The

2015

digital transformation

Annual Report

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.msg life

CONSOLIDATED KEY RATIOS

pursuant to IFRS	2015	2014	2013	2012
	in million euros	*in million euros*	*in million euros*	*in million euros*
Turnover	**108.1**	104.3	131.3	136.7
EBITDA*	**8.5**	11.4	-1.8	-9.1
EBIT	**6.7**	6.4	-7.0	-19.3
EBT	**6.6**	6.0	-7.8	-20.3
Annual net profit / loss	**4.7**	-0.9	-6.1	-24.6
Earnings per share in euros	**0.11**	-0.02	-0.13	-0.59
Balance sheet total	**81.4**	79.3	102.7	106.0
Equity	**46.2**	40.2	42.7	50.0
Liquid funds	**21.8**	21.7	14.4	11.3
Cash flow from operating activity	**2.5**	12.0	-0.8	-1.5
Cash flow from investment activity	**0.5**	8.9	2.2	-1.7

* Earnings before interest, taxes, depreciation of property, plant and equipment and amortisation of intangible assets

2015

Annual Report

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Management

THE MANAGEMENT BOARD

BERNHARD ACHTER
MEMBER OF THE MANAGEMENT BOARD

— Global

ROLF ZIELKE
SPOKESPERSON OF THE MANAGEMENT BOARD

— Central Europe

DR ARISTID NEUBURGER
MEMBER OF THE MANAGEMENT BOARD

— Central Europe

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders, Customers,
Business Associates and Colleagues,

The 2015 financial year was a good one for msg life ag: with EBITDA of 8.5 million euros and aggregate turnover of 108.1 million euros, we met our most important corporate targets as well as our annual forecasts. Whereas in 2014 our earnings were influenced by major non-recurring effects from the disposal of our Banking segment, the company has now fully returned to sustainable profitability. This is an equally important milestone for customers as it is for staff.

Our shareholders have also profited from these positive developments: in 2015, the share price of msg life increased by 39 per cent, leaving stock indices such as the Prime All Share and the Technology All Share far behind it. Turnover of msg life shares also grew significantly once more. This all shows that investors believe in the continued positive growth of the company and therefore support the path we have taken.

In terms of sales, 2015 was characterised by consistently stable business with existing customers. We continue to see this trust as an obligation to continuously improve and enhance our own services and solutions with initiative and innovation, as well as in close collaboration with msg life customers.

The attraction of new customers, for example, to our product solutions msg.Life Factory, msg.Office, msg.RAN, msg.Zulagenverwaltung and msg.Tax Connect in the German-speaking markets as well as in Southern and Eastern Europe was no less positive in the financial year ended. However, we also experienced positive business developments in the United States, where our US Group company was once more able to generate turnover in excess of 20 million euros and attract several new customers.

What do we expect for 2016? The strategy of msg life for this year is clear: we want to build on the sales successes of the previous year, assert our professional and technological leadership and spur on the development of our innovative products and services, and in doing so continue to strengthen our core business.

We will rely primarily on the commercial success of our core product, msg.Life Factory, that is considered a market leader in Europe even by independent research companies. This solution is based on the latest SOA and JEE technology and is being used by leading companies in our customers' sectors.

We also intend to turn the projects that have already been launched in connection with current issues into further commercial success. This is relevant, for example, in light of the rapid digitisation of the entire insurance industry, to which we have therefore dedicated an entire section of this annual report. This also applies to actuarial product design solutions that are of existential importance to our customers in this low-interest environment. We are in an excellent position in both fields with our latest cutting-edge investments.

Following last year's successful integration of msg.Life Factory into msg.Insurance Suite, the central insurance platform of the msg Group, the Group-wide marketing of this unique overall solution is another important aspect. In this context, we expect to generate more new business in 2016 following our acquisition of Heidelberger Leben in the previous year.

Simultaneously, we are expanding our independent consultation business and will gradually position our life insurance products and solutions on the US market.

All of these developments of our products and services are the result of a once more extremely solid financial basis and are intended to raise the current profitability level of msg life even further. This will still include the organic growth of our company as a priority.

In light of our consistently stable business with existing customers and the promising sales pipeline, in the 2016 financial year we expect earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets (EBITDA) of between 10 and 12 million euros and aggregate turnover of between 110 and 112 million euros.

Due to the positive developments of previous years, the msg life Group now holds a promising position in the field of software and consultation services for life insurers in Europe and is a strong competitor. We also have a now highly promising position in the US market – currently in the health insurance market but also in terms of the life insurance industry.

This outstanding situation was brought about by the 850 members of staff of our company, whom I would like to thank on behalf of the Management Board for their hard work in the 2015 financial year.

We would also like to thank all of our customers and business associates for the invariably constructive, successful work we have done together, as well as our shareholders for their loyalty and ongoing confidence.

Yours faithfully,

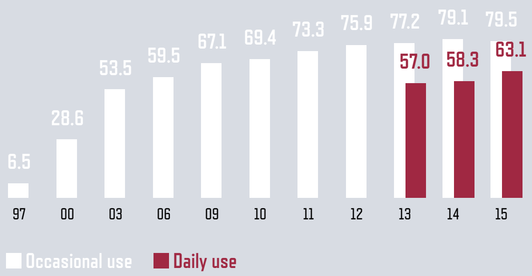
ROLF ZIELKE
Spokesperson of the Management Board

The digital transformation

The networked company_Digitisation is rapidly changing companies. Successful insurers are increasingly focused on optimising the customer experience. We are already supplying our partners with the digital architecture of the future.

Development of Internet use

in Germany[1] 1997 – 2015 | in %



[1] People from the age of 14
Source: ARD online study 1997, ARD/ZDF online studies 1998 – 2015

Mr Kaiser is now in

Mr Kaiser from the former Hamburg-Mannheimer Versicherung is known to everyone in the German-speaking countries. Günter Kaiser was one of the most famous promotional icons on German television – always dressed smartly, his case in his left hand, always polite, a little fussy and never short of a slogan.

Mr Kaiser's disappearance from screens after 35 years in 2009 attests to a profound change in insurance marketing: not only did the nice Mr Kaiser vanish, but the insurance representative was made redundant in his wake. The Internet generation does not know Mr Kaiser – in fact, they do not know any insurance representatives.

Born after 1980 and having grown up with computers, mobile phones and mobile Internet, the Internet generation would never have imagined inviting an insurance representative into their homes to chat about life insurance, poverty risks and pensions over coffee and biscuits.

Surfing instead of coffee

It is much easier to do it sitting on the sofa or on the train, with headphones and background music streaming from the cloud. Younger people – and the relatives of the Internet generation are occasionally also over 30 years of age – do the groundwork using Google. Online consumer and advisor platforms such as Finanztip and Finanztest then provide more detailed information; the customer might even take a look at a blog on the subject before consulting comparison sites such as Check24.

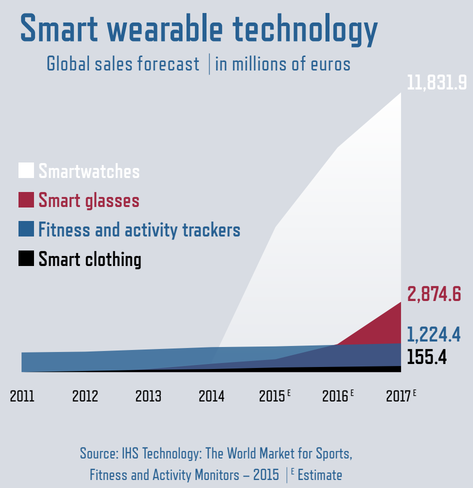
This trend will continue. Today, customers from the Internet generation carry out research online but still mostly take out policies the old-fashioned way. In the future, more and more customers from the Internet generation will take out policies online instead. Insurers will confirm the policy by email and policies will be managed straight through the customer portal – and, of course, payments will be made online.

The future of insurance marketing is digital and an insurer that fails to recognise this will be hard pressed to survive on the market. Everything that can be digitised will be digitised.

But what does this mean for insurance companies?

> *'All over the world, Axa has made digitisation one of its key initiatives. We believe that digitisation gives us the opportunity to be in considerably more contact with our customers and provide them with new services that are tailored to their specific requirements.'*
>
> **Dr Thomas Buberl**, CEO of AXA Konzern AG, speaking to Versicherungswirtschaft heute

Intelligent insurance _ For our customers, transitioning business quickly, holistically and permanently into the digital world means remaining competitive in the future.



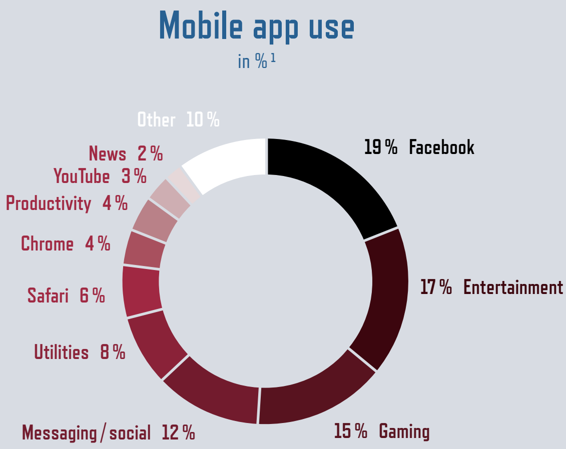
The Internet is intensifying the competition

Be it comparison sites, online newspapers and magazines, blogs or consumer portals – current studies, customer reviews and notifications are more available than ever before. The role of traditional media is shrinking. This means that sources of information and contacts are numerous. The Internet generation is enormously networked. Opinions are obtained and answers are sought from online groups, chats and forums with increasing frequency.

More information means higher market transparency, allowing consumers to gain an overview of products and rates more quickly. This creates competitive pressure which ultimately benefits the customer, who can then lean back and relax. Competition means that future policies will either contain better benefits or be cheaper. If an insurer cannot keep up, its position on the market will be at stake.

Digitisation is also affecting another aspect: cracks are appearing in the business models of life insurers because most of their products fail to account for the trend. Traditional life insurance is considered expensive, obscure and inflexible. The historically low interest rates take it one step further. As a result, there is demand for alternatives.

And another challenge is on its way: small, agile and focused fintech and insurtech companies are attempting to beat new, exclusive paths to the customer. The world of start-ups has provided insurers with a new vocabulary and perception of themselves: they are now discussing how 'disruptive' digital technology is – that is, how radically they will have to change their business models in order to survive in the market. Insurers can learn from the experience of the banks, which basically underestimated new rivals and customer needs for a long time and finally closed the barn door just as the horse was bolting.



Source: Statista 2016
[1] Apps on mobile end devices in the United States, June 2015

IT is becoming the sun around which insurers orbit

For many traditional insurance companies, their technology is no longer state of the art. Given the age of their IT systems, they have every piece of technology from every decade, from Cobol and IBM mainframes to Smalltalk and Unix servers to Java and Intel Grids. They also have a range of hardware and software that younger IT technicians do not even recognise. In summary, traditional insurers are having to deal with the large-scale coexistence of old technology.

The digital trailblazer_In a world full of information, msg life creates intelligent ideas and solutions that are the key to surviving change. This allows the customers to shape the future.

What is the business model of insurance 2.0?

Insurers have to learn that 'digital' is not the same as 'online': digital insurers rely on digital customers and their requirements, such as high convenience and a good user experience on all digital devices and channels. Real digital insurers maintain digital ecosystems that deliver a digital customer experience, and they create digital products and services. The processes in these ecosystems have to be largely automated: the IT equipment and the systems on which products are developed, tested, marketed and issued must work as smoothly as in a factory.

Over the past 15 years, traditional insurers have transitioned numerous classic, paper-based products, services and processes to the Internet with only minor adjustments. This is often still the case in today's online insurance business – you are sent an email instead of a letter. In contrast, digital insurers rely on processes that have been designed especially for the Internet: 100 per cent hassle-free, no queues, automated and equipped with considerable analytical capabilities and artificial intelligence.

In contrast, the new competitors – fintech companies – are building their business models for digital insurance from scratch and from the ground up. They are able to work with fewer pieces of technology and always have the right hardware and software tool for their specialised IT work. This also attracts talented IT specialists. As a result, digital insurers are achieving excellent usability and performance, enormous scaling and low IT costs per user. Digitisation is therefore transforming IT into a cornerstone of a successful insurance company.

Digitisation is bringing with it enormous challenges for the industry – insurance companies have an experienced partner in msg life. We understand that IT is the key to success and that customers today have different expectations of their chosen insurers. We are therefore currently developing an innovative self-service portal for life insurers. For the first time, this portal gives end customers the opportunity to actively control key elements in the management of insurance policies – online, around the clock and with excellent ease of use and security for users. This represents a novel, exceptionally attractive product with full end-to-end functionality and no media discontinuity.

This shows that, as we understand it, digitisation means streamlining and automating processes and taking trends such as mobile and real-time insurance and demand for more flexibility into consideration during product development. And finally, good IT minimises the technology stack and combats the inefficient coexistence of obsolete technology, tools and special solutions.


E62-67 Gates
E58
E59

We are preparing digital insurance for take-off_

We are helping our customers overcome the challenges of digitisation sustainably, reliably and with a sense of perspective.

In msg.Insurance Suite, we provide insurers with a cross-sector solution from a single source: a solution for the efficient management of policy data, contemporary yet traditional sales through brokers or sales representatives and marketing to end customers over digital media. Powerful policy analysis tools support insurers in risk management and help them streamline their core processes, rounding off the unique product msg.Insurance Suite. We see ourselves as a partner to insurance companies that can help them broaden their customer focus, personalise communication with customers and turn customer experience and requirements into **PERSONALISED PRODUCTS**.

Operating efficiency (I-Factory)

We support the digitisation of all business processes in order to increase the **SPEED OF SERVICE**, shorten product development and time to market and accelerate insurance operations.

Insurance marketing (I-Digital)

We help develop and integrate an efficient **MULTI-CHANNEL** strategy that allows end customers to communicate with their insurance company, manage their policies and enjoy all the comforts of digital insurance on multiple channels and through various customer portals.

Big-data analysis (I-Analytics)

We help insurance companies analyse and evaluate available data and, in turn, help our customers develop new products and services, predict trends and events by analysing customer and market data (**BIG DATA**), make their business more efficient and promptly implement all regulatory changes.

PRODUCTS AND SERVICES

msg life – software, consulting and cloud solutions for life insurance companies and pension fund institutions

msg life is the leading provider of software, consulting and cloud solutions for the European insurance industry in the fields of life insurance and pensions. Our product and service spectrum ranges from extensive consultancy services and a vast array of standard software through to flexible cloud solutions.

As an industry specialist with more than 35 years of leading the market and nearly 100 successfully implemented core systems at life insurers and pension fund institutions, msg life has a unique combination of technical expertise, process know-how and IT competence. msg life stands for comprehensive, modern and tried-and-tested solutions which are state of the art and which provide our customers with decisive time and cost advantages in an increasingly more competitive market. The ongoing functional and technical development of our products – in close cooperation with the customers and always oriented on the requirements of the market – ensures the value of the solutions in the future. Current market topics such as cloud computing are taken up and integrated into the road maps of the products.

Collaborations with leading technology companies such as IBM ensure that the architecture of our solutions is always at the cutting edge of technology. Combined with our technical expertise and know-how, this gives rise to excellent solutions with high market acceptance.

Independent analysts regularly assess and confirm our solutions' efficiency and outstanding market position. msg.Life Factory (portfolio management system for life insurers) has thus held a leading position in the Gartner Magic Quadrant for Life Insurance Policy Administration Systems (Europe) for years.

Portfolio of solutions

The market for life insurance and pensions is subject to continuous change: now, just as in the past, insurance companies are exposed to increasing costs and competitive pressure. Demand for a high level of customer service and attractive prices, the challenge of coping with new statutory requirements as well as the necessity of launching new products on the market quickly and cost-effectively means insurance companies are facing big challenges all the time.

Due to the continued low-interest environment, companies increasingly need to offer innovative pension products (for example, capital-market-related or capital-efficient products) as a complement to their portfolio of classic products. Due to the increasing economic pressure, insurance companies must also increase their administrative efficiency in order to reduce costs (for example, via automation) and react to changing customer behaviours in the context of the digital transformation of the economy and society. At the same time, digitisation is lowering barriers to market entry for new providers and further increases the level of competition.

The range of solutions on offer from msg life puts insurers in position to react quickly and flexibly to the challenges of the market. The high configurability, the use of a product server and the modern, service-oriented technology (SOA) mean changes can be made rapidly to products and processes, thus enabling customer requirements and market developments to be quickly turned into new business models.

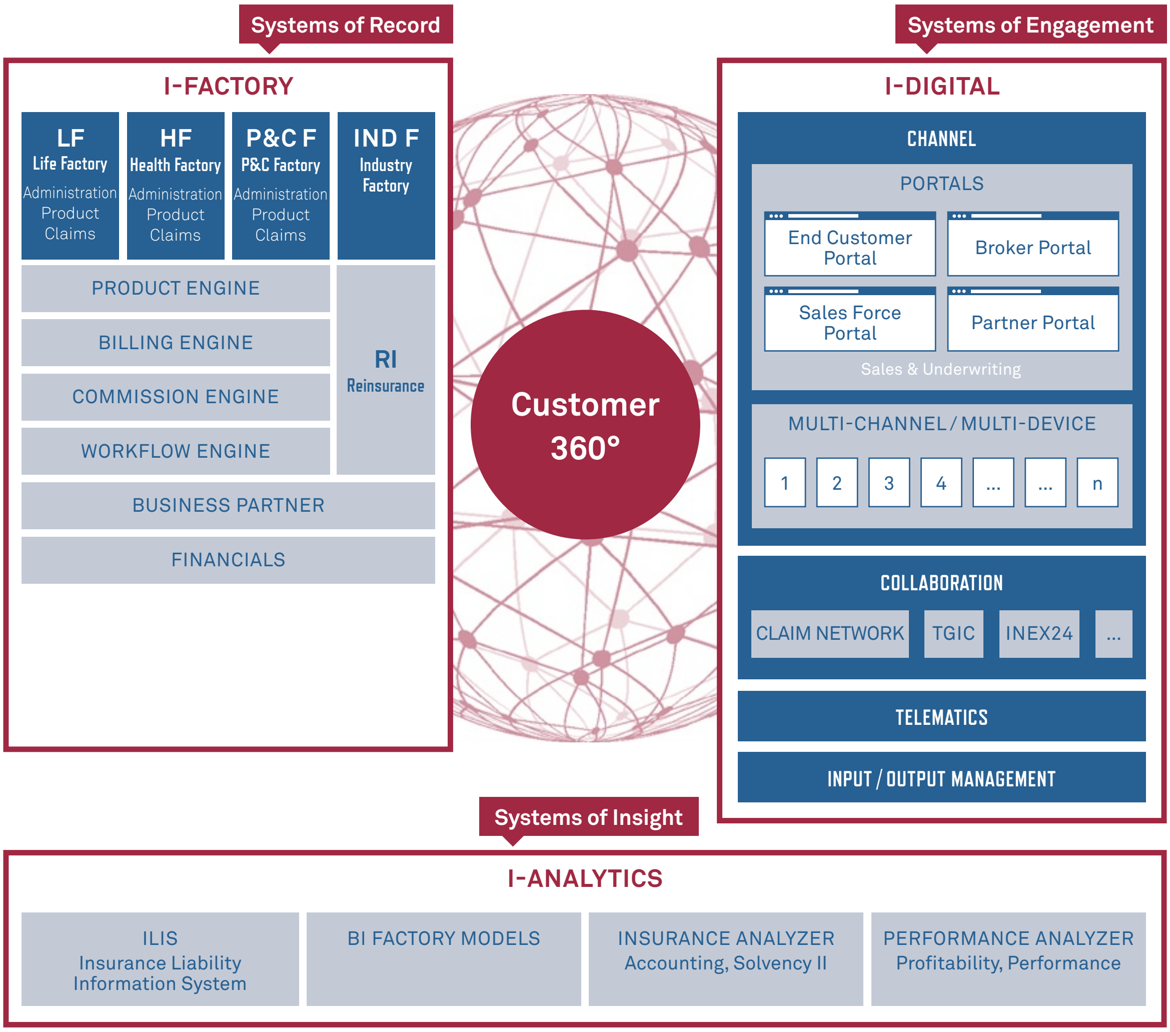
The individual components fully represent the relevant insurance company business processes and can either be combined to meet customer-specific needs or used as stand-alone services. The spectrum ranges from front-end functions such as handling enquiries and risk assessment to contract management, commission management and collection. Additional msg life products, individual add-ons and software components from third parties can be incorporated via existing standardised interfaces. This enables each customer to set up its IT environment specifically to meet its own needs without having to dispense with the advantages of standard software.

Main products

msg life's software solutions cover the entire value chain of a life insurer – from the product concept, creation of a quotation and the entire life cycle through to the service phase. A high degree of standardisation and prefabrication enables the customer to use the software quickly and cost-effectively as well as to develop it further individually or in cost-sharing models. As a matter of principle, the software solutions have multi-client, multi-currency and multilanguage capabilities and can therefore also be used internationally. Today, users in more than 30 countries, including the United States and Australia, are using msg life solutions.

Standard software

powerful, cost-effective and internationally deployable



msg.Insurance Suite

SOLUTIONS PLATFORM FOR DEPICTING ALL INSURANCE OPERATIONS

Together with other companies of the msg Group, our msg.Insurance Suite (msg.I-Suite) offers a comprehensive portfolio of solutions, which support the entire insurance sector, from a single source. The platform facilitates the end-to-end processing of all of an insurance company's core business processes.

msg.Insurance Suite comprises separate standard software components preconfigured for the market requirements which are put together based on the best-of-breed approach. Compared to a compilation of components from various providers, clear advantages in terms of costs and effort arise both during implementation and the long-term release maintenance thanks to the prefabrication of end-to-end processes.

msg.Insurance Suite can also – entirely or partially as services – be operated within the framework of a cloud solution.

msg.Life Factory

PRODUCT AND PORTFOLIO MANAGEMENT FOR LIFE INSURANCE COMPANIES

The upgradable standard software package msg.Life Factory supports the business processes of life insurance companies in their business with private customers and of pension fund institutions – from new business to benefit processing and accounting. Thanks to the consistently service-oriented architecture (SOA) based on Java JEE, the system is perfect for integration into the IT landscape of an insurance company. Additionally, the solution supports a myriad of Internet-capable end devices. All business processes can be carried out completely automatically, or also be relocated closer to the front end or the point of service. Integration into existing brokerage or end user portals has been predefined in the system and is therefore realisable within minimal integration costs. In combination with the newly developed actuarial components msg.LF Product as well as the contract components msg.LF Contract, the latest tools and methods enable the solution to offer a level of flexibility and efficiency which are unique on the life insurance market.

msg.Life Factory JEE was successfully implemented in the IBM PureSystems platform (IBM PureApplication System) and was certified as 'Ready for IBM PureSystems' by IBM itself.

With a market share of around 50 per cent among the top 20 life insurers in Germany and more than 25 million managed contracts, msg.Life Factory from msg life is the undisputed market leader in the German-speaking countries. msg.Life Factory ensures complete compliance with legal requirements and has been certified by the KPMG in accordance with the IDW 880 testing standard.

msg.Life

PORTFOLIO MANAGEMENT FOR LIFE INSURANCE COMPANIES

msg.Life supports contract administration for all current life insurance and retirement pension products. Individual add-ons, additional msg life modules and software components from third parties can be flexibly incorporated via standardised interfaces. The solution has fully integrated standardised processes, supports multiple languages and currencies and can be quickly and economically installed.

msg.Symass

MULTI-SECTOR SYSTEM FOR SMALLER INSURANCE PORTFOLIOS

msg.Symass meets the needs of insurance companies, in particular with smaller portfolios, looking for a streamlined and cost-effective management system which covers the core functions of insurance companies and can be implemented very flexibly. The system enables new products to be rapidly developed and launched, and supports multiple clients, languages and currencies.

msg.Life Group

PORTFOLIO MANAGEMENT FOR COLLECTIVE BUSINESS

The upgradable standard software package msg.Life Group supports efficient and comprehensive portfolio management for collective business of business customers, for example, and covers the complete life cycle of a collective contract. Its multi-client, multi-currency and multilingual capabilities make it suitable for use in international corporations as well. The modern, service-oriented JEE architecture and multiplatform capability mean the system is a safe investment and allow flexibility in the structuring of the business processes. Flexible technical mechanisms for system integration and predefined standard interfaces mean the system can be readily integrated into the specialist application system environments for insurance companies.

FJA.PM4

SOFTWARE FOR PRODUCT DEVELOPMENT, INTRODUCTION AND MAINTENANCE

The FJA-US Product Machine (FJA.PM4), which is on offer internationally, enables insurers to centralise all of their product-relevant information, product rules, legal requirements and marketing necessities as well as to distribute the existing IT system environments via Web services for further processing. This enables insurers to create, test and market new insurance products even more flexibly. The result is that insurers can be more responsive to market trends and can depict products with a short time to market without replacing existing IT landscapes.

msg.Merica

RISK EVALUATION MODULE FOR PERSONAL INSURANCE COMPANIES

msg.Merica is a component-based standard solution for the complete proposal examination and risk evaluation process (straight-through processing) in the context of biometric risks as well as leisure and occupational risks. The software enables immediate decisions for risk evaluations in more than 80 per cent of cases and significantly shortens processing times. The dynamic question generation allows for a highly automated underwriting process in digital self-service.

msg.Alamos

SOFTWARE FOR RISK MANAGEMENT AND PRODUCT DEVELOPMENT

The standard software package msg.Alamos (asset liability and model office system) allows insurance companies to conduct a qualitative and quantitative analysis of the effects of planned management decisions, possible market developments or other factors in advance.

msg.RAN

PENSION SETTLEMENT AND DOCUMENTATION SYSTEM

msg.RAN controls, monitors and keeps records of all planned and unplanned business transactions that occur in relation to the disbursement of ongoing benefits in individual and collective business. The system supports all the necessary business processes relating to continuous pension payments from pension insurance as well as occupational disability, accident and old-age provision contracts.

msg.Tax Connect

STANDARD SOFTWARE FOR THE ELECTRONIC TRANSFER OF PREMIUM DATA TO THE ZFA AND FOR THE DETERMINATION OF CHURCH TAX DEDUCTION CRITERIA (KISTAM PROCESS)

msg.TaxConnect supports the standardised interfaces as well as the legally required processes and premium data messages to the ZfA. The system collates all of the end customer data relevant for tax purposes from the participating systems into a proprietary database, which allows the data to be studied and managed across all modules. The software also satisfies all of the requirements arising from the church tax deduction criteria (Kirchensteuerabzugsmerkmale – KiStAM).

msg.Zulagenverwaltung

SOLUTION FOR AUTOMATED MANAGEMENT OF ALLOWANCES PROCESSES

The standard software for managing Riester products is an automated solution with full traceability that handles the processes involving the provider, the ZfA and the people entitled to allowances. It supports the standardised interfaces as well as statutory activities and reporting requirements relating to pension allowances through various business processes. Today, more than 50 per cent of the ten million Riester allowance contracts from insurers, banks, building societies and investment companies are managed via this system.

msg.PReMium – Pflege-Bahr

THE SOLUTION FOR SUBSIDISED, PRIVATE SUPPLEMENTARY CARE INSURANCE

The multi-client standard software PReMium – Pflege-Bahr completes an existing management system with all transactions between care insurance companies, the central location for nursing care and the insured in the context of subsidised, private supplementary care insurance (‘Pflege-Bahr’).

msg.Sales & Service

WEB-BASED MULTICHANNEL PLATFORM FOR COMPLETELY DIGITAL QUOTATION AND APPLICATION PROCESSING

msg.Sales & Service is a multichannel/multi-device sales and service platform for the completely digital processing of quotations and applications, and is used by sales staff, brokers and even end customers. The architecture of the system offers the option to make all relevant business processes at the point of service available independent of channel and device. Starting with fast and easy-to-use customer research, the solution provides customer-related information, transactions and canvassing data. On the basis of a standardised customising process, the system can be implemented in a quick and cost-effective manner and is also available as an app for mobile devices.

msg.Office

FULLY DIGITISED TRANSACTION CONTROL AND DOCUMENT MANAGEMENT

msg.Office is a standard product that is designed for fully digitised management of transactions and processing of documents. As a digital inbox system, it provides all of the functions that, from experience, are required for expedient, almost-paperless case handling. All business processes are controlled in a digital process database. As an intelligent front office for case handling, msg.Office can be used both in connection with leading archive and document management systems as well as with appropriate enterprise content management solutions.

msg.Pension

SERVICE PORTAL FOR TIME VALUE ACCOUNTS AND COMPANY PENSION PLANS

msg.Pension is a digital service portal, whose standard version is cloud-based, for looking after and managing company time value accounts and contribution-based company pension plans for corporate clients, banks, insurance companies and occupational pension institutions. The software enables Internet-based self-service for employees and employers and supports the standardised digital data exchange between employers and service providers. msg life offers variable operating and implementation models of the software – from purchase, rent and business process outsourcing (BPO) through to a cloud solution.

msg.ILIS

AUDIT-PROOF MANAGEMENT OF DATA FOR PROJECTIONS

msg.ILIS offers a framework for centralised data storage where information required for all types of projections can be managed – up to date, in high quality and audit-proof. Rather than redundantly reproducing the product knowledge and the insurance technology, msg.ILIS directly accesses the respective services of the existing portfolio management system. Moreover, msg.ILIS controls the processes by initiating the necessary actuarial calculations and providing the corresponding projection software with the required input data (via a standard interface). This makes it possible to significantly improve and optimise the efficiency and quality of the processes involved in actuarial calculations and financial reporting, in particular for Solvency II (both for standard models as well as internal models), IFRS 4, Phase II and MCEV calculations.

msg.Mig Archive

ARCHIVING OF HISTORICAL CONTRACT DATA AND PERIPHERAL SYSTEM DATA

The msg.Mig Archive migration archive system cost-effectively archives historical contract data and peripheral system data which, following a migration, is no longer needed. Information can be handled quickly in accordance with the legal requirements, such as retention periods and data protection requirements. msg.Mig Archive is suitable for all historical data and, in addition to life insurance, has been successfully used as an archiving tool in non-life insurance and private health insurance.

msg.Mig Sys

MIGRATION OF DATA FROM ANY SOURCE SYSTEM TO ANY TARGET SYSTEM

msg.Mig Sys enables the transfer from any source system to any target system. The migration system controls the transformation of data between the actual existing control systems and the data migration from peripheral and neighbouring systems. msg.Mig Sys has been certified by KPMG in accordance with the testing standard IDW PS 880.

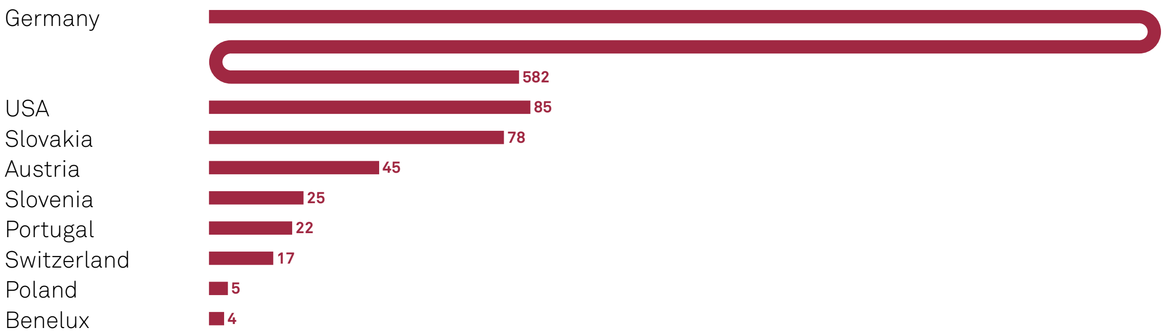
Cloud solutions

In light of the diverse challenges of the insurance industry, it is becoming increasingly difficult for individual companies to react quickly to the continuously changing requirements of the market. By taking advantage of third-party services – either temporarily or on a permanent basis – insurance companies can significantly reduce their workloads. msg life supports customers throughout the entire value chain. This includes, among other things, taking on all production and computing centre operations in the course of our cloud solutions.

As part of these activities, msg life makes the application software available in the computing centre and takes on not only the software maintenance and its adaptation to regulatory requirements, but also technical operations. In this process, the service level desired by the insurer can be adjusted individually to their requirements. msg life also offers flexible financing and payment models (for example, price per policy) that have commercial advantages compared with classic investment models. In this way, our customers benefit from the functional and technical quality of the IT solutions, reduce classic project risks and gain financial flexibility by avoiding large investments in IT infrastructure and software licences.

PERSONNEL

OVERVIEW Total 863



On 31 December 2015, 863 permanently employed salaried staff members were employed within the msg life Group (compared with 865 on 31 December 2014).

Hunting for new talent

As a medium-sized company, successfully competing for the best minds on the market is a key factor in the success of msg life ag. In order to thrive in light of the incessantly high levels of competition for highly qualified employees, msg life uses the networks and know-how of employees within the sector. Personal recommendations by its own employees – who are capable of assessing the flexible working environment, challenging responsibilities and interesting career options with a high degree of accuracy – have proven successful time and again. Such a recommendation system is in place. msg life has successfully overcome the challenges involved in searching for new employees in the MINT (mathematics, informatics, natural science and technology) sectors. The company normally also offers recruitment opportunities in various careers and on various career levels which attract suitable candidates within a reasonable period of time.

University relations are a key aspect for the company in the field of long-term staff recruitment: once again in the 2015 financial year, msg life succeeded in broadening its network of universities that are of interest to it, with the aim of attracting promising graduates with suitable qualifications to the company. For example, msg life participated in recruitment events at selected universities and made itself known by means of guest contributions, lectures and teaching assignments as part of regular courses of study.

In 2015, the company also awarded the msg life prize for an outstanding applied mathematics thesis. In order to strengthen and nurture its relations with universities, the company invites groups of students from selected universities to visit its premises at irregular intervals. One-day events of this kind focus on the various employment opportunities and career paths that msg life can offer graduate mathematicians in particular, but also graduates in other subjects.

In this way, msg life can approach and integrate young talented people while they are still studying, bringing the latest know-how from the universities directly into the company. At the same time, msg life can position itself as an attractive employer for junior staff and talented graduates. In view of the general demographic trend, msg life will continue to intensify these activities and focus even more on younger target groups. Examples of this include attendance at university and graduate recruitment fairs and participation in internship schemes associated with the pertinent fields of study which are open to students all over Germany.

Besides its networks and relationships with universities, the Internet is the company's most valuable platform for successful recruitment. This medium accounted for more than 80 per cent of the almost 1,500 job applications received in 2015. msg life remains capable of appealing to qualified applicants with carefully positioned job advertisements. The quality of incoming applications is promptly and regularly monitored for each job advertisement. Candidate Relationship Management focuses on the current information provided by the applicants as well as on rapid recruitment processes. In spite of an increasingly more difficult recruitment market, the company achieved another significant increase in the number of applicants compared with the previous year. To process the growing number of applications swiftly and in a manner which is structured and takes data security into account, the company has been using a new applicant management system since 2015 and exploits the entire gamut of communication channels in order to identify interesting candidates.

It is particularly important for msg life to be clearly visible to its own target groups in all recruitment fields; the number of incoming applications and time to hire show that the company remains successful at this.

Ensuring quick and effective integration into the company

msg life provides welcome and introductory events for all new members of staff. The new members of staff are given useful tips on settling into the company and they gain deeper insights into the medium and long-term strategic orientation of the company as well as its targets in each field of business. In addition, the new employees can get to know one another in a friendly atmosphere, identify common ground and begin to build up contacts with new colleagues from other areas.

The company's familiarisation (onboarding) programme – which msg life developed in-house – focuses on the needs and requirements of new members of staff. In the meantime, this programme is being actively discussed at universities, career fairs and in interviews with young job applicants, where it is regularly met with great interest.

Attractive measures for promotion and retention

In order to retain its personnel in the long term, msg life provides a remarkable range of attractive benefits for a medium-sized company.

Besides responsible work in an attractive working environment characterised by flexible working hours, flat hierarchies, short communication channels and interesting medium and long-term professional development prospects, the company consistently focuses on finding a balance between work and family: this is the reason why the msg life Group has an extremely flexible working hours system. There are no rules on core hours; working hours are logged on the basis of trust and members of staff can even opt to work in a home office or part time.

The company's remuneration model has now been successfully introduced and is continuously developed in a targeted manner. It focuses on the roles and performance of employees, ensures that remuneration continues to meet the market standards and serves as a key benchmark for structured, individual salary changes.

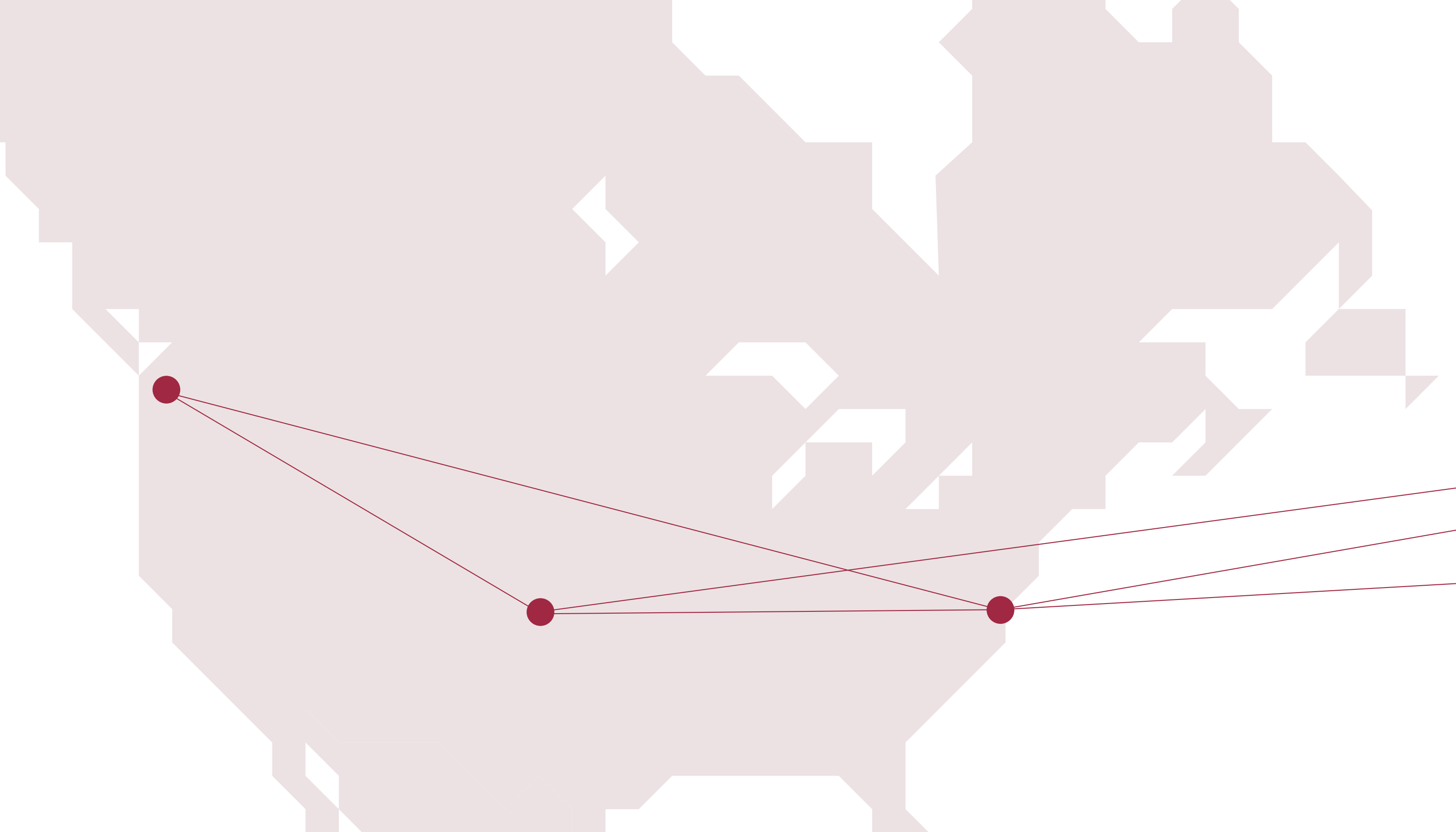
In 2015, msg life continued to systematically pursue its chosen path of greater digitisation in the area of HR development too, and developed and offered additional e-learning courses to its employees. In particular the rapid availability of training content for a quickly changing group is a crucial factor in the development of online learning formats.

Participants learn specific content tailored to msg life both visually and through a soundtrack. A test at the end of the course usually implements the structured learning and success control system. After obtaining good results with this learning format and given the unanimously positive feedback received from the members of staff who participated, additional e-learning modules have been added and more are in the pipeline.

In the interests of ongoing professional training for its employees, msg life is also continuing to support the extra-occupational training course for actuaries at the German actuarial academy Deutsche Aktuarakademie (DAA). Other development opportunities are also available, including from internal speakers in certain subjects. These internal multipliers are particularly remarkable – they too are trained and constantly undergo advanced training for their roles and responsibilities. In collaboration with external providers, msg life also develops tailored, contemporary training courses in a wide range of subjects.

Members of staff at msg life have an exceptionally modern working environment at their disposal. For example, members of staff can independently access key processes such as travel time logs, working hour logs and absences over the company's powerful intranet and view important information on their payslips or personal data. All of this underlines the fact that msg life consistently focuses on the requirements of a modern working environment for its employees.

LOCATIONS



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REPORT BY THE SUPERVISORY BOARD

JOHANN ZEHETMAIER
MEMBER OF
THE SUPERVISORY BOARD

DR CHRISTIAN HOFER
CHAIRMAN OF
THE SUPERVISORY BOARD

KLAUS KUHNLE
DEPUTY CHAIRMAN OF
THE SUPERVISORY BOARD

Dear Shareholders,

The Supervisory Board diligently performed the duties incumbent on it according to the law, company statutes and rules of procedure in the 2015 financial year, and monitored the activities of the Management Board in managing the company, guiding it in an advisory capacity. It compared the company's actual business performance against its business targets at each meeting and scrutinised the operational and strategic performance of msg life ag in detail. The reasons behind any divergences and their possible knock-on effects on the company's short-, medium- and long-term plans were also discussed.

The meetings always focused on the key figures representing the msg life Group's current earnings, financial and assets position, as well as any decisions requiring a vote. The Management Board also kept the Supervisory Board informed about other key issues, such as the fundamental trend in the market climate, recent developments in the sales and project situations in the various divisions, short- and longer-term corporate policy and strategy and possible cooperative ventures and investments. The situation on msg life's foreign markets was also discussed at regular intervals.

COOPERATION BETWEEN THE SUPERVISORY BOARD AND MANAGEMENT BOARD

The Management Board notified the Supervisory Board regarding all company-related issues, and the meetings of the Supervisory Board were characterised by constructive discussions and frank exchanges of opinions. The Management Board also informed the Supervisory Board of any events of particular note during the interim periods between meetings.

To prepare for their decisions, members of the Supervisory Board were provided with detailed documents by the Management Board prior to the meetings. In these documents, the Management Board provided the Supervisory Board with monthly details of the main financial figures. It submitted the three-month, six-month and nine-month report and draft annual report in good time. Deviations from planning were explained to the Supervisory Board in detail by the Management Board. Information was also regularly exchanged during the periods between the individual meetings. All the members of the Management Board were present at every Supervisory Board meeting.

ACTIVITIES OF THE SUPERVISORY BOARD IN 2015

The Supervisory Board convened a total of seven ordinary meetings during the 2015 financial year. The Supervisory Board members received written reports from the Management Board in preparation for each meeting. In performing its functions and duties, the Supervisory Board drew on the written and verbal information provided by the members of the Management Board.

At the Supervisory Board meeting held on 20 February 2015, the Management and Supervisory Boards discussed the work on the annual financial statements and the details of the commercial situation in the various divisions. They also discussed the current status of an internal project designed to optimise the technical system landscapes in the two central divisions 'Finance' and 'Controlling and Corporate Planning', and discussed and approved the revised rules of procedure for the Supervisory Board.

At the meeting held on 18 March 2015, the Supervisory Board discussed the current progress of the work on the annual financial statements in particular. Additionally, the Management and Supervisory Boards discussed the current status of a major project for a client as well as the general course of business.

At its subsequent meeting on 16 April 2015, they presented and extensively discussed the annual financial statements in the presence of the auditor and commercial director. The agenda for the 2015 annual general meeting was discussed and approved, and the status of a current sales project was examined.

At the accounts meeting on 23 April 2015, the Supervisory Board and the auditor, the commercial director and the Management Board discussed the final aspects of the annual and consolidated financial statements as well as the condensed management report and Group management report.

A Supervisory Board meeting was held after the annual general meeting of 25 June 2015. The Management Board reported to the Supervisory Board on the current business and financial position of the Group and on the status of a sales project. Other matters of discussion were current product developments as well as the product strategy on the US market.

At the Supervisory Board meeting on 24 September 2015, the current economic development of the Group and the status of msg life's main sales projects were discussed. Additionally, the Management Board reported on the status of some internal projects and on the further developments in a major project for a client.

In the meeting held on 11 December 2015, the Supervisory Board and the Management Board discussed, among other things, the current business situation and the draft for the declaration of compliance with the recommendations of the German Corporate Governance Code. Moreover, the planned figures for 2016 and the long-term objectives of the Management Board were discussed and approved. The compliance officer of msg life also presented their annual report.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

In its management, supervision and steering of the company, the management of msg life ag follows the rules of the German Corporate Governance Code (DCGK). The Management Board and Supervisory Board report jointly on corporate governance at msg life in the corporate governance report; this is published in connection with the corporate governance declaration on the company's website. The updated declaration of compliance with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) was passed in December 2015 and made permanently accessible on the company's website.

In the 2015 financial year, Dr Christian Hofer and Johann Zehetmaier informed the Supervisory Board of a potential or present conflict of interest in connection with the planned sale of the shares in the subsidiary msg life metris GmbH to the majority shareholder in msg life, msg systems ag. Dr Christian Hofer is the Chairman of the Supervisory Board of msg systems ag; Johann Zehetmaier is the Chairman of the Management Board of msg systems ag and holds an indirect stake in msg systems ag. In the meeting held on 25 June 2015, all members of the Supervisory Board approved the transaction. Not least due to the potential or present conflict of interests, before the transaction took place, the Management Board – in coordination with the Supervisory Board – obtained an expert opinion from an audit and tax consultancy firm regarding the value of msg life metris GmbH. This confirmed to msg life ag that the intended – and achieved – selling price was financially reasonable. Otherwise in the 2015 financial year, there were no other indications of conflicts of interest on the part of members of the Management and Supervisory Boards.

All members of the Supervisory Board were always present at every Supervisory Board meeting.

The efficiency of the Supervisory Board's work was regularly the subject of separate discussions when the Management Board was not present. No significant action was deemed necessary in relation to the activities of the Supervisory Board or the content or execution of the meetings. However, a resolution was adopted to convene, if possible, five meetings of the Supervisory Board in 2016. The forthcoming annual general meeting was scheduled to be held on 30 June 2016 and two Supervisory Board meetings are planned for the period leading up to this during the 2016 financial year.

AUDIT OF THE 2015 FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The annual general meeting held on 25 June 2015 appointed Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft in Düsseldorf as auditor of the annual financial statements and consolidated annual financial statements for the 2015 financial year. In the meeting held on 2 February 2016, the Supervisory Board discussed the progress of the work on the financial statements and consolidated financial statements for the 2015 financial year.

The 2015 financial statements and consolidated financial statements as well as the condensed management report and Group management report have been audited by the auditor and granted an unqualified audit certificate. These financial statements and reports and the auditor's audit reports were forwarded to every member of the Supervisory Board in advance of the Supervisory Board meeting on 14 April 2016. The Supervisory Board discussed them with the Management Board, the commercial director and the auditor at this meeting, in which the annual financial statements were adopted.

The Supervisory Board conducted its own detailed audit of the annual financial statements, the consolidated financial statements, the condensed management report and the Group management report, and raised no objections to them. The Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board, and consequently the annual financial statements were adopted in accordance with section 172 of the AktG.

With regard to the stake held by msg systems ag, Ismaning, in msg life ag, the Management Board submitted to the Supervisory Board the report on relationships with affiliated companies for the 2015 financial year in accordance with section 312 of the AktG and the audit report on this subject prepared by Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft in Düsseldorf, as the auditor, in accordance with section 313 of the AktG. As no queries arose in the course of the audit, the auditor issued this audit opinion:

> 'Following our statutory audit and assessment, we confirm that
>
> 1. the actual information in the report is correct and
>
> 2. the company's payments in connection with the legal transactions mentioned in the report are not unreasonably high.'

The Supervisory Board thoroughly examined the report on relationships with affiliated companies and the accompanying audit report. Having concluded its final examination, the Supervisory Board had no objections regarding the Management Board's statement at the end of the report on relationships with affiliated companies and approved the report.

CHANGES TO THE SUPERVISORY BOARD AND MANAGEMENT BOARD

At its meeting on 17 November 2014, the Supervisory Board appointed Dr Aristid Neuburger as an additional member of the Management Board for a period of three years with effect from 1 January 2015.

There were no changes to the composition of the Supervisory Board during the period under review.

The Supervisory Board would like to thank the members of the Management Board who served during the period under review and all of the staff employed by the msg life Group for their great commitment and their outstanding work in making the 2015 financial year a successful one.

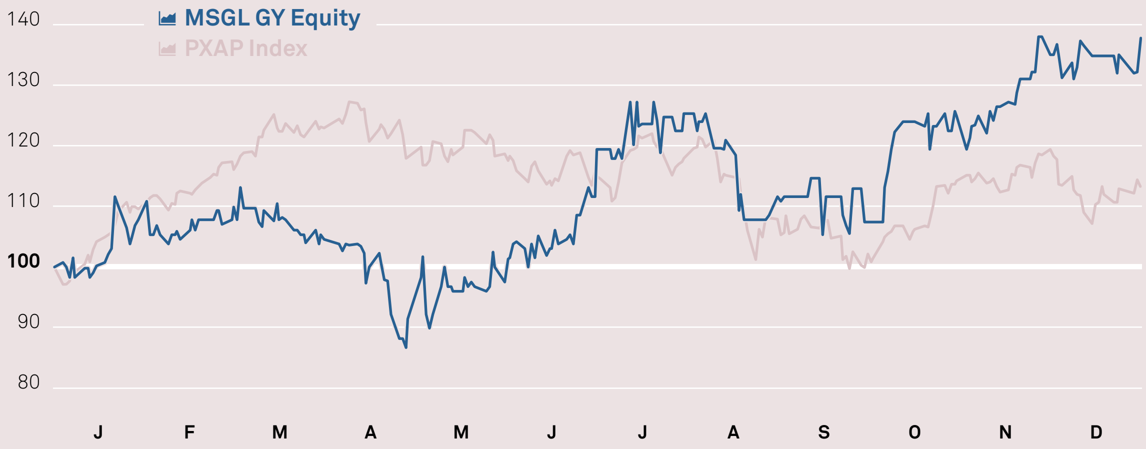
Leinfelden-Echterdingen, 14 April 2016

For the Supervisory Board

DR CHRISTIAN HOFER
Chairman of the Supervisory Board

THE SHARE

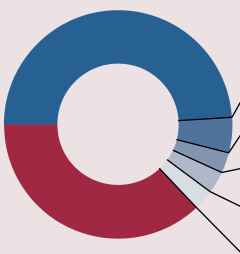
SHARE PERFORMANCE



KEY FIGURES

	2015	2014	2013	2012
Earnings per share as at 31.12 *in EUR*	**0.11**	-0.02	-0.14	-0.54
Highest annual price *in EUR*	**1.84**	1.34	1.15	1.45
Year-end closing price *in EUR*	**1.82**	1.31	1.15	1.05
Market capitalisation as at 31.12 *in millions of EUR*	**77.90**	56.07	49.22	44.94
Total number of shares as at 31.12 *in millions*	**42.8**	42.8	42.8	42.8

SHAREHOLDING STRUCTURE*



49.09 %	msg systems ag
4.45 %	Treasury shares (msg life ag)
3.11 %	Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte
3.07 %	Ennismore Fund Management Limited
3.01 %	Ennismore European Smaller Companies Fund
37.27 %	Other free float

* As at 31 December 2015

MASTER DATA

ISIN	DE0005130108
WKN	513010
Frankfurt Stock Exchange ticker symbol	MSGL
Stock exchange centres (Regulated market)	Frankfurt (Prime Standard)
Open market	Berlin, Düsseldorf, Hamburg, Munich, Stuttgart

As a result of the political and economic events, the global stock markets were subject to fluctuations 2015 the like of which had rarely been seen in the past. With nearly double-digit growth, the winners from these events included in particular the European markets in France and Germany, as well as the market in Japan. In the United States, however, the results were only slightly positive – and emerging markets such as Brazil suffered due to heavy losses in exchange rates. Given the continued fall in the price of oil, the raw-material sectors suffered the greatest losses.

The year went well for Germany's leading index, the DAX. In fact, not least thanks to the announcement of a loosening in monetary policy by the European Central Bank (ECB), a new all-time high was reached on 13 April at 12,390 points during the course of the daily business. Nearly five months later, however, the euphoria gave way to more-sobering events: in particular the crash on the Chinese market and the Volkswagen scandal caused the market to temporarily drop to a mere 9,325 points in September – nearly 25 per cent lower than the mark hit in April.

But a small year-end rally in December helped the DAX end the year at 10,743 points, which represents growth of 9.6 per cent compared to the results from the previous year (2.7 per cent). Things went even better for the 'second league' of markets, with the MDAX (for medium-sized companies) achieving growth of 22.7 per cent and the TecDAX (for technology companies) even hitting 33.5 per cent growth. Prime All Share, the relevant industry index for msg life, ended the year at 4,232 points (previous year: 3,752 points), which represents growth over the year of 12.8 per cent.

The 2015 market year was extremely positive for the msg life share. After a good start with an initial high for the year of EUR 1.49 on 2 February, the price entered a rather long-term, stable sideward trend before falling markedly early in the second half of April. As a result, the share recorded its low for the year at EUR 1.18 on 29 April. However, the trend made a clear upward turn which lead to another intermediate high of EUR 1.70 on 21 July.

In the context of the stock market crisis in China, the refugee crisis which is only beginning and the political uncertainty in Greece and Turkey, the share once again gave way in August – in concert with the development of the DAX. However, it recovered quite quickly and sustainably and, following the positive figures in the nine-month report, the share hit its high for the year of EUR 1.84 in late November 2015. The msg life share closed the market year at EUR 1.82 (previous year: EUR 1.31), which represents an increase of nearly 39 per cent (previous year: 14 per cent). In the same period, the benchmark index Technology All Share registered growth of approximately 31 per cent.

Growth in the number of shares traded per month was once again a positive development at an average of nearly 490,000 msg life shares in 2015 (previous year: average of approx. 450,000 msg life shares per month).

INVESTOR RELATIONS ACTIVITIES

During the 2015 financial year, msg life informed institutional investors, analysts and representatives of business publications and private shareholders promptly and in detail about the respective current commercial situation and the strategic further development of the company. The main focus here was on press releases and the published annual and quarterly reports. Furthermore, the research reports published at regular intervals by DZ Bank and Warburg Research were another potential source of information for any stakeholders and shareholders interested in msg life and its shares.

Apart from this, the Management Board explained the company's fundamental strategic orientation and commercial development to interested investors in one-to-one meetings and during several teleconferences. Another important instrument for keeping financial analysts and fund managers informed were the roadshows that msg life held in 2015. In this context, the company once again presented itself at the German Equity Forum in Frankfurt, the country's most important investors' conference.

In 2015, the successful development of msg life also expressed itself in the form of positive development of the share. This clearly shows that the shareholders appreciate the course adopted by the company and that the capital market's trust in the company has been restored. msg life will support this pleasant development with continued regular and transparent capital-market-related communication.

Condensed management report and Group management report

The following management report is the condensed management report and Group management report of msg life ag, Leinfelden-Echterdingen. It tracks the business performance of the msg life Group, including that of the individual Group company of the same name, msg life ag, including the operating results for the 2015 financial year from 1 January 2015 to 31 December 2015, as well as the situation of the Group and the individual Group company as at the balance sheet date, 31 December 2015

All statements apply to the msg life Group (in the following also 'msg life') as a whole. Should the individual Group company be meant or should something different apply to the individual Group company in the course of the report, this shall be explicitly mentioned or explained accordingly.

The reporting currency is the euro, and the rounding is done to thousands or millions of euros. This can give rise to rounding differences of up to one arithmetical unit.

THE GROUP'S FOUNDATIONS

Business model

The msg life Group has been developing IT systems solutions and advising customers successfully on the implementation of their IT strategies since as early as 1980. Thanks to its continuous growth, the expansion of its product range and, in 2009, the merger of the former FJA AG and COR AG Financial Technologies into COR&FJA AG, msg life ag has developed into a leading provider of software, advice and cloud solutions for life insurance companies and pension fund institutions in Europe and, in particular, health insurance companies in the United States. msg life has been listed on the German Stock Exchange since 2000 and is now in the Prime Standard index.

As a holding company, the individual Group company is responsible for financing the Group companies as well as for their strategic and, to a limited extent, operational management. The holding company is primarily responsible for determining the target markets, defining the product range and making decisions concerning mergers and acquisitions. Furthermore, the holding company is responsible for staff functions such as sales, marketing, human resources, finance, business operations, financial controlling, IT services and law. The holding company acts as the sole or majority owner of the operating companies.

The holding company's commercial activities are restricted mainly to the settlement of services within the Group and to financing, and it operates only rarely as a contracting partner in customer projects. Within the scope of services, it is mainly the above-mentioned staff functions incumbent on the holding company which are settled. The purpose of the financing activity consists primarily of making interest-bearing loans to Group companies, making cash investments and distributing earnings from participating interests.

The primary income potential for the holding company lies in earnings from participating interests. For this reason, the disclosures for the Group concerning the development of markets, the general economic environment and opportunities and risks also apply to the holding company.

In accordance with a purchase agreement dated 28 July 2015, all shares in the subsidiary msg life metris gmbh, Sankt Georgen, were sold to msg systems ag, Ismaning. The commercial transition took place with effect from 1 October 2015. The company was still fully consolidated as at 30 September 2015, and was only then deconsolidated.

In accordance with the merger plan dated 24 July 2015 with retroactive effect from 1 January 2015, the subsidiary msg life Czechia spol. s.r.o., Prague, Czech Republic, was merged with the subsidiary msg life Austria Ges.m.b.H., Vienna, Austria, (merger entered into the commercial register of the acquiring company on 22 October 2015) and its entry in the commercial register was deleted on 15 December 2015. As such, msg life Czechia spol. s.r.o. ceased to exist. The previous location in Prague, Czech Republic, was taken over by msg life Austria Ges.m.b.H.

The subsidiary msg life central europe gmbh (formerly msg life Deutschland GmbH) was renamed by way of registration in the appropriate commercial register on 22 December 2015.

In the 2013 financial year, a decision was made to consolidate efforts on existing foreign markets rather than entering new ones and to continue optimising profitability on the markets where the company already operated in Europe and the United States. The same approach was taken in the 2015 financial year.

On the balance sheet date, the customers of msg life primarily consisted of insurers focusing on life insurance and pension fund institutions in Europe and, in the United States, in particular health insurance providers. The services of msg life range from the development and implementation of standard software and the provision of consultancy services to the handling of full IT operations (cloud solutions). On the basis of their extensive market experience, highly qualified msg life staff develop state-of-the-art solutions to provide customers with comprehensive support. The company invests in modern technology and proven methods, and the software architecture used is component-based and service-oriented and can be used in digitisation projects. The combination of specialist knowledge, process skills and IT expertise available at msg life makes it possible to deliver solutions to complicated problems from a single source.

The headquarters of msg life ag are located in Leinfelden-Echterdingen near Stuttgart, Germany. Other German branches are located in Munich, Aachen, Düsseldorf, Hamburg and Cologne. msg life ag is also represented in Vienna (Austria), Rheinfelden and Regensdorf (Switzerland), Eindhoven (Netherlands), Warsaw (Poland), Prague (Czech Republic), Bratislava and Košice (Slovakia), Maribor (Slovenia), Oporto (Portugal) and Madrid (Spain), as well as New York, Denver and Portland (USA). This distribution of branches keeps msg life close to its customers and ensures that it can give them optimal support.

Organisational structure

As a leading sector-based service provider for life insurance companies and pension fund institutions in Europe and, in particular, health insurance companies in the United States on the balance sheet date, the msg life Group offers a full range of state-of-the-art solutions in the form of consultancy, services, software and cloud solutions. The range of services addresses the fields of sales support, policy management including actuarial mathematics, migration and across-the-board processes (e.g. collections/disbursements and commission). Consulting and services on the one hand and the product range on the other complement each other to make up the sector-based service provider's integrated range of solutions. The products are standard software products which have been launched widely on the market.

Irrespective of its corporate structure, the msg life Group is divided up into business units assigned to market sectors or markets. This responsibility encompasses both the further development of the respective solution portfolio and the handling of customer projects, and is assumed at divisional level. The heads of these divisions comprise the next senior management level below the msg life ag Management Board.

Management and monitoring

As at 31 December 2015, the Management Board of msg life ag consisted of Rolf Zielke (spokesperson), Bernhard Achter and Dr Aristid Neuburger.

At its meeting on 17 November 2014, the Supervisory Board appointed Dr Aristid Neuburger as an additional member of the Management Board for a period of three years with effect from 1 January 2015.

As at 31 December 2015, the Supervisory Board consisted of three members who were elected by the shareholders at the annual general meetings held on 25 June 2013 and 26 June 2014 for the period until the end of the 2017 annual general meeting: Dr Christian Hofer (Chairman), Klaus Kuhnle (Deputy Chairman) and Johann Zehetmaier.

Management control, goals and strategy

Internal control system

CONTROL RATIOS APPLIED

The msg life Group's strategic goals are to ensure sustainable, profitable growth and expand its position not only in the German-speaking countries, but also in those foreign markets which are already being served or strategically addressed. To safeguard this strategy against business risks, fundamental ratios regarding the orders, earnings and liquidity position are applied.

To measure and analyse the general economic trend, the msg life Group uses a uniform Group-wide control system based on a number of fundamental ratios. Prominent among these are the development of sales projects in the business units, turnover and EBITDA. Cash and cash equivalents, the level of indebtedness and cash flow are taken into consideration as indicators of the company's financial stability to the same extent as the management of unpaid receivables. The ratios of turnover per employee and employee capacity utilisation are tracked as specific indicators of productivity.

BUDGETED AND/OR TARGET VALUES OF THE CONTROL RATIOS

Subsequent to the annual budget approved by the Supervisory Board, monthly rolling divisional forecasts for all types of income and cost are prepared which, taking account of current developments, provide early indications of deviations from the budget even in the future.

Important products and services

The company's core product is the policy management system msg.Life Factory, with which life insurance and pension products can be developed and administered. The transition of the system to Java JEE architecture was successfully concluded in the 2015 financial year. msg.Life Factory has been included in a number of market surveys of European life insurance policy management systems conducted by leading research companies in the past and has achieved impressive results. The portfolio of policy management systems offered by the company is rounded off by the policy management system msg.Life and the all-sector system msg.Symass, the latter being focused on small insurance companies in Eastern Europe.

The key specialist and across-the-board functions in the core line of business are covered by the products msg.Zulagenverwaltung, msg.RAN (pension settlement and documentation system), FJA.PM4 (product machine, in the US market), msg.Alamos (asset liability and model office system), msg.Merica (risk assessment module), msg.Office (transaction control and document processing), msg.Tax Connect (legal tax notifications), msg.Sales & Service (multichannel platform) and msg.ILIS (insurance liability information system). In addition, there is the service portal msg.Pension for time value accounts and company pensions, and – until the shares in the subsidiary msg life metris gmbh were sold in the course of the year – the various components of the msg.Open Claims platform in the area of claims processing. msg life also offers a wide array of consulting and services, ranging from software implementation and portfolio migration (in the Migration segment) to actuarial advice, with the Migration business segment also offering the two migration software solutions: msg.Mig Sys and msg.Mig Archive.

Key aspects of the product strategy are the integration of msg.Life Factory and its components into msg. Insurance Suite (msg.I-Suite), the common insurance platform of the msg Group, and the sales-related collaboration taking place in this context. msg.Insurance Suite represents the first holistic industrial standard for all sectors of the insurance industry. The platform covers and integrates all necessary system components for an insurance company.

In the Consulting segment, the company focuses in particular on the three insurance topics and areas of product optimisation, business process optimisation and migration support – and therefore on thematic areas which are aimed at increasing market shares on the one hand and optimising the cost ratio of msg life's customers on the other. In the Consulting segment, too, msg life sees itself as a reliable partner for insurance companies in dealing with the pressure of change in an efficient and innovative manner.

ECONOMIC REPORT

Macroeconomic and sector-specific conditions

The global economy grew by approximately three per cent in 2015, at roughly the same moderate rate as in 2014. The recovery of the global economy therefore remains hesitant and uneven. For example, the outlook for the industrialised countries is being buoyed by oil prices that remain low, financing conditions that continue to be favourable, an improvement in the labour markets, increasing confidence, an easing off of the negative effects of debt reduction in the private sector and fiscal consolidation.

Meanwhile, the growth prospects of the emerging economies continue to be muted by structural constraints and macroeconomic imbalances. In some countries, this development is being further exacerbated by more-restrictive international financing conditions and dwindling commodity prices. Global inflationary pressure is likely to continue to be kept in check by the drop in the price of oil and the still substantial global capacity reserves.

The economic recovery in the eurozone continued in 2015, with growth of just under 1.5 per cent (previous year: 1.0 per cent). This was due to strong domestic demand, in particular in the area of private consumer spending, and favourable financing conditions for corporate investments.

Germany once again held its ground compared with the other major European economies and grew by approximately 1.7 per cent (previous year: 1.6 per cent). The key driver of growth in the German economy was again private consumption thanks to low unemployment, high wages and increased purchasing power due to the low oil prices. Meanwhile, corporate investments slumped significantly, although they remain around the long-term average.

Once again in 2015, the general economic conditions for insurance companies in Europe remained difficult. The reality on the capital markets with persistently low interest rates and fundamental changes to the regulatory framework, especially given the introduction of Solvency II on 1 January 2016, is an underlying challenge to an insurance industry which continues to be characterised by consolidations, the automation of business processes and increasing digitisation measures, not least due to these developments. In this context, the fierce competition on the German insurance market is also generally being intensified by the increasing complexity and interconnection of the national insurance markets. As before, however, the direct insurance markets – as opposed to reinsurance and with the exception of individual market segments such as industrial insurance – are predominantly national markets due to their legal, social and cultural particularities and will remain so in the future. The global interdependence is most readily reflected in the cross-border business conducted through subsidiaries, in the establishment of cross-border regional or global insurance groups and in the increasing international division of labour within those groups.

The coherence between IT and business success is becoming increasingly obvious in the context of the intensive endeavours being undertaken to reduce costs and improve efficiency within insurance companies. As a rule, the performance of the organisation is optimised systematically and proactively while investments are simultaneously made in a fundamental renovation of the system infrastructures and processes, but often not until a thorough cost–benefit assessment has been completed. The lowest ever low-interest phase, the introduction of Solvency II and the planned reduction in the maximum technical balance sheet interest rate are causing quite a number of insurers to enhance their existing products and/or develop new, innovative ones. This applies to all existing product groups, all control layers and all legal forms. The starting situations for the companies in question are highly diverse and therefore bring about a variety of innovations in themselves: among the conventional capital accumulation products, modifications of the guarantees are dominant, for example through the use of current calculation guidelines or by dispensing with the annual interest guarantee. With the biometric products, too, there is a great deal of action on the market. Hybrids, especially dynamic hybrid products, have almost become the standard now, and there is a continuous flow of innovative products in addition to them. One new development comprises products which allow investment in funds but also the purchasing of options on the basis of traditional basic cover.

Insurance companies at the larger end of the scale, moreover, are following completely new paths by offering old-age provision products with capital guarantees on the basis of fund-linked approaches with investment guarantees. In addition to the effects of the increasing digitisation of the insurance industry, all of this is leading to a greater need for external advice and IT support and consequently to the continuous adaptation of msg life's standard software.

Overall, developments in the US insurance market were satisfactory in 2015. Developments in the health insurance sector have slowed down slightly because companies are increasingly paying attention to their costs. The life insurance market is stagnating in particular due to the low-interest period – with the exception of group life insurance, in which there has been a significant rise. msg life is anticipating the greatest potential for business in the life insurance sector in the next few years due to relatively old IT infrastructures. Growth in the non-life insurance market remains steady, in line with general economic growth.

According to the Centre for European Economic Research (ZEW), the majority of German companies in the information sector (ICT) considered the business situation to be positive at the end of 2015 and are optimistic about the first quarter of 2016.

Development of business

In the German-speaking countries, the msg life Group is the market leader with the services and products it offers on the market for life insurers and pension fund institutions. More than half of all life insurers in these countries are customers of the msg life Group. The Group's research and development activities are aimed at continuously reinforcing its leading position. With the regulatory requirements changing permanently and the variety of products offered developing dynamically, insurance companies are increasingly pursuing a strategy of replacing their previous in-house software solutions with standard software.

Positive business potential is currently developing in the Consulting segment as a result of the change processes mentioned above, which are gaining momentum among providers of financial services. For the time being, this will not be affected by the contrary trend of reducing external consulting capacity on cost grounds, this being limited primarily to consulting services which are less specialised and therefore easier to substitute.

The rebranding as msg life ag completed in 2014, which also included the major subsidiaries of msg life in Europe, meant that msg life's products and consulting services became a fixed part of the msg Group's portfolio for the life insurance market. And as the largest associated company in this successful group of companies, msg life ag is an even more significant strategic partner for its customers and an even more attractive employer for the staff.

In 2015, 74.6 per cent of turnover was generated in Germany (previous year: 74.2 per cent) and 25.4 per cent on foreign markets (previous year: 25.8 per cent). Up to and including in 2012, the msg life Group had set itself the explicit target of increasing the proportion of its turnover generated on foreign markets by around 35 per cent in the medium term by means of selective local representations and strategic partnerships, thereby reducing its dependency on the fluctuating economic climate on the German market. This objective was not achieved in 2013, 2014 or 2015. In view of the decision that was made in 2013 to consolidate efforts on existing foreign markets for the time being, rather than entering new ones, and to continue optimising the profitability of business areas in the markets where the company already operates in Europe and the United States, following on from the previous two years, msg life ag continues to refrain from setting a concrete quantitative target in this context.

For msg life, the 2015 financial year was characterised by consistently stable business with existing customers. msg life continues to see the trust shown by its customers as an obligation to continuously improve and enhance its own services and solutions with initiative and innovation, as well as in close collaboration with its customers. Likewise, the acquisition of new customers for the product solutions msg.Office, msg.RAN, msg.Zulagenverwaltung and msg.Tax Connect was a welcome development in the reporting period. msg life expects these developments to continue in 2016, including with regard to other products.

In the first quarter of 2015, msg life reported the successful introduction of msg.Life Factory in cutting-edge JEE technology at, and together with, AXA Germany after a project period of just a year and the introduction of msg.Life Factory at, and together with, HUK-COBURG.

With regard to the second quarter of 2015, the development of orders in the Heidelberger Leben (HLE) project is especially worthy of mention: in addition to HLE's decision to hire msg life as a general contractor for the continued development of the first run-off platform for life insurance in German-speaking countries, there were multiple new orders for additional standard software components taken from msg.Insurance Suite.

In December 2015, DEVK Versicherungen (DEVK, Cologne) became the first customer to have the new msg.Life Factory JEE mathematics, msg.LF Product (msg.LP), introduced. This actuarial product component will in particular cover DEVK's new unit-linked products.

msg life anticipates that it will acquire more new customers for msg.LP in the course of the 2016 financial year and beyond. The currently promising sales pipeline for msg.Life Factory is partly due to the fact that, with msg.LP, potential customers can adapt their product designs to the substantial challenges of the persistent low-interest phase more quickly and with more flexibility.

Compared to the German market, the markets in Austria and Switzerland pose very similar challenges and both are being cultivated with a local presence.

msg life is cultivating the Central and Eastern European markets in particular from its locations in Poland and Slovenia. Many life insurance companies have established themselves there. These companies are not only facing pressure to automate as a result of the continuous growth in the number of their contract portfolios, but they are also becoming increasingly exposed to the regulatory pressure that prevails in western Europe due to their increasing closeness to that region. As German-language insurers in particular are expanding into these highly competitive markets, they currently offer interesting sales opportunities for msg life.

msg life is represented in many Easter European countries with the policy management system msg.Symass, which is the market leader in those countries. As a result of the growing consulting business that is developing in connection with the local presences that have been built up in recent years, msg life expects these selling markets to generate cross-selling effects, in particular for msg.Symass, the proven all-sector system for smaller insurance companies.

msg life will continue to cultivate the market in the Benelux countries, where msg life generates a positive response with the product portfolio it offers – especially from insurance groups operating nationally.

The Iberian peninsula is an interesting market in the medium term. msg life continues to work the Portuguese and Spanish markets with its own local office in Portugal – which is now also being used successfully as a product development unit – and with an office in Spain. After acquiring a new customer in Portugal in the life insurer Crédito Agricola Vida in the first quarter of 2015, msg life successfully agreed a consultancy project designed to optimise the product configuration of another Portuguese insurance company in the middle of the year.

The US insurance market is currently characterised by mergers and acquisitions. For example, Cigna and Anthem – two customers of msg life – effected a mega-merger. msg life's business in the United States meanwhile remains stable, and msg life is seeing ongoing highly successful development there, among other things with its msg.Sales & Service solution and with FJA Product Machine (FJA.PM4), which belongs to the Group company FJA-US, Inc. The range offered by msg life in the United States now encompasses not only software products, but increasingly also operator models and expert consulting on all aspects of product and tariff design as well as in the process optimisation area – primarily for health insurance companies. Additionally, the definition of the specific US Group Life Offering (GLOU) is on schedule – and the first opportunities to validate and develop the new offering in line with the market have already arisen.

In 2015, the US-based msg life Group company FJA-US, Inc. was commissioned by the second-largest life insurer in the United States with implementing a proposal and enquiry processing platform for its group business based there (life and professional incapacity). The selected platform is based on the products FJA.PM4, msg.Sales & Service and msg.Office. It allows for the calculation and conclusion of group policies on the basis of msg.Sales & Service. Risks are calculated in FJA.PM4 and the standard solution msg.Office supports the process as a digital inbox system which passes on enquiries to risk management. This contract represents the first successful sale of msg.Office on the US market.

Once again in the 2015 financial year, the ongoing challenging market situation for insurance companies resulted in a generally rather low level of new customer business. In contrast, the sales pipeline developed positively in 2015 and, as such, msg life expects to see contracts coming from new customers in the 2016 financial year. Business with existing customers in connection with the numerous software components provided by msg life was exceedingly good in 2015 – not least in the regulatory environment. Additionally, most of the major projects set out in the corporate plan were executed as planned in the reporting period. As in previous years, the company's main focus in terms of sales lay on acquisitions in its established markets in the 2015 financial year.

Summarised evaluation of the company's business situation

The 2015 financial year was a good year for the msg life Group: the stability of its business with existing customers and various sales successes allowed the company to meet all the targets with respect to the two performance indicators of turnover and results set at the start of the financial year. Overall, the msg life Group recorded turnover of 108.1 million euros and earnings before interest, taxes, depreciation and amortisation (EBITDA) of 8.5 million euros. This EBITDA figure includes an extraordinary item in the amount of 955,000 euros from the deconsolidation of the company's subsidiary msg life metris gmbh. Adjusted for this extraordinary item, the operating EBITDA totals 7.5 million euros.

The business situation of the company in the 2015 reporting year can therefore be described as positive. The company has paved the way for further positive development in 2016 and beyond. Contrary to last year's prognosis made in the separate financial statements, which forecast a net profit for the year of between 4.5 and 6.5 million euros, the individual Group company, as the holding company, concluded the 2015 financial year – in particular due to internal service charges within the Group which deviated from expectations – with a net loss for the year of 4.5 million euros.

Non-financial performance indicators

The msg life Group's efficiency is reflected not only in its commercial indicators, but also in its non-financial performance indicators. The most important of these in the msg life Group are the issues that concern its employees. The relevant disclosures can be found in the 'Employees' chapter within this condensed management report and Group management report.

Another important topic in this context was the introduction and establishment of a code of conduct. One of the main purposes of this code of conduct is to make all members of staff in the company reasonably aware of the applicable laws and corporate guidelines as well as the legal risks arising as part of their everyday work. Additionally, as a binding guideline for legal and ethically responsible conduct within the msg life Group, the code of conduct sets the standards for responsible conduct towards business partners and the public, as well as mutual behaviour within the company. For employees, it represents a clear orientation tool for their daily conduct – and for suppliers and customers it represents a binding promise on which they can rely. Every person in the company – employees, executives, the management and the Management Board – is obliged to adhere to the principles contained therein. You can find more information on the code of conduct on the msg life website at http://www.msg-life.com/en/company/compliance.

Earnings, financial and assets position

The Group's earnings position

DEVELOPMENT OF TURNOVER

In the 2015 financial year, the successful strategy from previous years of not acquiring companies was continued. In fact, in the fourth quarter of 2015, all shares in msg life metris gmbh, Sankt Georgen, were disposed of, which completed the return of focus to the core business which was begun in 2013. The economic handover took place as at 1 October 2015, resulting in the simultaneous deconsolidation. This change in the consolidation group was insignificant and had no effect on internal reporting or the development of turnover. As a result, the Group's earnings, financial and assets position is comparable over time with the figures from the previous year.

The msg life Group's turnover in the financial year ended amounted to 108.1 million euros, which is 3.8 million euros higher than the figure for the 2014 financial year and corresponds to 3.6 per cent growth in turnover (previous year: -20.5 per cent decrease in turnover).

During the financial year, services turnover registered an increase from 73.9 million euros to 79.1 million euros, which is an increase of 5.2 million euros. At 29.0 million euros, product-based turnover was slightly under the figure from the previous year, which was 30.4 million euros; licensing income in the financial year ended amounted to 10.1 million euros (previous year: 11.2 million euros), which represents a 9.4 per cent share in Group turnover. In the 2015 financial year, maintenance turnover amounted to 17.2 million euros (previous year: 16.6 million euros) and thus makes up 15.9 per cent of Group turnover. Other turnover consists primarily of income from hardware deliveries and computing centre services, which increased by 61,000 euros to 1.7 million euros (previous year: 1.6 million euros).

As for the regional breakdown of turnover, the aggregate figure for Germany in the 2015 financial year totalled 80.7 million euros (previous year: 77.3 million euros) and 27.4 million euros in other countries (previous year: 27.0 million euros). The increase in Germany resulted in particular from increased demand for msg life services on the German market.

The msg life Group was able to record slight growth in turnover in its US business, with an increase to 20.6 million euros (previous year: 20.3 million euros). The second-strongest foreign market according to turnover is Switzerland; however, the turnover from the previous year (2.7 million euros) could not quite be met in the 2015 financial year and amounted to 2.6 million euros. In contrast, turnover on the Austrian market increased by 0.2 million euros and amounted to 2.5 million euros (previous year: 2.3 million euros). Turnover also increased in Slovenia by 0.2 million euros to 1.4 million euros (previous year: 1.2 million euros). In contrast, external turnover in the Benelux region decreased during the 2015 financial year, only amounting to 0.1 million euros (previous year: 0.2 million euros).

The national affiliates in Poland, Portugal and Slovakia generate turnover primarily for other Group companies, so that the external turnover they generate is correspondingly low. None of these national affiliates generated more than 0.1 million euros in external turnover.

DEVELOPMENT OF EARNINGS

In the financial year just ended – just like in the previous year – no development work for new software was capitalised. Other operating income in the amount of 2.7 million euros (previous year: 9.8 million euros) is, for one, characterised by the deconsolidation income from the disposed subsidiary msg life metris gmbh in the amount of 955,000 euros. In addition, rental income from the subletting of office space amounted to 639,000 euros; the msg life Group generated income of 312,000 euros from company car use. The remaining portion was other income which, in part, resulted from the reversal of provisions.

In the 2015 financial year, aggregate costs amounted to 102.3 million euros (previous year: 104.6 million euros) and decreased by 2.3 million euros, which represents a reduction of 2.2 per cent. At 10.9 million euros (previous year: 7.1 million euros), procured services represented a large proportion of total costs. Personnel expenses amounted to 75.7 million euros (previous year: 77.0 million euros). External personnel, who are only required temporarily, are used to cover special requirements and capacity utilisation peaks; external personnel costs for the 2015 financial year amounted to 4.5 million euros (previous year: 5.2 million euros). This helps to facilitate the variabilisation of total costs.

The largest proportion of total costs comprised personnel costs, with a 73.9 per cent share, relating to the average number of 855 employees (previous year: 858 employees).

Personnel costs and material expenses therefore rose slightly by a total of 2.6 million euros to 86.7 million euros (previous year: 84.1 million euros). The proportion of total costs represented by other operating expenses for the 2015 financial year decreased to 15.3 per cent (previous year: 17.7 per cent) and amounted to 15.7 million euros (previous year: 18.5 million euros). At 5.9 million euros (previous year: 7.5 million euros), expenses for office space (rents) made up a significant portion of other operating expenses. These cost savings were the result of rental agreements which were renegotiated in the 2014 financial year and realised during the financial year ended; they generated savings of 1.6 million euros. The proportion of total costs represented by expenses for office space was therefore 5.7 per cent (previous year: 7.1 per cent).

The second-largest cost pool comprised travel expenses associated with consulting services, which amounted to 2.5 million euros (previous year: 2.8 million euros); they were therefore able to once again be reduced by 0.3 million euros in comparison to the previous year. Savings were also realised in consulting, accounting and Supervisory Board expenses for the 2015 financial year; these expenses amounted to 1.7 million euros in the reporting period. Just as in the previous year, no depreciation of receivables had to be carried out. In addition, there was no need for any write-offs on projects.

As a result, the Group was able to generate an EBITDA of 8.5 million euros (previous year: 11.4 million euros). The operating EBITDA, after adjustment for the effects resulting from the disposal of the subsidiary msg life metris gmbh, amounts to 7.5 million euros. The previous year's EBITDA (11.4 million euros) was significantly influenced by the income from deconsolidation during the reporting period.

The sum of all depreciation and amortisation decreased significantly by 3.2 million euros to 1.8 million euros (previous year: 4.9 million euros). Depreciation of property, plant and equipment amounted to 1.1 million euros. A total of 0.7 million euros stemmed exclusively from scheduled amortisation of intangible assets. This amortisation of intangible assets (purchase price allocations – PPA) amounted to 3.3 million euros in the previous year. At the end of the year, acquired goodwill was evaluated as part of impairment testing. The impairment testing showed that none of the capitalised goodwill required an impairment.

Overall, the positive operating result totalled 6.7 million euros (previous year: 6.4 million euros). Here, too, the sustained improvement of results was continued.

The financial result amounted to -0.1 million euros (previous year: -0.4 million euros). This reduction reflects the fact that the Group is completely self-financed and is therefore not dependent on external funds.

The Group's earnings before taxes (EBT) increased in 2015 by 0.6 million euros, bringing them to 6.6 million euros for the financial year (previous year: 6.0 million euros).

The tax result for the 2015 financial year shows expenses of -1.9 million euros (previous year: -6.9 million euros).

Net income for the 2015 financial year amounted to 4.7 million euros (previous year: -0.9 million euros). Earnings per share for 2015 (diluted and undiluted) therefore came to 0.11 euros, following a figure of -0.02 euros for the 2014 financial year.

The segment results reflect overall performance and success in the fields of business in which the company operates. They are based on the Group's internal international and cross-company profit centre earnings statement in accordance with which the msg life Group is managed. In this arrangement, the services exchanged between the segments are accounted for within total output as internal turnover and within the segment result as internal expenses.

IFRS 8 (Operating Segments) specifies that the identification of reportable operating segments be based on the management approach. According to this approach, segment reporting should be carried out on the basis of the in-house organisational and management structures and the company's financial reporting to the most senior management body. They concern the products and services on offer. In the Group headed by msg life ag, the msg life ag Management Board is responsible for measuring and controlling the business results of the segments and is the most senior management body as defined by IFRS 8.

On 1 July 2015, msg life made changes to the composition of its segments. The reporting in accordance with IFRS 8 (Operating Segments) is carried out for the segments of Life Insurance (DACH), Non-Life Insurance (International) and Consulting (DACH). This new method of segment reporting also reflects the new methods of submitting reports to the Management and Supervisory Boards of the company. Segment reporting in the previous year was adjusted in line with IFRS 8.29.

The Life Insurance (DACH) segment generated 79.8 million euros, corresponding to a 73.9 per cent proportion of aggregate turnover, and reached an EBITDA of 11.6 million euros before the allocation of 8.6 million euros in administration costs. Its operating EBITDA return before allocation amounts to 14.6 per cent in relation to segment turnover.

The Non-Life Insurance (International) segment generated 23.1 million euros, which constitutes 21.4 per cent of aggregate turnover, and EBITDA of 5.8 million euros before the allocation of 1.4 million euros for administration costs and 1.0 million euros of deconsolidation income from the disposal of msg life metris gmbh. Its operating EBITDA return before allocation amounts to 24.9 per cent in relation to segment turnover.

The Consulting (DACH) segment generated 5.0 million euros, corresponding to a 4.6 per cent proportion of aggregate turnover, and reached an EBITDA of 0.5 million euros before the allocation of 0.4 million euros in administration costs. Its operating EBITDA return before allocation amounts to 10.5 per cent in relation to segment turnover.

The allocated sales and administrative overheads and in-house IT account for 10.3 per cent of the total costs.

The Group's financial position

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Financial management is designed to enable the msg life Group to have the necessary funds at its disposal at all times so that it is capable of taking action in its operating activities to deal with volatility of incoming orders, fluctuations in customers' payment behaviour and investment needs. In the process, all the significant risks to which the msg life Group is potentially exposed must be recognised at an early stage and the necessary scope for suitable protective measures provided for. Within the framework of liquidity management, care is taken that sufficient funds and appropriate liquidity reserves are freely available at all times. In the financial year ended, the msg life Group was able to meet all payment obligations in their entirety.

FINANCING ANALYSIS

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. In general, liquid funds are invested for short periods. Financial liabilities are short to medium term in nature.

With regard to the credit risk (default risk), there are no significant concentrations on individual customers in the Group. Receivables are not insured, primarily due to the high credit rating of the customers in the insurance sector.

Due to closing-date-related factors, liquid funds increased by 0.1 million euros and amounted to 21.8 million euros as at 31 December 2015 (previous year: 21.7 million euros). Cash pooling exists for the German companies within the msg life Group.

In the 2015 financial year, msg life generated operative cash flow in the amount of 2.5 million euros (previous year: 12.0 million euros), which documents and illustrates the fact that the company generates liquid funds under its own steam. Due to the consistently positive performance indicators, the msg life Group concluded the 2015 financial year with a positive EBT (earnings before taxes on income) figure of 6.6 million euros in total (previous year: 6.0 million euros).

Just as in the 2014 financial year, msg life did not invest in the acquisition of companies in 2015; cash flow from investing activities amounted to 0.5 million euros (previous year: 8.9 million euros).

Thus cash flow from investing activities developed negatively, because the msg life Group was able to pay back the current loan from msg systems ag in the amount of 4.0 million euros in the 2015 financial year. Cash flow from investing activities amounted to -4.0 million euros (previous year: -14.3 million euros).

The Group's assets position

ASSET STRUCTURE ANALYSIS

The Group's equity ratio as at 31 December 2015 has increased to 56.8 per cent (previous year: 50.7 per cent) and equity amounts to 46.2 million euros (previous year: 40.2 million euros). As at 31 December 2015, the Group's balance sheet total is 81.4 million euros, which represents an increase of 2.1 million euros (compared to 79.3 million euros as at 31 December 2014).

In the financial year ended, current assets decreased slightly from 49.7 million euros in the previous year to 49.6 million euros. The sum total of trade receivables as of the balance sheet date rose by 0.3 million euros to 25.2 million euros, of which 22.5 million euros was from receivables that have been invoiced and 2.7 million euros from PoC receivables; however, this increase was slightly overcompensated for by the decrease in other current assets. Liquid funds were nearly unchanged and amounted to 21.8 million euros (previous year: 21.7 million euros).

Non-current assets increased by 2.2 million euros to 31.8 million euros (previous year: 29.6 million euros). Intangible and tangible assets were therefore reduced – primarily due to the lower scheduled depreciation and amortisation on these assets – by 0.8 million euros; however, this development was overcompensated for by the increase in deferred tax assets. In the 2015 financial year, deferred tax assets on IFRS valuation differences were only formed in the amount of the deferred tax liabilities.

Non-current liabilities decreased by 1.3 million euros. This decrease is primarily comprised of the repayment of non-current financial liabilities in the amount of 4.0 million euros. The deferred tax liabilities developed to the contrary, increasing by 3.0 million euros to now 4.4 million euros.

All in all, non-current liabilities account for 16.9 per cent of the balance sheet total, compared with 19.0 per cent proportion in the previous year.

Current liabilities therefore decreased by 2.6 million euros to 21.4 million euros (previous year: 24.0 million euros). The decrease in current income tax liabilities by 2.0 million euros to 0.9 million euros (previous year: 2.9 million euros) was significant to this development. All current financial liabilities were repaid in the previous year, and trade payables were also reduced by 1.2 million euros to 0.5 million euros (previous year: 1.7 million euros). In contrast, other provisions increased by 0.5 million euros to 1.3 million euros (previous year: 0.8 million euros). All in all, the ratio of current liabilities to the balance sheet total improved from 30.2 per cent to now 26.3 per cent.

The 2015 financial year proceeded as planned. The Management Board of msg life ag assumes that the improvement in the earnings, financial and assets position during the financial year ended was sustainable and/or that the positive development from the previous year can be improved upon.

Significant events influencing the earnings, financial and assets position of msg life ag in the annual financial statements pursuant to the German Commercial Code (HGB)

EARNINGS

Compared to the previous year, turnover decreased from 15.4 million euros to 11.3 million euros. The significant decrease in external turnover by 6.0 million euros in 2015 was an important part of this development. The Group turnover, i.e. turnover which is realised with companies within the Group, has developed in an opposite way, increasing by 1.9 million euros. Other operating income fell significantly by 5.1 million euros because the Group – aside from the disposal of the shares in msg life metris gmbh – remained unchanged. Other operating income therefore amounted to 6.2 million euros (previous year: 11.3 million euros) and is comprised of, in addition to the successful disposal of 0.8 million euros, income from the reversal of valuation allowances on receivables in the amount of 4.5 million euros.

In the context of lower turnover generated, expenditure on the purchasing of services outside the Group also posted a corresponding decline because msg life ag is now in a better position to render the required services with its own capacities. In the financial year ended, Group expenses therefore amounted to 3.6 million euros (previous year: 4.5 million euros).

At 5.2 million euros, personnel expenses were significantly lower than the previous year (7.0 million euros). This reduction is in particular due to the decrease in severance payments in the amount of 0.8 million euros, salaries in the amount of 0.4 million euros and bonus payments in the amount of 0.3 million euros.

The item of depreciation of property, plant and equipment from the HGB separate financial statements was essentially unchanged and in the financial year amounted to 0.2 million euros (previous year: 0.2 million euros).

Other operating expenses, essentially consisting of rent and legal and consultancy costs, bookkeeping costs and Supervisory Board remuneration, decreased by 1.3 million euros to 8.0 million euros in the financial year ended (previous year: 9.3 million euros). In the 2015 financial year, amortisation of financial investments amounted to 4.8 million euros (previous year: 0.6 million euros). Costs fees arising centrally within the Group are divided among the individual Group companies in the form of administrative overheads.

Moreover, valuation allowances on receivables from the foreign subsidiaries in the amount of 0.3 million euros (previous year: 0.5 million euros) were carried out.

As msg life ag is the principal tenant in many of the Group's buildings, these costs – as well as other costs – are charged on to the subsidiaries in the course of the Group allocations.

In the 2015 financial year, the company received no investment income. A total of 0.6 million euros was acquired by the company from the existing profit and loss transfer agreement with msg life consulting gmbh. No expenses arising from the obligation to assume losses had to be recognised for the 2015 financial year. In the previous year, these expenses still amounted to 3.4 million euros.

The investment carried out in the capital reserve of msg life metris gmbh was immediately amortised (unscheduled) in the same amount of 4.8 million euros.

In the 2015 financial year, the net interest result of msg life ag amounted to -0.7 million euros (previous year: -0.6 million euros) and is primarily comprised of interest expenses for pension and anniversary provisions or accrued interest on IC liabilities.

Luckily, tax expenses were also significantly reduced from, in the previous year, 2.5 million euros to now 52,000 euros.

Overall for the 2015 financial year, msg life ag generated a net loss under the German Commercial Code (HGB) in the amount of 4.5 million euros (previous year: net profit for the year of 6.2 million euros).

FINANCIAL AND ASSETS POSITION

The decrease of 0.9 million euros in fixed assets to 61.3 million euros (previous year: 62.1 million euros) resulted primarily from the scheduled repayment in the amount of 1.0 million euros of existing loans to affiliated companies. As at 31 December 2015, these loans totalled 3.0 million euros (previous year: 4.0 million euros). Property, plant and equipment recorded a slight increase of 0.1 million euros to 1.0 million euros.

msg life ag's current assets decreased by 1.9 million euros to 15.8 million euros in the financial year ended (previous year: 17.7 million euros) due to other receivables, which decreased by 1.2 million euros. Here, the purchase price receivables due from the sale of shares in subsidiaries were collected in the 2015 financial year.

Receivables from affiliated companies increased by 1.2 million euros to 2.4 million euros (previous year: 1.2 million euros). In contrast, liabilities vis-à-vis affiliated companies increased by 6.6 million euros to 44.8 million euros (previous year: 38.2 million euros).

During the financial year, cash and cash equivalents decreased by 1.3 million euros and amounted to 9.3 million euros at the end of the year (previous year: 10.5 million euros). Liabilities to banks amounted to – as in the previous year – 0 million euros, because the Group is completely self-financed.

During the reporting period, the current loan from the primary shareholder in the amount of 4.0 million euros was completely repaid. As a result, the company has neither current nor non-current loans as at the balance sheet date. Primary factors opposing this were the payment in the amount of 1.0 million euros received for the repayment of existing loans and the change in capital accumulation in receivables as well as other assets and liabilities.

As at the balance sheet date, deferred tax assets amounted to 8,000 euros (previous year: 0.2 million euros) and deferred tax liabilities totalled the same amount of 8,000 euros (previous year: 0.2 million euros).

Equity amounts to 28.9 million euros (previous year: 33.4 million euros), which represents a reduction of 4.4 million euros. This resulted in an increase of the net loss for the year to 45.6 million euros (previous year: net loss of 41.1 million euros), which does not put the company in a position to distribute dividends.

The balance sheet total as at 31 December 2015 amounted to 77.1 million euros (previous year: 80.1 million euros).

The costs of staff functions that have been incorporated into the holding company are still being passed on to the subsidiaries in full – with the exception of the costs of the IPO and the Supervisory Board – by absorbing dividends and transferring the subsidiaries' profits and losses.

RESEARCH AND DEVELOPMENT

Focus of R & D activities

Research and development (R & D) are essential activities for msg life in its capacity as a sector-specific service provider, ensuring that the company can assert its pioneering role in the market-driven analysis of trends and future requirements. The company's R & D activities serve not only to develop and expand standard software solutions, but also to extend its consulting expertise. Such expertise manifests itself in targeted employee knowledge and concepts, as well as in the further development of software tools that give efficient support to the consulting activities. Examples of important areas of business that focus on consulting services include migration and risk management and advising customers on the professional structuring of value chains. Needless to say, all R & D activities are subject to the imperative of sustainable cost-efficiency.

The msg life Group does not conduct open-ended research, but instead focuses on purely target-oriented research in the interests of its strategic corporate goals. Special importance is attached to close communication with the market and, more specifically, with the customers when planning the implementation of research findings into development output, as their assessment of the products' relevance to business success is crucial. The msg life Group therefore attaches a great deal of importance to its cooperation with customers in the user and operator groups as well as with partners (IBM or the msg Group, for example) in relation to its most important products. The approaches devised within the framework of research are presented, discussed and evaluated within the user and operator groups at an early stage and, if required, on a cross-product basis. The evaluation is conducted with particular regard to users' interest in acquiring the product enhancements to be implemented. In this way, new releases of standard software products are now generally partially financed by advance orders from some of the customers. The msg life Group regards this willingness on the part of its customers as a high entrepreneurial countervalue for the expenses incurred by the preceding research work and the support given to the user and operator groups.

As there are no user groups that can be accessed for the placement of new products or the opening up of new markets, early customer models are used which reward a customer's early decision in favour of a new product with commercial benefits. By ensuring the early and economically binding involvement of customers in the enhancement or initial development of products, the msg life Group makes sure that development investments are not made without market orientation.

In addition to the traditionally very high level of acceptance for the quality of the msg life Group's specialist product range for its target sector, the new release generations have succeeded in winning recognition for their high technological quality. The direct benefit from the sector's point of view lies in the option to use msg life's standard software products for a wide range of proven and innovative target technologies. Moreover, the strategic benefit for the msg life Group lies in the possibility of flexible integration for the individual products that were previously strictly separated.

Purchasing R & D know-how

In its capacity as market leader in its core business, the msg life Group is usually unable to have recourse to ready-made external research findings. This particularly applies to specialist thematic areas in the customers' sectors. As a sector-specific service provider, the company prefers to rely on its own research, which builds upon its participation in trade conferences, association activities and joint projects with partner companies. Future trends, too, can usually be identified more reliably on the basis of the systematic reviewing of customer requirements from projects and canvassing situations than on the basis of external surveys. It goes without saying that the high qualification level of the Group's employees is updated continuously by means of selective (also external) ongoing training activities. No purchasing of practical R & D expertise in the narrow sense of the term took place during the 2015 financial year in accordance with this strategy. In the technology sector, however, it goes without saying that msg life makes use of rapidly developing standards and non-proprietary technologies right through to freely available open-source products. The company also safeguards the quality of its own technological orientation by maintaining close partnerships with IBM and with selected colleges and universities.

R & D expenses, R & D investment and key R & D figures

Product development

msg.Life Factory and msg.Insurance Suite

The product strategy continues to focus on the integration of msg.Life Factory (LF) and its components into msg.Insurance Suite (msg.I-Suite), the common insurance platform of the msg Group, as well as the sales-related collaboration taking place in this context. msg.I-Suite represents the first holistic industrial standard for all sectors of the insurance industry. The platform covers and integrates all necessary system components for an insurance company. The underlying modular principle is characterised by a high degree of end-to-end prefabrication, makes it easy to integrate existing solutions and features a wide variety of potential applications with maximised releasability and low maintenance costs. The first pre-integrated version of msg.I-Suite for the life sector was successfully released in the second quarter of 2015.

The current version 4.13 will be made available in two stages as part of the planned enhancement of LF. The first stage was released at the end of the first quarter of 2015 and was followed by the second stage at the beginning of the fourth quarter. Among other things, the current release features enhanced flexibility in connection with biometric products, a range of process optimisations and implementation of the requirements made necessary by the code of conduct for insurers.

As a result, the 4.13 release still supports all of the relevant product innovations and legal requirements on the market. As a trustworthy partner and consultant of many years' standing, msg life is on hand to help its existing LF customers deal with these issues and ensures that all necessary activities will be coordinated closely.

The planning process for the upcoming 4.14 release of LF is already under way after, on the basis of customer prioritisation, the key themes were defined by a user group in March 2015 and then expanded in more detail by the autumn user group in September. According to the schedule, the release is due to be completed in March 2016. The release contains various modifications relating to the low-interest phase (modified additional interest reserves process), new biometric risk products, regulatory updates (transparency requirements) and process improvements. It will also feature foreign taxation procedures in addition to the German regulations, helping not only international companies but also German companies with customers abroad. Alongside the development of this release, the additional component msg.Life Group (group policy management) for the efficient handling of group and company pension business is being expanded.

In the first quarter of 2015, KPMG AG Wirtschaftsprüfungsgesellschaft successfully tested and recertified versions 4.12.1 and 4.12.2 of LF as part of a follow-up test in line with testing standard IDW PS 880 from the Institute of Public Auditors in Germany (IDW). In light of the persistently difficult situation on the financial markets (the low interest rate challenge) and the stricter regulatory requirements, the comprehensive flexibilisation of LF will provide customers with numerous competitive advantages. For example, the enhancements facilitating the universal handling of different calculation bases or the automated calculation of additional interest reserves and (optional) counter-financing have become commercially important instruments for insurance companies.

LF customers can use the current calculation bases, based on the standard, upon commencement of the pension (in line with the term 'conventional pension 2.0', which is being discussed on the market as a result of a product innovation by Allianz Lebensversicherung). Moreover, dynamic increases, additional payments or allowances with different calculation bases – to name just a few examples – can be depicted in the system and subsequently offered to policyholders. In addition, various alternative guarantee mechanisms are available, especially investment guarantees (on the basis of hedging, (i)CPPI individual Constant Proportion Portfolio Insurance or index participation) that supplement or replace conventional guarantees.

The important theme of process efficiency, automation and digitisation is being developed further with LF customers in the specialist working group 'Business processes'. Such specialist working groups for highly specific groups of functional and technical topics consist of customer representatives and msg life employees and have proved their worth. They help to enhance synergetic effects and define market standards – and are now highly significant for further planning- and solution-related developments in relation to LF.

The technical conversion of LF on the basis of modern JEE (Java Platform, Enterprise Edition) technology, beginning with the msg.LF Contract component which was completed in 2014, proceeded according to plan in the reporting period. As a result, the company was able to release the new mathematical component msg.LF Product on schedule in December 2015, thus successfully concluding the transformation of msg.Life Factory into Java JEE architecture.

In connection with the quickly advancing digitisation of the insurance industry, customers are more and more frequently demanding new products and services from msg life. The company is therefore currently developing a completely new self-service portal for life insurers. This portal offers end customers the option of designing significant parts of managing insurance contracts themselves – online, around the clock and with excellent ease of use and security for users. The portal builds upon msg.Life Factory, but it essentially can be used in connection with all existing management systems from msg life as well as customers' own systems.

msg.Migration Factory

In msg life's Migration segment, release 3.6 of the migration software solution msg.Mig Sys was certified – like LF before it – under the recognised testing standard IDW PS 880 at the end of 2014.

msg.Life

Development of the policy management system msg. Life is still on schedule. As with LF, existing msg.Life customers were informed of the German Life Insurance Reform Act (Lebensversicherungsreformgesetz – LVRG) and any impact it might have on the products. This resulted in a joint functional conception on the subjects of total expense ratio and hedging requirements, which was implemented in 2014 and which was delivered on time by the start of 2015.

msg.Symass

Near the end of the first quarter of 2015, version 5.6.2 of the management system msg.Symass was successfully completed and shipped out to all customers; additionally, development of the product remained on schedule over the course of the year and the current 5.8.2 release was made available to existing customers in September 2015.

msg.Office

In the second quarter of 2015, a new version of msg. Office – a standard product for fully digitised transaction control and document management – was completed using Java and Web client technology on the basis of modern SOA architecture. It was also successfully integrated with LF. Work is also being carried out on the integration of msg.Office into msg.I-Suite.

msg.Zulagenverwaltung

Version 4.3 of msg.Zulagenverwaltung, a system designed to manage contracts subsidised under the Riester system, was made available for customer projects in the first half of 2015. The new 4.4 version was then released in the fourth quarter of 2015. This release will signal the full expansion of the solution's tax functions (RSBF). msg life will therefore be able to extend its lead over its competitors in terms of its functions and expects to attract even more new customers with this successful standard software solution.

msg.RAN

As planned, the 3.8 release of the pension calculation and verification system msg.RAN was made available to customers in the fourth quarter of 2014. The subsequent version 3.9 was released in the fourth quarter of 2015.

msg.Tax Connect

Work on the 2.3 release of the standard software msg.Tax Connect remained on schedule following the shipment of the 2.2 release at the end of 2014. The new version was subsequently released in the fourth quarter of 2015.

Implementation of the Common Reporting Standard (CRS) concerning the automatic exchange of (tax-related) information is in the final stages of discussion with customers and is scheduled to take place in 2016 – although the legislative requirements in this context have not yet been defined conclusively. Nonetheless, thanks to the solution's modern architecture in combination with professional development methods, msg life can commit to implementing this statutory notification obligation on time for its customers. This new functionality once again highlights the immense potential offered by the solution, which is becoming the key platform for communication between msg life customers and tax authorities – throughout Europe. The company has already acquired its first customer for the new CRS product, and verbal pledges have also been made by other potential customers. The topic of Foreign Account Tax Compliance Act (FATCA – the US version of the CRS) is likewise currently being incorporated into the solution accordingly.

The products msg.Mig Archive, msg.Zulagenverwaltung, msg.RAN and msg.Tax Connect will be made compatible with the code of conduct by 2016, as planned. The user groups coordinated this expansion with the customers and it has already been ordered.

Project business

msg.Life Factory and msg.Insurance Suite

The migration of customers' systems to LF JEE has been completed for a number of customers and is under way for the rest: For example, Provinzial Rheinland reached its next strategic target by successfully upgrading to LF JEE 4.12 in early July 2015. As all new business has been administered using LF JEE technology since 2013, this release now signals the full switch to LF JEE.

Likewise, Öffentliche Versicherung Braunschweig (ÖVBS) went live with LF in the new JEE technology at the start of the third quarter, and additional functions required by ÖVBS were subsequently made available in the fourth quarter. This makes ÖVBS the second LF customer to carry out all of its policy management in JEE technology. The other customers, including Heidelberger Leben (HLE) this year, are gradually switching to LF JEE in close coordination with msg life. In the third quarter, msg life also received an order from Wüstenrot & Württembergische to carry out a pilot study with a view to potentially switching to LF JEE.

After a project duration of just one year, AXA Germany went live with LF in the new JEE technology in early February 2015. LF, with several additional components, is now AXA's strategic system for the life sector. Around 80 per cent of AXA's new business – with an automatic policy processing rate of almost 30 per cent – is currently processed using LF. Furthermore, the high flexibility of the msg life product has made it evident that relevant positive effects in the context of the net present value can be generated for product innovations and related investments. A further roll-out with transactions for the first of three administrative stages was effected on schedule and with no mishaps in April. Other transactions were then successfully introduced in September and October.

The scope of the project, the degree of innovation, the fixed deadline and the high quality requirements, in connection with the high number of policies from the outset, posed an enormous challenge to everyone involved. The fact that this challenge was overcome so successfully is a clear indication of the extremely high quality of the products of msg life and its related project expertise.

The ERGO Insurance Group went live with a new LF release in June 2015. Following the successful introduction of LF in 2013, this was the sixth release to be introduced at ERGO. The current release features expansions relating to company pensions in particular. The preparations and tests for the winter release including system expansions took place in the third quarter of 2015, and this release went live in mid December.

DEVK Versicherungen went live with a new LF release in June 2015. This release mainly comprised the introduction of two new products and further system expansions. The preparatory measures for the upcoming launch with the related product innovations were also implemented in the third quarter. The winter release then went into production in early December and the third migration tranche was subsequently transferred from the old system to LF. Both the product roll-out and the migration went smoothly.

After HUK-COBURG Lebensversicherung went live with LF for quotations, new business, and all transactions relating to new business in early January 2015 following intense preparation, all transactions were gradually implemented in the course of the year.

msg.Life

Following on from the successful implementation of msg.Life 4 as part of the project for SOKA-BAU at the turn of the year (2014/15) – including the new construction industry tariffs – the product went live on 1 January 2016. As of this date, the 'Tarifrente Bau' tariff managed within msg.Life 4 is the new form of mandatory insurance for employees in the construction sector. In the first quarter of 2015, AXA Versicherung went live with version 3.15.0.6 of msg.Life and, in doing so, it seamlessly implemented the new tariff generation for 2015. At the end of March 2015, Versicherungskammer Bayern (VKB) successfully went live with release 3.16.0.2 of msg.Life for its Hungarian subsidiary MKBB, followed by the implementation of release 3.16.0.2.3 in December 2015.

AXA Pensionskasse successfully introduced version 3.15.0.7 of msg.Life in April of last year and, almost simultaneously, Schweizerische Mobiliar went live with version 3.13.7 of msg.Life. Based on this release, in early May 2015 Mobiliar was able to start selling a new savings product in Switzerland; the sales figures so far are considerably higher than originally expected. Mobiliar then successfully and seamlessly went live with release 3.14.1 of msg.Life in October 2015. Likewise in October, the long-standing customer R+V Luxembourg went live with msg.Life version 3.17.0.1.

msg.Symass

The sales expectations for msg.Symass are developing positively. For example, a new customer was acquired in December 2015 who will henceforth manage car insurance policies using msg.Symass. The implementation project designed to expand the msg.Symass platform for the foreign business of the Austrian insurance company Merkur Versicherung is also still proceeding according to plan. The first project package was completed in August 2015 and the second project phase was started simultaneously. The solution will be used in all five of Merkur's Eastern European subsidiaries in Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Montenegro. This success once again underlines the competitiveness, great flexibility and short development cycles of the all-sector management system msg.Symass.

Migration

msg life received numerous additional orders relating to migration plans as part of ongoing projects, and two msg.Mig Archive upgrade licences were ordered in the context of the code of conduct for insurers. In addition, all key migration projects went according to plan – these included a challenging project for DEVK Versicherungen which resulted in almost a million of the company's contracts (migrated contracts and new business) being administrated in LF by the end of 2015. A pilot study for another major migration project was launched in the third quarter. Overall, the orders position in the Migration division remains positive, and msg life is welcoming these good developments by strategically increasing its own staff.

In the reporting period, msg life received another data analysis contract. This offer of a highly specialised actuarial assessment – with a view to migration – of life policies available for sale, which was created in 2014, continues to enjoy an exceptionally positive reception. In this respect, msg life adapted itself early on to the rapidly increasing consolidation trend in the German life insurance industry. This offer is already an integral part of a customer's holistic analysis of its life insurance portfolio. This shows that msg life's comprehensive migration expertise continues to be considered leading on the market.

Consulting

In its Consulting segment, msg life is pursuing several larger and promising project strategies in the product-based environment in Central and Eastern Europe. In addition, msg life units are supporting a range of customers on German-speaking and international markets with various themes.

In particular in the area of insurance within the Consulting segment, msg life is focusing on the three key aspects of product optimisation, business process optimisation and migration support – and therefore on thematic areas which are aimed at increasing market shares on the one hand and optimising the cost ratio of msg life's customers on the other. In the

Consulting segment, too, msg life sees itself as a reliable partner for insurance companies in dealing with the pressure of change in an efficient and innovative manner.

msg.Office

The project at Heidelberger Leben (HLE) to expand the HLE life platform, where msg.Office is used, started and is proceeding according to plan.

msg.Zulagenverwaltung

Especially with regard to Riester-tax-related policy management, msg life sold two new licences in the reporting period and two other promising canvassing processes are ongoing in connection with these Riester tax functions. In the context of Riester, the company also received additional orders for portfolio optimisation. The installation projects for two customers are proceeding according to plan.

Thanks to systematic expansion reaching all the way to the full automation of process stages (especially for previously complex manual work stages in the context of tax assessment), the company's market leadership by virtue of msg.Zulagenverwaltung can be safeguarded and expanded in the long term. Considerably more than half of the roughly 15 million contracts subsidised under the Riester system that are concluded in Germany are handled using the msg life solution. The resultant cost advantage for msg life customers, particularly in respect of regulatory or statutory requirements in relation to Riester business, is already proving to be a crucial success factor. The new optimisation product Betriebsoptimierung Zulagenverwaltung, for example, is now being used by four life insurance companies.

msg.RAN

msg.RAN is also set to be used at AXA Leben Deutschland and Heidelberger Leben in the future, and the project work in connection with this is already under way. A new customer was acquired in the second quarter, followed by another new customer in the third quarter. msg life is currently holding promising talks with other potential customers. These developments emphasise the consistently high market potential of this standard software solution, not least in light of the ever-growing number of annuity policies on the books of msg life customers.

msg.Tax Connect

The reporting period also saw the sale of two upgrade licences and the successful introduction of the product by a new customer in Luxembourg, who had been acquired in the first quarter of 2015. This shows that msg.Tax Connect can also be used successfully abroad.

msg life has already been able to conclude licence agreements for msg.Tax Connect with a total of 13 customers, including two banks. msg life is currently in talks concerning the use of msg.Tax Connect with two other prospective customers. For msg life, this is renewed confirmation of the insurance market trend towards depicting the increasing regulatory requirements with a single standard software product.

The msg life Group's R & D expenditure totalled 8.886 million euros in the 2015 financial year (previous year: 9.850 million euros). Once again, no development expenses were capitalised. Detailed information on this subject can be found under Item VI ('Notes to the income statement') in the notes to the consolidated financial statements.

EMPLOYEES

On 31 December 2015, 863 permanently employed salaried personnel – including the managing directors – were employed within the msg life Group (compared with 865 on 31 December 2014).

In order to find new employees, the company offers recruitment opportunities in various professions and at various career levels. msg life also takes advantage of the networks and know-how of employees within the sector and has established a recommendation programme. In addition to the company's various networks, the Internet remains its greatest source of recruits by far. This medium accounted for more than 80 per cent of the almost 1,500 job applications received in 2015. As such, the company achieved another significant increase in the number of applicants compared with the previous year – a pleasing development considering that the recruitment market is becoming more and more challenging. To process the larger number of applications swiftly and in a manner which is structured and takes data security into account, the company has been using a new applicant management system since 2015 and exploits the entire gamut of communication channels in order to identify interesting candidates.

University relations are another key aspect for the company in the field of long-term staff recruitment. Once again in the 2015 financial year, msg life succeeded in spreading its good reputation at the universities which are of interest to it, with the aim of attracting promising graduates with suitable qualifications to the company. Additionally, msg life again awarded the msg life prize for an outstanding applied mathematics thesis in 2015.

In the area of further professional training for employees, msg life continues to support staff who are training to be DAV actuaries at the Deutsche Aktuar-Akademie (DAA – the German actuarial academy) while working. The company pays their course fees and gives them time off to attend lectures.

msg life organises welcome and introductory events for all new members of staff. With the participation of the Management Board, the appropriate managers from the various specialist divisions, the Human Resources department, Works Council representatives and, in particular, specialists from the operational areas, the company presents its strategic focus and targets in its various business segments. In addition, the new employees can get to know one another in a friendly atmosphere, identify common ground and begin to build up contacts with new colleagues from other areas.

The company's onboarding programme, which msg life developed in-house and launched in 2011, focuses on the needs and requirements of new members of staff. This programme is now also actively discussed at universities, career fairs and in interviews with job applicants, where it is regularly met with great interest.

The company's remuneration model has now been successfully introduced and is continuously developed in a targeted manner. It focuses on the roles and performance of employees, ensures that remuneration continues to meet the market standards and serves as a key benchmark for structured, individual salary changes.

In 2015, msg life continued to systematically pursue its chosen path of greater digitisation in the area of HR development too, and developed and offered additional e-learning courses to its employees. In particular the rapid availability of training content for a quickly changing group is a crucial factor in the development of online learning formats. The company also focuses on the qualification of internal trainers. It specifically gives its own multipliers and experts training in teaching skills in order for them to pass on specialist knowledge and systematically bases its internal training on the medium- and long-term strategic development prospects.

msg life's powerful intranet not only features the above-mentioned online training and e-learning courses, but it can also be used to independently initiate and advance key processes relating to the msg life working environment. For example, business trips are booked and accounted for via the msg life travel portal. And, using the timekeeping system on the intranet, every member of staff logs the hours they have worked as part of the company's universal trust-based working-hours system.

Staff also apply for and are granted time off via a portal solution and have long been able to view and independently manage their monthly payslips and relevant records with the dedicated inbox application. Additionally, all members of staff can view their own data on the so-called iPortal, a technical platform for employees and executives which displays the master data stored in the systems and thus renders them accessible to the staff.

TAKEOVER-RELATED DISCLOSURES PURSUANT TO SECTION 289(4) AND SECTION 315(4) OF THE GERMAN COMMERCIAL CODE (HGB)

Composition of the subscribed capital

On 31 December 2015, msg life ag's subscribed capital amounted to 42,802,453 euros, consisting of 42,802,453 no-par-value bearer shares with full and equal voting rights. One share grants the holder a notional stake of 1.00 euro in the share capital. As at 31 December 2015, the company's portfolio of treasury shares amounted to 1,906,592 individual shares.

Restrictions affecting voting rights or the transfer of shares

The shares have full voting and dividend rights, unless otherwise specified by the German Stock Corporation Act (Aktiengesetz – AktG).

Direct or indirect interests in the capital

According to the published announcements and the information available to msg life ag, direct or indirect interests exceeding ten per cent of the voting rights as at 31 December 2015 were as follows:

Entity with reporting obligation	Type of interest	Proportion of voting rights
msg systems ag (Ismaning)	Direct	49.1%
msg group GmbH (Ismaning)	Indirect	49.1%
Enzbrenner, Herbert (Germany)	Indirect	49.1%
Enzbrenner, Immanuel (Germany)	Indirect	49.1%
Pflügler, Christoph (Germany)	Indirect	49.1%
Pflügler, Pius (Germany)	Indirect	49.1%
Zehetmaier, Hans (Junior) (Germany)	Indirect	49.1%
Zehetmaier, Helga (Germany)	Indirect	49.1%
Zehetmaier, Johann (Germany)	Indirect	49.1%
Zehetmaier, Dr Jürgen (Germany)	Indirect	49.1%
Zimmermann, Christina (Germany)	Indirect	49.1%

Holders of shares with special rights

No shares with special rights which bestow authority to control were issued.

Type of voting rights control in the case of employee shareholdings

Like other shareholders, those employees who hold shares in msg life ag exercise their control rights in direct compliance with the statutory provisions and the articles of incorporation.

Statutory provisions and stipulations of the articles of incorporation concerning the appointment and dismissal of members of the Management Board and concerning alterations to the articles of incorporation

The members of the Management Board are appointed and dismissed in accordance with the provisions of sections 84 and 85 of the AktG. The Management Board consists of one or more persons. The Supervisory Board determines the number of the Management Board's members. The members of the Management Board are appointed by the Supervisory Board for a maximum of five years. A repeat appointment or a prolongation of the term, each for a maximum of five years, is permissible.

Amendments to the articles of incorporation require a resolution of the annual general meeting. Resolutions of the annual general meeting require a simple majority of votes cast and a simple majority of the share capital represented, unless a greater majority is required by law. The articles of incorporation contain no divergent provisions which require a larger majority.

The Management Board's authority to issue or repurchase shares

The Management Board is authorised – with the approval of the Supervisory Board – to issue new shares provided that the appropriate authorised capital (for the issuance of new shares) or conditional capital (for the issuance of convertible and warrant bonds) has been adopted by the annual general meeting and has not yet been utilised in full.

The company has the following authorised capital:

Authorised capital 2015/1

The annual general meeting on 25 June 2015 authorised the Management Board to increase the company's share capital with the approval of the Supervisory Board by issuing new no-par-value bearer shares against cash contributions or contributions in kind on one or more occasions, albeit by no more than 21,401,226 euros in total (authorised capital 2015/1). The new shares must be offered to the shareholders for subscription; they may also be taken on by banks or by a company which operates in accordance with section 53(1)(1) or section 53b(1)(1) or (7) of the German Banking Act (KWG) under the obligation that the shares are offered to the shareholders for subscription. The Management Board is authorised to disapply the shareholders' pre-emption rights with the approval of the Supervisory Board and in compliance with the precise regulations and, subject to the approval of the Supervisory Board, to determine the remaining conditions of share issuance, including the issue price and the further details of the share rights. A shareholder's entitlement to dividends may apply from the beginning of a financial year which has already passed insofar as no decision has yet been made regarding the appropriation of earnings for said financial year.

Repurchase of treasury shares

By resolution of the annual general meeting of 26 June 2014, the company was authorised to acquire treasury shares ('msg life shares') up to a total of 10 per cent of the share capital as of the date of the resolution. In this regard, at no point may more than 10 per cent of the share capital of the company be represented by the shares acquired under this authority combined with other shares in the company which the company had already acquired and still holds or which are attributable to it under sections 71 et seq. of the German Stock Corporation Act (AktG). The company may not use this authorisation for the purpose of trading in its own shares. The authorisation may be used in whole or in partial amounts to pursue one or more purposes, on one or more than one occasion, by the company, but also by its affiliated companies or through third parties for its or their account, within the limits of the above restrictions. The authorisation to acquire treasury shares applies until the end of 25 June 2019. The deadline applies to the date of acquisition of the shares, not to holding the shares beyond this date.

Significant agreements concluded by the parent company which are subject to the condition of a change of control resulting from a takeover bid

The company's articles of incorporation do not contain any provisions which might cause a delay or a postponement in, or even the prevention of, a change in the control of the company. There are no agreements between msg life ag and third parties which are subject to the condition of a change of control resulting from a takeover bid and which have the following effects either individually or in their entirety.

Compensation agreements concluded with the members of the Management Board or with employees in the event of a takeover bid

As at 31 December 2015, there were no agreements with the serving members of the Management Board or with employees on the subject of compensation or other payments by the company in the event of a takeover bid.

OTHER LEGAL AND ECONOMIC FACTORS

Shareholders' rights and duties

Shareholders have property and administrative rights. The property rights include, in particular, the right to participate in profits (section 58[4] of the AktG) and liquidation proceeds (section 271 of the AktG), as well as pre-emption rights to shares in the event of capital increases (section 186 of the AktG).

The administrative rights include the right to attend the annual general meeting and speak, ask questions, put forward motions and exercise voting rights. Shareholders can assert these rights by initiating, in particular, actions for information and rescission.

Each share guarantees one vote at the annual general meeting. The annual general meeting elects the members of the Supervisory Board and the auditor of the financial statements; it decides, in particular, on the formal approval of the actions of the members of the Management Board and the Supervisory Board, alterations to the articles of incorporation, corporate action, empowerment to acquire treasury shares and, if required, the conducting of a special audit, the premature dismissal of members of the Supervisory Board and a dissolution of the company.

The annual general meeting generally passes its resolutions by simple majority of the votes cast, provided that there is no statutory requirement for a greater majority or the fulfilment of other conditions.

Composition of the Supervisory Board

On the reporting date, in accordance with the articles of incorporation, the Supervisory Board consisted of three members elected by the shareholders pursuant to the German Stock Corporation Act (AktG). The members of the Supervisory Board are elected for the period ending upon conclusion of the annual general meeting that decides on the formal approval of their actions in the third financial year since their service on the board began; the financial year in which the term of office began is not included in the calculation. The annual general meeting may, however, also resolve to give members a shorter period of office. With the exception of the adoption and amendment of the Supervisory Board's rules of procedure, which must be passed unanimously, resolutions of the Supervisory Board require a majority of the votes cast, if nothing to the contrary is provided for by law. If the vote is tied – also in elections – the Chairperson, or in their absence the Deputy Chairperson, shall have the casting vote.

BASIC FEATURES OF THE REMUNERATION SYSTEM

Management Board remuneration

Within the context of the German Act on the Appropriateness of Management Board Remuneration (VorstAG), which came into force in 2009, and the German Corporate Governance Code, the Supervisory Board decided to introduce a new system of remuneration for members of the Management Board on 1 July 2010. The annual general meeting on 17 August 2010 approved this new system. In this new system, the Group turnover and Group EBTA were to be used as the control ratio for calculating the short-term (bonus) and long-term variable remuneration components (long-term incentive, LTI) for the Management Board. EBTA refers to earnings before income taxes plus amortisation of the intangible assets identified in the course of the merger of the former COR AG Financial Technologies and not recognised in the statement of financial position (software, contract portfolio, customer relationships).

The above notwithstanding, the Supervisory Board took Group EBT* (EBT*) in addition to Group turnover as the control parameter for calculating the Management Board's short-term and long-term variable remuneration components for the 2011 financial year, Group EBITDA (EBITDA) in addition to Group turnover for the 2012 financial year, Group EBITDA without the earnings contribution from plenum AG (EBITDA without plenum) in addition to Group turnover excluding plenum AG's share of turnover for the 2014 and 2015 financial years and Group EBITDA (EBITDA) in addition to Group turnover for the 2014 financial year. EBT* refers to earnings before taxes before the profit shares of plenum AG and the former COR&FJA Metris GmbH, and the effect on earnings from the shares in B+S Banksysteme Aktiengesellschaft. EBITDA refers to earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets. EBITDA without plenum refers to earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets without the earnings contribution from the equity stake in plenum AG.

With regard to the system of remuneration, the Supervisory Board adheres to the stipulations of the VorstAG and the German Corporate Governance Code, and takes the total remuneration of the Management Board's members into account so as to reasonably reflect their responsibilities and performance as well as the company's situation. The remuneration structure is geared towards sustainable corporate development, which is why the long-term variable component of remuneration is founded on an assessment basis extending over several years. All variable remuneration components are subject to a cap or to the possibility of a cap in the event of extraordinary developments.

The remuneration system for the Management Board includes a fixed salary and generally variable components. Members of the Management Board receive additional benefits in the form of a company car, telecommunications services and the refund of reasonable expenses. The members of the Management Board are also covered by accident insurance and by the D&O insurance policy concluded by the company. Ultimately, the company generally pays each of the Management Board's members 50 per cent of the respective maximum premiums for the statutory pension, unemployment, health care and nursing care insurance, and 100 per cent of the respective maximum premiums for voluntary membership of the employers' liability insurance association. The remuneration system does not include any other components, e.g. a company pension or benefits on termination of membership of the Management Board or a change in control of the company. The fixed salary is intended to account for about 70 per cent of total remuneration. The variable portion of remuneration consists of two components: an annual bonus (about 45 per cent of the variable portion of remuneration) and a long-term incentive (LTI) (about 55 per cent of the variable portion of remuneration).

For the employment contract of Dr Christian Hofer, the Chairman of the Management Board who occupied the Management Board position only for a transitional period, msg life had agreed on remuneration without any variable component. The company took the view that the agreement of variable remuneration components in this specific case would have no advantage in comparison to the agreement of purely fixed remuneration. In addition, Dr Christian Hofer received no allowances towards the statutory pension and unemployment insurance from msg life on grounds of age.

Short-term variable remuneration components

In the remuneration system, the annual bonus is linked to Group turnover (turnover) and Group earnings (2010: Group EBTA; 2011: Group EBT*; 2012: Group EBITDA; 2013: Group EBITDA without plenum; 2014: Group EBITDA). The annual short-term variable remuneration components for the members of the Management Board are determined on the basis of the degree to which the Group turnover targets and Group earnings targets agreed with the respective Management Board members at the beginning of each financial year are met. Short-term variable remuneration is between 0 and 200 per cent of the short-term variable salary component agreed for target attainment of 100 per cent in relation to both the Group turnover and the Group earnings. The short-term variable bonus is payable immediately after adoption of the annual financial statements and, if the respective appointment is terminated during the year, is granted in proportion to its length.

LTI as a long-term variable remuneration component

In the remuneration model, the LTI is a long-term performance-based plan. The plan's assessment basis consists of Group turnover and average Group earnings (2010: Group EBTA; 2011: Group EBT*; 2012: Group EBITDA; 2013: Group EBITDA without plenum; 2014 and 2015: Group EBITDA) over a period of three years. The LTI is granted in tranches which revolve annually, with each tranche having a term of three years. Long-term variable remuneration is between 0 and 200 per cent of the long-term variable salary component agreed for target attainment of 100 per cent in relation to both the Group turnover and the Group earnings. The long-term variable bonus for a performance period is payable at the end of the month in which the consolidated financial statements for the third financial year of the performance period are adopted. An advance payment of 50 per cent of the respective basic amounts is made at the end of the month in which the consolidated financial statements for the first or second financial year respectively of the performance period is adopted. If the advance payments exceed the amount payable for the performance period, the difference must be refunded immediately. If the appointment is terminated during one or more performance periods, the LTI will be granted pro rata.

In the 2015 reporting year, the contracts of employment for the serving members of the Management Board all corresponded to the remuneration system described above.

Supervisory Board remuneration

The currently valid remuneration rules for the Supervisory Board were adopted by both annual general meetings on 28 July 2009 and on 17 August 2010.

Each member of the Supervisory Board receives fixed remuneration of 16,000 euros per financial year.

In addition to their fixed remuneration, each member of the Supervisory Board receives annual variable remuneration amounting to 0.25 per cent of the earnings before income taxes reported in the consolidated financial statements approved by the Supervisory Board and prepared in accordance with International Financial Reporting Standards (IFRS), plus the amount pertaining to amortisation of the intangible assets identified in the course of the merger of the former COR AG Financial Technologies with the company, but which are not recognised in the statement of financial position (software, contract portfolio, customer relationships) (EBTA). Variable remuneration lapses when the consolidated financial statements record no positive EBTA.

The Chairperson receives double, and the Deputy Chairperson one and a half times, the fixed and variable remuneration described above.

The total of the agreed fixed and variable remuneration components for each member of the Supervisory Board is limited to 32,000 euros per financial year. Per financial year, this sum amounts to 64,000 euros for the Chairperson of the Supervisory Board and 48,000 euros for the Deputy Chairperson.

If Supervisory Board committees are formed, each member of the Supervisory Board is given 1,000 euros for every committee meeting of the Supervisory Board that the member attends in addition to the agreed fixed and variable remuneration, which is limited by the articles of incorporation; these payments are, however, limited to a maximum of 5,000 euros per financial year. Expenses incurred in holding a Supervisory Board position are also reimbursed. Members of the Supervisory Board are reimbursed any value added tax paid on remuneration.

INFORMATION ON THE GERMAN MANAGEMENT REMUNERATION DISCLOSURE ACT (VORSTANDSVERGÜTUNGSOFFENLEGUNGS-GESETZ – VORSTOG)

The remuneration of the Management Board active in the 2015 financial year was 1.059 million euros (previous year: 1.732 million euros). The remuneration was allocated as follows:

	31.12.2015 *Thousand euros*	31.12.2014 *Thousand euros*
Payable short-term remuneration	1,031	932
Remuneration arising from termination of employment relationship	0	800
Advance on LTI	28	0
Total	**1,059**	**1,732**

Remuneration for former members of the Management Board in 2015 amounted to 109,000 euros (previous year: 82,000 euros).

Payments arising from the termination of employment relationships in 2015 amounted to 0 euros (previous year: 800,000 euros).

Pension provisions for former members of the Management Board offset against plan assets amounted to 340,000 euros as at 31 December 2015 (previous year: 312,000 euros).

Details of the remuneration of the Management Board in 2015 in line with the requirements of the German Corporate Governance Code

The following tables display the allowances granted for the financial year, the accruals in and/or for the reporting year and the pension-related expenses in and/or for the reporting year for each member of the Management Board in line with the recommendations of number 4.2.5, paragraph 1 of the German Corporate Governance Code.

The sum of allowances granted in the 2014 financial year consists of the fixed remuneration in 2014, taxable non-cash benefits and other fringe benefits in 2014, the short-term variable remuneration for 2014 disbursed in 2015 given 100 per cent target achievement, the long-term variable remuneration for 2014 to 2016 disbursed in 2017 given 100 per cent target achievement and pension-related expenses in 2014.

The sum of allowances granted in the 2015 financial year consists of the fixed remuneration in 2015, taxable non-cash benefits and other fringe benefits in 2015, the short-term variable remuneration for 2015 disbursed in 2016 given 100 per cent target achievement, the long-term variable remuneration for 2015 to 2017 disbursed in 2018 given 100 per cent target achievement and pension-related expenses in 2015.

Allowances granted in euros	**Rolf Zielke** **Spokesperson of the Management Board** *01.01.2015 – 31.12.2015*			
	2014	**2015**	**2015 (min)[1]**	**2015 (max)[2]**
Fixed remuneration	280,000.00	280,000.00	280,000.00	280,000.00
Fringe benefits	24,471.00	40,832.92	40,832.92	40,832.92
Sum 1	**304,471.00**	**320,832.92**	**320,832.92**	**320,832.92**
Annual variable remuneration	54,000.00[3]	64,000.00[3]	0.00	128,000.00
Variable remuneration over several years (planned term of three years)	66,000.00[3]	76,000.00[3]	0.00	152,000.00
Sum 2	**424,471.00**	**460,832.92**	**320,832.92**	**600,832.92**
Pension-related expenses	1,742.48	1,742.48	1,742.48	1,742.48
Total remuneration	**426,213.48**	**462,575.40**	**322,575.40**	**602,575.40**

Allowances granted in euros	Bernhard Achter Member of the Management Board *01.01.2015 – 31.12.2015*			
	2014	**2015**	**2015 (min)[1]**	**2015 (max)[2]**
Fixed remuneration	200,000.00	245,000.00	245,000.00	245,000.00
Fringe benefits	17,653.12	22,145.93	22,145.93	22,145.93
Sum 1	**217,653.12**	**267,145.93**	**267,145.93**	**267,145.93**
Annual variable remuneration	45,000.00[3]	67,500.00[3]	0.00	135,000.00
Variable remuneration over several years (planned term of three years)	55,000.00[3]	55,000.00[3]	0.00	110,000.00
Sum 2	**317,653.12**	**389,645.93**	**267,145.93**	**512,145.93**
Pension-related expenses	0.00	0.00	0.00	0.00
Total remuneration	**317,653.12**	**389,645.93**	**267,145.93**	**512,145.93**

Allowances granted in euros	Dr Aristid Neuburger Member of the Management Board *from 01.01.2015 – 31.12.2015*			
	2014	**2015**	**2015 (Min)[1]**	**2015 (Max)[2]**
Fixed remuneration	0.00	120,000.00	120,000.00	120,000.00
Fringe benefits	0.00	0.00	0.00	0.00
Sum 1	**0.00**	**120,000.00**	**120,000.00**	**120,000.00**
Annual variable remuneration	0.00[3]	27,500.00[3]	13,750.00	55,000.00
Variable remuneration over several years (planned term of three years)	0.00[3]	32,500.00[3]	16,250.00	65,000.00
Sum 2	**0.00**	**180,000.00**	**150,000.00**	**240,000.00**
Pension-related expenses	0.00	0.00	0.00	0.00
Total remuneration	**0.00**	**180,000.00**	**150,000.00**	**240,000.00**

Allowances granted in euros	Dr Christian Hofer Chairman of the Management Board *01.01.2014 – 30.06.2014 (departure)*			
	2014	**2015**	**2015 (min)[1]**	**2015 (max)[2]**
Fixed remuneration	232,000.00	0.00	0.00	0.00
Fringe benefits	7,356.51	0.00	0.00	0.00
Sum 1	**239,356.51**	**0.00**	**0.00**	**0.00**
Annual variable remuneration	0.00	0.00	0.00	0.00
Variable remuneration over several years (planned term of three years)	0.00	0.00	0.00	0.00
Sum 2	**239,356.51**	**0.00**	**0.00**	**0.00**
Pension-related expenses	0.00	0.00	0.00	0.00
Total remuneration	**239,356.51**	**0.00**	**0.00**	**0.00**

Allowances granted in euros	Volker Weimer Member of the Management Board 01.01.2014 – 28.02.2014 (departure)			
	2014	2015	2015 (min)[1]	2015 (max)[2]
Fixed remuneration	46,746.66	0.00	0.00	0.00
Fringe benefits	4,956.26	0.00	0.00	0.00
Sum 1	**51,702.92**	**0.00**	**0.00**	**0.00**
Annual variable remuneration	0.00	0.00	0.00	0.00
Variable remuneration over several years (planned term of three years)	0.00	0.00	0.00	0.00
Sum 2	**51,702.92**	**0.00**	**0.00**	**0.00**
Pension-related expenses	0.00	0.00	0.00	0.00
Total remuneration	**51,702.92**	**0.00**	**0.00**	**0.00**

[1] Attainable minimum value of the remuneration component awarded in the financial year
[2] Attainable maximum value of the remuneration component awarded in the financial year
[3] With 100 per cent target achievement

The sum of accruals in the 2014 financial year consists of the fixed remuneration in 2014, taxable non-cash benefits and other fringe benefits in 2014, the short-term variable remuneration for 2013 disbursed in 2014, the long-term variable remuneration for 2011 to 2013 disbursed in 2014 and pension-related expenses in 2014.

The sum of accruals in the 2015 financial year consists of the fixed remuneration in 2015, taxable non-cash benefits and other fringe benefits in 2015, the short-term variable remuneration for 2014 disbursed in 2015, the long-term variable remuneration for 2012 to 2014 disbursed in 2015 and pension-related expenses in 2015.

Accruals in euros	Rolf Zielke Spokesperson of the Management Board 01.01.2015 – 31.12.2015		Bernhard Achter Member of the Management Board 01.01.2015 – 31.12.2015	
	2014	2015	2014	2015
Fixed remuneration	280,000.00	280,000.00	200,000.00	245,000.00
Fringe benefits	24,471.00	41,514.53	17,653.12	22,145.93
Sum 1	**304,471.00**	**321,514.53**	**217,653.12**	**267,145.93**
Annual variable remuneration	0.00	62,737.00	0.00	52,281.00
Variable remuneration over several years (planned term of three years)	0.00	0.00	0.00	0.00
Miscellaneous	0.00	-14,975.00[1]	0.00	27,500.00[2]
Sum 2	**304,471.00**	**369,276.53**	**217,653.12**	**346,926.93**
Pension-related expenses	1,742.48	1,742.48	0.00	0.00
Total remuneration	**306,213.48**	**371,019.01**	**217,653.12**	**346,926.93**

Accruals in euros	Dr Aristid Neuburger Member of the Management Board *from 01.01.2015 – 31.12.2015*	
	2014	**2015**
Fixed remuneration	0.00	120,000.00
Fringe benefits	0.00	0.00
Sum 1	**0.00**	**120,000.00**
Annual variable remuneration	0.00	0.00
Variable remuneration over several years (planned term of three years)	0.00	0.00
Miscellaneous	0.00	0.00
Sum 2	**0.00**	**120,000.00**
Pension-related expenses	0.00	0.00
Total remuneration	**0.00**	**120,000.00**

Accruals in euros	Dr Christian Hofer Chairman of the Management Board *01.01.2014 – 30.06.2014 (departure)*		Volker Weimer Member of the Management Board *01.01.2014 – 28.02.2014 (departure)*	
	2014	**2015**	**2014**	**2015**
Fixed remuneration	232,000.00	0.00	46,746.66	0.00
Fringe benefits	7,356.51	0.00	4,956.26	0.00
Sum 1	**239,356.51**	**0.00**	**51,702.92**	**0.00**
Annual variable remuneration	0.00	0.00	15,244.00	0.00
Variable remuneration over several years (planned term of three years)	0.00	0.00	60,969.00	0.00
Miscellaneous	0.00	0.00	-66,000.00	0.00
Sum 2	**239,356.51**	**0.00**	**61,915.92**	**0.00**
Pension-related expenses	0.00	0.00	0.00	0.00
Total remuneration	**239,356.51**	**0.00**	**61,915.92**	**0.00**

[1] Repayment of advance payments effected by the company
[2] Advance payment of the LTI for 2014 to 2016

The main content of the benefit arrangements for pension schemes, incapacity provision and provision for dependants, which were approved for former members of the Management Board Michael Junker and Professor Manfred Feilmeier in the event of the termination of their activity, are as follows:

— Both will receive a pension for life when they reach the age of 65 or, in the case of occupational disability within the meaning of section 23 of the German employee insurance act (Angestelltenversicherungsgesetz – AVG), or if they leave the company before the age of 65 due to the termination or non-renewal of their contracts by the company.

— The monthly pension amounts to 2,556.46 euros after the fulfilment of four years of employment. This is adjusted – also in the case of payment beginning before retirement – proportionally in line with the basic salary of a civil servant in Bavaria in the A 13 pension benefits group at the highest seniority level.

— Their lawful wedded spouse at the time of their demise will receive a widow's pension for life, amounting to 25 per cent of the pension. The widow's pension is terminated in the event of remarriage.

- In the case of payment due to the attainment of pension age, both are entitled to request a one-time capital payment of the sum of the converted present value of the pension commitment instead of a pension, as long as this request is communicated at least three years in advance. In this case, all claims relating to this direct commitment lapse.
- If they leave the company before payment begins, the pension entitlement earned is maintained. This is calculated according to the share of the pension compensation that corresponds to the length of employment with the company from the time of taking up employment with the company to reaching the prescribed pension age, i.e. the age of 65.

EVENTS AFTER THE REPORTING PERIOD

Disclosure of particularly significant transactions

Following the end of the reporting period (31 December 2015), the following transactions of particular significance took place:

msg life is modifying its corporate structure in order to hone its market focus. To this end, starting at the beginning of the 2016 financial year, the Group companies responsible for the German-speaking markets are gradually being placed under the auspices of the new intermediate holding company msg life central europe gmbh (formerly msg life Deutschland GmbH), while the Group companies responsible for the non-German-speaking markets are gradually being assigned to the newly founded Group company msg life global gmbh.

Immediately following its meeting on 4 February 2016, the Supervisory Board – by circulation procedure – passed a resolution to reappoint Mr Bernhard Achter to the Management Board of the company for the time period from 1 January 2017 until the end of 31 December 2019.

In the course of the acquisition of shares in B+S Banksysteme Aktiengesellschaft during the 2010 financial year, msg life Austria Ges.m.b.H. concluded a re-collateralisation for the benefit of the previous owner of the shares in B+S Banksysteme Aktiengesellschaft in order to relieve the latter of their obligations vis-à-vis the creditor banks of B+S Banksysteme Salzburg GmbH, a subsidiary of B+S Banksysteme Aktiengesellschaft. In this context, the Group company msg life Austria Ges.m.b.H. was sued as part of declaratory proceedings at the District Court of Munich. In early 2015, in the key matter for the company, the court had fully dismissed the lawsuit after concluding that msg life Austria Ges.m.b.H. was only obliged to carry out negotiations with the banks and not to provide collateral; that obligation has been fulfilled. Furthermore, the court concluded that, as before, there is an obligation to indemnify the plaintiff as the former owner of the shares in B+S Banksysteme Aktiengesellschaft. On 13 July 2015, the plaintiff filed an appeal against the judgement of the District Court of Munich at the Higher Regional Court of Munich. In the oral proceedings held on 24 February 2016, msg life Austria Ges.m.b.H. and the plaintiff agreed on a settlement whereby msg life Austria Ges.m.b.H. would pay the amount of 750,000 euros to the plaintiff on 1 April 2016 in order to discharge the obligations on which the legal dispute was based. Therefore, all claims between the plaintiff, msg life Austria Ges.m.b.H. and msg life ag have been completely satisfied.

Under the merger agreement from 2 March 2016 and the resolutions of the shareholders' meetings held on the same date, msg life consulting gmbh, Aachen, was merged with msg life central europe gmbh, Munich, with retroactive effect from 1 January 2016, by entry into the commercial register on 14 March 2016. As such, msg life consulting gmbh ceased to exist.

There were no other significant events between the balance sheet date and the preparation of this report.

OPPORTUNITY AND RISK REPORT

General

All the following estimations regarding opportunities and risks were made on the balance sheet date, 31 December 2015.

In the type of business it conducts, the msg life Group is exposed to a large number of uncertainties which, if realised, could affect the Group's earnings, financial and assets position, and that of the AG, either positively or negatively, or result in msg life falling short of or exceeding the targets it has set itself for the future development of its business.

Engagement in commercial activities geared towards making profits necessitates the taking of risks. If these risks are to bring sustained commercial success, it is important to manage them. First, this means assessing and continually monitoring the risks with regard to their probability of occurrence and their possible impact on the company's earnings, financial and assets position. Second, it means identifying measures that can be used to limit or avert risks and, with regard to the company's core skills, determining the financial strength and the costs of the respective measures based on the question of what limiting or preventive measures are taken for what risks and to what extent.

Among the Management Board's most important tasks in the overall management of the Group are laying down general conditions and processes of risk management for the msg life Group, monitoring the degree of compliance with them and, in conjunction with the heads of the operating units and the administrative departments, regularly analysing the development of risks in the respective segments. The Supervisory Board is closely integrated into this process by the Management Board's regular reports.

The msg life Group's risk management system is documented in a risk manual. One employee in the holding company's Corporate Planning & Controlling division has been appointed risk manager of the Group and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. The risk manager also has the task, under instructions from the Management Board, of analysing each division by means of random sampling to determine the extent to which the measures adopted are being implemented for the limitation or prevention of risks.

It is the responsibility of the managers of the individual divisions to continuously monitor and deal with the risks to which their own divisions are exposed. If the probability of individual risks occurring and/or their potential scale increases significantly beyond a set threshold, the managers are obliged to inform the Management Board immediately. The foundation of good risk management is the reliable and prompt provision of the management with relevant information about the course of business. For this purpose, msg life has set up a controlling and reporting system with which reports are compiled at monthly intervals about the development of significant ratios relating to the business operations in the individual divisions and the financial results, as well as the likely commercial and financial development in each of the next 12 months.

In order to improve the early risk detection system at msg life ag, it was revised and restructured in 2015, taking into account all the Group companies. The measures agreed in consultation with the auditors in 2014 were implemented. In particular, monthly reports regarding the key risks were produced and there were quarterly surveys of the operating and central divisional managers and of employees with special risk-relevant roles. The Risk Board (risk manager and Management Board) accordingly convened every quarter and subjected the risks identified to qualitative and quantitative evaluation. The revised risk manual was completed and approved by the Risk Board, and the various department heads were subsequently given training on the new risk manual. At the same time, the company's internal auditing was incorporated into the early risk detection system. The corresponding risk report was presented to the Supervisory Board in December 2015.

An equally important topic in this context is the code of conduct. More information on this can be found in the description of the non-financial performance indicators in the section of this condensed management report and Group management report entitled 'Economic report'.

In 2015, the msg life Group's profile did not change a great deal with regard to the main types of opportunity and risk areas to which it is exposed. Below, individual types of risk that are identified as being important are explained in greater detail. The specification of these risks does not imply that other risks which have not been mentioned will not have a significant impact on msg life's earnings, financial and assets position.

Strategic opportunities

msg life regards the continuation of regulation throughout the insurance sector as a direct consequence of the financial crisis. This regulation is necessitating a great deal of adaptation with regard to the solutions currently used in the insurance sector and is reinforcing the trend towards the use of standard software. As a result, the use of flexible and favourably priced standard software, such as that offered by msg life as a leading supplier in this segment, is becoming increasingly attractive throughout the insurance industry.

Opportunities from regulatory developments

Regulatory adjustments as a result of legislative amendments are generating additional demand for consulting services and new or modified products among existing customers and, if integrated quickly into the products on offer, can constitute a crucial competitive advantage. Consequently, as described in detail in the 'Research and development' chapter within this condensed management report and Group management report, the relevant R & D activities at msg life serve, firstly, the further development and enhancement of standard software solutions, and secondly, the expansion of available expertise on consulting topics.

Product- and service-specific opportunities

In addition, msg life's employees are crucial to the company's innovative power and the customers' value added – and are therefore instrumental in the growth and profitability of the msg life Group as a whole. That is why msg life stages a variety of activities to strengthen the employees' commitment and teamwork and to foster innovative energy. If msg life is to be capable of maintaining its own innovative power and lasting commercial success in the future as well, the company will have to not only generate the greatest possible degree of loyalty from its staff, but also attract qualified new employees on a continuous basis. msg life would also like to open up new talent pools by making increasing use of mobile channels and by devising innovative talent management strategies. More information about the future opportunities being generated by msg life's employees can be found in the 'Employees' chapter within this condensed management report and Group management report.

Risk assessment

The following risks are listed in descending order based on their estimated probability of occurrence and impacts. Additionally, unless indicated otherwise, the following disclosures concern all the business segments.

Economic risks

The general economic trend affects the behaviour of potential customers as far as their investment in IT infrastructure and their expenditure on ongoing management consulting are concerned. An economic downturn could reduce the volume of the market on which msg life has trained its sights. Any capacity adjustment measures which are regarded as necessary to counter such developments might take effect only after a time lag and would lead to restructuring costs. With the volume-related remuneration models, a delay in portfolio growth caused by the general economic situation could result in a postponement of the planned diminution in fixed costs.

As far as the impacts of the crises on the financial markets and in the eurozone are concerned, it is important to monitor the possible effects on msg life's business closely to ensure that a quick response to new developments is possible if the need arises.

In the event of demand falling as a consequence of economic crises, msg life would assume that this would take effect rather more slowly among existing product customers because, in that segment, loyalty to the solution deployed ensures that any requisite adjustments will also be ordered. With regard to new customers, postponements of planned investments can lead to reductions in turnover, especially in product business.

The fundamental risk that, following economic crises, parts of msg life's potential customers' budgets might be put on hold is offset by the new potential opened up for a standard software supplier such as msg life by stricter regulatory demands and increasing cost pressure. Pressure on costs in the selling market caused by the general economic situation encourages consolidation and automation trends, which can lead to increasing demand for external system suppliers.

Competition risks

msg life streamlined its range of services in the past few financial years by selling its Banking segment and by divesting itself of its major participating interests in plenum AG and B+S Banksysteme Aktiengesellschaft. This has led to a concentration and therefore an increase in market development risks. At the same time, this increases the company's profitability. msg life will therefore attempt to persevere with its existing strategy, including in its remaining product segments and regional markets, and to cover entire value chains and product ranges with its solutions. In this way, it hopes to achieve a decisive competitive advantage on the market, particularly vis-à-vis new competitors with aggressive pricing policies. The embedding of the msg life product range into msg.Insurance Suite and the related collaboration taking place within the msg Group are important instruments in this context.

Project and product risks

The main potential source of risk in the course of operating activity lies in the calculation of the complex projects and in their organisational, functional, technical and commercial handling. These risks are controlled and monitored by means of the valid Group-wide standards for project and project risk management. The risk nevertheless remains that projects cannot be realised profitably for the msg life Group because costs exceed the agreed budget, deadlines cannot be met or the services rendered fail to comply with the agreed functional specifications or the required quality, and the msg life Group will therefore have to grant a discount or pay compensation.

Like all software products, the msg life Group's products can have defects whose elimination under guarantee increases costs and thereby influences the profit margin or even leads to compensation claims against the msg life Group. The msg life companies generally assume the warranty which is customary in the industry. As far as possible, liability obligations are limited contractually to the legal minimum and are secured with appropriate liability insurance policies. It can nevertheless not be ruled out that contractually agreed limitations on liability will be regarded as invalid and the existing insurance cover will be available to an insufficient extent or not at all – even if this is improbable. This applies in particular to the US market.

The msg life Group also uses software from external suppliers in its own software products. This third-party software can contain defects that might have an adverse effect on the functional capability of the msg life Group's own products. Problems in the execution of projects and software defects that can occur in the operation of software produced by msg life can do lasting damage to the reputation of the msg life Group and thereby have a substantial impact on the future course of business.

Personnel risks

msg life's success depends crucially on the skills, qualifications and motivation of its employees. Some of these employees in key positions play a particularly significant role. If msg life is unable to get these employees to commit themselves to the company or to recruit qualified and skilled staff and develop them further on a continuous basis, msg life's success can suffer significant adverse effects due to the resultant loss of expertise. In addition, an excessive burden on the company's own staff can necessitate the deployment of expensive external capacities if the risk of quality losses in project development is to be averted. This applies particularly when the likely demographic trends are taken into consideration. In connection with this, msg life will be affected particularly by the probable decline in graduate numbers, the resultant competition to recruit them and the increasing costs this will lead to.

msg life counters this risk with an extensive set of measures. A continuous exchange of views with the employees on all factors affecting their work environment at standardised employee interviews with a facility for qualified feedback, internal training to prevent monopolies of knowledge and skills, on-the-job graduate training and the recruitment of suitable people through all of the usual market channels are just a few examples of these. In addition, the leadership guidelines for the executive staff are designed to strengthen the employees' identification with the company.

Technological risks

As with all comparable companies, the functional capacity of the business processes is also dependent on the availability and secure operational capacity of the IT infrastructure. External events such as fire, lengthy power or network failures, operational errors or acts of sabotage can, among other things, render the IT infrastructure inoperable. The msg life systems, and also those of our customers, can succumb to viruses which damage and incapacitate the systems or the network. Internal or external attacks can damage, distort or delete information and can result in confidential data and information being accessed. The probability and the extent of damage caused by viruses and hackers, by unauthorised persons accessing the IT system and by confidential information being accessed cannot be reliably estimated.

Recovery expenses, loss of production and recourse claims from customers and third parties as a result of system breakdowns or attacks could cause significant damage which, in turn, could influence earnings and endanger the future of the company.

Since IT security is strategically significant, extensive technical and organisational steps are, as far as possible, taken within the framework of the IT security concept. These steps include restrictive authorisation and access controls, regular backups and adequate contractual arrangements with service providers for outsourced systems and telephone and other communication links. In order to provide protection against penetration by viruses, the latest software available on the market is deployed as a matter of principle. Access restrictions prevent potentially infected software from being installed on the msg life computer network without authorisation. Defined security requirements limit access by unauthorised persons and ensure that data is protected. Financial loss is limited by appropriate insurance policies.

Risks from takeovers

msg life is currently interested in expanding its market position in Germany as well as internationally, primarily through organic growth. If this is again to be supported by selective acquisitions in the future, the success of these will depend on whether the Group can integrate such acquired companies into its overall structure and achieve the synergetic effects it desires. In the field of professional services, acquisitions bring with them the particular risk that, in general, the expertise, market knowledge and customer contacts acquired are only loosely tied to the acquired company.

Liquidity risks

Managing liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments. The liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable deficits at standard market terms under normal market conditions. This means that both losses from borrowing capital at excessive interest rates and the investment of surplus funds at interest rates below the market level should be avoided.

Because of the company's large holdings of cash and cash equivalents, msg life ag considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

In 2013, msg systems ag and msg life ag concluded a loan agreement for a credit line of 10 million euros with a term ending in June 2016. The rest of this granted loan in the amount of 4.000 million euros was repaid in the first quarter of 2015.

The financing strategy was further improved in the reporting period. In this context, the company now has basic loan agreements with various banks totalling 20 million euros; none of the credit lines had been used at the balance sheet date.

Risk reporting in respect of the use of financial instruments

Objective and methods of financial risk management:

Financial risk management is designed to put the msg life Group in a position to recognise all the significant risks to which it is potentially exposed at an early stage and to take appropriate countermeasures.

The potential risks to the msg life Group associated with financial instruments consist notably of liquidity risks – which can result in a company being unable to raise the funds needed to settle its financial liabilities – currency risks resulting from its activities in various currency areas, default risks arising from the non-fulfilment of contractual obligations by contracting parties, interest rate risks caused by movements in the market interest rate leading to a change in the fair value of a financial instrument and interest-related cash flow risks, which lead to a change in the future cash flows of a financial instrument due to changes in market interest rates.

Organisation:

The company has organised its risk management process along clear, functional lines. Specific tasks have been assigned to the individual organisational units involved in the risk management process.

Among the Management Board's most important tasks in the overall management of the Group are laying down general conditions and processes of risk management for the msg life Group, monitoring the degree of compliance with them and, in conjunction with the heads of the operating units and the administrative departments, regularly analysing the development of risks in the respective segments. The Supervisory Board is closely integrated into this process by the Management Board's regular reports.

The msg life Group's risk management system is documented in a risk manual. One employee in the holding company's Corporate Planning & Controlling division has been appointed risk manager of the Group and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. The risk manager also has the task, under instructions from the Management Board, of analysing each division by means of random sampling to determine the extent to which the measures adopted are being implemented for the limitation or prevention of risks.

It is the responsibility of the managers of the individual divisions to continuously monitor and deal with the risks to which their own divisions are exposed. If the probability of individual risks occurring and/or their potential scale increases significantly beyond a set threshold, the managers are obliged to inform the Management Board immediately. The foundation of good risk management is the reliable and prompt provision of the management with relevant information about the course of business. For this purpose, msg life has set up a controlling and reporting system with which reports are compiled at monthly intervals about the development of significant ratios relating to the business operations in the individual divisions and the financial results, as well as the likely commercial and financial development in each of the next 12 months.

Credit risks (default risks):

Credit risk arises from deteriorating economic circumstances of the company's debtors or counterparties. Firstly, this results in a risk of partial or complete default on contractually agreed payments and, secondly, in a reduction in the value of financial instruments due to a poorer credit rating.

Credit risk management is responsible for the operational measurement and management of credit risks. Its functions include, in particular, monitoring credit risk positions and exposure and analysis of credit ratings.

In terms of credit risk, the Group is only exposed to risk in relation to trade receivables. Adequate valuation allowances have been made to cover the estimated default risk. As the credit rating of clients in the insurance industry is generally good, the receivables are not insured. The maximum default risk is in principle equivalent to the nominal values less the valuation allowances. There is no other loan collateral and there are no other risk-mitigating agreements (such as guarantees, land charges or pledges) in place. Usage reservations exist until payment is complete. For invoiced receivables, the net balance of additions to and reversals of valuation allowances was 0 euros (previous year: 0 euros). On each effective date, trade receivables do not include any carrying amounts for which terms have been renegotiated and which would otherwise be overdue.

With regard to the analysis of trade receivables which are overdue but not impaired as at the end of the reporting period, we refer to section VII 'Notes on the statement of financial position', number 3 'Trade receivables' in the notes to the consolidated financial statements.

There are no default risks in relation to cash and cash equivalents. These are invested with banks with good ratings.

There are no significant default risks in relation to the other financial assets.

Liquidity risks:

Managing the liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments. The liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable deficits at standard market terms under normal market conditions. This means that both losses from borrowing capital at excessive interest rates and the investment of surplus funds at interest rates below the market level should be avoided.

Because of the company's large holdings of cash and cash equivalents, the msg life Group considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

In addition, there are presently credit lines with banks amounting to 20 million euros, which had been utilised in the amount of 0 euros at the balance sheet date. See also section VII 'Notes to the balance sheet', number 12 'Financial liabilities' in the notes to the consolidated financial statements.

In the 2015 financial year and in the previous year, no income from debt waivers was realised.

Market risks:

Market risks result from changes in market prices. These cause the fair values of financial instruments or future cash flows relating to them to fluctuate. Market risks encompass interest rate, currency and other price risks (such as commodity prices and share prices).

Price risks:

The msg life Group is not exposed to any price risks.

Interest rate risks:

Interest rate risks result from a fluctuation in the fair value or future cash flows of a financial instrument due to changes in market interest rates.

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. There are no significant interest rate risks in relation to its financial assets. The investment of cash and cash equivalents is done on a short-term basis and undergoes the normal market fluctuations. On the condition that all other parameters remained unchanged, the company assumes that interest rates were ten base points lower (higher) in the reporting period. In this case, the net result for 2015 would have been 22,000 euros lower (higher) (previous year: 22,000 euros lower (higher)) and the equity components would have been 22,000 euros lower (higher) (previous year: 22,000 euros lower (higher)).

In the period under review, there were no (interest-bearing) financial liabilities with variable interest rates. In the previous year, some of the (interest-bearing) financial liabilities had variable interest rates. The company was exposed to interest rate risks for these financial liabilities. On the condition that all other parameters remained unchanged, the company assumed that interest rates were ten base points higher (lower) in the previous year. In this case, the net result in 2014 would have been 4,000 euros lower (higher) and the equity components would have been 4,000 euros lower (higher).

Currency risks:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates.

For the most part, the operating companies of the Group carry out their business activities in their respective countries. The Group is therefore not exposed to any significant currency risks in its operating business. A total of 78 per cent of its revenues are generated in eurozone countries (previous year: 77 per cent), and the remainder in Switzerland, the United States, England and Australia. The currency risk on the asset side in relation to trade receivables comes from receivables not denominated in euros, accounting for 17 per cent (previous year: 18 per cent). In the case of trade payables, currency risks occur in relation to the 3 per cent of liabilities not denominated in euros (previous year: 11 per cent). Differences arising from currency conversion of financial statements from a foreign currency to the Group currency for the creation of consolidated financial statements do not affect currency risk because the respective changes in foreign currency are recognised under equity with no effect on income.

Information on risk concentration (concentration risks):

The company does not have any dependencies on the procurement side. On the sales side, there tend to be concentrations of risk due to the geographic distribution of turnover. For example, Germany accounts for a 74.6 per cent share of turnover (previous year: 73.4 per cent).

Within trade receivables, there is no significant concentration on individual customers. In the year under review, the ten largest customers accounted for a 57 per cent share of turnover (previous year: 56.5 per cent) and a 65 per cent share of trade receivables (previous year: 63.3 per cent).

With regard to cash and cash equivalents, there is no concentration on individual institutions.

Overall assessment of the opportunities and risks

msg life believes that, in light of the likelihood of their occurrence and their effects, the risks described above do not represent a threat to the company's continued existence either individually or as a whole. The senior management remains confident that the Group's earning power constitutes a solid basis for the future development of its business and will generate the resources that will be necessary for the Group to pursue the opportunities that present themselves. In view of its leading position on the market, its functional and technological innovative power, its committed staff and its processes for the early identification of risks, msg life is confident that, in 2016, it will again be able to deal successfully with the challenges that arise from the aforementioned risks.

DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE (HGB) AND THE CORPORATE GOVERNANCE REPORT

The declaration on corporate governance pursuant to section 289a of the HGB encompasses the declaration of compliance, the current corporate governance report and the report on the determination of targets for the proportion of women on the Supervisory Board, the Management Board and on both management levels below the Management Board. In making this declaration, msg life is pursuing the goal of presenting its corporate governance clearly and concisely. The declaration is available on the msg life website at http://www.msg-life.com/en/company/investor-relations/corporate-governance. In connection with its declaration on corporate governance pursuant to section 289a of the HGB, msg life also publishes a corporate governance report, which is available on the msg life website at http://www.msg-life.com/en/company/investor-relations/corporate-governance.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RESPECT OF THE ACCOUNTING PROCESS AND GROUP ACCOUNTING PROCESS

msg life ag has an internal control system and a risk management system – also in respect of the accounting-related processes and all the risks and controls related to accounting.

Basically, the internal control system and the risk management system at msg life ag also encompass the accounting-related processes and all the risks and controls related to accounting. This refers to all parts of the internal control and risk management systems which can materially influence the annual financial statements and the consolidated financial statements.

With regard to the accounting process, the objective of the risk management system is to identify and assess risks which can impede the intended compliance of the annual financial statements and consolidated financial statements with the relevant regulations. Any risks which have been identified must be assessed for their influence on the annual financial statements and the consolidated financial statements, with external specialists being consulted. In this context, the objective of the internal control system is to implement appropriate controls to ensure that the annual financial statements and consolidated financial statements are prepared in compliance with the regulations despite the risks identified.

The internal control system and the risk management system encompass all the subsidiaries which are of material significance to the annual financial statements and consolidated financial statements, and all of the processes which are relevant to the preparation of those statements. The controls which are relevant to the preparation of the accounts are geared particularly towards risks arising from significant misstatements in the financial reporting. The assessment of the significance of misstatements is based on the likelihood of their occurrence and their possible financial impact on turnover and EBITDA.

The msg life Group has a clear management and corporate structure in which key cross-departmental functions are controlled in a centralised fashion via the company. The most important elements in risk management and control in financial accounting are the clear allocation of responsibilities and controls when preparing the financial statements, transparent specifications by way of guidelines for balance sheet accounting and the preparation of financial statements, appropriate access regulations for all electronic data processing systems relevant to the financial statements, and the clear regulation of areas of responsibility when external specialists are brought in. Dual control and the separation of duties are likewise important control principles in the accounting process. An adequate guideline system (e.g. Group manual, payment guidelines, travel expenses guidelines, etc.) has been set up and is updated continuously. The departments and divisions involved in the accounting process are adequately equipped, both qualitatively and quantitatively.

The measures taken include, for example, the automatic monthly compiling of employees' time sheet entries, verification of the entries by project supervisors and an automatic approval in the system, comparison and approval of invoicing together with the project supervisors, an overview and, if necessary, explanation of the list of receivables not yet invoiced, monthly spot tests of costs and turnover as part of reporting and quarterly checks of intra-Group invoicing as part of segment reporting.

The identified risks and appropriate measures taken are updated as part of the quarterly report to the risk manager and reported to the msg life Group's management. In relation to the processes relevant to accounting, the auditor carries out an assessment as part of their auditing activities.

The auditor is also obliged, as part of the financial statements auditing process, to inform the Supervisory Board about risks or monitoring weaknesses relevant to accounting and about other significant weaknesses in the internal control system and the risk management system in respect of the accounting process which were identified within the framework of the auditing activities.

FORECAST REPORT

Market and competition

With around 850 employees at sites in Germany, the Netherlands, Austria, Switzerland, Slovakia, Slovenia, Poland, the Czech Republic, Portugal and the United States, msg life is now well positioned in the field of software and consulting services for insurance companies and pension fund institutions. msg life's wide range of products and services for life insurance companies in Europe and, in particular, for health insurance companies in the United States gives it good market opportunities and a strong competitive position.

In the medium term, msg life is striving to expand the proportion of its business accounted for by international activities but will refrain from setting any quantitative targets in this area for the time being. In addition to enjoying a leading market position in the German-speaking countries, msg life's software is deployed worldwide. Users in more than 30 countries, including the United States and Australia, are already using the company's solutions. In this strategic undertaking, msg life puts its faith in collaborations, partnerships and a local presence in the countries in question. Experience shows that the selective presence of msg life in the various foreign markets is an important success factor when it comes to attracting new customers. In addition, the company can discern a trend in which Group companies want to put the solutions implemented for one region at the disposal of other Group companies in other countries. This, too, can advance the ongoing internationalisation of msg life as a service provider for its customers. As in 2015, the objective in the current financial year is to press ahead with major sales projects, especially in the foreign markets that are already established.

The Benelux countries remain a relevant market in this context and msg life already provides support for renowned customers there including the Dutch company Cooperatie DELA and R+V Luxembourg.

The Austrian market is another important building block in the Group's international activities, and it is from Vienna that the placement and further development of the consulting portfolio for the German-language markets and the marketing of msg life products in the countries of Central and Eastern Europe is carried out. On the Swiss market, too, msg life is represented with its own offices and by various well-known life insurers and sees good medium-term prospects for the further expansion of its business.

msg life has a direct presence in the markets of Central and Eastern Europe with its subsidiaries in Slovakia, Slovenia and Poland, as well as its office in the Czech Republic. The Iberian peninsula is an interesting market in the medium term and is cultivated by msg life's offices in Portugal and Spain. msg will also continue to use its office in Portugal as a successful product development unit.

In the US market, which continues to offer strong potential, msg life intends to deploy a localised version of its portfolio of European life insurance products in a more targeted manner in connection with its specific US products as an integrated solution. Overall, msg life has enjoyed continued growth in the various insurance segments on the US market and intends to exploit the potential for business that this represents. The range of services offered by msg life in the United States now encompasses not only software products, but also operator models and functional consulting services on all aspects of product and tariff structuring as well as process optimisation – primarily for health insurance companies, and also for non-life and life insurance companies and new customer groups such as collaborations of providers and risk bearers. Starting in 2015, msg life set itself the target of gradually introducing its life insurance solutions and products to the United States, where it generated turnover in excess of 20 million euros once again in 2015 and significantly consolidated its position on the health insurance market. In this context, definition of the specific Group Life Offering US (GLOU) is on schedule – and the first opportunities to validate and develop the new offering in line with the market have already arisen.

With the last financial year, 2015, having been good overall, msg life is still registering consistent levels of demand for its products in the current financial year – from insurance companies in Germany and other countries in equal measure. This is accompanied by the planned new requirements in relation to risk management, under the theme of solvency, and the necessity of their implementation as further arguments for strategic investments in the IT systems of msg life's customers. In this context, msg life also expects to see continuous further regulation throughout the financial services sector as a direct consequence of the past financial crisis. This regulation necessitates major adjustments to the solutions currently in use and is steadily accelerating the trend towards the use of standard software. This means that the use of versatile, cost-effective standard software remains highly attractive throughout the insurance industry.

This year – and most probably in the years to come too – the German market will remain extremely challenging for all insurance companies as a result of numerous legal amendments, the condition of the financial markets and the concomitant product implementations. The trend towards internationalisation and consolidation continues and, given the efforts to reduce costs and increase efficiency that can be observed everywhere within insurance companies, the correlation between modern and flexible IT on the one hand and corporate success on the other is becoming more and more evident.

Despite these persistently difficult general conditions, private life insurance cover remains indispensable in Germany in view of the demographic trend and the necessity of covering against biometric risks. Many insurers are working to enhance their existing products and/or develop new, innovative ones in order to overcome the imminent challenges. This now applies to all existing product groups, all control layers and all legal forms. The companies' starting situations and the pressure on them to innovate vary greatly and are consequently bringing about a variety of innovations:

In terms of the conventional capital accumulation products, modifications of the guarantees are dominant, for example through the use of current calculation guidelines or by dispensing with the annual interest guarantee. With the biometric products, too, there is a great deal of action on the market. Hybrids, especially dynamic hybrid products, have become the standard now, and there is a continuous flow of innovative products in addition to them. One new development comprises products which allow investment in funds, but also the purchasing of options on the basis of traditional basic cover. In addition, insurance companies at the larger end of the scale are exploring a different avenue by offering products for old-age provision with capital guarantees on the basis of unit-linked approaches with investment guarantees.

Given the current challenges, the establishment of service-oriented architectures (SOA) designed to quickly support modified business models and high system versatility for the rapid introduction of innovative products are factors crucial to the success of insurance companies. Another trend at mainly large insurance companies is the selective acquisition of closed insurance contract portfolios that are no longer available for sale ('run-off' portfolios) from mainly smaller insurance companies with the aim of generating appreciable economies of scale.

The accelerating digital transformation of our society and economy poses a number of challenges for insurers – the digitisation process is one of the most significant drivers of innovation in the sector. The subjects of customer centricity and individualisation, industrialisation and automation, analytics and data effectiveness, and standardisation and integration are at the heart of the digitisation trend.

However, the opportunities that digitisation offers – be they to make insurance products and services available via new channels or to integrate them into new sales and cooperation platforms – also require extensive changes to the IT landscapes of insurers. msg life will pay more attention to the digitisation trend than ever before when developing its products and services. msg life already has a wide range of SaaS and cloud-based solutions to help its customers overcome these challenges, thanks in no small part to its strategic collaboration with IBM.

On the basis of these developments, msg life is anticipating that insurance companies will show a general interest in the software and consulting solutions it will be offering in 2016.

Further development of products and services

As well as cultivating existing customers and acquiring new ones, msg life is pressing ahead with the technical and functional optimisation and completion of our wide range of life insurance and pension products. Having made major investments in the creation of new product offerings in other segments that could not be positioned successfully on the market in the past, msg life will be able to keep its investment expenditure and therefore also the costs of freelance employees at a relatively normal level for a software company in the current year, just like in the 2015 financial year. In addition to this, msg life continues to strive to achieve organic and income-based growth first and foremost.

Key aspects of the product strategy are the current integration of msg.Life Factory and related components into msg.Insurance Suite, the central insurance platform of the msg Group, and the sales-related collaboration taking place in this context. msg. Insurance Suite represents the first holistic industrial standard for all sectors of the insurance industry. The underlying modular principle is characterised by a high degree of end-to-end prefabrication, makes it easy to integrate existing solutions and features a wide variety of potential applications with maximised releasability and low maintenance costs.

The continued development of the msg.Life Factory policy management system on the basis of innovative, modern Java JEE architecture remains the core project in terms of products. msg life will earmark approximately 4,000 person-days in development capacity for this and for the ongoing integration of msg. Life Factory and its components into the msg Group's shared insurance platform msg.Insurance Suite (msg.I-Suite) (previous year: 4,000 person-days).

In parallel, product-independent consulting activities, an essential development component, will continue to be expanded in 2016. msg life is assuming that the positive trend in this area in the last few years can be continued and is putting its faith in the – compared with other consulting firms – unique selling point of being able to transform tried-and-tested solutions from the msg life product area into solutions for non-product customers more economically than its competitors.

The 2014 forecasts for turnover and EBITDA in 2015 were realised. In contrast, the outlook for 2016 earnings as forecast in 2014 has been corrected as follows:

On 4 February 2016, msg life ag made the ad hoc announcement that it was anticipating operating earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets (operating EBITDA) in the range of 10.0 to 12.0 million euros in the 2016 financial year (previous forecast of 8.5 to 10.5 million euros). msg life is not anticipating any material extraordinary items in the current 2016 financial year and is therefore also forecasting EBITDA of 10.0 to 12.0 million euros. EBITDA will be used as a performance indicator as of the 2016 financial year, replacing operating EBITDA, which is adjusted for extraordinary items. The increase in the earnings forecast for 2016 results in particular from the continued stability of business with existing customers and the promising sales pipeline.

However, msg life stands by the previous aggregate turnover forecast for the 2016 financial year and still expects – compared to 2015 – a slightly increasing aggregate turnover of between 110.0 and 112.0 million euros.

As the holding company, the individual Group company expects a net loss for the year of between 2.0 and 3.0 million euros in the 2016 financial year.

CLOSING DECLARATION ON THE DEPENDENCY REPORT IN ACCORDANCE WITH SECTION 312 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

In the legal transactions with affiliated companies specified in the report, our company received a consideration for each of these legal transactions that was reasonable under the circumstances that were known to us at the time when the legal transactions were carried out. Discriminatory measures at the instigation or in the interests of the dominant party or a company affiliated to that party were effected neither by actions nor by failing to act. This assessment is based on the circumstances that were known to us at the time when the reportable transactions were carried out.

Leinfelden-Echterdingen, 4 April 2016

msg life ag

ROLF ZIELKE
Spokesperson
of the Management Board

BERNHARD ACHTER
Member
of the Management Board

DR ARISTID NEUBURGER
Member
of the Management Board

Consolidated financial statement

CONSOLIDATED INCOME STATEMENT

	Item	1.1.–31.12.2015	1.1.–31.12.2014
		euros	*euros*
Sales	VI.1.	**108,134,671**	**104,339,127**
Changes in inventory of finished and unfinished services		0	-82,660
Other operating income	VI.4.	2,660,137	9,816,593
Cost of purchased services	VI.2.	-10,947,820	-7,089,495
Personnel expenses	VI.3.	-75,702,420	-77,024,418
Other operating expenses	VI.5.	-15,691,334	-18,578,431
Depreciation of property, plant and equipment and amortisation of intangible assets	VI.6.	-1,773,092	-4,947,173
Operating result		6,680,143	6,433,542
Interest income	VI.7.	113,430	120,061
Interest expenses	VI.7.	-225,363	-561,813
Investment result	VI.8.	21,500	18,000
Earnings before income taxes		6,589,710	6,009,790
Taxes on income	VI.9.	-1,907,846	-6,870,655
Net income for the period		4,681,864	-860,865
Of which attributable to			
Shareholders of the parent company		4,681,864	-860,865
Net income for the period		**4,681,864**	**-860,865**
Earnings per share (undiluted)	IX.	**0.11**	**-0.02**
Earnings per share (diluted)	IX.	**0.11**	**-0.02**
		Quantity	*Quantity*
Shares in circulation on average (undiluted)		**40,895,861**	**40,895,861**
Shares in circulation on average (diluted)		**40,895,861**	**40,895,861**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1.1. – 31.12.2015	1.1. – 31.12.2014
	euros	*euros*
Net income for the period	**4,681,864**	**-860,865**
Other comprehensive income		
Other comprehensive income to be moved to the income statement in subsequent periods:		
Currency translation from foreign business operations	1,056,412	1,593,025
Income tax effect	0	0
	1,056,412	1,593,025
Other comprehensive income to be moved to the income statement in subsequent periods	**1,056,412**	**1,593,025**
Other comprehensive income not to be moved to the income statement in subsequent periods:		
Actuarial gains and losses	293,555	-1,931,599
Income tax effect	-83,630	637,724
	209,925	-1,293,875
Other comprehensive income not to be moved to the income statement in subsequent periods	**209,925**	**-1,293,875**
Total income after taxes	**5,948,201**	**-561,715**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	Item	31.12.15	31.12.14
		euros	*euros*
Current assets			
Cash and cash equivalents	VII.1.	21,785,279	21,729,708
Securities	VII.2.	0	983
Trade receivables	VII.3.	25,244,142	24,929,757
Invoiced receivables		22,515,236	14,726,460
PoC receivables		2,728,906	10,203,297
Receivables from affiliated companies	VII.4.	1,007,073	57,925
Current income tax assets	VII.5.	195,372	249,743
Other financial receivables	VII.6.	146,273	155,958
Other current assets	VII.7.	1,265,755	2,581,070
Current assets, total		**49,643,895**	**49,705,144**
Non-current assets			
Goodwill	VII.8.	21,470,048	21,470,048
Other intangible assets	VII.8.	3,210,622	3,916,205
Property, plant and equipment	VII.9.	2,528,291	2,671,161
Financial investments	VII.10.	2,556	3,056
Deferred tax assets	VII.11.	4,433,374	1,306,189
Current income tax assets	VII.5.	110,790	220,548
Other financial assets		0	52
Non-current assets, total		**31,755,681**	**29,587,259**
Assets, total		**81,399,577**	**79,292,403**

Equity and liabilities	Item	31.12.15 euros	31.12.14 euros
Non-current liabilities			
Trade payables	VII.13.	545,870	1,653,833
Liabilities to affiliated companies	VII.4.	909,538	304,238
Current income tax liabilities	VII.14.	870,332	2,915,067
Other provisions	VII.15.	1,333,867	817,248
Other current liabilities	VII.16.	5,059,755	4,795,644
Other financial liabilities	VII.17.	12,669,676	13,487,063
Total current liabilities		**21,389,038**	**23,973,093**
Non-current liabilities			
Other provisions	VII.15.	1,621,807	1,538,914
Other financial liabilities	VII.17.	0	27,658
Deferred tax liabilities	VII.11.	4,417,163	1,466,757
Pension provisions	VII.18.	7,741,983	8,059,117
Liabilities to affiliated companies	VII.4.	0	4,000,000
Total non-current liabilities		**13,780,953**	**15,092,446**
Total liabilities		**35,169,991**	**39,065,539**
Equity			
Subscribed capital	VII.19.	40,895,861	40,895,861
Capital reserves	VII.20.	33,601,050	33,601,050
Group retained earnings	VII.21.	-28,267,325	-34,270,047
Total equity		**46,229,586**	**40,226,864**
Total equity and liabilities		**81,399,577**	**79,292,403**

CONSOLIDATED CASH FLOW STATEMENT

	2015	2014
	euros	*euros*
Net income for the period	4,681,864	-860,865
Taxes on income	1,907,846	6,870,656
Net income for the period before taxes on income	**6,589,710**	**6,009,791**
Depreciation of property, plant and equipment and amortisation of intangible assets	1,773,092	4,947,173
Income from the disposal of property, plant and equipment and intangible assets	0	70,541
Income from the disposal of subsidiaries	-954,714	-4,601,313
Income from the disposal of financial investments	0	-177,782
Other expenses / income with no impact on earnings	-46,499	1,688,654
Change in provisions for pensions recognised in profit or loss	40,377	39,552
Interest income	-113,430	-120,061
Interest expenses	225,363	561,813
Income taxes reimbursed	353,674	98,868
Income taxes paid	-3,155,194	-663,883
Change in:		
Trade receivables	-571,064	407,002
Inventories	0	346,330
Other assets /other financial receivables	-283,989	-910,385
Other provisions	715,301	837,663
Trade payables	-1,104,421	-944,297
Other debts / financial liabilities	-942,898	4,380,641
Cash flow from operating activities	**2,525,308**	**11,970,306**
Cash inflows from the disposal of financial investments	0	1,948,001
Cash outflows for investments in property, plant and equipment	-982,517	-1,623,314
Cash inflows from the disposal of subsidiaries	1,461,046	8,563,383
Cash flow from investment activities	**478,529**	**8,888,069**

	2015	2014
	euros	*euros*
Cash flow from financing activities		
Repayment of current financial liabilities	-4,000,000	-7,996,580
Repayment of non-current financial liabilities	0	-6,000,000
Interest received	60,604	16,575
Interest paid	-34,841	-287,244
Cash flow from financing activities	**-3,974,237**	**-14,267,249**
Change in cash and cash equivalents:		
Net change in cash funds	**-970,400**	**6,591,127**
Cash and cash equivalents at the start of the reporting period	**21,729,708**	**14,308,931**
Effect of exchange rate movements on cash funds	**1,025,972**	**829,650**
Cash and cash equivalents at the end of the reporting period	**21,785,279**	**21,729,708**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Subscribed capital	
	euros	
As at 01.01.2014	**40,895,861**	
Comprehensive income		
Unrealised profit and loss		
Actuarial gains/losses		
Total comprehensive income for the year		
Acquisition of subsidiaries		
Disposals from the consolidation group		
As at 31.12.2014	**40,895,861**	
As at 01.01.2015	**40,895,861**	
Comprehensive income		
Unrealised profit and loss		
Versicherungsmathematische Gewinn / Verluste		
Total comprehensive income for the year		
Disposals from the consolidation group		
As at 31.12.2015	**40,895,861**	

Capital reserves	Group retained earnings			Equity accounted for by the owners of the parent company	Non-controlling interests	Total equity
	Currency compensation items	Net investment	Other			
euros	*euros*	*euros*	*euros*	*euros*	*euros*	*euros*
33,601,050	**2,861,658**	**-2,336,578**	**-33,328,725**	**41,693,266**	**1,004,390**	**42,697,656**
			-860,865	-860,865		-860,865
	1,593,025			1,593,025		1,593,025
			-1,293,875	-1,293,875		-1,293,875
	1,593,025		**-2,154,740**	**-561,715**		**-561,715**
			-949,076	-949,076	949,076	
			44,389	44,389	-1,953,466	-1,909,077
33,601,050	**4,454,683**	**-2,336,578**	**-36,388,152**	**40,226,864**	**0**	**40,226,864**
			-34,270,047			
33,601,050	**4,454,683**	**-2,336,578**	**-36,388,152**	**40,226,864**	**0**	**40,226,864**
			4,681,864	4,681,864		4,681,864
	1,056,412			1,056,412		1,056,412
			209,925	209,925		209,925
	1,056,412		**4,891,789**	**5,948,201**		**5,948,201**
			54,521	54,521		54,521
33,601,050	**5,511,095**	**-2,336,578**	**-31,441,842**	**46,229,586**	**0**	**46,229,586**
			-28,267,325			

NOTES

I. General explanations

The msg life Group is a leading consulting and software company for the insurance and old-age pensions market. Its software solutions support primarily life insurance companies and pension fund institutions in the conceptual planning, realisation and administration of their products. In the 2015 financial year, msg life ag made changes to the composition of its segments. These concern the products and services on offer. Since July 2015, the reporting in accordance with IFRS 8 (Operating Segments) has been carried out in line with the management approach to the management of the company for the Life Insurance (DACH) (formerly 'Life Insurance'), Non-life Insurance (International) (formerly 'Non-life Insurance') and Consulting (DACH) (formerly 'Consulting & Services') segments.

The msg life Group's head office is located at Humboldtstrasse 35, 70771 Leinfelden-Echterdingen, Germany. msg life ag is a public limited company (Aktiengesellschaft) under German law.

msg life ag has been listed in the Prime Standard index of the Frankfurt Stock Exchange since 21 February 2000 (WKN 513010, ISIN DE000513010).

These consolidated financial statements of msg life ag, Leinfelden-Echterdingen, Germany, as at 31 December 2015, encompass the parent company and all of the subsidiaries (hereinafter referred to as the 'msg life Group'). The reporting year corresponds to the calendar year.

On 4 April 2016, the Management Board of msg life ag approved the consolidated financial statements for forwarding to the Supervisory Board, and therefore for publication. The Supervisory Board has the task of examining the consolidated financial statements and declaring whether it approves the consolidated financial statements.

The company is obliged to prepare consolidated financial statements under section 290 in conjunction with section 291(3) of the German Commercial Code (HGB). The company prepared discharging consolidated financial statements and a discharging Group management report in accordance with section 315a of the HGB as at 31 December 2015. The consolidated financial statements are published in the German Federal Gazette (Bundesanzeiger) and deposited with the electronic register of companies under HRB 731 887 at Stuttgart Local Court (Amtsgericht). As at the reporting date, msg life ag is an indirect subsidiary of msg group GmbH, which prepares the consolidated financial statements for the largest number of Group companies.

Events after the balance sheet date are taken into account until 4 April 2016, the day on which the financial statements were approved for publication by the Management Board.

II. Accounting and valuation methods

The principal accounting and valuation methods applied in the preparation of these consolidated financial statements are described below. If nothing to the contrary is indicated, the methods described were applied consistently to the reporting periods in question.

1. The principles applied in preparing the financial statements

The consolidated financial statements of msg life ag as at 31 December 2015 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC), whose application is mandatory in the European Union, as well as the supplementary commercial regulations of section 315a(1) of the HGB.

The consolidated financial statements are generally prepared on the basis of the historical cost principle. Derivative financial instruments and available-for-sale financial assets are exceptions from this principle.

In the balance sheet disclosures, a distinction is made between non-current and current assets and liabilities, which are generally shown in detail in accordance with their respective maturities in the notes to the consolidated financial statements.

The income statement was prepared in accordance with the total expenditure format. In order to improve its clarity of presentation, various items in the statement of financial position and the income statement were consolidated. These items are reported and explained separately in the notes.

Items of other comprehensive income which are reclassified in the income statement in subsequent periods ('recycling') must be shown separately from the items for which there will be no reclassification.

The reporting currency is the euro, and the rounding is done to thousands or millions of euros. This can give rise to rounding differences of up to one arithmetical unit.

The consolidated financial statements contain comparative information about the preceding reporting period. In addition, the Group shows a statement of financial position from the beginning of the earliest comparative period if it is applying an accounting method retroactively or adjusting or reclassifying positions in the financial statements retroactively.

The preparation of consolidated financial statements in accordance with IFRS makes estimates necessary. Furthermore, the application of the accounting and valuation methods throughout the company necessitates assessments of the management. Areas with greater scope for assessment or a higher level of complexity, or areas in which assumptions and estimates are crucially important for the consolidated financial statements, are listed under section II 'Accounting and valuation methods', number 3 'General information about the accounting and valuation methods'.

2. Change in the accounting and valuation methods

a. New and amended standards and interpretations that were applied for the first time in 2015:

The International Financial Reporting Standards, which must be applied to financial years beginning on or after 1 January 2015 in order to adhere to the International Financial Reporting Standards adopted by the EU, were used as a basis in the 2015 financial year. There were no changes compared to the previous year.

b. Standards, interpretations and amendments to published standards whose application was not yet mandatory in 2015 and which were not applied prematurely by the Group:

There are a number of standards, as well as amendments to standards and interpretations, whose application for financial years beginning as of 1 January 2015 or later is not yet obligatory; these were not applied in the present financial statements. With the exception of the revisions specified below, we do not expect them to have any significant impact on the Group:

— IFRS 9 (Financial Instruments), mandatory application for financial years from 1 January 2018 (the EU endorsement is still pending). This standard deals with the recognition, valuation and derecognition of financial assets and financial liabilities, as well as how to account for hedging relationships. It replaces the sections of IAS 39 (Financial Instruments: Recognition and Measurement) that deal with the classification and measurement of financial instruments. Compared with IAS 39, the requirements of IFRS 9 in connection with applicability, recognition and derecognition are virtually unchanged, although the rules of IFRS 9 set out a new classification model for financial assets. In the future, the subsequent measurement of financial assets will be broken down into three categories with different value measures and different ways of reporting changes in value. This distinction is made when the asset in question is recognised for the first time. The classification depends not only on how the Group has managed its financial instruments, but also on what contractually agreed payment flows are associated with the financial instruments. With regard to financial liabilities, most of the rules in IAS 39 were retained. The most significant change lies in the fact that if measurement is carried out at fair value, the changes in value that result from the Group's own credit risk are reported in other comprehensive income rather than in the income statement – unless this leads to an inaccurate representation. The Group will begin applying IFRS 9 in the financial year that begins on 1 January 2018 at the latest. The impact of the amendments on the consolidated financial statements might be considerable, although the impact of the application of IFRS 9 can only be reliably assessed once a detailed analysis has been carried out.

— IFRS 15 (Revenue from Contracts with Customers), mandatory application for financial years from 1 January 2018 (the EU endorsement is still pending). This standard specifies how and when revenue is to be recognised in financial statements. Under a single, principles-based five-step model to be applied to all contracts with customers, the contract with the customer must first be identified, followed by the performance obligations in the contract. Then the transaction price must be determined, the transaction price is to be allocated to the performance obligations in the contract and, finally, revenue is to be recognised when (or as) the entity satisfies a performance obligation. Under IFRS 15, on the conclusion of a contract, the parties must determine whether the revenue from the contract is to be recognised over time or at a certain point in time. The standard also provides users of financial statements with more-informative and more-relevant disclosures than in the past. The impact of the amendments on the consolidated financial statements might be considerable, although the impact of the application of IFRS 15 can only be reliably assessed once a detailed analysis has been carried out; this is scheduled for spring 2016.

— IAS 19 (Employee Benefits), mandatory application in the EU for financial years starting on or after 1 February 2015. The amendments to IAS 19 clarify the accounting requirements for contributions from employees or third parties to defined benefit plans. If the amount of contributions is independent of the number of years of service, the contributions may either be recognised as a reduction in service cost in the period in which the related service is rendered or attributed to the periods of service of the employee using the projected unit credit method. If the amount of contributions is dependent on the number of years of service, the contributions are required to be attributed to periods of service. The impact of the amendments is presumably not significant for the Group.

- The IASB published amendments to IAS 1 in December 2014. The amendments primarily comprise clarifications with regard to the assessment of the materiality of financial disclosures; the recognition of additional line items in the statement of financial position and statement of profit or loss; the recognition of other comprehensive income attributable to associates and joint ventures that are accounted for using the equity method; the structure of disclosures in the notes; and the recognition of the main accounting methods. The amendments apply to financial years starting on or after 1 January 2016, although they may also be applied prematurely. The amendments were endorsed by the EU in December 2015. msg life ag will shortly examine the potential future effects on the consolidated financial statements.

- In December 2013, the IASB adopted the Annual Improvements project for 2010 to 2012. This collection of amendments affects the following standards: IFRS 2 – Definition of 'vesting condition'; IFRS 3 – Accounting for contingent consideration in a business combination; IFRS 8 – Aggregation of operating segments; IFRS 8 – Reconciliation of the total of the reportable segments' assets to the entity's assets; IFRS 13 – Short-term receivables and payables; IAS 16/IAS 38 – Revaluation method – proportionate restatement of accumulated depreciation; IAS 24 – Key management personnel. All amendments are mandatory from 1 July 2014 and must only be applied prospectively. However, they may also be applied prematurely. The amendments were endorsed by the EU in December 2014. As part of the EU endorsement, the obligatory application was shifted to financial years starting on or after 1 February 2015. msg life ag will shortly examine the potential future effects on the consolidated financial statements.

- In September 2014, the IASB adopted the Annual Improvements project for 2012 to 2014. This collection of amendments affects the following standards: IFRS 5 – Held for sale and discontinued operations – changes in methods of disposals; IFRS 7 – Transfer disclosures for servicing contracts; IFRS 7 – Applicability of amendments to condensed interim financial statements; IAS 19 – Discount rate: regional market issued; IAS 34 – Disclosure of information elsewhere in the interim report. All amendments are mandatory from 1 January 2016. However, they may also be applied prematurely. The amendments were endorsed by the EU in December 2015. msg life ag will shortly examine the potential future effects on the consolidated financial statements.

3. General information about the accounting and valuation methods

The msg life Group did not apply any amendments to the accounting and valuation methods that it applied in the 2015 financial year.

Income from the sale of goods, the rendering of services and the **use of assets** belonging to the Group by third parties in return for **interest, licence charges** and **dividends** are generally reported only if the inflow of commercial benefits is sufficiently probable, the amount can be determined reliably and the specific criteria for every type of activity specified below have been fulfilled. Measurement is carried out at the fair value of the consideration that has been received or will be claimed. Turnover is shown less value added tax, returns and sales deductions (discounts, cash discounts, customer bonuses and allowances). The Group makes estimates on the basis of past empirical values – taking account of customer-specific, transaction-specific and contract-specific characteristics. More specifically, the following applies for the reporting of turnover and income:

The **sales of products, services and software contracts** can contain a number of delivery and performance components. In such cases, the company establishes whether there is more than one settlement unit. A transaction is separated if the components supplied have an independent benefit for the customer, the fair value of the still outstanding components can be determined reliably and, if a general right to return unsatisfactory products is applicable for the components delivered, the rendering of delivery or performance for the still-outstanding components is probable and largely controllable by the company. Insofar as all three criteria are fulfilled, the Group applies the applicable revenue recognition rule that is appropriate for the respective separate settlement unit. In general, the agreed aggregate remuneration is apportioned to the separate settlement units individually in accordance with their relative fair values. The hierarchy of proof for the fair values is as follows: 1. sale prices of the components if they are regularly sold individually, 2. third-party prices for comparable components and 3. costs plus a reasonable profit margin usual on the market in relation to the component. Insofar as the three separation criteria are not fulfilled, the turnover is deferred until these criteria have been fulfilled or until the period in which the last outstanding component is delivered. The turnover attributable to delivered components is limited to the amount that is not dependent on still-outstanding components and/or the fulfilment of other specific performance obligations.

With some of the customer projects (especially fixed-price projects), turnover is recognised in accordance with the progress of the project (percentage of completion method) insofar as the degree of completion, the costs incurred in the project and the costs that can be expected up until its final completion can be determined reliably. The basis for calculating the progress of a project is the ratio of costs already incurred to the estimated total cost volume of the contract (cost to cost), which is determined on the basis of project valuations. Any losses expected from these orders are accounted for in the period in which the aggregate costs that are currently estimated exceed the turnover anticipated from the respective contract. The services rendered in line with this method are shown as **PoC receivables or advance payments received**. If required, the lower attainable value as at the reporting date is shown.

Service contracts settled on the basis of the disbursements which have been made and eligible for reimbursement (management projects) are realised subject to the services rendered by the msg life companies.

Turnover from **maintenance services** is recognised pro rata using the straight-line method over the contractually agreed service period. For **licence revenues** (including the reference system and the specialist concept) to be recognised, the following conditions must generally be fulfilled cumulatively:

1. A contract has come into being with legal effect or there is a sufficient degree of probability that the company will benefit economically from the transaction.
2. The software/reference system/specialist concept has been delivered.
3. The licensing charge has been fixed.
4. The receipt of payment is probable.

If the sale of the licence is unconnected with other services from a commercial point of view, the turnover is recognised in relation to the customer in the month in which the software (or reference system or specialist concept) is delivered and/or accepted.

If the sale of the licence is connected with other services rendered by msg life, distinctions are basically made between the following cases:

If the service comprises customised standard software which is adapted (max. around three months) at msg life and then delivered to the customer, the turnover is generally recognised in the month of delivery to and/or receipt by the customer if such a service is agreed in the contract.

For longer-term projects in which the process of adapting the standard software takes more than three months before its first-time implementation on the customer's premises, turnover is recognised using the percentage of completion method.

When a time-limited licence for an msg life standard software product is issued, the revenues are treated as an accrued item using the straight-line method over the agreed period.

Interest income and **interest expenses** are recognised in net profit or loss on an accrual basis.

Financial assets encompass cash and cash equivalents, securities, trade receivables, other financial receivables and financial investments.

Financial assets are subdivided into the following categories: 'measured at fair value through profit or loss', 'held to maturity', 'available for sale' and 'loans and receivables'. How financial assets are classified depends on the purpose for which each was acquired. The management determines how such assets are to be classified when they are reported for the first time. A financial asset is only shown in the statement of financial position if the msg life Group is a contracting party in the regulations for the financial asset in question. All financial assets that have been bought and sold in the customary manner are included in the statement of financial position as at the settlement date. Financial assets that do not belong to the 'measured at fair value through profit or loss' category are shown at fair value plus transaction costs when first reported. Financial assets that do belong to this category are initially recognised at fair value. Any associated transaction costs are posted through profit and loss. The fair values stated in the statement of financial position usually correspond to the market prices of financial assets. If these are not available immediately, they are calculated using acknowledged valuation methods and with recourse to current market parameters. Financial assets are derecognised either when the right to cash flows from a financial asset lapses or when the rights are transferred to a third party. In the event of a transfer, the criteria of IAS 39 regarding the transfer of opportunities and risks associated with the ownership of the financial asset must be given special consideration. Available-for-sale financial assets and assets in the 'measured at fair value through profit or loss' category are measured at fair value after being recognised for the first time. Loans and receivables and held-to-maturity assets are accounted for at amortised cost using the effective interest method.

As at every reporting date, the carrying amounts of those financial assets which are not to be measured at fair value through profit or loss are examined for the existence of any objective, substantial indications (such as substantial financial difficulties faced by the debtor, high probability of insolvency proceedings being instituted against the debtor, the lapsing of an active market for the financial asset, a lasting **decrease** in the financial asset's fair value on the basis of amortised cost) of impairment. Any impairment costs comprising a fair value which is lower than the carrying amount is recorded through profit and loss. If it emerges as at subsequent valuation dates that the fair value has objectively increased as a consequence of events which took place after the impairment was recorded, the impairments are reversed through profit and loss in the appropriate amounts. Impairments in the fair values of available-for-sale financial assets are recorded under equity with no effect on income until their realisation. Impairments which affect non-listed equity instruments which are available for sale and are accounted for at acquisition cost may not be reversed. The fair values of held-to-maturity securities which must be tested for impairment during the audit, as well as the fair values of the loans and receivables measured at amortised cost, correspond to the net present value of the estimated future cash flows discounted at the original effective interest rate. The fair value of non-listed equity instruments measured at cost is calculated as the net present value of the expected future cash flow, discounted at the current interest rate which corresponds to the specific risk position of the investment.

Cash and cash equivalents encompass cash in hand and bank balances which have a residual term of three months or less at the time of their acquisition or investment. The liquid funds are measured at fair value. Credit balances in foreign currencies are measured at the exchange rate prevailing on the reporting date.

Securities are, in accordance with IAS 39, categorised as either 'available for sale', held to maturity' or 'held for trading'. The securities categorised as 'available for sale' are measured at fair value when being valued for the first time and subsequently as at the reporting date. Any change in the fair value taking account of deferred taxes is shown under equity in revenue reserves with no effect on income until its realisation at the time of sale. If there are any objective, substantial indications that a permanent impairment has taken place, the impairment costs are recorded in profit and loss. Amounts already recorded under equity are removed from equity with effect on income. Securities categorised as 'held to maturity' are measured at fair value upon acquisition and at amortised cost in subsequent valuations. Financial assets categorised as 'held for trading' are measured at fair value. Any gain or loss resulting from the subsequent valuation is posted through profit or loss in the income statement.

The reported **trade receivables, other financial assets** and **other current assets** mainly comprise receivables and loans originated by the company. They are categorised accordingly as 'loans and receivables' and are measured at fair value upon acquisition and at amortised cost in subsequent valuations. If the net present value of the expected future cash flows from the receivables or the other assets, discounted using the financial asset's original effective interest rate, is lower than the amortised cost as at the reporting date, a valuation allowance is carried out with effect on income. Receivables bearing low or zero interest with terms of more than one year are discounted.

When they are first recognised, **financial investments** are accounted for at fair value and categorised as 'available for sale'. In their subsequent valuation, these must therefore be recognised at fair value, with unrealised gains and losses being recorded separately under equity, taking account of deferred taxes, with no effect on income until their realisation. If the financial investments are in equity instruments for which no prices are listed on an active market and no fair value can be determined reliably, they are measured at acquisition cost. If there are any objective indications that the net present value of the estimated cash flows is lower than the carrying amount, valuation allowances are carried out with effect on income.

The msg life Group does not utilise the opportunity to designate **financial assets as measured at fair value through profit or loss when they are recognised for the first time.**

Goodwill arises when subsidiaries, associated companies and jointly controlled entities are acquired and comprises the surplus of the transferred consideration from the corporate acquisition over the fair value of the Group's shares in the acquired identifiable assets, the liabilities assumed, the contingent liabilities and all non-controlling interests in the acquired entity at the time of acquisition.

The goodwill is subdivided for the purpose of the impairment tests carried out for cash-generating units (CGUs). It is divided up among those CGUs or groups of CGUs in accordance with the identified business segments that are expected to derive benefits from the merger that gave rise to the goodwill. Every unit or group of units to which goodwill is allocated in this way constitutes the lowest level within the company at which the goodwill is monitored for internal management purposes. The goodwill is monitored at the level of the business segment.

The goodwill is subjected to an annual impairment test in accordance with IAS 36. If there are any indications of potential impairment, the tests are carried out more frequently.

The carrying amount of the goodwill is compared with the recoverable amount, in other words with the higher of its fair value less selling costs and its value in use. An impairment loss is immediately recognised in profit or loss to reduce the asset to its lower recoverable amount and is not reversed in the subsequent periods.

Other intangible assets are shown at acquisition cost upon their acquisition if it is probable that a future economic benefit will accrue to the msg life Group from the intangible assets and the acquisition costs can be determined reliably. In the subsequent periods, the assets are measured at amortised cost, with scheduled amortisation being carried out using the straight-line method over the assets' estimated useful lives in addition to any other necessary write-downs. The Group has no intangible assets acquired in return for payment with indefinite useful lives.

Development costs for new products are capitalised at production cost if a clear expense allocation is possible and both the technical feasibility and the ability and intention to market such products are ensured. It must be sufficiently probable that the development activity will bring the company a future economic benefit. In addition, adequate technical, financial and other resources must be available in order to complete the development and be in a position to use and sell the software product. The capitalised production costs encompass those costs that are directly attributable to the development process. Capitalised development expenses are amortised regularly using the straight-line method from the time the software becomes usable over a useful life that corresponds to the planned product life cycle. Development projects which are not yet completed and activated are subjected to an annual impairment test. Research costs, as well as development costs not eligible for capitalisation, are posted to expenses within personnel and other operational expenses when they arise.

Property, plant and equipment are capitalised at acquisition or production cost, plus the ancillary costs which are necessary to make the asset ready for operation. The scheduled depreciation is carried out using the straight-line method according to the probable useful life. No use is made of the option to apply the revaluation method. Costs of ongoing maintenance and repairs are posted to expenses. Expenses which fulfil the conditions of IAS 16.13 and the reporting criteria of IAS 16.7 are capitalised at the carrying value of the property, plant and equipment in question and depreciated over the assets' probable useful lives. The replaced items are removed from the accounts. Borrowing costs are not included in the acquisition or production costs.

Lease agreements are classified as **finance leases** if all the risks and potential rewards associated with ownership are basically transferred to the lessee under the terms of lease. All other leases are classified as **operating leases**. If the lessee bears the major risks and potential rewards associated with ownership of the leased object, the leased object is reported in the statement of financial position of the lessee. The leased object is measured at the lower of the fair value or present value of the future minimum lease payments and is written down over its estimated useful life or the term of the lease, if that is shorter; the depreciation is recognised in net profit and loss. Upon gaining access to the leased object, the lessee simultaneously assumes the lease liability, the amount of which corresponds to the carrying value of the leased object. The lease amount owed is amortised and extrapolated using the effective interest method in subsequent periods. The ongoing lease instalments are divided up into an interest component and a redemption component. The redemption component reduces the lease amount owed. With operating leases, the payable lease instalments are recorded as expenses at the time when they come into being. Contractually defined future changes to the lease instalments during the term of lease are recognised in equal instalments under expenses over the entire contractual term, which is defined when the rental agreement is concluded. If extension options are available, only the extension options which are sufficiently likely to be taken are accounted for on the date of the conclusion of the rental agreement. During the lease, the estimated likelihood of extension options being taken must be updated accordingly if circumstances become known which might cause it to increase or decrease.

The scheduled **amortisation** of intangible assets and **depreciation** property, plant and equipment are based on the following uniform useful lives in the Group:

	Useful life in years
Other intangible assets:	
Software	15
Customer relationships	4
Other	2 to 5
Property, plant and equipment:	
Buildings on third-party land	10
Hardware and software	3 to 4
Operating and office equipment	4 to 15

Impairment of non-current assets

Intangible assets and goodwill which have indeterminate useful lives are not amortised according to a schedule; instead, they are tested annually to establish whether impairment is required.

Assets which are subjected to scheduled depreciation or amortisation are tested for impairment if relevant events or changes in circumstances indicate that the carrying amount might no longer be realisable. An impairment loss is recorded in the amount by which the carrying amount exceeds the realisable amount. The realisable amount is the higher of the asset's fair value less selling costs and the value in use. For the impairment test, assets are combined at the lowest level for which the cash flows can be identified separately (CGU).

The depreciation, amortisation and impairment of property, plant and equipment and intangible assets are recorded in the income statement under 'depreciation of property, plant and equipment and amortisation of intangible assets'. An assessment regarding non-monetary assets – with the exception of goodwill – is conducted as at each balance sheet date to ascertain whether or not a reversal should be carried out. In 2015, there were no indications that impairment had occurred (triggering event) and no reversals were recognised on the reporting date.

The income taxes for the period consist of **current** and **deferred taxes**. Taxes are reported in the income statement unless they relate to items that are reported directly in equity or in other comprehensive income. In this case, the taxes are likewise reported in equity or in other comprehensive income.

Current tax expenses are calculated using the tax regulations, valid as at the balance sheet date, of the countries in which the company and its subsidiaries operate and generate the income to be taxed. The management regularly examines tax declarations, especially in relation to subject matter that leaves scope for interpretation, and where appropriate it forms current income tax liabilities based on the amounts expected to be payable to the tax authorities.

The **deferred tax assets** and **deferred tax liabilities** are determined in accordance with the balance sheet liability method. Deferred taxes are generally recorded in the financial statements for all temporary value differences between the carrying amount of an asset or a debt and the fair value for tax purposes.

Deferred tax assets on loss carry-forwards must be set up to the extent that the tax loss carry-forwards are likely to be usable in the future. Accordingly, no deferred tax assets were recognised for tax losses on 31 December 2015, taking their realisability into account.

The deferred taxes are determined on the basis of the tax rates which apply or are expected as per the current legal position in the individual countries at the time of realisation. The impact of changes in tax rates on deferred taxes will be posted through profit and loss when the change in the law comes into force.

Deferred taxes, which come about as a result of temporary differences associated with investments in subsidiaries, associated companies and joint ventures, are recognised unless the time of reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future as a result of this influence. As a rule, the Group has no influence on the time of reversal in the case of associated companies. The temporary differences are not recognised only in cases which are contractually structured in such a way that the Group can influence the time of inversion.

Financial liabilities encompass the financial debts, trade payables and other financial liabilities. A financial liability is only recognised in the statement of financial position if the msg life Group is a contracting party in the rules for the financial liability. A financial liability is removed from the accounts if it has been redeemed; in other words, when the obligations specified in the contract have been settled or cancelled or have expired.

The methods and material assumptions for determining the fair value of financial liabilities are as follows: the financial liabilities are accounted for at the fair value on the acquisition date, which corresponds to the sum of money received.

When recognised for the first time, **financial liabilities** are shown at fair value less transaction costs. In subsequent years, they are measured at amortised cost using the effective interest method. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is posted to the income statement over the term of the loan using the effective interest method.

Fees incurred in setting up credit lines are reported as transaction costs for the credit in the amount for which it is probable that the credit line will be utilised. In such cases, the fee is capitalised until utilisation takes place. For the amount in which it is not probable that the credit line will be utilised, the fee is capitalised as an advance payment for credit services and amortised over the term of the respective commitment to lend.

Trade payables and **other financial liabilities** are accounted for at fair value when included in the statement of financial position for the first time. In subsequent years, all liabilities, with the exception of derivative financial instruments, are measured at amortised cost using the effective interest method. Liabilities are classified as current liabilities if the payment obligation has to be fulfilled within one year or less than one year. Otherwise they are classified as non-current liabilities.

In respect of financial liabilities, the Group has not yet made use of the option to designate them as financial liabilities **at fair value through profit or loss when they are recognised in the statement of financial position for the first time.**

Other provisions are formed if the Group has a current legal or de facto obligation resulting from a past event and it is more likely than not that settling this obligation will lead to an outflow of resources and the amount of the provision can be estimated reliably. The amounts stated constitute the best possible estimations of expenses which are necessary to fulfil the current obligation as at the reporting date. Non-current provisions are discounted if the interest rate effect is significant. Any increases in provisions resulting exclusively from the compounding of interest are recorded in the income statement as interest expenses with the corresponding impact on income.

Pension provisions are calculated using the projected unit credit method in accordance with IAS 19. In this procedure, not only the pensions and accrued entitlements known on the reporting date are taken into account, but also the expected future increases in pensions, wages and salaries, with prudent estimates of the relevant influencing factors. The calculation is carried out on the basis of actuarial methods and reflecting biometric assumptions. Actuarial gains and losses arising from experience-based adjustments and alterations of actuarial assumptions are recognised immediately under equity with no effect on income in the period when they arise. The previous recognition of the anticipated returns on the plan assets and the calculation of the interest expenses on the performance-oriented defined benefit obligation will be replaced in future by entering the net interest costs.

Offsetting financial instruments

Financial assets and liabilities are offset and shown in the statement of financial position as a net amount only if there is a legal entitlement to this and an intention to either bring about such a settlement on a net basis or to settle the associated liability simultaneously with the realisation of the asset.

Dividend distribution

Claims of shareholders to dividend payments are reported as liabilities in the period in which the corresponding resolution is passed.

Consolidation principles

IFRS prescribes that the purchase method be applied for all business combinations. The purchase price of an acquired subsidiary is distributed across the acquired assets, liabilities and contingent liabilities. Measurement is based on the values applicable on the date on which the Group gained control over the subsidiary concerned. The recognised assets and the acquired liabilities and contingent liabilities are measured in full at their fair value, in proportion to the amount of the investment. Any remaining capitalised difference is recognised as goodwill. Any remaining negative difference is recognised in profit or loss.

Costs associated with acquisitions are expensed when they are incurred.

In a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date. The resulting gain or loss is recognised in the income statement.

Any contingent considerations are measured at fair value as at the time of acquisition. Subsequent changes in the fair value of a contingent consideration classified as an asset or liability are measured within the framework of IAS 39 and any resultant gain or loss is reported either in the income statement or in other comprehensive income. Any contingent consideration that is classified as equity is not remeasured and its subsequent payment is shown under equity.

Income and expenses of a subsidiary are included in the consolidated financial statements from the date of acquisition. Income and expenses of a subsidiary remain in the consolidated financial statements until the parent company ceases to control the subsidiary. Expenses and income, receivables and liabilities and earnings between companies included in the consolidated financial statements are eliminated. The accounting and valuation methods of subsidiaries have been adjusted where necessary to guarantee standardised reporting methods throughout the Group.

Transactions with non-controlling interests not involving any loss of control are treated as transactions with shareholders of the Group. Any difference between the amount paid and the relevant proportion of the carrying amount of the subsidiary's net assets that arises from the acquisition of a non-controlling interest is reported under equity. Any gains and losses which arise during the sale of non-controlling interests are likewise reported under equity.

The preparation of the consolidated financial statements in compliance with the IASB regulations necessitates the application of **estimates** and forward-looking **assumptions** which influence the amounts and the reporting of the assets and liabilities recorded in the statement of financial position, the contingent liabilities disclosed as at the reporting date and the income and expenses accounted for during the reporting period. The forward-looking assumptions and estimates relate primarily to the recognition of turnover on the basis of performance progress (percentage of completion method), the uniform setting of useful economic lives throughout the Group, the accounting and valuation of provisions and the planning and valuation premises that form the basis of the impairment tests. Although these estimates are founded on the ongoing transactions to the best of the company's knowledge, the actual values can ultimately diverge from these assumptions and estimates made. Changes are made with effect on income as at the time when knowledge improves, or in the period when knowledge improves, and in the future periods if the changes cover several periods.

The most important forward-looking assumptions and other significant sources of estimation uncertainty as at the reporting date, which could give rise to an appreciable risk necessitating a major adjustment of the recorded assets and liabilities during the next financial year, are presented in section X 'Assumptions and estimates'.

III. Consolidation group

1. Subsidiaries

Subsidiaries are companies that are directly or indirectly controlled by msg life ag. An entity acquires control when it can exercise power of disposal over the associated company, is exposed to fluctuating returns from its shareholding and is able to influence the level of the returns by using its power of disposal. An entity must re-evaluate whether or not it controls an associated company when facts or circumstances indicate that one or more of the three control criteria have changed.

Inclusion in the consolidated financial statements begins at the point in time from which the possibility of control exists and ends when the possibility of control ceases to exist.

As at 31 December 2015, the following companies were fully consolidated in the Group headed by msg life ag as parent company:

Company	Shareholding (%)	Abbreviations
msg life central europe GmbH (formerly: msg life Deutschland GmbH), Munich (Germany)[1]	100	(msg life central europe)
with the subsidiary FJA-US, Inc., New York (USA)[4]	100	(FJA-US)
with the subsidiary msg life Slovakia s.r.o. Bratislava (Slovakia)[3]	100	(msg life Slovakia)
msg life Switzerland AG, Regensdorf (Switzerland)	100	(msg life Switzerland)
msg life Austria Ges.m.b.H., Vienna (Austria)	100	(msg life Austria)
msg life odateam d.o.o., Maribor (Slovenia)	100	(msg life OdaTeam)
msg life consulting gmbH, Aachen (Germany)[2]	100	(msg life Consulting)
msg life Benelux B.V., Amsterdam (Netherlands)	100	(msg life Netherlands)
msg life metris gmbh, St. Georgen im Schwarzwald (Germany) (until 30 September 2015)	100	(msg life Metris)
msg life Poland Sp. z o.o., Warsaw (Poland)	100	(msg life Poland)
msg life Iberia, Unipessoal Lda, Porto (Portugal)	100	(msg life Portugal)

1 The parent company made a loss assumption declaration vis-à-vis msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich, and disclosed it.
2 There is a profit and loss transfer agreement with msg life Consulting GmbH, Aachen, according to which the company must also assume losses.
3 This is an indirect equity interest. The shares are held by msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich.
4 This is an indirect equity interest. The shares are held by msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich.

More information on the subsidiaries as at the balance sheet date is available below:

Main business	Headquarters	Number of 100 % subsidiaries 31.12.2015	Number of 100 % subsidiaries 31.12.2014
The performance of actuarial and financial calculations; the design, creation and sale of software to both commercial and technical clients	Germany	1	2
	United States	1	1
	Switzerland	1	1
	Slovenia	1	1
	Slovakia	1	1
	Portugal	1	1
	Netherlands	1	1
The provision of consultancy services – primarily relating to insurance – to the financial services industry	Germany	1	1
	Czech Republic	0	1
	Poland	1	1
The performance of actuarial and financial calculations; the design, creation and sale of software to both commercial and technical clients and the provision of consultancy services – primarily relating to insurance – to the financial services industry	Austria	1	1

There are no limitations on the means of accessing or utilising the assets of the Group or settling its liabilities.

Under the purchase agreement of 28 July 2015, msg life ag disposed of all shares in msg life metris gmbh to msg systems ag, Ismaning. The commercial transition took place with effect from 1 October 2015; since then, the company has no longer been part of the msg life ag consolidation group.

The company received 300,000 euros in cash from the sale of its subsidiary in 2015. The second instalment (300,000 euros) of the purchase price is payable in 2016 and the third instalment (200,000 euros) is payable in 2017. The remainder of the purchase price is shown under other assets.

The following assets and liabilities were disposed of due to the loss of control:

	2015 *Thousand euros*
Current assets	
Trade receivables	235
Other current assets	8
Non-current assets	
Property, plant and equipment	61
Current liabilities	
Liabilities to banks	8
Trade payables	7
Other current provisions	10
Other current liabilities	315
Non-current liabilities	
Other non-current liabilities	173
Net assets sold	**-209**

The following capital gains resulted from the disposal of the subsidiary:

	2015 *Thousand euros*
Consideration received	800
Net assets lost	-209
Cumulative actuarial gains and losses which were reclassified from equity	68
Cumulative deferred taxes on actuarial gains and losses which were reclassified from equity	-14
Capital gains	**955**

The capital gains are contained in other operating income.

The following net cash has been acquired from the disposal of the subsidiary so far:

	2015 *Thousand euros*
Sales price paid with cash and cash equivalents	300
Plus: liabilities to banks disposed of through the sale	8
Total net cash inflow resulting from the disposal in 2015	**308**

In accordance with the merger plan dated 24 July 2015, the subsidiary msg life Czechia spol. s.r.o., Prague (Czech Republic – the transferring entity), was merged with the subsidiary msg life Austria Ges.m.b.H., Vienna (Austria – the receiving entity), with retroactive effect from 1 January 2015. The transaction was entered into the commercial register of the company on 22 October 2015. The entry of msg life Czechia spol. s.r.o. in the commercial register was deleted on 15 December 2015. As such, msg life Czechia spol. s.r.o. ceased to exist.

As at the previous year's reporting date, the following companies were fully consolidated in the Group headed by msg life ag as the parent company:

Company	Shareholding (%)	Abbreviations
msg life central europe GmbH (formerly: msg life Deutschland GmbH), Munich (Germany)[1]	100	(msg life Deutschland)
with the subsidiary FJA-US, Inc., New York (USA)[4]	100	(FJA-US)
with the subsidiary msg life Slovakia s.r.o., Bratislava (Slovakia)[3]	100	(msg life Slovakia)
msg life Switzerland AG, Regensdorf (Switzerland)	100	(msg life Switzerland)
msg life Austria Ges.m.b.H., Vienna (Austria)	100	(msg life Austria)
msg life odateam d.o.o., Maribor (Slovenia)	100	(msg life OdaTeam)
msg life consulting gmbh, Aachen (Germany)[2]	100	(msg life Consulting)
msg life Benelux B.V. (Netherlands)	100	(msg life Netherlands)
msg life metris gmbh, St. Georgen im Schwarzwald (Germany)	100	(msg life Metris)
msg life Czechia spol s r.o., Prague (Czech Republic)	100	(msg life Czech Republic)
msg life Poland Sp. z o.o., Warsaw (Poland)	100	(msg life Poland)
msg life Iberia, Unipessoal Lda, Porto (Portugal)	100	(msg life Portugal)

[1] The parent company made a loss assumption declaration vis-à-vis msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich, and disclosed it.
[2] There is a profit and loss transfer agreement with msg life consulting gmbh, Aachen, according to which the company must also assume losses.
[3] This is an indirect equity interest. The shares are held by msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich.
[4] This is an indirect equity interest. The shares are held by msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich.

COR Pension Management GmbH i. L., Leinfelden-Echterdingen, COR bAV Services GmbH i. L., Leinfelden-Echterdingen, and FJA bAV Service GmbH i. L., Munich, were liquidated in the previous year.

On 18 February 2014, msg life ag successfully completed the sale of its former subsidiary Sopra Banking Software GmbH to the French company Sopra Banking Software S.A., Paris, France, with retroactive effect from 1 January 2014. As of the start of the 2014 financial year, Sopra Banking Software GmbH is no longer part of the msg life ag consolidation group.

The company received 12 million euros in cash from the sale of its subsidiary. An amount of 1,000 euros was balanced out in the reporting year.

The following assets and liabilities were disposed of due to the loss of control:

	2014
	Thousand euros
Current assets	
Cash and cash equivalents	19
Trade receivables	8,139
Other current assets	117
Non-current assets	
Goodwill	3,139
Other intangible assets	1,626
Property, plant and equipment	106
Other non-current assets	27
Current liabilities	
Trade payables	771
Other current provisions	1,524
Other current liabilities	1,870
Non-current liabilities	
Pension provisions	2,245
Other non-current liabilities	512
Net assets sold	**6,251**

The following capital gains resulted from the disposal of the subsidiary:

	2014
	Thousand euros
Consideration received	13,000
Net assets lost	6,251
Cumulative actuarial gains and losses which were reclassified from equity	130
Cumulative deferred taxes on actuarial gains and losses which were reclassified from equity	-43
Capital gains	**6,662**

The capital gains are contained in other operating income under the results from discontinued operations.

The following net cash has been acquired from the disposal of the subsidiary so far:

	2014
	Thousand euros
Sales price paid with cash and cash equivalents	12,000
Less cash and cash equivalents disposed of through the sale	19
Total net cash outflow resulting from the disposal	**11,981**

Additionally, msg life ag disposed of its shareholding in the management consultancy firm plenum AG, Frankfurt am Main (Munich Stock Exchange m:access; ISIN 000A0Z23Y9), on 11 March 2014, with retroactive effect from 1 January 2014. The object of the purchase agreement was the 4,008,825 shares held by msg life ag in plenum AG, which corresponds to a shareholding of 41.33 per cent of the company's share capital. Since the beginning of the 2014 financial year, plenum and its subsidiaries have no longer been part of the msg life ag consolidation group.

The total purchase price to be paid by the purchaser for the shares consists of a fixed purchase price of 350,000 euros and an additional purchase price based on the revenue of the plenum Group in each financial year from 2014 up to and including 2018, and up to a maximum of 750,000 euros. The company received 350,000 euros in cash by the balance sheet date in 2015. Given the expected turnover figures for the plenum Group, it is safe to assume that the additional purchase price will be paid in full in the following years, and that the total consideration will therefore amount to 1.1 million euros. A total of 168,000 euros were collected in the 2015 financial year.

The following assets and liabilities were disposed of due to the loss of control:

	2014 *Thousand euros*
Current assets	
Cash and cash equivalents	3,767
Trade receivables	3,168
Non-current assets	
Property, plant and equipment	83
Other non-current assets	1,451
Current liabilities	
Trade payables	435
Other current provisions	472
Other current liabilities	1,553
Non-current liabilities	
Pension provisions	893
Net assets sold	5,116
Less minority status	1,955
Net assets sold, less minority status	**3,161**

The following capital losses resulted from the disposal of the subsidiary:

	2014 *Thousand euros*
Consideration received	1,100
Net assets sold, less minority status	3,161
Capital loss	**-2,061**

The capital loss is contained in other operating expenses under the results from discontinued operations.

The following net cash was acquired from the disposal of the subsidiary:

	2014
	Thousand euros
Sales price paid with cash and cash equivalents	350
Less cash and cash equivalents disposed of through the sale	-3,767
Total net cash outflow resulting from the disposal	**-3,417**

Wagner & Kurz Aktuare AG (WKA; the transferring entity), Basle (Switzerland), was merged with msg life Switzerland AG (the receiving entity), Regensdorf (Switzerland) with retroactive effect from 1 January 2014. The merger was entered into the commercial register of the Canton of Zurich (Switzerland) on 2 July 2014. This change was made within msg life ag's previous consolidation group and therefore has no effect on the consolidated income statement.

PYLON GmbH (the transferring entity), Hamburg, was merged with msg life central europe gmbh (formerly msg life Deutschland GmbH – the receiving entity), Munich, with retroactive effect from 1 January 2014. The merger was entered into the commercial register of Hamburg on 15 August 2014 and the commercial register of Munich on 21 August 2014. This change was made within msg life ag's previous consolidation group and therefore has no effect on the consolidated income statement.

With the notarised purchase agreement from 21 May 2013, msg life ag acquired an interest of 122,425 euros – or 25.71 per cent – in the share capital of msg life metris gmbh at a purchase price of 1 euro, with economic effect from midnight on 1 January 2014. Therefore, since 1 January 2014, msg life ag has held 100 per cent of the shares in the company. The difference between the carrying amount of the purchased ownership interests and the purchase price was offset against the revenue reserves (950,000 euros).

At all of the subsidiaries, the reporting date corresponds to the Group's reporting date.

msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich, and msg life consulting gmbh, Aachen, have made full use of the exemption in section 264, paragraph 3 of the German Commercial Code (HGB) for the 2015 financial year.

IV. Currency translation

The foreign currency translation is carried out in accordance with IAS 21. The functional currency is the currency of a business enterprise's primary commercial environment. It is always the currency which influences performance and costs most strongly. The functional currency is determined for each business enterprise within the Group. As the Group companies run their business operations autonomously, the functional currency is generally identical to that of the respective company's national currency.

Foreign currency translation is basically carried out in two stages. Transactions in foreign currencies, or assets and liabilities in foreign currencies resulting from those, are translated into the functional currency of the business operations in question. The exchange rates at the time of the transaction or valuation are authoritative; they are therefore translated at historical exchange rates (temporal method). Currency differences are recognised in profit or loss. If the functional currency of the business operations diverges from the reporting currency (EUR), all of the assets (including goodwill resulting from consolidation) and debts are translated at the average rates on the reporting date and the items in the income statement are translated at the average rates for the year (modified current-rate method). All translation differences are reported under equity as items in their own right within other reserves (31 December 2015: 5.511 million euros; 31 December 2014: 4.455 million euros; change in 2015: 1.056 million euros).

The exchange rates on which the currency translation is based have changed as follows in relation to one euro:

	Average rate on the date of the statement of financial position		Average rate for the year	
	31.12.2015	31.12.2014	2015	2014
	Euro	*Euro*	*Euro*	*Euro*
USD 1	0.9185	0.8237	0.9013	0.7527
CHF 1	0.9229	0.8317	0.9364	0.8233
CZK 1	0.0370	0.0361	0.0367	0.0363
PLN 1	0.2345	0.2340	0.2390	0.2390

The msg life Group has no business operations in a hyperinflationary country. IAS 29 is therefore not applicable.

V. Disclosure of business segments

IFRS 8 (Operating Segments) specifies that the identification of reportable operating segments is based on the management approach. According to this approach, segment reporting should reflect the in-house company organisational and management structures and the company's financial reporting to the most senior management body. It is based on the products and services offered. In the Group headed by msg life ag, the msg life ag Management Board is responsible for measuring and controlling the business results of the segments and is held to be the most senior management body as defined by IFRS 8.

On 1 July 2015, msg life made changes to the composition of its segments. Reporting is carried out in accordance with IFRS 8 (Operating Segments) for the Life Insurance (DACH), Non-life Insurance (International) and Consulting (DACH) segments. This new method of segment reporting also reflects the new methods of submitting reports to the Management and Supervisory Boards of the company. Segment reporting in the previous year was adjusted in line with IFRS 8.29.

For that reason, disclosures about the segments, products and services, geographical areas and important customers have to be made below in the reporting year.

1. Disclosures about segments

The msg life Group gears its segments subject to mandatory reporting requirements to the products and services of Life Insurance (DACH) (encompassing the areas of life insurance and company pensions in particular), Non-Life Insurance (International) (encompassing non-life insurance and health insurance in particular) and Consulting (DACH) (encompassing business and integration consulting in particular). This reflects both the Group's internal reporting system and its internal decision-making processes:

The Life Insurance (DACH) segment comprises the development, integration and maintenance of policy management systems and peripheral systems for life insurance companies as well as the related migration services and product-oriented consultation, primarily on the German-speaking markets. Most notably, these include the products msg.Life Factory and msg.Life.

The Non-Life Insurance (International) segment comprises the development, integration and maintenance of other software solutions and peripheral systems for life, health, non-life and reinsurance companies as well as related product-oriented consultation, primarily on the non-German-speaking markets. Most notably, these include the products msg.Symass, FJA.PM4, msg.Sales & Service and the various components of the msg.Open Claims platform.

The Consulting (DACH) segment consists of independent business process optimisation, expert advice and migration support.

Despite a high level of specialisation, the segments support each other in development and customer projects. This internal exchange of services is shown under inter-segment revenue. The turnover between the segments is generated at internal prices which are based on the cost of production plus a markup. The turnover from external customers, which is reported to the Management Board, is calculated according to the same principles as in the income statement. The reconciliation of external turnover comprises turnover of 0.2 million euros resulting from key services rendered under agency agreements with third parties.

Expenses for central functions (management, sales, central services) are charged to the operating segments via allocations based on their origins and cause. The segment earnings represent the earnings before interest, taxes, depreciation (of property, plant and equipment) and amortisation (of intangible assets) (EBITDA). In 2015, the EBITDA contained income of 1.0 million euros resulting from the deconsolidation of msg life metris gmbh (Non-Life Insurance (International) segment).

The valuation methods used in the segmental reporting are in accordance with those applied for in the consolidated financial statements as at 31 December 2014.

2015	**External turnover**	**Intersegment turnover**	**Total turnover**	**EBITDA**	**Number of employees**
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	
Life Insurance (DACH)	79,778	100	79,878	3,080	699
Non-Life Insurance (International)	23,121	878	23,999	5,345	123
Consulting (DACH)	5,016	203	5,219	149	44
Sum	**107,915**	**1,181**	**109,096**	**8,574**	**866**
Reconciliation	220	-1,181	-961	-121	0
Overall Group	**108,135**	**0**	**108,135**	**8,453**	**866**

2014 (changed segmentation)	**External turnover**	**Intersegment turnover**	**Total turnover**	**EBITDA**	**Number of employees**
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	
Life Insurance (DACH)	74,835	161	74,996	2,012	692
Non-Life Insurance (International)	23,319	819	24,138	5,304	154
Consulting (DACH)	4,978	26	5,004	-240	33
Sum	**103,132**	**1,006**	**104,138**	**7,076**	**879**
Reconciliation	1,207	-1,006	201	4,305	0
Overall Group	**104,339**	**0**	**104,339**	**11,381**	**879**

2014 (previous segmentation)	External turnover	Intersegment turnover	Total turnover	Earnings before taxes (EBT)	Number of employees
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	
Life Insurance	69,043	699	69,742	1,008	536
Non-Life Insurance	28,879	743	29,622	5,678	199
Consulting & Services	5,210	7,446	12,656	389	144
Sum	**103,132**	**8,888**	**112,020**	**7,075**	**879**
Reconciliation	1,207	-8,888	-7,681	4,306	0
Overall Group	**104,339**	**0**	**104,339**	**11,381**	**879**

In accordance with IFRS 8, which has been amended in the context of improvements to IFRS 2009, notes on assets by segment are no longer required. This key capital ratio is not part of in-house reporting in the msg life Group. In addition, interest income and interest expenses, regular amortisation, main earnings and expense items, and main non-cash items, as well as the Group's share in the net profit or loss for the period of associated companies and joint ventures accounted for using the equity method, are not part of the Group's in-house reporting and are therefore not separately listed in segmental reporting.

2. Disclosures about products and services

Turnover from external customers is classified according to products and services as follows:

	2015	2014
	Thousand euros	*Thousand euros*
Services	79,124	75,262
Licences	10,115	10,829
Maintenance	17,208	16,621
Other income	1,688	1,627
Group turnover	**108,135**	**104,339**

3. Disclosures about geographical areas

Turnover from external customers by country is recorded on the basis of the respective msg life Group company that managed the transaction and is classified as follows:

	2015	2014
	Thousand euros	*Thousand euros*
Germany	80,673	77,373
United States	20,644	20,336
Switzerland	2,587	2,702
Austria	2,527	2,280
Slovenia	1,371	1,195
Benelux	131	190
Poland	83	58

	2015	2014
	Thousand euros	*Thousand euros*
Slovakia	82	118
Czech Republic (merged with msg life Austria Ges.m.b.H., Vienna, Austria, in 2015)	0	32
Portugal	37	55
Total	**108,135**	**104,339**

4. Disclosures about non-current assets

Non-current assets – consisting of goodwill; other intangible assets; property, plant and equipment; current income tax claims and other claims – are comprised as follows:

	2015	2014
	Thousand euros	*Thousand euros*
Germany	26,891	26,820
United States	204	275
Slovakia	105	96
Austria	43	54
Portugal	41	27
Slovenia	21	979
Switzerland	15	27
Total	**27,320**	**28,278**

5. Disclosures about important customers

In the year under review and in the previous year, the msg life Group did not have any customers whose turnover accounted for at least 10 per cent of aggregate turnover.

VI. Notes on the income statement

1. Sales

The turnover includes revenue for licences, services, maintenance services, cost reimbursements and reductions in earnings. It also includes contract revenue from contract work, recognised using the percentage of completion (PoC) method.

Projects measured using the PoC method had the following income and expenses components as at the reporting date:

	2015	2014
	Thousand euros	*Thousand euros*
Turnover realisation (PoC) in the financial year	8,194	3,714
Recognised expenses in the financial year	6,281	2,399
Reported profit in the financial year	1,913	1,315

2. Expenses for purchased services

	2015 *Thousand euros*	2014 *Thousand euros*
Other services	6,353	1,659
Freelance employees	4,527	5,162
Computing centre services	68	58
Purchased goods	0	210
Total	**10,948**	**7,089**

The costs of purchased services essentially comprise expenses for freelance employees and other services.

3. Personnel expenses

	2015 *Thousand euros*	2014 *Thousand euros*
Wages and salaries	65,243	67,139
Social security contributions	9,886	9,596
Personnel expenses excluding pensions	75,129	76,735
Pension expenses	573	289
Total	**75,702**	**77,024**

Social security contributions comprise, in particular, the employer's contribution to social insurance and contributions to the employer's liability insurance association.

Pension expenses primarily comprise the allocations to pension provisions.

In 2015, the average number of employees was 855, of whom 52 were executives and 803 were permanent employees (858 in the previous year, of whom 58 were executives and 800 were permanent employees).

4. Other operating income

	2015 *Thousand euros*	2014 *Thousand euros*
Changes in the consolidation group	955	6,662
Rental income	640	1,440
Company car use	313	336
Income from the reversal of other provisions and other liabilities	81	640
Other	671	739
Total	**2,660**	**9,817**

5. Other operating expenses

	2015 Thousand euros	2014 Thousand euros
Costs of business premises	5,974	7,470
Travel expenses	2,533	2,814
Consulting, accounting, Supervisory Board	1,747	1,976
Other	1,512	111
IT expenses	1,267	1,421
Advertising expenses	700	618
Communication expenses	698	774
Motor vehicle costs	683	818
Ongoing training	291	232
Staff recruitment	286	283
Expenses from changes in consolidation	0	2,061
Total	**15,691**	**18,578**

In 2015, the item 'Other' largely comprised exchange rate losses, insurance costs, fees and contributions and other operating requirements.

The fees incurred for auditing services in the reporting year and the previous year amounted to:

	2015 Thousand euros	2014 Thousand euros
Audits of financial statements (including outlays)	416	363
Other certification and valuation services	0	0
Tax consulting services	0	0
Other services	76	30
Total	**492**	**393**

Of the 416,000 euros in auditing expenses shown in the financial year, 179,000 euros concern the 2014 financial year.

Of the 363,000 euros in auditing expenses shown in the previous year, 139,000 euros concern the 2013 financial year when kleeberg audit GmbH was the auditor of the consolidated annual financial statements.

6. Depreciation of property, plant and equipment and amortisation of intangible assets

	2015 Thousand euros	2014 Thousand euros
Depreciation of property, plant and equipment and amortisation of intangible assets	1,773	3,254
Impairment of intangible assets	0	1,693
Total	**1,773**	**4,947**

In the 2014 financial year, the capitalised software, software contracts and customer relationships totalling 1.693 million euros were completely written off as sales of the products ceased and no more cash flows would be generated in the future.

7. Interest result

	2015 Thousand euros	2014 Thousand euros
Interest income	113	120
Interest expenses	-225	-562
Interest result	**-112**	**-442**
Of which from financial instruments in the valuation categories:		
Loans and receivables (including cash and bank balances)	12	17
Financial liabilities measured at amortised cost	0	-268

The net interest income relates to the interest on cash and cash equivalents, income from the accrual of additional interest on current income tax claims and refund interest vis-à-vis the tax authorities. The interest expenses essentially comprise items for pension provisions.

There are no net interest income and expenses in the valuation categories 'Held-to-maturity investments', 'Assets measured at fair value through profit and loss' and 'Liabilities measured at fair value directly through profit and loss'.

8. Investment result

	2015 Thousand euros	2014 Thousand euros
ARGE FJA KR BU-System	22	18
Total	**22**	**18**

9. Taxes on income

The tax expenses arise from the components listed below:

	2015 Thousand euros	2014 Thousand euros
Current income tax expenses		
Germany	-449	-119
Other countries	-1,529	-3,033
Total current income taxes	**-1,978**	**-3,152**
Deferred taxes from temporary differences	-2,829	2,461
Deferred taxes on tax loss carry-forwards	2,899	-6,180
Total deferred income taxes	**70**	**-3,719**
Total	**-1,908**	**-6,871**

The ongoing losses in Germany as from 2009 can be carried forward without restriction.

As at 31 December 2015, the msg life Group had unused domestic tax loss carry-forwards of 93.020 million euros for corporate income tax and 86.369 million euros for trade tax. Deferred tax assets were formed for these tax loss carry-forwards as at 31 December 2015 (2.899 million euros).

As at 31 December 2014, the msg life Group had unused domestic tax loss carry-forwards of 92.177 million euros for corporate income tax and 85.968 million euros for trade tax.

The current income tax expenses comprise 22,000 euros (previous year: 31,000 euros) in income tax proceeds relating to other periods.

In 2015 and 2014, deferred tax assets were only formed for IFRS valuation differences to match the deferred tax liabilities of 4.4 million euros (previous year: 1.3 million euros).

In the previous year, the write-down of deferred tax claims on loss carry-forwards reported in previous years led to deferred tax expenses of 6.180 million euros.

In the following reconciliation statement for the Group, the individual company-specific reconciliation statements are condensed taking account of consolidation measures. In the process, the expected tax expenses are reconciled with the effectively reported tax expenses.

The tax rate of 30 per cent applied in the reconciliation statement reflects the domestic tax rate of 15.83 per cent for corporate income tax and solidarity surcharge and of 14.17 per cent for trade tax that have applied since 2008.

	2015	2014
	Thousand euros	*Thousand euros*
Earnings before income taxes	6,590	6,010
Tax rate	30%	30%
Expected income taxes	**-1,977**	**-1,803**
Tax effects with regard to:		
Difference in tax rates	-379	-912
Tax-free income and tax additions and deductions	241	1,189
Effect of tax losses	176	533
Taxes for previous years	22	31
Valuation allowances for deferred tax assets	0	-6,180
Other	9	272
Effective income taxes	**-1,908**	**-6,870**

VII. Notes on the statement of financial position

1. Cash and cash equivalents

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
Other collateralised current accounts	2,500	2,500
Uncollateralised current accounts	19,285	19,230
Total	**21,785**	**21,730**

The cash and cash equivalents comprise collateralised and uncollateralised cash in hand and bank balances. The cash and cash equivalents correspond to the total funds shown in the cash flow statement. These serve the collateralisation of the financing principal bank, whose line of credit had not been utilised as of the reporting date.

Fixed-term deposits amounting to 2.5 million euros (previous year: 2.5 million euros) are used as collateral for various sureties and financial liabilities. As at 31 December 2015, the uncollateralised cash and cash equivalents amount to 19.285 million euros (previous year: 19.230 million euros).

2. Securities

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
Mittelschule und Tourismusfachschule Samedan AG, Samedan (Switzerland)	0	1
Total	**0**	**1**

The shares held in Mittelschule und Tourismusfachschule Samedan AG, Samedan (Switzerland), originally amounting to 4,000 euros (Switzerland), which were written down to 1,000 euros in 2014 due to a lack of marketability, have been posted under securities. These shares were sold in 2015 (selling price of 5,000 Swiss francs).

3. Trade receivables

	31.12.2015 Thousand euros	31.12.2014 Thousand euros
Trade receivables	22,518	14,726
PoC receivables	2,726	10,203
Total	**25,244**	**24,929**

The trade receivables are due within one year.

Trade receivables (without PoC receivables)	**As at 31.12.2015** Thousand euros	**As at 31.12.2014** Thousand euros
Gross value	**22,518**	**14,726**
Of which		
impaired	0	0
Carrying amount	**22,518**	**14,726**
Of which:		
neither impaired nor overdue as at the reporting date	20,710	11,198
Of which:		
not impaired and overdue in the following time bands as on the reporting date		
< 30 days	1,319	2,302
31 to 60 days	264	500
61 to 90 days	225	499
91 to 120 days	0	8
121 to 360 days	0	219

Concerning the portfolio of trade receivables that have been invoiced for, which was neither impaired nor in default, as on the reporting date, there were no indications that the debtors would not meet their payment obligations.

The valuation allowances on receivables that have been invoiced developed as follows:

	2015 Thousand euros	2014 Thousand euros
Valuation allowances as at 01.01.	**0**	**364**
Changes in the consolidation group	0	-364
Transfers	0	0
Utilisations	0	0
Reversals	0	0
Valuation allowances as at 31.12.	**0**	**0**

In the current year and in the previous year, there were no expenses for the complete derecognition of trade receivables or income from the receipt of derecognised receivables.

In connection with the projects valued according to the percentage of completion method (PoC), the msg life Group offsets the total amount of the costs incurred and the profits posted against the amount of the advance payments that have been offset. If this results in a positive balance, the latter will be reported under trade receivables, and, if it results in a negative balance, under other current liabilities.

Overall, for all orders, the following balances result under assets and liabilities respectively:

2015	**Orders under assets**	**Orders under liabilities**	**Total**
	Thousand euros	*Thousand euros*	*Thousand euros*
Total amount of costs incurred and profits posted	10,841	616	11,457
Offset advance payments	-8,115	-884	-8,999
Total	**2,726**	**-268**	**2,458**

2014	**Orders under assets**	**Orders under liabilities**	**Total**
	Thousand euros	*Thousand euros*	*Thousand euros*
Total amount of costs incurred and profits posted	12,729	673	13,402
Offset advance payments	-2,526	-2,279	-4,805
Total	**10,203**	**-1,606**	**8,597**

In order to provide security for credit lines, receivables amounting to 22.515 million euros were assigned to financial institutions in the reporting year (previous year: 14.726 million euros). The assigned receivables provide security for the financing principal bank.

4. Receivables and liabilities vis-à-vis affiliated companies

	31.12.2015	**31.12.2014**
	Thousand euros	*Thousand euros*
Receivables from affiliated companies	1,007	58
Of which from shareholders	514	27
Liabilities to affiliated companies	-909	-4,304
Of which to shareholders	-626	-4,138

With regard to the composition of the receivables from and liabilities to affiliated companies, please see section XI 'Related parties', number 3 'Other transactions with related parties'. The receivables from msg services ag, Ismaning, essentially comprise the residual purchase price of msg life metris gmbH of 500,000 euros, of which 200,000 euros will not be payable until 2017. All other receivables are payable within one year.

The liabilities of 909,000 euros (previous year: 4.304 million euros) are all due in up to one year (previous year: 304,000 euros). The 4.000 million euros in other liabilities recognised in the previous year were a long-term loan granted by msg systems ag in 2013 with a term ending on 31 July 2016 and an annual interest rate of 4.0 per cent as of the date it was granted. The unscheduled repayment of the loan was carried out in full in early 2015.

As at 31.12.2015	Total	Cash flows 2016		Cash flows 2017		Cash flows 2018 – 2020	
		Interest	Redemption	Interest	Redemption	Interest	Redemption
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Trade payables and other liabilities	909	0	909	0	0	0	0
Liabilities to affiliated companies	**909**	**0**	**909**	**0**	**0**	**0**	**0**

As at 31.12.2014	Total	Cash flows 2015		Cash flows 2016		Cash flows 2017 – 2019	
		Interest	Redemption	Interest	Redemption	Interest	Redemption
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Loans	4,000	10	4,000	0	0	0	0
Trade payables and other liabilities	304	0	304	0	0	0	0
Liabilities to affiliated companies	**4,304**	**10**	**4,304**	**0**	**0**	**0**	**0**

5. Current income tax assets

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
Short term	195	250
Long term	111	221
Total	**306**	**471**

The current income tax assets consisted of advance payments and refund claims for corporation and trade tax amounting to 306,000 euros (previous year: 471,000 euros). The long-term portion relates to the long-term component of the capitalised corporation tax credit balance.

6. Other financial receivables (current)

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
Security deposits	146	156
Total	**146**	**156**

The other financial receivables (current) are due within one year.

7. Other current assets

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
Value added tax	7	49
Deferred items	424	157
Other	835	2,375
Total	**1,266**	**2,581**

In particular, the part payments of the insurance and rent for IT equipment paid in the reporting year that do not give rise to expenditure until the following year are reported under prepaid expenses.

As at 31 December 2015, the other current assets essentially comprised the outstanding purchase price instalments from the sale of the shares in plenum AG in 2014 (481,000 euros).

8. Goodwill and other intangible assets

2015	**Goodwill**	**Other intangible assets**		**Total**
		Development costs	**Other**	
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*
Acquisition costs				
As at 01.01.2015	31,683	2,642	16,187	50,512
Additions	0	0	0	0
Disposals	0	0	7,858	7,858
Disposals in the consolidation group	0	0	0	0
As at 31.12.2015	**31,683**	**2,642**	**8,329**	**42,654**
Depreciation, amortisation and write-downs				
As at 01.01.2015	10,213	2,642	12,271	25,126
Additions	0	0	705	705
Disposals	0	0	7,858	7,858
Disposals in the consolidation group	0	0	0	0
As at 31.12.2015	**10,213**	**2,642**	**5,118**	**17,973**
Carrying amount on 31.12.2015	**21,470**	**0**	**3,211**	**24,681**

2014	Goodwill	Other intangible assets		Total
		Development costs	Other	
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*
Acquisition costs				
As at 01.01.2014	37,297	4,109	20,744	62,150
Additions	0	0	0	0
Disposals	0	875	0	875
Disposals in the consolidation group	5,614	592	4,557	10,763
As at 31.12.2014	**31,683**	**2,642**	**16,187**	**50,512**
Depreciation, amortisation and write-downs				
As at 01.01.2014	12,688	3,667	12,002	28,357
Additions	0	0	3,345	3,345
Disposals	0	565	13	578
Disposals in the consolidation group	2,475	460	3,063	5,998
As at 31.12.2014	**10,213**	**2,642**	**12,271**	**25,126**
Carrying amount on 31.12.2014	**21,470**	**0**	**3,916**	**25,386**

The research and development costs (personnel expenses and other operating expenses) that were recognised under expenses in 2015 amounted to 8.886 million euros (previous year: 9.850 million euros).

In the reporting year, the valuation tests for goodwill and individual intangible assets that must be conducted every year were carried out where there were indications that an impairment existed.

No depreciation took place.

Information on the other intangible assets in the reporting year

The other intangible assets amounting to 3.211 million euros consist largely of capitalised software.

Information on the other intangible assets in the previous year

The other intangible assets amounting to 3.916 million euros consist largely of capitalised software in the amount of 3.624 million euros.

The valuation of the goodwill acquired within the scope of business combinations was assessed in accordance with IAS 36 and on the basis of cash generating units. The goodwill is made up of the following:

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
msg life central europe	20,437	20,437
msg life OdaTeam	952	952
FJA-US	81	81
Total	**21,470**	**21,470**

As part of the assessment of goodwill impairment, the carrying amounts of the goodwill are allocated to individual cash-generating units. In line with the definition of a cash-generating unit, the business units msg life OdaTeam and FJA-US have been allocated to Non-Life Insurance (International) and the business unit msg life central europe has been allocated to Life Insurance (DACH) as cash-generating units.

In accordance with its definition, the book values (net assets) of the individual cash-generating units are subsequently checked at least once a year to establish whether any requirement for impairment exists. The achievable amount corresponding to the value in use that has been ascertained according to the discounted cash flow method is thus compared with the book values. In addition, the msg life Group also takes the relationship between market capitalisation and the book value into account when assessing whether there are indications that an asset might be impaired.

Impairment tests of goodwill and intangible assets with indeterminate useful lives

The following assumptions on which the calculation of the value in use of the three cash-generating units Life Insurance (DACH), Non-Life Insurance (International) and Consulting (DACH) are subject to uncertainty:

- Gross profit margin
- Discount rates
- Market shares in the detailed planning period
- Growth rates based on the extrapolated cash flow forecasts outside of the detailed planning period

Gross profit margins are determined using the average values of between 16.1 per cent and 24.4 per cent generated prior to the detailed planning period in previous financial years. The gross profit margins are increased by expected improvements in efficiency over the course of the budget period.

The valuation of other goodwill was verified on the basis of cash flows estimated for the future, which were derived from the current plans prepared by the management. The basis used to establish future cash flows was the data emanating from the corporate plans for the financial years to 2020, with subsequent transition to perpetuity. These plans use a planning horizon of five years. For the period of time thereafter ('perpetuity'), a growth rate of roughly 1 per cent was applied to the cash flows in the valuation tests. These assumptions are based on past experience, the current operating results and the best possible estimates of future developments made by the management as at the reporting date.

The discount rates represent the current market estimates with regard to the specific risks attributable to each cash-generating unit; the interest effects and specific risks of the assets for which the estimated future cash flows have not been adjusted are taken into account here. The discount rate calculation factors in the specific circumstances of the Group and its business segments and is based on its weighted average cost of capital (WACC). The WACC factors in both borrowed capital and equity. The cost of capital is derived from the expected return on capital of the investors in the Group. Borrowing costs are based on the interest-bearing debt that the Group has to service. The segment-specific risk is taken into account by applying individual beta factors. The beta factors are determined on an annual basis using publicly accessible market data. The free cash flows were discounted with a capital cost rate (WACC) of 7.25 per cent p.a. (previous year: 7.25 per cent p.a.) before tax.

The assumptions regarding the market share are important in so far as the management, in the same way that it makes assumptions on growth rates, evaluates how the position of the cash-generating unit compared to its competitors might change during the detailed planning period.

The extrapolation of the budget for the cash-generating units is based on assumptions made in the past.

The speed of technological development and potential new competitors can significantly influence the assumption regarding growth rates. No negative impacts are expected from the entry of new competitors into the market; however, this might lead to a different, reasonably possible long-term growth rate of around 1 per cent for the cash-generating units:

Even with a long-term growth rate of 0 per cent for the cash-generating unit Life Insurance (DACH), no valuation allowance would be necessary.

Even with a long-term growth rate of 0 per cent for the cash-generating unit Non-Life Insurance (International), no valuation allowance would be necessary.

A decrease in the long-term growth rate for the cash-generating unit Consulting (DACH) would not render a valuation allowance necessary, as this segment does not contain any assets whose value can be adjusted.

A decline in demand could impair the gross profit margin:

Even a 5 per cent fall in the gross profit margin of the cash-generating unit Life Insurance (DACH) would not result in a need for a valuation allowance.

Even a 5 per cent fall in the gross profit margin of the cash-generating unit Non-Life Insurance (International) would not result in a need for a valuation allowance.

A decrease in the gross profit margin of the cash-generating unit Consulting (DACH) would not render a valuation allowance necessary, as this segment does not contain any assets whose value can be adjusted.

Sensitivity analyses have indicated that even a 0.5 per cent increase in the costs of capital would not require a valuation allowance for goodwill.

Information on the goodwill in the previous year

No impairments on goodwill were carried out in the previous year as a result of the valuation tests.

9. Property, plant and equipment

2015	Buildings on third-party land	Hardware and software	Operating and office equipment	Assets under construction	Total
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Acquisition costs					
As at 01.01.2015	**4,803**	**6,901**	**4,534**	**249**	**16,487**
Additions	22	825	88	0	935
Disposals	459	5,451	727	0	6,637
Disposals in the consolidation group	59	28	29	0	116
Reclassifications	0	249	0	-249	0
Foreign currency differences	74	52	85	0	211
As at 31.12.2015	**4,381**	**2,548**	**3,951**	**0**	**10,880**

2015	Buildings on third-party land	Hardware and software	Operating and office equipment	Assets under construction	Total
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Depreciation, amortisation and write-downs					
As at 01.01.2015	**3,875**	**5,813**	**4,128**	**0**	**13,816**
Additions	182	766	119	0	1,067
Disposals	498	5,422	717	0	6,637
Disposals in the consolidation group	21	15	19	0	55
Foreign currency differences	76	7	78	0	161
As at 31.12.2015	**3,614**	**1,149**	**3,589**	**0**	**8,352**
Carrying amount on 31.12.2015	**767**	**1,399**	**362**	**0**	**2,528**

2014	Buildings on third-party land	Hardware and software	Operating and office equipment	Assets under construction	Total
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Acquisition costs					
As at 01.01.2014	**5,033**	**9,789**	**4,571**	**0**	**19,393**
Additions	35	1,084	255	249	1,623
Disposals	0	1,074	39	0	1,113
Disposals in the consolidation group	338	2,933	312	0	3,583
Reclassifications	0	0	8	0	8
Foreign currency differences	73	35	51	0	159
As at 31.12.2014	**4,803**	**6,901**	**4,534**	**249**	**16,487**
Depreciation, amortisation and write-downs					
As at 01.01.2014	**3,963**	**8,502**	**4,094**	**0**	**16,559**
Additions	175	1,110	317	0	1,602
Disposals	0	1,074	14	0	1,088
Disposals in the consolidation group	323	2,761	310	0	3,394
Foreign currency differences	60	36	41	0	137
As at 31.12.2014	**3,875**	**5,813**	**4,128**	**0**	**13,816**
Carrying amount on 31.12.2014	**928**	**1,088**	**406**	**249**	**2,671**

No new finance lease agreements were made in the 2015 financial year or in the previous year. The finance lease agreements concluded in previous years have resulted in rental payments of 28,000 euros in the following financial year.

10. Financial investments

	31.12.2015	31.12.2014
	Thousand euros	Thousand euros
Shareholding, ARGE FJA KR BU-System	3	3
Total	**3**	**3**

The shareholding in ARGE FJA KR BU-System, Munich, has not been consolidated. The msg life Group does not have a decisive influence over ARGE FJA KR BU-System, as it does not have many opportunities to collaborate in the financial and business decision-making processes of the partly owned subsidiary. The msg life Group owns 50 per cent of the shares. ARGE's shareholders' equity amounts to 6,000 euros as at 31 December 2015 (previous year: 18,000 euros). The total assets are 10,000 euros (previous year: 33,000 euros), and the total liabilities are 4,000 euros (previous year: 15,000 euros). In the 2015 financial year, ARGE generated turnover of 60,000 euros (previous year: 72,000 euros) and a result of 32,000 euros (previous year: 43,000 euros). The shares were measured at amortised cost.

11. Deferred tax assets and deferred tax liabilities

The deferred taxes were determined using the relevant country-specific tax rates that were between 19 per cent and 41.10 per cent (previous year: between 19 per cent and 41.10 per cent). Changes in tax rate that had already been decided upon as of the balance sheet date were taken into account when the deferred taxes were determined.

The deferred taxes of the domestic companies are evaluated, depending on the applicable trade tax collection rate, using an aggregate tax rate, including solidarity surcharge, of between 27.8 per cent and 29.13 per cent (previous year: between 29.13 per cent and 32.98 per cent).

The deferred taxation is allocated to the following items of the statement of financial position:

	31.12.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
	Thousand euros	Thousand euros	Thousand euros	Thousand euros
PoC receivables	0	1,932	149	5
Receivables and other current assets	0	588	2,212	168
Intangible assets	0	970	0	1,175
Financial investments	78	814	1,121	79
Property, plant and equipment	23	14	21	20
Other provisions	0	99	0	20
Pension provisions	1,430	0	1,366	0
Other financial liabilities	3	0	3	0
Valuation allowance for temporary differences	0	0	-3,566	0
Deferred tax assets on loss carry-forwards	2,899	0	0	0
Total	**4,433**	**4,417**	**1,306**	**1,467**

The deferred taxes that were recognised in shareholders' equity amount to 84,000 euros (previous year: 638,000 euros).

12. Financial liabilities

Interest-bearing credit liabilities based on a contractual obligation to a third party, which amounted to 0 euros on the reporting date (previous year: 0 euros), are posted under financial liabilities. There is presently a general credit line with a principal bank amounting to 5.000 million euros, which as at the balance sheet date was utilised to the extent of 0 euros. This general credit is available for an indefinite period. A total credit line of 7.500 million euros with no time limit was granted by a second principal bank. This credit line had also not been utilised as at the reporting date. A fixed amount of 2.500 million euros was pledged to this principle bank. A total credit line of 2.500 million euros with no time limit was granted by a third principal bank; this had not been utilised as of the reporting date. All present and future trade receivables of msg life ag, msg life central europe gmbh (formerly msg life Deutschland GmbH) and msg life consulting gmbh have been pledged to all three banks as collateral by way of a blanket assignment. A fourth bank provided a working capital line of 2.500 million euros that was available until 30 September 2016; this had not been utilised as of the reporting date. A fifth bank provided a total credit line of 2.500 million euros with no time limit; this had not been utilised as of the reporting date.

13. Trade payables

Trade payables have, as in the previous year, a residual term of up to one year.

14. Current income tax liabilities

The current income tax liabilities of 870,000 euros (previous year: 2.915 million euros) are all due in the short term and are essentially corporate income tax liabilities.

15. Other provisions

	31.12.14	Currency differences	Utilisations	Reversals	Additions	31.12.15
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Provision for project costs	12	0	0	0	7	19
Contingent losses	16	0	0	16	0	0
Outstanding incoming invoices	386	2	302	8	1,034	1,112
Personnel-related provisions	1,191	0	7	0	102	1,286
Other	751	0	372	56	216	539
Other provisions	**2,356**	**2**	**681**	**80**	**1,359**	**2,956**

The reversals of provisions are reported in the income statement under other operating income (VI.4).

The transfers to provisions take into account interest (without interest fluctuation effects) of 24,000 euros (previous year: 28,000 euros) and interest fluctuation effects of 6,000 euros (previous year: 62,000 euros) (the accumulation effect).

The valuation as at the reporting date takes into account the financial charges the company is expected to have to bear.

The provision for project costs includes the cost of services not yet rendered.

The provisions for contingent losses in the previous year included the cost of rental agreements.

The provision for anticipated incoming invoices relates to other operating expenses and the costs of purchased services and of the annual financial statements.

The personnel-related provisions contain the provisions for anniversaries and settlements. These represent non-current provisions.

The other provisions essentially include the provisions formed for archiving and the costs of the annual report.

As at the reporting date, the other provisions had the following maturity pattern:

	Long term in 2015	Long term in 2014	Short term in 2015	Short term in 2014	Total for 2015	Total for 2014
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Provision for project costs	0	0	19	12	19	12
Contingent losses	0	0	0	16	0	16
Outstanding incoming invoices	0	0	1,112	386	1,112	386
Personnel-related provisions	1,286	1,191	0	0	1,286	1,191
Other	336	348	203	403	539	751
Other provisions	**1,622**	**1,539**	**1,334**	**817**	**2,956**	**2,356**

The sums accounted for under the provisions for project costs, contingent losses, outstanding incoming invoices, personnel-related provisions and other provisions totalling 2.956 million euros (previous year: 2.356 million euros) must be paid out in the short term within the scope of operating activity, with the exception of a sum amounting to 1.622 million euros (previous year: 1.539 million euros).

The msg life Group has sufficient liquid funds to make the payments concerned using the provisions.

16. Other debts

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
Tax liabilities	890	1,688
Payments received on account for customer orders	2,235	1,606
Deferred items	1,935	1,502
Total	**5,060**	**4,796**

As at the reporting date, the other liabilities had the following maturity pattern:

31.12.2015	Total	Residual term of up to one year	Residual term of between one year and five years	Residual term of more than five years
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*
Tax liabilities	890	890	0	0
Payments received on account for customer orders	2,235	2,235	0	0
Deferred items	1,935	1,935	0	0
Other debts	**5,060**	**5,060**	**0**	**0**

31.12.2014	Total	Residual term of up to one year	Residual term of between one year and five years	Residual term of more than five years
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*
Tax liabilities	1,688	1,688	0	0
Payments received on account for customer orders	1,606	1,606	0	0
Deferred ¬items	1,502	1,502	0	0
Other debts	**4,796**	**4,796**	**0**	**0**

17. Other financial liabilities

	31.12.2015	31.12.2014
	Thousand euros	*Thousand euros*
Liabilities arising from personnel and welfare	11,503	12,471
Hire purchase liability	28	60
Other	1,139	984
Total	**12,670**	**13,515**

The liabilities from personnel and welfare relate principally to liabilities from holiday, overtime and entitlements to variable remuneration.

By means of contracts dated 18 October 2012, msg life central europe gmbh (formerly msg life Deutschland GmbH) concluded a sale and finance leaseback transaction for hardware with a lessor. msg life central europe gmbh (formerly msg life Deutschland GmbH) sold hardware to the lessor in return for a one-off payment (0.126 million euros). In a second step, the parties agreed on a hire purchase arrangement for the transfer of a right of use for this hardware by the lessor (hirer) to msg life central europe gmbh (formerly msg life Deutschland GmbH) as hire purchaser in return for the payment of regular recurring rental payments (2,807.63 euros) over a period of 48 months. As the main opportunities and risks associated with the asset remain with the msg life Group, what has been created is a finance lease and/or hire purchase liability. The hire purchase liability is commensurate with the cash value of the minimum lease payments.

No security was provided for the fulfilment of the obligations arising from this hire purchase agreement.

The item 'Other' essentially includes the wage and church tax liabilities as well as a rental deposit (155,000 euros).

As at the reporting date, the other financial liabilities had the following maturity pattern:

31.12.2015	Total	Residual term of up to one year	Residual term of between one year and five years	Residual term of more than five years
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*
Liabilities arising from personnel and welfare	11,503	11,503	0	0
Hire purchase liability	28	28	0	0
Other	1,139	984	155	0
Other financial liabilities	**12,670**	**12,515**	**155**	**0**

31.12.2014	Total	Residual term of up to one year	Residual term of between one year and five years	Residual term of more than five years
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*
Liabilities arising from personnel and welfare	12,471	12,471	0	0
Hire purchase liability	60	32	28	0
Other	984	829	155	0
Other financial liabilities	**13,515**	**13,332**	**183**	**0**

The tables below show the contractually agreed (non-discounted) interest and redemption payments relating to the other financial liabilities:

As at 31.12.2015	Total	Cash flows 2016		Cash flows 2017		Cash flows 2018 – 2020	
		Interest	Redemption	Interest	Redemption	Interest	Redemption
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Liabilities arising from personnel and welfare	11,503	0	11,503	0	0	0	0
Hire purchase liabilities	28	0	28	0	0	0	0
Other	1,139	0	984	0	0	0	155
Other financial liabilities	**12,670**	**0**	**12,515**	**0**	**0**	**0**	**155**

As at 31.12.2014	Total	Cash flows 2015		Cash flows 2016		Cash flows 2017 – 2019	
		Interest	Redemption	Interest	Redemption	Interest	Redemption
	Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Liabilities arising from personnel and welfare	12,471	0	12,471	0	0	0	0
Hire purchase liability	60	1	32	0	28	0	0
Other	984	0	829	0	0	0	155
Other financial liabilities	**13,515**	**1**	**13,332**	**0**	**28**	**0**	**155**

All the financial instruments that were in the portfolio as at the reporting date in question, and for which payments have already been contractually agreed, have been included. No budgeted figures have been considered for liabilities that might come about in the future. Financial liabilities that can be met at any time are always allocated to the earliest possible time period.

In the 2015 financial year and in the previous year, no bad debt losses or breaches of contract were sustained by the company.

18. Pension provisions

Pension agreements exist for the parent company and one of the domestic subsidiaries within the msg life Group in the form of direct defined-benefit obligations. In defined-benefit plans, the employer undertakes to make the promised pension payments and to finance them by forming pension provisions or separate plan assets for pension purposes.

Provisions for pension obligations are formed on the basis of plans for retirement, incapacity and survivors' benefit. Group pension obligations to employees are based on direct and indirect pension commitments. Benefits from direct pension obligations are fundamentally determined as a function of monthly salary and length of service with the company.

The amount of the pension obligation is calculated by actuarial methods using the internationally accepted projected unit credit method in accordance with IAS 19 (Employee Benefits), with future obligations being calculated on the basis of the proportional entitlements acquired on the reporting date. Evaluation takes account of assumed trends for the relevant variables which affect the amount of benefit. Actuarial calculations are required for all benefit systems.

Not only assumptions about life expectancy and incapacity, but also premises using the biometric principles of the Heubeck mortality table 2005G play a role.

For more information on the pension schemes, see section XI 'Related parties', number 1 'Total compensation of the Management Board and the Supervisory Board'.

The calculations are based on the following actuarial assumptions for the respective reference dates:

2015	msg life ag % per year	msg life central europe % per year
Actuarial interest rates	2.15	2.15
Projected increase in salaries	2.50	2.50
Rate of pension progression (civil service adjustment)	1.90	1.90

The major actuarial assumptions used to calculate the defined-benefit obligation are the actuarial interest rate, the assumed rate of inflation and the underlying salary increase rate.

2014	msg life ag % per year	msg life Deutschland % per year
Actuarial interest rates	1.95	1.95
Projected increase in salaries	2.50	2.50
Rate of pension progression (civil service adjustment)	1.90	1.90

Allowances were made for the probability of fluctuation.

The outlay for defined-benefit pension plans consists of the following:

	2015 Thousand euros	2014 Thousand euros
Service cost	40	30
Net interest costs	154	210
Total expenses	**194**	**240**

Service cost is posted as part of personnel expenses. The net interest costs are shown in the financial result.

The portfolio of actuarial gains and losses posted in equity with no impact on profit and loss are as follows:

	31.12.2015 Thousand euros	31.12.2014 Thousand euros
Actuarial gains (+) and losses (–)	-4,181	-4,474

The asset is invested using counter-guarantee insurance; 100 per cent of the assets are direct claims from the insurance company. The anticipated long-term returns are based upon past experience of insurance contracts and on anticipated future returns. No change in the composition of the plan assets is intended in the 2016 financial year. Potential deficits in the pension obligations are to be balanced out through ongoing operations.

The actual returns on the plan assets are as follows:

	2015 *Thousand euros*	2014 *Thousand euros*
Actual returns on plan assets	43	84

Besides counter-guarantee insurance, fixed-term deposits amounting to 1.043 million euros are used to safeguard claims arising from commitments for pension and similar obligations.

Reconciliation calculations of the cash values of defined-benefit obligations, the plan asset values to be reconciled and the figures derived from them for pension provisions are shown below:

	2015 *Thousand euros*	2014 *Thousand euros*
Cash value of the benefit obligation as at 01.01.	9,918	11,194
Service cost	40	30
Interest charges on the project unit credit	190	272
Pension payments rendered by the employer directly	-285	-249
Payments made under the plan	-12	-4
Actuarial gain (–)/loss (+) resulting from adjustments made from past experience	58	27
Actuarial gain (–)/loss (+) resulting from changes to financial assumptions	-276	1,927
Disposals due to changes in the consolidated group	0	-3,279
Cash value of the benefit obligation as at 31.12.	**9,633**	**9,918**
Plan assets as at 01.01.	1,859	1,921
Income from plan assets calculated using the actuarial interest rate	36	62
Amounts by which the actual income of the plan assets exceeds (+)/falls under (–) the income calculated using the actuarial interest rate in the current financial year	8	21
Benefits paid	-12	-44
Disposals due to changes in the consolidated group	0	-141
Plan assets as at 31.12.	**1,891**	**1,859**
Net obligation	**7,742**	**8,059**

The present value of the pension obligations of 9.633 million euros as at 31 December 2015 is broken down over the groups of participants as follows: obligations of 1.158 million euros are attributable to active employees, obligations of 3.466 million euros are attributable to vested former employees and obligations of 5.009 million euros are attributable to pensioners.

The reconciliation calculation of the cash value of the defined-benefit obligation and the fair value of the plan assets with the assets and liabilities posted on the statement of financial position is shown below:

	2015	2014
	Thousand euros	Thousand euros
Net obligation at the beginning of the year	**8,059**	**9,273**
Net cost recognised	194	240
Actuarial gain (–)/loss (+) shown directly under equity	-226	1,933
Pension payments rendered by the employer directly	-285	-249
Disposals due to changes in the consolidated group	0	-3,138
Provisions as at 31.12.	**7,742**	**8,059**

Payments totalling 335,000 euros are planned for the 2016 financial year, 357,000 euros in 2017, 386,000 euros in 2018, 410,000 euros in 2019, 416,000 euros in 2020 and 2.345 million euros in 2021 to 2025. No plan asset contributions are expected for the reporting period ending on 31 December 2016.

On the basis of the pension scheme, the Group is not exposed to risks of changing interest rates, changes in the life expectancy of the beneficiaries or changes in salary. The plan assets are invested in counter-guarantee insurance policies and fixed deposits. Therefore, there is a general investment risk arising from the insurance policies and fixed deposits.

Sensitivity analyses have indicated that an increase (reduction) in the costs of capital of 0.5 percentage points (-0.5 percentage points) would require an adjustment of -0.6 million euros (0.7 million euros).

19. Subscribed capital

The subscribed capital as at 31 December 2015 after treasury shares had been taken into account totalled 40,895,861.00 euros (31 December 2014: 40,895,861.00 euros) and is fully paid in. Overall, the subscribed capital is still divided into 42,802,453 no-par-value bearer shares, each representing a computational equity stake of 1 euro. Each share entitles its holder to one vote. No preference shares are issued.

Repurchase of treasury shares

On 21 August 2008, the Management Board of msg life ag resolved, on the basis of the authorisation of the annual general meeting of 20 June 2008, to acquire up to 638,680 of its treasury shares, i.e. around 1.5 per cent of the nominal capital, on the stock exchange from 25 August 2008 onwards. By 31 December 2009, msg life ag had acquired 638,680 shares for a purchase price of 1,193,549.57 euros. This corresponds to an average acquisition price of 1.87 euros per share. The purchase price of 1,193,549.57 euros is shown directly as nominal capital under subscribed capital (638,680.00 euros) and the capital reserve (554,869.57 euros). Furthermore, 1,267,912 treasury shares from the portfolio of the former COR AG accrued as a result of the merger with the former COR AG in 2009. The addition totalling 2,662,615.00 euros is entered directly in equity under subscribed capital (1,267,912.00 euros) and the capital reserve (1,394,703.00 euros). All in all, treasury shares amounting to 1,906,592 euros were openly removed from the subscribed capital and the capital reserve was reduced by 1,949,572.57 euros.

At the annual general meeting held on 17 August 2010, it was decided to empower the company to acquire and use treasury shares in the company by 16 August 2015, under partial exclusion of the shareholders' subscription rights, for a proportional amount of up to 10 per cent of nominal capital. The shares can be purchased on the stock exchange or by means of a public purchase offer addressed to all the company's shareholders. As well as by purchase on the stock exchange, the company can also purchase treasury shares by means of a public purchase offer. The company can use the treasury shares as follows: with the approval of the Supervisory Board, as a consideration in a business combination or as a consideration in the purchase of companies or interests, to dispense to employees of the company or companies affiliated to the Group, to service convertible bonds or warrants issued by the company, or to fulfil obligations from employee profit-sharing programmes, disposal of a different type other than on the stock exchange or by means of an offer to all shareholders, for example to an institutional investor or to develop new circles of investors.

The Management Board has not made use of this empowerment. This authorisation granted to the company by resolution of the annual general meeting of 17 August 2010 to acquire treasury shares up to 16 August 2015 was replaced by the following authorisation resolution adopted by the annual general meeting on 26 June 2014.

By resolution of the annual general meeting of 26 June 2014, the company was authorised to acquire treasury shares ('msg life shares') up to a total of 10 per cent of the share capital as of the date of the resolution. In this regard, at no point may more than 10 per cent of the share capital of the company be represented by the shares acquired under this authority combined with other shares in the company which the company had already acquired and still holds or which are attributable to it under sections 71 et seq. of the German Stock Corporation Act (AktG). The company may not use this authority in order to trade with its own shares. The authority may be used in whole or in partial amounts to pursue one or more purposes, on one or more than one occasion, by the company, but also by its affiliated companies or through third parties for its or their account, within the limits of the above restrictions. The authorisation to acquire treasury shares applies until the end of 25 June 2019. The deadline applies to the date of acquisition of the shares, not to holding the shares beyond this date.

The Management Board has not yet made use of this empowerment.

The following authorised capital was available in the period under review:

Authorised capital 2010

At the annual general meeting held on 17 August 2010, it was decided that by lifting the empowerment of the Management Board formerly regulated in section 5 Para. 4 of the company's statutes to increase the nominal capital of the company, with approval of the Supervisory Board, until 22 June 2011 by up to a total of 10,398,708.00 euros, the Management Board was to be empowered to increase the company's nominal capital by 16 August 2015 by issuing new individual bearer shares in return for contributions in cash and kind on one or more occasions, to a limit of a maximum sum of 21,401,226.00 euros. The Management Board is authorised to exclude the right of shareholders to subscribe, with approval of the Supervisory Board, in compliance with the precise regulations and to determine the further details with respect to capital increases from authorised capital.

The Management Board has not made use of this empowerment. This authorisation by resolution of the annual general meeting of 17 August 2010 was replaced by the following authorisation resolution adopted by the annual general meeting on 25 June 2015.

Authorised capital 2015/1

The annual general meeting on 25 June 2015 authorised the Management Board to increase the company's share capital by 25 June 2020 with the approval of the Supervisory Board by issuing new no-par-value bearer shares against cash contributions or contributions in kind on one or more occasions, albeit by no more than 21,401,226 euros in total (authorised capital 2015/1). The new shares must be offered to the shareholders for subscription; they may also be taken on by banks or by a company which operates in accordance with section 53(1)(1) or section 53b(1)(1) or (7) of the German Banking Act (KWG) under the obligation that the shares are offered to the shareholders for subscription. The Management Board is authorised to disapply the shareholders' pre-emption rights with the approval of the Supervisory Board and in compliance with the precise regulations and, subject to the approval of the Supervisory Board, to determine the remaining conditions of share issuance, including the issue price and the further details of the share rights. A shareholder's entitlement to dividends may apply from the beginning of a financial year which has already passed insofar as no decision has yet been made regarding the appropriation of earnings for said financial year.

20. Capital reserves

Capital reserves include the amount accruing in excess of the nominal price when shares are issued. As per 31 December 2015, the capital reserve amounted to 33,601,049.76 euros (31 December 2014: 33,601,049.76 euros).

Only the restrictions of section 150 of the German Stock Corporation Act (AktG) on the payment of dividends or repayment of capital apply to the capital reserve.

21. Group retained earnings

Retained earnings include the profits of the companies within the scope of the consolidated financial statements, unless they have been paid out as dividends. Differences arising from currency conversion, with no impact on earnings, from the financial statements of foreign subsidiaries, actuarial gains and losses from pension provisions and other transactions posted as nominal capital continue to be included.

A detailed schedule of changes in Group retained earnings emerges from the development of equity.

Under German stock corporation law, dividends available for distribution depend on the net profit which msg life ag declares in its financial statements, drawn up in accordance with the provisions of the German Commercial Code.

No dividend is anticipated for the 2015 financial year.

22. Non-controlling interests

	2015 *Thousand euros*	2014 *Thousand euros*
As at 01.01.	0	1,004
Disposal	0	-1,004
Proportion of result for the year	0	0
As at 31.12.	**0**	**0**

There were no more minority interests on either 31 December 2015 or 31 December 2014, as they had all been disposed of through transactions in the 2014 financial year.

23. Other financial obligations

The following liabilities arise from long-term leases, tenancy agreements and service contracts (operating leases):

	31.12.2015				31.12.2014			
	Of which with a residual term				Of which with a residual term			
		Up to one year	One to five years	More than five years		Up to one year	One to five years	More than five years
	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros
Total	**50,717**	**6,137**	**21,846**	**22,734**	**46,048**	**7,749**	**21,073**	**17,226**

Liabilities from operating leases are shown as the cash value of the minimum lease payments.

The continuous cost of leases, tenancy agreements and service contracts in the financial year entered with an impact on results was 6.751 million euros (previous year: 8.184 million euros).

Operating leases include leased fixtures and fittings and liabilities arising from office tenancy agreements. The service contracts involve liabilities arising from the maintenance of the hardware and software used in the company.

The sum of future minimum payments, receipt of which was anticipated by 31 December 2015 under non-cancellable sub-tenancy agreements, is 1.559 million euros (previous year: 2.078 million euros).

There are no further financial liabilities, apart from finance leases (lease purchase liability) shown under section VII 'Notes on the statement of financial position', number 17 'Other financial liabilities'.

The minimum lease payments and their cash value on the reporting date are as follows, broken down by due date:

	31.12.2015				31.12.2014			
	Of which with a residual term				Of which with a residual term			
		Up to one year	One to five years	More than five years		Up to one year	One to five years	More than five years
	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros
Minimum lease payments	865	370	488	7	661	411	250	0
Cash value of minimum lease payments	839	359	473	7	641	399	242	0

Reconciliation of the sum of minimum lease payments in the amount of 865,000 euros (previous year: 661,000 euros) with the cash value of 839,000 euros (previous year: 641,000 euros) took place by deducting the costs of finance or the interest element of 26,000 euros (previous year: 20,000 euros).

The principal leases are the following:

This hire purchase agreement is a standardised sale and finance leaseback transaction in which the seller of the leased item is simultaneously the hire purchaser.

24. Contingencies and contingent liabilities

Like all software products, the msg life Group's products can have defects whose elimination under guarantee increases costs and thereby influences the profit margin or even leads to compensation claims against the msg life Group. The msg life companies generally assume the warranty which is customary in the industry. As far as possible, liability obligations are limited contractually to the legal minimum and are secured with appropriate liability insurance policies. It can nevertheless not be ruled out that contractually agreed limitations on liability will be regarded as invalid and the existing insurance cover will be available to an insufficient extent or not at all – even if this is improbable. This applies in particular to the US market. Warranty obligations were formed based on past experience and are included in other provisions. Please refer to section VII 'Notes on the statement of financial position', number 15 'Other provisions'. It is not possible to estimate the financial impact.

25. Additional disclosures relating to financial instruments

Objective and methods of financial risk management

Financial risk management is designed to put the msg life Group in a position to recognise all the significant risks to which it is potentially exposed at an early stage and to take appropriate countermeasures.

The potential risks to the msg life Group associated with financial instruments consist notably of liquidity risks – which can result in a company being unable to raise the funds needed to settle its financial liabilities – currency risks resulting from its activities in various currency areas, default risks arising from the non-fulfilment of contractual obligations by contracting parties, interest rate risks caused by movements in the market interest rate leading to a change in the fair value of a financial instrument and interest-related cash flow risks, which lead to a change in the future cash flows of a financial instrument due to changes in market interest rates.

Organisation

The company has organised its risk management process along clear, functional lines. Specific tasks have been assigned to the individual organisational units involved in the risk management process.

Among the Management Board's most important tasks in the overall management of the Group are laying down general conditions and processes of risk management for the msg life Group, monitoring the degree of compliance with them and, in conjunction with the heads of the operating units and the administrative departments, regularly analysing the development of risks in the respective segments. The Supervisory Board is closely integrated into this process by the Management Board's regular reports.

The msg life Group's risk management system is documented in a risk manual. One employee in the holding company's Corporate Planning & Controlling division has been appointed risk manager of the Group and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. The risk manager also has the task, under instructions from the Management Board, of analysing each division by means of random sampling to determine the extent to which the measures adopted are being implemented for the limitation or prevention of risks.

It is the responsibility of the managers of the individual divisions to continuously monitor and deal with the risks to which their own divisions are exposed. If the probability of individual risks occurring and/or their potential scale increases significantly beyond a set threshold, the managers are obliged to inform the Management Board immediately. The foundation of good risk management is the reliable and prompt provision of the management with relevant information about the course of business. For this purpose, msg life has set up a controlling and reporting system with which reports are compiled at monthly intervals about the development of significant ratios relating to the business operations in the individual divisions and the financial results, as well as the likely commercial and financial development in each of the next 12 months.

Credit risks (default risks)

Credit risk arises from deteriorating economic circumstances of the company's debtors or counterparties. Firstly, this results in a risk of partial or complete default on contractually agreed payments and, secondly, in a reduction in the value of financial instruments due to a poorer credit rating.

Credit risk management is responsible for the operational measurement and management of credit risks. Its functions include, in particular, monitoring credit risk positions and exposure and analysis of credit ratings.

In terms of credit risk, the Group is only exposed to risk in relation to trade receivables. Adequate valuation allowances have been made to cover the estimated default risk. As the credit rating of clients in the insurance industry is generally good, the receivables are not insured. The maximum default risk is in principle equivalent to the nominal values less the valuation allowances. There is no other loan collateral and there are no other risk-mitigating agreements (such as guarantees, land charges or pledges) in place. Usage reservations exist until payment is complete. For invoiced receivables, the net balance of reversals of value adjustments was 0 euros (previous year: 0 euros). On each cut-off date, the trade receivables did not include any carrying amounts for which terms had been renegotiated and which would otherwise have been overdue.

With regard to the analysis of trade receivables which are overdue but not impaired as at the end of the reporting period, we refer to section VII 'Notes on the statement of financial position', number 3 'Trade receivables'.

There are no default risks in relation to cash and cash equivalents. These are invested with banks with good ratings.

There are no significant default risks in relation to the other financial assets.

Liquidity risks

Managing liquidity risk includes ensuring that the company always has sufficient liquid funds or credit lines available to enable it to meet its payment obligations and hedge against risks resulting from fluctuations in payment flows. Among other things, the payment obligations consist of interest and redemption payments. Liquidity risk also includes the risk of not being able to obtain sufficient liquidity at the expected terms when required (refinancing risk).

Under the management mechanisms now in place, the daily holdings of cash and cash equivalents and the monthly rolling financial plans are monitored by the company's management. The purpose of liquidity management is to finance predictable deficits at standard market terms under normal market conditions. This means that both losses from borrowing capital at excessive interest rates and the investment of surplus funds at interest rates below the market level should be avoided.

Because of the company's large holdings of cash and cash equivalents, the msg life Group considers the liquidity risk to be low at present. The msg life Group has sufficient liquid funds to enable it to service its financial liabilities.

In addition, there are presently credit lines with banks amounting to 20 million euros, which had been utilised in the amount of 0 euros at the balance sheet date. See also section VII 'Notes to the balance sheet', number 12 'Financial liabilities'.

In the 2015 financial year and in the previous year, no income from debt waivers was realised.

Market risks

Market risks result from changes in market prices. These cause the fair values of financial instruments or future cash flows relating to them to fluctuate. Market risks encompass interest rate, currency and other price risks (such as commodity prices and share prices).

Price risks

The msg life Group is not exposed to any price risks.

Interest rate risks

Interest rate risks result from a fluctuation in the fair value or future cash flows of a financial instrument due to changes in market interest rates.

The income and operating cash flows of the Group are not, on the whole, exposed to any interest rate risk. There are no significant interest rate risks in relation to its financial assets. The investment of cash and cash equivalents is done on a short-term basis and undergoes the normal market fluctuations. On the condition that all other parameters remained unchanged, the company assumes that interest rates were ten base points lower (higher) in the reporting period. In this case, the net result for 2015 would have been 22,000 euros lower (higher) (previous year: 22,000 euros lower (higher)) and the equity components would have been 22,000 euros lower (higher) (previous year: 22,000 euros lower (higher)).

In the period under review, there were no (interest-bearing) financial liabilities with variable interest rates.

In the previous year, some of the (interest-bearing) financial liabilities had variable interest rates. The company was exposed to interest rate risks for these financial liabilities. On the condition that all other parameters remained unchanged, the company assumed that interest rates were ten base points higher (lower) in the previous year. In this case, the net result in 2014 would have been 4,000 euros lower (higher) and the equity components would have been 4,000 euros lower (higher).

Currency risks

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in exchange rates.

The operating segments of the Group carry out their activities primarily in the currency of their respective countries. The Group is not exposed to any significant currency risks in its operating business. A total of 78 per cent (previous year: 77 per cent) of its revenues are generated in eurozone countries, and the remainder in Switzerland, the United States, England and Australia. The currency risk on the asset side in relation to trade receivables comes from receivables not denominated in euros, accounting for 17 per cent (previous year: 18 per cent). In the case of trade payables, currency risks occur in relation to the 3 per cent (previous year: 11 per cent) of accounts payable not denominated in euros. Differences resulting from the conversion of financial statements from a foreign currency into the Group currency for the creation of the consolidated financial statements have no influence on currency risk because the respective foreign currency changes are shown in equity with no effect on income.

Information on risk concentration ('cluster risks')

The company does not have any dependencies on the procurement side. On the sales side, there tend to be concentrations of risk due to the geographic distribution of turnover. For example, Germany accounts for a 74.6 per cent share of turnover (previous year: 73.4 per cent).

Within trade receivables, there is no significant concentration on individual customers. In the year under review, the ten largest customers account for a 57 per cent share of turnover (previous year: 56.5 per cent) and a 65 per cent share of trade receivables (previous year: 63.3 per cent).

With regard to cash and cash equivalents, there is no concentration on individual institutions.

Book values, valuations and fair values

The fair values of the financial assets and liabilities as compared with the book values are as follows:

	Valuation category	Carrying amount 31.12.2015	Valuation in the statement of financial position under IAS 39			Valuation in the statement of financial position under IAS 17	Fair value
			Amortised cost	Fair value with no impact on earnings	Fair value in profit or loss		
		Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Cash and cash equivalents	LAR	21,785	21,785	0	0	0	21,785
Trade receivables	LAR	25,244	25,244	0	0	0	25,244
Receivables from affiliated companies	LAR	1,007	1,007	0	0	0	1,007
Other financial receivables	LAR	146	146	0	0	0	146
Liabilities to affiliated companies	FLAC	909	909	0	0	0	909
Trade payables	FLAC	546	546	0	0	0	546
Other financial liabilities	FLAC	12,670	12,670	0	0	0	12,670
Including, on an aggregate basis, by valuation category							
Loans and receivables	LAR	48,182	48,182	0	0	0	48,182
Liabilities measured at amortised cost	FLAC	14,125	14,125	0	0	0	14,125

	Valuation category	Carrying amount 31.12.2014	Valuation in the statement of financial position under IAS 39			Valuation in the statement of financial position under IAS 17	Fair value
			Amortised cost	Fair value with no impact on earnings	Fair value in profit or loss		
		Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Cash and cash equivalents	LAR	21,730	21,730	0	0	0	21,730
Securities	FAHFT	1	1	0	0	0	1
Trade receivables	LAR	24,930	24,930	0	0	0	24,930
Receivables from affiliated companies	LAR	58	58	0	0	0	58
Other financial receivables	LAR	156	156	0	0	0	156
Liabilities to affiliated companies	FLAC	304	304	0	0	0	304
Trade payables	FLAC	1,654	1,654	0	0	0	1,654
Other financial liabilities	FLAC	13,487	13,487	0	0	0	13,487
Including, on an aggregate basis, by valuation category							
Loans and receivables	LAR	46,874	46,874	0	0	0	46,874
Financial assets held for trading	FAHFT	1	1	0	0	0	1
Liabilities measured at amortised cost	FLAC	15,445	15,445	0	0	0	15,445

LAR Loans and receivables
FAHFT Financial assets held for trading
FLAC Financial liabilities measured at amortised cost

Valuation categories under IFRS 7.27

The information on the methods used to calculate fair values is presented in tabular form for each category of financial instruments using a three-level fair value hierarchy. There are three different valuation categories:

— **Level 1:** On the first level, fair values are determined on the basis of publicly quoted market prices, as the best possible objective indication of the fair value of a financial asset or financial liability is observable in an active market.

— **Level 2:** If there is not an active market in a financial instrument, companies use valuation models to determine the fair value. Valuation models include the use of the most recent business transactions between expert, contract-seeking, independent business partners, comparison with the current fair value of another virtually identical financial instrument, the use of the discounted cash flow method, or of option pricing models. The fair value is estimated based on the results of a valuation method which uses as much market data as possible and hence is based as little as possible on company-specific data.

— **Level 3:** The valuation methods used at this level are also based on parameters that cannot be observed on the market.

There are no assets in the valuation category for assets held to maturity.

There are no liabilities in the valuation category for liabilities at fair value with direct effect on income.

Cash and cash equivalents, trade receivables and other current financial receivables on the whole have short remaining terms. Therefore their book values on the reporting date are approximately equivalent to the fair value.

The values accounted for in financial investments correspond partially to the acquisition costs. In the event that the price is not quoted on an active market and their fair value cannot be reliably determined, they are valued at their acquisition cost when recognised for the first time.

The fair values of the financial liabilities are determined on the basis of the expected payment flows, discounted at an appropriate market interest rate. As these are current financial liabilities, their book values can be used as an approximate fair value.

Trade payables and other financial liabilities on which interest is not payable routinely have short life spans; the values reported in the statement of financial position are an approximate representation of their fair values.

Net income by valuation category

2015	**Valuation category**	**From interest/ investment income**	**From revaluation**			**From disposals**	**Net result**
			At fair value	**Currency translation**	**Value adjustment**		
		Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Loans and receivables	LAR	12	0	0	0	0	0
Financial liabilities measured at amortised cost	FLAC	0	0	0	0	0	0
Hire purchase liabilities	n.a.	0	0	0	0	0	0
Total		**12**	**0**	**0**	**0**	**0**	**0**

2014	**Valuation category**	**From interest/ investment income**	**From revaluation**			**From disposals**	**Net result**
			At fair value	**Currency translation**	**Value adjustment**		
		Thousand euros	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*	*Thousand euros*
Loans and receivables	LAR	17	0	0	0	0	17
Financial liabilities measured at amortised cost	FLAC	0	0	0	0	0	0
Hire purchase liabilities	n.a.	0	0	0	0	0	0
Total		**17**	**0**	**0**	**0**	**0**	**17**

Interest earned on financial instruments is reported in interest income (see section VI 'Notes on the income statement', number 7 'Interest income'). Investment income is presented under section VI 'Notes on the income statement', number 8 'Investment income'.

The msg life Group includes the remaining components of the net income under other operating expenses and other operating income.

Information on furnished and received collateral:

As in the previous year, under a collateral pooling agreement, all present and future trade receivables of msg life ag, msg life central europe gmbh (formerly msg life Deutschland GmbH) – as a third-party issuer of collateral – and msg life consulting gmbh were transferred to the principal banks. Additionally, as in the previous year, a fixed deposit of 2.5 million euros was pledged to a principal bank in order to secure its claims.

The book value of the financial assets pledged as collateral where the collateralised party is entitled to sell or repledge the assets is 0 euros (previous year: 0 euros), as no line of credit was utilised.

26. Information on capital

IAS 1 provides information on equity and the management thereof, in order to facilitate the assessment of the risk profile and potential reactions to unexpected negative developments.

The objective of the company with regard to capital management is:

— To guarantee the company as a going concern, so that the company can continue to generate dividends for shareholders and benefits for other interest groups.

— To generate reasonable yields for shareholders via a risk-commensurate pricing policy for products and services.

The msg life Group defines the scope of capital in relationship to risk. The management and, if necessary, the adjustment of the capital structure are carried out on the basis of changes in the economic environment and changes to the risk characteristics of the underlying assets. In order to maintain and/or adjust the capital structure, dividend payments, capital repayments to shareholders, the issuing of new shares, the assumption or redemption of financial liabilities and the sale of assets for debt reduction are taken into consideration.

As at 31 December 2015 and 2014, respectively, no amendments were made to the objectives, guidelines and procedures for capital management.

The msg life Group monitors its capital on the basis of the equity ratio. This quotient is calculated as equity to balance sheet total.

The equity ratios on 31 December 2015 and 31 December 2014 amounted to:

	31.12.2015	31.12.2014
	euros	*euros*
Equity	46,229,586	40,226,864
Total assets	81,399,577	79,292,403
Equity ratio	**57%**	**51%**

VIII. Notes on the cash flow statement

The cash flow statement displays the origin and use of payment flows in the 2015 and 2014 financial years. Here, payment flows from operating activities and from investment and financial activities are differentiated. The cash and cash equivalents cover all cash in hand, bank balances available within three months and other liquid investments that can be exchanged for known sums of money at any time and are not subject to any significant risks to changes in value. The cash and cash equivalents correspond to cash and cash equivalents reported in the statement of financial position.

Changes in cash and cash equivalents from operating activities are adjusted for effects from currency translation.

Changes in cash and cash equivalents from investment and financial activities are calculated in terms of sums paid.

Changes in cash and cash equivalents from continuing activities are, in contrast, indirectly derived from earnings before taxes.

The main non-cash effects in the cash flow from operating activities, based on earnings before taxes, were depreciation of property, plant and equipment and amortisation intangible assets amounting to 1.773 million euros (previous year: 4.947 million euros).

With regard to the disposals due to changes in the consolidation group in 2015 and 2014, please see the disclosures in section III 'Consolidation group'.

IX. Earnings per share

The **undiluted earnings per share** for the 2015 financial year amounted to 0.11 euros (previous year: -0.02 euros).

The undiluted earnings per share are calculated by dividing the consolidated profit after minority interests by the weighted number of shares issued. The weighted number of shares issued for the 2015 financial year amounted to 40,895,861 (2014: 40,895,861 shares).

	2015	2014
	euros	*euros*
Consolidated earnings attributed to the parent company	4,681,864	-860,865
Weighted number of shares issued	40,895,861	40,895,861
Total	**0.11**	**-0.02**

The **diluted earnings per share** for the 2015 financial year amount to 0.11 euros (previous year: -0.02 euros).

X. Assumptions and estimates

In the section III 'Consolidation group, number 1 'Subsidiaries' and section VII 'Notes on the statement of financial position', number 8 'Goodwill and other intangible assets' of the Notes, the main assumptions are presented that were used as the basis for the impairment test for goodwill carried out on the fixed date.

Key assumptions in connection with the pension provisions are described in section II 'Accounting and valuation methods', number 3 'General information about the accounting and valuation methods'.

For some of the customer projects (especially fixed-price projects), evaluation is carried out in accordance with the progress of the project (percentage of completion method). Using this method, the likely turnover, total cost of completing the project and the degree of completion must be estimated. Suppositions, estimations and uncertainties that are associated with the determination of the degree of completion have effects on the amount and temporal distribution of the achieved turnover and the expenses reported. The main assumptions are set out in the section II 'Accounting and valuation methods', section VI 'Notes on the income statement, number 1 'Turnover' as well as section VII 'Notes on the statement of financial position', number 3 'Trade receivables'.

Other important assumptions relevant for the future and major sources of estimation uncertainties available on the fixed date, which could constitute a considerable risk, with the result that, within the next financial year, a major adjustment of the recorded assets and debts could be necessary, do not exist. Further estimates and assumptions relevant to the future are explained in the individual items of the statement of financial position and in the income statement.

XI. Relationships to associated parties

Related parties are the Management Board and the Supervisory Board of msg life ag and msg group GmbH, Ismaning, which has been the highest-level parent company of msg life ag since 16 March 2009, including its subsidiaries and associated companies.

1. Total remuneration of the Management Board and the Supervisory Board

Changes in Management Board remuneration

On 1 July 2010, the Supervisory Board agreed on a system for the remuneration of members of the Management Board. In the course of this decision, the rules, which have been in place since 5 August 2009, stipulated in the Act on the Appropriateness of Management Board Remuneration (VorstAG) and of the German Corporate Governance Code were implemented. The annual general meeting on 17 August 2010 approved this new system.

In this new system, the Group turnover and Group EBTA were to be used as the control ratio for calculating the short-term (bonus) and long-term variable remuneration components (long-term incentive, LTI) for the Management Board. EBTA refers to earnings before income taxes plus amortisation of the intangible assets identified in the course of the merger of the former COR AG Financial Technologies and not recognised in the statement of financial position (software, contract portfolio, customer relationships).

The above notwithstanding, the Supervisory Board took Group EBT* ('EBT*') in addition to Group turnover as the control parameter for calculating the Management Board's short-term and long-term variable remuneration components for the 2011 financial year, Group EBITDA ('EBITDA') in addition to Group turnover for the 2012 financial year, Group EBITDA without the earnings contribution from plenum AG ('EBITDA without plenum') in addition to Group turnover excluding plenum AG's share of turnover for the 2013 financial year and Group EBITDA in addition to Group turnover for the 2014 and 2015 financial years. EBT* refers to earnings before taxes before the profit shares of plenum AG and the former COR&FJA Metris GmbH, and the effect on earnings from the shares in B+S Banksysteme Aktiengesellschaft. EBITDA refers to earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets. EBITDA without plenum refers to earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets without the earnings contribution from the equity stake in plenum AG.

All of the employment contracts of the serving members of the Management Board in 2015, the year under review, were in accordance with the remuneration system described below.

The principles of Management Board remuneration

Assessment of the Management Board's salaries should be in proportion to their tasks and performance and also in relation to the situation of the company. The remuneration structure is oriented towards sustained development of the company. For this reason, a period of several years shall form the basis of assessing the long-term variable element of remuneration. All variable elements of remuneration include a cap or limitation option for extraordinary developments.

Management Board remuneration

The remuneration system for the Management Board includes a fixed salary and generally variable components. Members of the Management Board receive additional benefits in the form of a company car, telecommunications services and the refund of reasonable expenses. The members of the Management Board are also covered by accident insurance and by the D&O insurance policy concluded by the company. Ultimately, the company pays each of the Management Board's members 50 per cent of the respective maximum premiums for the statutory pension, unemployment, health care and nursing care insurance, and 100 per cent of the respective maximum premiums for voluntary membership of the employers' liability insurance association. The remuneration system does not include any other components, e.g. a company pension or benefits on termination of membership of the Management Board or a change in control of the company. The fixed salary is intended to account for about 70 per cent of total remuneration. The variable portion of remuneration consists of two components: an annual bonus (about 45 per cent of the variable portion of remuneration) and a long-term incentive (LTI) (about 55 per cent of the variable portion of remuneration).

Short-term variable remuneration components

In the new remuneration system, the annual bonus is linked to Group turnover (turnover) and Group earnings (2010: Group EBTA; 2011: Group EBT*; 2012: Group EBITDA; 2013: Group EBITDA without plenum; 2014: Group EBITDA). The annual short-term variable remuneration components for the members of the Management Board are determined on the basis of the degree to which the Group turnover targets and Group earnings targets agreed with the respective Management Board members at the beginning of each financial year are met. Short-term variable remuneration is between 0 and 200 per cent of the short-term variable salary component agreed for target attainment of 100 per cent in relation to both the Group turnover and the Group earnings. The short-term variable bonus is payable immediately after adoption of the annual financial statements and, if the respective appointment is terminated during the year, is granted in proportion to its length.

LTI as a long-term variable remuneration component

In the remuneration model, the LTI is a long-term performance-based plan. The plan's assessment basis consists of Group turnover and average Group earnings (2010: Group EBTA; 2011: Group EBT*; 2012: Group EBITDA; 2013: Group EBITDA without plenum; 2014 and 2015: Group EBITDA) over a period of three years. The LTI is granted in tranches which revolve annually, with each tranche having a term of three years. Long-term variable remuneration is between 0 and 200 per cent of the long-term variable salary component agreed for target attainment of 100 per cent in relation to both the Group turnover and the Group earnings. The long-term variable bonus for a performance period is payable at the end of the month in which the consolidated financial statements for the third financial year of the performance period are adopted. An advance payment of 50 per cent of the respective basic amounts is made at the end of the month in which the consolidated financial statements for the first or second financial year respectively of the performance period is adopted. If the advance payments exceed the amount payable for the performance period, the difference must be refunded immediately. If the appointment is terminated during one or more performance periods, the LTI will be granted pro rata.

Management Board remuneration

The remuneration of the Management Board active in the financial year was 1.059 million euros (previous year: 1.732 million euros). The remuneration was allocated as follows:

	2015 Thousand euros	2014 Thousand euros
Payable short-term remuneration	1.031	932
Remuneration arising from termination of employment relationship	0	800
Advance on LTI	28	0
Total	**1,059**	**1,732**

Remuneration for former members of the Management Board in 2015 amounted to 109,000 euros (previous year: 82,000 euros).

Pension provisions for former members of the Management Board offset against plan assets amounted to 340,000 euros on 31 December 2015 (previous year: 312,000 euros).

According to section 314, paragraph 1, number 6a (5) of the German Commercial Code (HGB), section 314, paragraph 2 (2) of the HGB in connection with section 286, paragraph 5 of the HGB and section 314, paragraph 2, number 4 (2) of HGB, separate information about remuneration of every individual member of the Management Board is necessary:

	Fixed annual remuneration Thousand euros	Other remuneration Thousand euros	Short-term variable remuneration Thousand euros	Remuneration arising from the termination of employment relationship Thousand euros	Advance on LTI Thousand euros	Total Thousand euros
Management Board						
Bernhard Achter	245	22	122	0	28	**417**
Dr Aristid Neuburger	120	0	60	0	0	**180**
Rolf Zielke	280	42	140	0	0	**462**
Total	**645**	**64**	**322**	**0**	**28**	**1,059**

In the 2015 financial year, a total of 0 euros (previous year: 88,000 euros) were entered against costs for the Management Board's long-term variable remuneration (LTI).

The main content of the benefit arrangements for pension schemes, incapacity provision and provision for dependants, which were approved for former members of the Management Board Michael Junker and Professor Manfred Feilmeier in the event of the termination of their activity, are as follows:

— Both men will receive a pension for life when they reach the age of 65 or in the case of occupational disability in line with section 23 of the employee insurance act (Angestelltenversicherungsgesetz – AnVG) or if they leave the company before the age of 65 in the case of termination of the contract or non-renewal thereof by the company.

— The monthly pension amounts to 2,556.46 euros after the fulfilment of four years of employment. This is adjusted – also in the case of payment beginning before retirement – proportionally in line with the basic salary of a civil servant in Bavaria in the A 13 pension benefits group at the highest seniority level.

— At the time of their passing, their legal spouse will receive a widow's pension amounting to 25 per cent of the pension. The widow's pension is terminated in the event of remarriage.

- Both men are entitled, in the case of payment due to attainment of pension age, to request a one-time capital payment of the sum of the converted present value of the pension commitment instead of a pension, as long as this request is communicated at least three years in advance. In this case, all claims relating to this direct commitment lapse.

- If they leave the company before payment begins, the pension entitlement earned is maintained. This is calculated according to the share of the pension compensation that corresponds to the length of employment with the company from the time of taking up employment with the company to reaching the prescribed pension age, i.e. the age of 65.

Basic features of Supervisory Board remuneration

The currently valid remuneration rules for the Supervisory Board were adopted by both annual general meetings on 28 July 2009 and on 17 August 2010.

Each member of the Supervisory Board receives fixed remuneration of 16,000 euros per financial year.

In addition to their fixed remuneration, each member of the Supervisory Board receives annual variable remuneration amounting to 0.25 per cent of the earnings before income taxes reported in the consolidated financial statements approved by the Supervisory Board and prepared in accordance with International Financial Reporting Standards (IFRS), plus the amount pertaining to amortisation of the intangible assets identified in the course of the merger of the former COR AG Financial Technologies with the company, but which are not recognised in the statement of financial position (software, contract portfolio, customer relationships) (EBTA). Variable remuneration lapses when the consolidated financial statements record no positive EBTA.

The Chairperson receives double, and the Deputy Chairperson one and a half times, the fixed and variable remuneration described above.

The total of the agreed fixed and variable remuneration components for each member of the Supervisory Board is limited to 32,000 euros per financial year. Per financial year, this sum amounts to 64,000 euros for the Chairperson of the Supervisory Board and 48,000 euros for the Deputy Chairperson.

If Supervisory Board committees are formed, each member of the Supervisory Board is given 1,000 euros for every committee meeting of the Supervisory Board that the member attends in addition to the agreed fixed and variable remuneration, which is limited by the articles of incorporation; these payments are, however, limited to a maximum of 5,000 euros per financial year. Expenses incurred in holding a Supervisory Board position are also reimbursed. Members of the Supervisory Board are reimbursed any value added tax paid on remuneration.

Supervisory Board remuneration

The remuneration of the Supervisory Board amounted to 144,000 euros (previous year: 144,000 euros). The remuneration of the Supervisory Board consists of the following:

	Fixed components	Performance-related components	Total
	Thousand euros	Thousand euros	Thousand euros
Supervisory Board			
Klaus Kuhnle	24	24	48
Johann Zehetmaier	16	16	32
Dr Christian Hofer	32	32	64
Total	**72**	**72**	**144**

2. Share ownership of the Management Board and the Supervisory Board

As at 31 December 2015, the Management Board did not hold any shares in msg life ag. Simultaneously, the member of the Supervisory Board Mr Johann Zehetmaier, Ismaning, indirectly held shares in msg life ag through msg systems AG, Ismaning, as a co-partner in msg group GmbH, Ismaning.

3. Other transactions with associated parties

Other associated companies and parties

There are no transactions with the members of the Management Board and the Supervisory Board concerning the aforementioned matters in the financial year.

The following table contains the total amounts from transactions between related companies for the reporting year:

	Income from transactions with associated parties and companies		Expenses from transactions with associated parties and companies		Amounts due from associated parties and companies		Amounts payable to associated parties and companies	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros	Thousand euros
Associated companies								
a) msg systems ag, Ismaning (parent company)	817	759	870	432	514	26	626	4,138
b) innovas GmbH, Hamburg	15	33	198	966	0	0	0	127
c) msg global solutions ag, Regensdorf	1,045	31	0	66	340	31	0	11
d) msg global solution Benelux B.V., Utrecht	107	0	5	0	0	0	0	0
e) msg services AG, Ismaning	0	0	144	142	0	0	32	12
f) consulo GmbH, Hamburg	94	0	123	0	17	0	15	0
g) BELTIOS GmbH, Munich	179	0	937	0	91	0	233	0
h) msg systems ag, Regensdorf (Switzerland)	48	0	71	0	35	0	0	0
i) msg life metris GmbH, St. Georgen	2	0	85	0	10	0	3	0
j) Plaut Deutschland GmbH, Ismaning	0	0	74	52	0	0	3	16

4. Notifications in line with section 21, paragraph 1 and / or section 26, paragraph 1 of the German Securities Trading Act (WpHG)

In the reporting period, the following disclosures were published in accordance with section 21, paragraph 1 and section 26, paragraph 1 of the German Securities Trading Act (WpHG):

msg life ag: Publication on 9 June 2015 under section 26, paragraph 1 of the WpHG with the objective of distribution throughout Europe

Ennismore Fund Management Limited, London, United Kingdom, informed us in accordance with section 21, paragraph 1 of the WpHG on 4 June 2015 that its proportion of the voting rights in msg life ag as at 29 May 2015 exceeded the threshold of 3 per cent and on this day amounted to 3.07 per cent (corresponding to 1,315,270 out of a total of 42,802,453 voting rights) in msg life ag. All of the voting rights are attributable to Ennismore Fund Management Limited pursuant to section 22, paragraph 1 (1), number 6 of the WpHG.

Furthermore, Mr William Geoffrey Oldfield, United Kingdom, informed us in accordance with section 21, paragraph 1 of the WpHG on 4 June 2015 that his proportion of the voting rights in msg life ag as at 29 May 2015 exceeded the threshold of 3 per cent and on this day amounted to 3.07 per cent (corresponding to 1,315,270 out of a total of 42,802,453 voting rights) in msg life ag. All of the voting rights are attributable to Mr William Geoffrey Oldfield pursuant to section 22, paragraph 1 (1), number 6 of the WpHG.

msg life ag: Publication on 24 August 2015 under section 26, paragraph 1 of the WpHG with the objective of distribution throughout Europe

Ennismore European Smaller Companies Fund, Dublin 2, Ireland, notified us in accordance with section 21, paragraph 1 of the WpHG on 21 August 2015 that its voting rights in msg life ag, Leinfelden-Echterdingen, Germany, exceeded the threshold of 3 per cent of the voting rights on 18 August 2015 and on this day amounted to 3.01 per cent (corresponding to 1,289,040 voting rights).

XII. Information on the management bodies

1. Members of the Supervisory Board in the reporting period:

Dr Christian Hofer, Chairman (from 1 July 2014)
Mathematician, Herrsching

— Chairman of the supervisory board of msg systems ag, Ismaning

— Member of the supervisory board of Insiders Technologies GmbH, Kaiserslautern

Klaus Kuhnle, Deputy Chairman
Management consultant, Grünwald

— Member of the advisory council of Deutsche Gesellschaft für Personalführung e.V. (DGfP), Munich

— Chairman of the advisory council of dmc digital media center GmbH, Stuttgart

— Member of the advisory council of Embitel Technologies Pvt Ltd, Bangalore, India

Johann Zehetmaier, member of the Supervisory Board
Chairman of the board of msg systems AG, Ismaning

- Chairman of the supervisory board of msgGillardon AG, Bretten
- Member of the supervisory board of msg services AG, Ismaning
- President of the board of directors of msg global solutions ag, Zurich, Switzerland
- President of the board of directors of Prevo-System AG, Basle, Switzerland
- President of the board of directors of finnova AG, Lenzburg, Switzerland
- President of the board of directors of msg systems ag, Zurich, Switzerland
- Chairman of the supervisory board of Plaut AG, Vienna, Austria
- Member of the supervisory board of inex24 AG, Ismaning
- Chairman of the supervisory board of msg industry advisors ag, Ismaning
- President of the board of directors of Softproviding AG, Basle, Switzerland (since 19 February 2016)

2. Members of the Management Board in the reporting period:

Rolf Zielke
(direct overall responsibility for Life, Cross Components, Sales, HR & Legal; from 1 January 2016: Central Europe – speaker), Munich

- Managing director of msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich
- Liquidator of FJA bAV Service GmbH i. L., Munich (until 23 February 2015)

Bernhard Achter
(direct overall responsibility for USA, CEE, IBERIA, Metris, IT, Finance, Corporate Planning & Controlling; from 1 January 2016: Global), banker, Leinfelden-Echterdingen

- Managing director of msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich (until 6 May 2015)
- Managing director of msg life consulting gmbh, Aachen (until 1 July 2015)
- Managing director of msg life Slovakia s.r.o., Bratislava (Slovakia) (until 3 June 2015)
- Managing director of msg life Iberia, Unipessoal Lda., Porto (Portugal)
- Managing director of msg life Austria Ges.m.b.H., Vienna (Austria) (until 2 June 2015)
- Member of the board of directors of msg life Switzerland AG, Regensdorf (until 22 October 2015)
- Member of the board of directors of FJA-US, Inc., New York (USA)
- Managing director of msg life Poland Sp. z o.o., Warsaw (Poland) (from 15 June 2015)
- Managing director of msg life odateam d.o.o., Maribor (Slovenia) (from 1 June 2015)

Dr Aristid Neuburger
(direct overall responsibility for Life Actuarial Components and Consulting; from 1 January 2016: Central Europe), mathematician, Munich (from 1 January 2015)

— Managing director of BELTIOS GmbH, Munich

— Managing director of BELTIOS Holding GmbH, Icking

— Managing director of HINOKI GmbH, Icking (from 29 October 2015)

— Managing director of msg life central europe gmbh (formerly msg life Deutschland GmbH), Munich (from 6 May 2015)

— Managing director of msg life consulting gmbh, Munich (from 1 July 2015)

— President of the board of directors of msg life Switzerland AG, Regensdorf (Switzerland) (from 15 June 2015)

XIII. Declaration of compliance with the German Corporate Governance Code

In December 2015, the Management and Supervisory Boards of msg life ag submitted their updated declaration of compliance by msg life ag with the German Corporate Governance Code under section 161 of the German Stock Corporation Act (AktG) and made it permanently available to the shareholders on the company's website (http://www.msg-life.com/en/company/investor-relations/corporate-governance/declarations-of-compliance/).

XIV. Events after the reporting date

Events occurring after the balance sheet date and up to the date of release of the consolidated financial statements to the Supervisory Board by the Management Board, 4 April 2016, have been taken into account.

Following the end of the reporting period (31 December 2015), the following transactions of particular significance took place:

msg life is modifying its corporate structure in order to hone its market focus. To this end, starting at the beginning of the 2016 financial year, the Group companies responsible for the German-speaking markets are gradually being placed under the auspices of the new intermediate holding company msg life central europe gmbh (formerly msg life Deutschland GmbH), while the Group companies responsible for the non-German-speaking markets are gradually being assigned to the newly founded Group company msg life global gmbh.

Immediately following its meeting on 4 February 2016, the Supervisory Board – by circulation procedure – passed a resolution to reappoint Mr Bernhard Achter to the Management Board of the company for the time period from 1 January 2017 until the end of 31 December 2019.

In the course of the acquisition of shares in B+S Banksysteme Aktiengesellschaft during the 2010 financial year, msg life Austria Ges.m.b.H. concluded a re-collateralisation for the benefit of the previous owner of the shares in B+S Banksysteme Aktiengesellschaft in order to relieve the latter of their obligations vis-à-vis the creditor banks of B+S Banksysteme Salzburg GmbH, a subsidiary of B+S Banksysteme Aktiengesellschaft. In this context, the Group company msg life Austria Ges.m.b.H. was sued as part of declaratory proceedings at the District Court of Munich. In early 2015, in the key matter for the company, the court had fully dismissed the lawsuit after concluding that msg life Austria Ges.m.b.H. was only obliged to carry out negotiations with the banks and not to provide collateral; that obligation has been fulfilled. Furthermore, the court concluded that, as before, there is an obligation to indemnify the plaintiff as the former owner of the shares in B+S Banksysteme Aktiengesellschaft. On 13 July 2015, the plaintiff filed an appeal against the judgement of the District Court of Munich at the Higher Regional Court of Munich. In the oral proceedings held on 24 February 2016, msg life Austria Ges.m.b.H. and the plaintiff agreed on a settlement whereby msg life Austria Ges.m.b.H. would pay the amount of 750,000 euros to the plaintiff on 1 April 2016 in order to discharge the obligations on which the legal dispute was based. Therefore, all claims between the plaintiff, msg life Austria Ges.m.b.H. and msg life ag have been completely satisfied.

Under the merger agreement from 2 March 2016 and the resolutions of the shareholders' meetings held on the same date, msg life consulting gmbh, Aachen, was merged with msg life central europe gmbh, Munich, with retroactive effect from 1 January 2016 by entry into the commercial register on 14 March 2016. As such, msg life consulting gmbh ceased to exist.

There were no other significant events between the balance sheet date and the preparation of this report.

Leinfelden-Echterdingen, 4 April 2016

ROLF ZIELKE
Spokesperson
of the Management Board

BERNHARD ACHTER
Member
of the Management Board

DR ARISTID NEUBURGER
Member
of the Management Board

BALANCE SHEET OATH

Declaration by the statutory representatives under section 297, paragraph 2 (4) and section 315, paragraph 1 (6) of the German Commercial Code (HGB)

We affirm to the best of our knowledge that, in accordance with the applicable accounting principles, the consolidated financial statements convey a true and fair picture of the assets, financial and earnings position of the Group, and that the course of business, including the business results, and the position of the Group are presented in such a way in the condensed management report and the Group management report that a true and accurate picture is communicated and the opportunities and risks of the Group's likely future development are described.

Leinfelden-Echterdingen, 4 April 2016

ROLF ZIELKE
Spokesperson
of the Management Board

BERNHARD ACHTER
Member
of the Management Board

DR ARISTID NEUBURGER
Member
of the Management Board

AUDIT CERTIFICATE

We have audited the consolidated financial statements prepared by msg life ag, Leinfelden-Echterdingen – consisting of the consolidated income statement, consolidated statement of earnings, consolidated statement of financial position, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and the notes to the consolidated financial statements – as well as the condensed management report and Group management report for the financial year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the condensed management report and Group management report in accordance with IFRS, as applicable in the European Union, the supplementary provisions of section 315a, paragraph 1 of the German Commercial Code (HGB) and the supplementary regulations of the articles of association is the responsibility of the legal representatives of the company. Our task is to give an assessment of the consolidated financial statements and the condensed management report and Group management report on the basis of our audit.

We carried out our Group audit in accordance with section 317 of the HGB in consideration of the auditing standards generally accepted in Germany, established by the German Institute of Auditors (IDW). These stipulate that the audit must be planned and conducted in such a way that irregularities and infringements that could materially affect the picture of the assets, financial and earnings position of the Group communicated by the consolidated financial statements in compliance with the applicable accounting rules and by the condensed management report and the Group management report can be established with a sufficient degree of certainty. When the audit activities are determined, account is taken of knowledge about the business operations of the Group and the commercial and legal environment in which it operates, as well as expectations of possible errors. The effectiveness of the internal accounting control system and evidence of the amounts and disclosures in the consolidated financial statements and the condensed management report and Group management report are examined primarily on a sample basis within the framework of the audit. The audit includes an assessment of the financial statements of the companies included in the consolidated financial statements, the delimitation of the consolidation group, the accounting and consolidation principles applied and the significant estimates made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and the condensed management report and Group management report. We believe that our audit provides a sufficiently sound basis for our assessment.

Our audit did not give rise to any objections.

In our estimation, based on the information gathered during the course of the audit, the consolidated financial statements comply with the IFRS, as applicable in the European Union, and the regulations under German commercial law as per section 315a, paragraph 1 of the HGB that apply supplementary to these, and the supplementary regulations in the articles of association, and, in compliance with these regulations, communicate a true and accurate picture of the assets, financial and earnings position of the Group. The condensed management report and Group management report are consistent with the consolidated financial statements, communicate an accurate overall picture of the Group's situation and accurately describe the opportunities and risks of future development.

Frankfurt am Main, 4 April 2016

Baker Tilly Roelfs AG
Wirtschaftsprüfungsgesellschaft

CHRISTIAN ROOS
Auditor

RENÉ WITZEL
Auditor

FINANCIAL CALENDAR 2016

26 April 2016	Publication of company and consolidated financial statements for 2015
30 May 2016	Publication of report for first quarter of 2016
30 June 2016	Annual general meeting 2016 in the Filderhalle, Leinfelden-Echterdingen
17 August 2016	Publication of report for first half-year 2016
17 November 2016	Publication of report for first – third quarters of 2016
November 2016	Analysts' conference

IMPRINT

Published by
msg life ag

Edited by
msg life ag
Frank Fahrner
Dorothea Kurtz
Dr Markus Scheffler
Monika Schumacher

Concept, layout, typesetting
FGS Kommunikation
www.fgs-kommunikation.de

Photo credits
DENISE BIFFAR FOTODESIGN
www.denisebiffar.de

Translation
WIENERS+WIENERS GmbH
www.wienersundwieners.de

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More up-to-date information about msg life can also be found on the Internet at www.msg-life.com.

Please note
We have refrained from printing the separate financial statements of msg life ag. You can view these on our website or request them by telephone.

www.msg-life.com