parallel shift scenario +200 BP.

Real estate risks MLP FHG

As part of the market price risks, real estate risks of DI Deutschland.Immobilien AG and its subsidiaries are taken into account while factoring in the capital share held by MLP. Real estate risks have been taken into account implicitly within the equity holding risk since the financial year 2023.

In the previous year, risk quantification was performed on the basis of a VaR approach that uses historic performance with a confidence level of 97%. The real estate risk as of December 31, 2022 was €4.0 million.

Liquidity risks

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

Operational liquidity control

Within the scope of strategic or short-term liquidity control at Group level, the liquidity risk is assessed and controlled in particular using the KPI from the Liquidity Directive and the Liquidity Coverage Ratio (LCR). In addition, the liquidity at risk (LaR) describes the anticipated net funding requirement from all autonomous payments, which will not be exceeded at a defined level of probability. The utilisation of the liquidity at risk is monitored at a confidence level of 99.9% (previous year: 97.0%) on the basis of traffic light approach.

Additionally an expected shortfall is monitored for the assessment of any outliers. Short-term liquidity requirements were covered in the Group by sufficient funds at all times.

Structural liquidity control

Structural (mid-to-long-term) liquidity control of the Group is performed on the basis of liquidity flow statements and projections, which highlight the anticipated development of liquidity over various time horizons (up to three years). The liquidity flow statement compares the projected surplus or deficit of funds under stress assumptions for each time horizon to the refinancing potential (free liquidity reserve). To this end, the assets that are available for sale in the short-term and mid-term and not tied up in operational liquidity control are compiled and assigned to classes on the basis of their speed of sale.

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

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

Quantification

Calculation of the LVaR as of December 31, 2023 indicates a positive annual compliance with limits. Similarly to the previous year, a survival horizon of 12 months was always maintained in the financial year. There are no anticipated additional refinancing costs (previous year: none). If, contrary to expectations, net cash outflows that go beyond the estimated levels occur, further liquidity reserves are available.

The liquidity risk at MLP FHG results primarily from MLP Banking AG as the deposit-taking bank. The refinancing structure is based largely on client deposits. Appropriate short and medium-term credit lines have also been agreed to safeguard against a possible short-term liquidity shortfall.

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

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

As of December 31, 2023, the liquidity risk at MLP FHG is €0.0 million (€1.2 million). This decline can predominantly be attributed to the fact that the risks of Group companies outside the group under CRR are taken into account via the equity holding risk, which is why the liquidity risks quantified in the previous year for these companies are now included in the equity holding risk.

The available liquidity reserves of MLP FHG are €1,009.2 million (€1,202.6 million).

Operational risks

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

Throughout the Group, operational risks are identified and assessed at local level in the individual risk organisational units or the segments or the significant companies in the form of self-assessments and damage data pools. The basis is a group-wide inventory of possible scenarios of operational risks. 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 MLP FHG:

- All key 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 and with this a reduction in the frequency and level of associated losses is primarily to be achieved through 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 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 the functions Internal Audit, Compliance and Risk Controlling in the sense of Germany's "MaRisk" minimum risk management requirements. As a general rule, the available personnel capacities are structured in such a way that necessary procedures are still securely maintained, even when employees are unexpectedly unavailable for work.

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

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

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

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

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 also lines up with MLP's mission statement, its core values of performance and trust, as well as its

leadership principles. The risk of staff shortages is reduced through an active personnel and succession planning as well as targeted personnel marketing measures.

Employees working with confidential information undertake to observe the respective regulations and handle the information responsibly. A clear separation of management and control functions restricts the risk of breaching internal and external regulations. Defined deputation 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.

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 potential risks with regard to information security and then take any appropriate action. This is incorporated into the assessment and control of operational risks. In terms of the protective measures, we ensure that our technology always reflects the state of the art and have this regularly checked by external experts. Digital innovations are developed in a laboratory environment as a way of keeping risks to a minimum during the development phase.

Risks from external events

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

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

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

Internal security measures are also set up in such a way that any attempts at fraud, burglary or theft are prevented upfront. 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 of MLP FHG from fraudulent or other criminal conduct are identified and regularly assessed within the scope of the risk analysis performed to identify potential hazards caused by criminal conduct (both internally and externally). Both the risk assessment and the individual measures implemented to avoid criminal conduct are performed by the relevant section at the respective central office pursuant to § 25h of the German Banking Act (KWG) and are also incorporated into the operational risk audit process.

Legal risks

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

The 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 which may be necessary. According to our review, the pending or threatening legal proceedings against MLP FHG do not represent risks which could endanger the Group's continued existence.

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

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

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

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. For those organisational units in the risk review where the data basis, especially concerning the claims history, is not sufficient, the basic indicator approach will be used as an alternative in accordance with the CRR. The same applies to any new organisational units that need to be considered in the look-through process until they are switched over to the proprietary model. Within the scope of the basic indicator approach, the supervisory capital charge for the operational risk is determined using a fixed calculation scheme. On this basis the capital charge is 15% of the average gross proceeds of the last three financial years, whereby only positive gross proceeds are taken into account. It is expected that there will be a change in the regulatory approach in 2025, so corresponding preparations are underway. Current expectations are reflected within the scope of the normative perspective on a best effort basis.

As of December 31, 2023, the operational risk of MLP FHG is €3.8 million (€21.1 million) based on the risks presented above. This decline can predominantly be attributed to the fact that the risks of Group companies outside the group under CRR are taken into account via the equity holding risk, which is why the operational risks quantified in the previous year for these companies are now included in the equity holding risk.

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 contractual obligation. In particular, the assessed investments 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 insignificant risks of MLP FHG, the minimum of €10 million or 1% of the risk coverage potential is retained.

In comparison to the previous year, other risks were restructured in the risk audit. The risk category defined as general business risks in the previous year now differentiates between strategic risks, sales risks and tax risks. The strategic risks include the overall economic risks, business environment and sector-related risks, as well as corporate strategy risks.

Strategic risks

The 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 to the respective business environment which may have changed abruptly. Such focus, for example on individual products or a special client segment, also bears the risk of making the operating results excessively dependent on the earnings contribution of these products or this client group. Risks due to earnings concentrations can potentially occur as a result of changes in the market. Since these risks are presented in the anticipated cash flows, they are implicitly recorded in the assessment of the equity holding risk of the companies of MLP FHG that are not part of the CRR group. In addition, in the economic view on earnings potential from commission-based business, increased business risks should be anticipated. Risks that materialise can directly limit future commission flows. An existing credit portfolio, on the other hand, generates the anticipated cash flows – although it is in particular subject to the aforementioned counterparty default risks.

Strategic risks can also occur as a result of an inadequate strategic decision-making process, which is 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

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

In the mid-to-long-term perspective, the forecast demographic development in the Federal Republic of Germany will lead to a significant pension shortfall. The scepticism being displayed by the population with regard to the political motivation and will to eliminate the pension shortfall would also seem to support this. With the major central banks having underestimated the inflation trend for quite some time, first the US Federal Reserve and subsequently the European Central Bank corrected its course with measures to fight inflation, focussing in particular on increasing interest rates. The dynamic interest rate developments have now likely come to an end, so the inflation rate could stabilise in the mid to long term. However, if interest rates remain at this level, there is a risk that market conditions for deposits could approach the same level, leading to a decline in the margin over what can currently be achieved. There is also a risk that an inverse yield curve could continue to prevail and that a maturity transformation margin could be off the cards if the rate of inflation increases again while the short term interest rate remains stable. As a general rule, the end of the low interest rate era is allowing classic banking business to return to significantly better profitability which – even with reduced margins – should remain higher than the period before the turnaround in interest rates. In addition to this, there is still a pronounced need for sound wealth management advice, not least due to inheritances and gifts. The low unemployment rate – which is actually pleasing from the perspective of client potential – and the resulting increase in competition for qualified staff represent a challenge for MLP when it comes to acquiring new consultants. Due to previous supply bottlenecks, as well as inflation and interest rate developments, the overall situation in the real estate sector remains tense. Political decisions can potentially have both a positive and negative impact here. In light of high inflation, there is also a risk that energy prices, yet also wage costs, could remain at a higher level. Geopolitical developments can also lead to interruptions or delays in supply chains, which can in turn reduce revenue and increase costs.

Strategic risks: Business environment and sector-related risks

The crises of the last years have further intensified the business environment and sector-related risks in terms of competition in the financial services business in Germany and accelerated consolidation of the heavily fragmented market. New competitors have entered the market in the form of FinTechs and InsurTechs, focussing on sub-processes in the financial and insurance sectors. Social changes, new regulatory requirements and competitors, as well as identifiable trends in client behaviour are all factors which can have a significant influence on MLP's business. MLP 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 and our independence 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. Although the market situation is likely to remain tense in 2024, the real estate business remains important for the Group, as it offers additional investment opportunities within the holistic investment strategy.

Strategic risks: corporate strategy risks

Corporate strategy risks largely consist in the erroneous assessment of market trends and, in consequence, the erroneous alignment of business activities. Strategic risks also emanate from unexpected changes in market and environmental conditions as well as the shareholder structure 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 on the basis of intensive observation of the competitive environment. Measures are then derived to ensure the Group's long-term corporate success. Target values are laid down based on a projected assessment of success factors. The achievement of these values is constantly monitored. The strategic positioning is regularly reviewed on the basis of target/performance comparisons.

All key value drivers in MLP's business model are subject to continuous analysis and active management via a comprehensive system of central and local controlling. The Group strategy and the measures it involves, all of which are set out by the Executive Board, are reflected within the scope of budget and long-term planning as a way of analysing their effects on the business situation. Key developments of internal value drivers, as well as external framework conditions are also modelled 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 considered significant. 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 considered as significant. 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 different 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 at MLP FHG is always performed decentrally within the scope of a defined regulatory cycle following the principle of managing operational risks. Alongside reactive control directly after the occurrence of an event of damage, preventive risk management is particularly important here.

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

For reputation risk, there are significant inter-risk concentrations with credit 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 understood to mean the risk of interest on arrears or charges relating to regular tax payments as well as tax back payments. Changes that emerge in the tax and accounting law are continually checked and reviewed with regard to potential effects they may have on the Group. The company's compliance with fiscal requirements is checked by internal and external experts in accordance with the tax regulations and the documents pertaining to these issued by the tax authority. Corresponding provisions are formed for subsequent payments to be anticipated. Developments in the accounting law are monitored and implemented in the respective specialist departments.

Tax risks are considered a significant 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-sectionally considered 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 actually or potentially significant negative effects on net assets, result of operations or liquidity situation. This also includes climate-related risks in the form of physical risks and transition risks. Sustainability risks can manifest themselves in all risk types, which is why we do not rate them as a dedicated risk type, but rather based on issues encountered within the scope of the respective relevant risk type. Identification of sustainability risks in existing risk types occurs on the basis of ESG risk drivers. They are taken into account in risk management in accordance with the principle of materiality. Sustainability risks were identified as non-significant 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.

The insignificant sustainability risks, for example, encompass 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 significant 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, any and all risk concentrations are identified and, insofar as possible, wherever possible, 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 of significant risks:

- Credit risk: Concentrations at debtors/group of related 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: Asymmetric contractual periods between the long-term, illiquid loans or receivables and the client deposits, which generally have a short-term maturity.
- Refinancing cost risk: Concentration on individual counterparties

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

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

In the case of significant 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

After decades of low inflation rates, a turnaround took place in 2022 and 2023 due to high inflation. Following volatile market phases and a macroeconomic situation that continues to be dominated by geopolitical tensions, interest rate cuts are now slowly materialising again, even if inflation is not yet in line with the ECB's medium-term goal of around 2%. In addition to this, there is also a risk of an extended recessionary phase with low GDP growth in Germany and the eurozone due to the marked increase in interest rates. The uncertainties, caused primarily by the budgetary policy of the German government and also tighter regulations at EU level - for example in the form of comprehensive stipulations relating to the German Supply Chain Due Diligence Act (LkSG) – are contributing to the general risk position. Nevertheless, expectations in terms of short-term drops in interest rates are being welcomed and leading to positive movements in the capital market. In the long-term interest rate outlook, declining inflation rates are reflected in an inverted yield curve. Depending on the extent of the inversion, this can lead to higher or lower present values in transactions with longer interest rate commitments.

These developments are impacting MLP, in particular due to the rate of inflation, above all in the form of progressively rising costs. The changes in interest rates contribute to positive interest margins, even though lower (yet still positive) margins can be expected as the market conditions for deposits at MLP Banking AG approach the short-term reference interest rate. In the mid-term, both effects can potentially lead to reductions in either the credit portfolio or undisclosed reserves of deposits in a present value perspective, based on applied assumptions. Capital market expectations led to new peaks in the DAX. Volatile capital markets should also be anticipated for 2024 – potentially with negative effects on assets under management. A lower saving rate due to higher interest costs and inflation could be another risk factor, although MLP's client base is generally less affected by these factors.

At MLP Banking AG, the interest rate policy on the equity side is to be aligned with the internal liquidity situation, as well as with market conditions in order to prevent unanticipated liquidity outflows. In addition, the ever-rising living costs and the raised interest rate can potentially also lead to an increase in default rates.

Among other things, the present value interest risks are managed using the interest rate risk coefficient. Fourteen-day monitoring of total deposits is also used to monitor the liquidity situation.

The strategic alignment of the Group is not significantly affected by the influential factors described above, as the diversified business model provides a cushioning mitigating against materialising risks. As before, the real estate business and lending business are the main areas to suffer heavily as a result of the rapid turnaround in interest rates. However, this is being compensated, above all by the positive margin development in the banking business. Opportunities are taken if they are in line with strategies.

Risk-bearing ability & capital requirements

The economic risk-bearing capacity concept ensures that the risks incurred are offset against sufficient risk coverage potential at all times. As part of the economic risk-bearing capacity concept, MLP FHG pursues a present value-based approach to managing significant risks with a confidence level of 99.9% (previous year: 97.0%) until December 31, 2023 and compares them to the risk coverage buffer derived from the present value-based risk coverage potential.

In the previous year, the free regulatory capital after fulfilling the regulatory minimum quota and an additional buffer were available as risk coverage potential. Due to the altered control perspectives, in particular resulting from the present value-based approach and the inclusion of the group under IFRS into the group under CRR, the figures from 2022 cannot be methodologically compared with those from 2023. The consideration of present value-based risks and the hidden reserves from the significant, non-CRR-regulated part of the MLP Group through the equity method are causative for the significant increase in risks and risk coverage potential/risk coverage buffer compared to the previous year.

Risk coverage potential and risk coverage buffer

The risk coverage potential of the economic perspective, determined for the first time in the financial year 2023 using present value method, includes, among other items, 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 valuation of the equity investments of the group under IFRS without companies of the regulatory group under CRR and minus direct investments 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 buffer

Position (in € million)	Dec. 2023
Balance sheet equity (group under CRR)	575.3
Present value of undisclosed reserves and undisclosed liabilities	460.9
Present value of expected inventory liquidation costs	-102.8
Deduction for conservative valuation	-174.7
Other deduction items	28.0
Risk coverage potential	786.6
Allocated risk coverage buffer	690.0
Risk buffer	-24.3
Total limit for quantified risks	665.7

A total of €665.7 million is being made available from the risk coverage potential as risk coverage buffer. Under a hypothetical continuation of the going concern approach in accordance with commercial law, a risk coverage buffer of €115.0 million would be provided, which is the same as in the previous year. The risk coverage buffer is used to cover the risk types classified as significant by MLP. These are the counterparty default risk, the market price risk, the liquidity risk, as well as operational and other risks. The risks undertaken were consistently covered by the established risk limits throughout the financial year.

Following deduction of the risk buffer for other risks, totalling €24.3 million, this leads to the following limit utilisations for MLP FHG as of December 31, 2023:

Type of risk (in € million)	Dec. 31, 2023		
	Limit	Risk	Utilisation
Counterparty default risk	466.0	368.4	79.0%
Market price risk	59.9	15.1	25.2%
Operational risk	119.8	3.8	3.1%
Liquidity risk	20.0	0.0	0.0%
Total	**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.

For comparative purposes, the former methodology for risk capacity calculation with the going-concern approach is included for 2023 with a confidence level of 97.0%. A similar deduction of a risk buffer for DI was also applied here. However, the approach was not significant in terms of the actual risk management performed in the financial year, which is why limits for the risk types were not carried over:

Type of risk (in € million)	Dec. 31, 2023			Dec. 31, 2022		
	Limit	Risk	Utilisation	Limit	Risk	Utilisation
Counterparty default risk		46.7		67.5	44.2	65.4%
Market price risk		19.7		8.1	7.6	93.7%
Operational risk		21.1		26.6	21.1	79.3%
Liquidity risk		1.2		1.5	1.2	81.7%
Total	**103.8**	**88.7**	**85.5%**	**103.8**	**74.1**	**71.4%**

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

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

consolidation. The disclosures are based on the legal foundations in place and valid on the reporting date.

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

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

As per Article 25 et seq. of the CRR, the Group's Tier 1 common capital includes the following equity items of IFRS capital: share capital, capital reserves, statutory reserve and retained earnings, which also include the earnings from investments in other subsidiaries accounted for using the equity method. Among other factors, intangible assets, goodwill and the deduction amount for qualifying holdings as per Art. 89 (1) and (3) in connection with Art. 36 (1) k) of the Capital Requirements Regulation (CRR), the corresponding results of which are only recognised in the equity capital after the allocation of annual results in the following year.

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

Regulatory capital adequacy (Pillar I)

Shareholders' equity (in € million)	2023	2022
Tier 1 common capital	330.4	321.3
Tier 1 additional capital	–	–
Tier 2 capital	–	–
Eligible own funds	330.4	321.3
Capital adequacy requirements for counterparty default risks	121.0	105.5
Capital adequacy requirements for operational risk	24.9	22.6
Core capital ratio (in %)	18.1	20.1
Tier 1 common capital ratio (in %)	18.1	20.1

Amounts on the basis of submitted statement

On the basis of the current business and capital planning, incorporating adverse scenario planning, the MLP group under CRR also satisfies the capital requirements from a multi-year normative risk-bearing capacity perspective for the financial years 2024 to 2026.

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 key risks in terms of both current and future developments. The information provided ensured prompt introduction and prioritisation of risk management measures without exception.

In 2023, MLP FHG consistently operated within its risk-bearing capacity, maintaining strong capital and liquidity positions.

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

The risk management system is subject to continuous further development, in particular with regard to developing the volume and complexity of our business. The effectiveness of our risk management system and its 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 insignificant, could have a negative impact on our forecasts detailed in the outlook.

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