- Non-binding English Translation -

msg life ag

LEINFELDEN-ECHTERDINGEN

MANAGEMENT REPORT ON THE POSITION OF THE COMPANY IN THE 2024 FINANCIAL YEAR

Contents

Management report for the 2024 financial year

The following management report of msg life ag, Leinfelden-Echterdingen tracks the business performance of the company, including the operating results for the 2024 financial year from 1 January 2024 to 31 December 2024, as well as the situation of the company as at the reporting date, 31 December 2024.

As of the reporting date, msg life ag is an indirect subsidiary of msg group GmbH, Ismaning. Hereafter the term msg Group is used for msg group GmbH and its Group companies.

On 25 September 2020, msg life ag, Leinfelden-Echterdingen, and msg systems ag, Ismaning, signed a control agreement, which was amended on 6 November 2020. The annual general meetings of msg life ag and msg systems approved this control agreement on 10 November 2020 and 18 November 2020 respectively. The control agreement took effect retroactively as of 1 January 2021 when it was entered in the commercial register for msg life ag at the Stuttgart District Court on 20 January 2021.

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 company's foundations

Business model

Since 1980, msg life ag and its subsidiaries have been developing IT system solutions, advising customers on how to implement their IT strategies successfully and has developed into a leading provider of software, advice and digital cloud solutions for life insurance companies and pension fund institutions in Europe and, in particular, health and group insurance companies in the United States. In addition to enjoying a leading market position in the German-speaking countries, msg life's software is deployed worldwide.

Aside from financing subsidiaries, msg life ag primarily bears strategic and, to a limited extent, operational management responsibilities within the msg life Group. msg life ag is primarily responsible for determining the target markets, defining the product range and making decisions concerning mergers and acquisitions. msg life ag is responsible for central and staff functions such as sales, marketing, human resources, finance, business operations, controlling, internal auditing, data protection, compliance management, risk management, information security, organisation and IT services and law.

The company's commercial activities are restricted mainly to the settlement of services within the msg life Group and to financing; it operates only rarely as a contracting partner in customer projects. Within the scope of services, it is mainly the above-mentioned central and staff functions incumbent on msg life ag that are settled. The purpose of the financing activity consists primarily of making interest-bearing loans to subsidiaries, making cash investments and distributing earnings from participating interests. As such, the primary income potential for msg life ag lies in earnings from participating interests.

On the reporting date, the customers primarily consisted of insurers focusing on life insurance and pension fund institutions in Europe and, through the subsidiary in the United States, health insurance and group insurance providers in the USA in particular. The services of msg life range from the development and implementation of standard software and the provision of digital consultancy services to the handling of full IT operations (SaaS/cloud solutions). In the context of SaaS, msg life works with various cloud providers such as Amazon (AWS), Microsoft (Azure), Google and IBM.

The headquarters of msg life ag are located in Leinfelden-Echterdingen near Stuttgart, Germany. Other German branches are located in Ismaning, Hamburg and Cologne. The subsidiaries msg life central europe gmbh and msg life global gmbh relocated their headquarters to Ismaning, Munich in the 2024 financial year. Consequently, the former Munich office has also been moved to Ismaning. The international subsidiaries are represented in Vienna (Austria), Zurich (Switzerland), Almere (Netherlands), Bratislava, Košice and Žilina (Slovakia), Oporto (Portugal), Madrid (Spain) and New York, Denver and Boca Raton (USA).

According to the published announcements and the information available to msg life ag, the following direct or indirect interests in msg life ag exceed 25 per cent of the shares as at 31 December 2024:

Entity with reporting obligation	**Type of interest**	**Number of shares**
msg systems ag (Ismaning)	Direct	77.30%
msg group GmbH (Ismaning)	Indirect	77.30%

As at the current reporting date, there have been no changes in the equity holdings compared to 31 December 2023.

Since 2021, msg life ag and the msg Group company msg nexinsure ag, Ismaning, operated in the insurance market under the co-brand ‘msg insur:it’ and had a management team with unified responsibilities. Since then, the further development of the joint solution msg.Insurance Suite into a leading SaaS and cloud platform for insurance companies has continued successfully. As part of the strategic development of both companies, msg life ag and msg nexinsure ag decided to focus on each of their segments and fields of business within the msg Group in 2024. Therefore, the once-unified responsibilities of the management team were dissolved as of 1 January 2025.

Regardless of this, both companies continue to work closely together on their joint solution msg.Insurance Suite, underlining their leading roles as product providers to the insurance industry. The newly established msg Group company msg health ag rounds off the portfolio of digital health solutions for fully digitised insurance operations.

Control systems

Financial performance indicators are used to control the company. The result under the HGB is the financial performance indicator used by msg life ag.

Important products and services

The policy administration system msg.Life Factory is the core product of the company: the solution can administrate life insurance and pension products.

msg.Life Factory and other key components are part of msg.Insurance Suite, the common insurance platform of the msg Group. msg.Insurance Suite is a holistic industrial standard for all sectors of the insurance industry. The solution covers and integrates all necessary system components for an insurance company. The sales teams of msg life ag, msg nexinsure ag and the msg Group work together closely to distribute msg.Insurance Suite. This collaboration and the full convergence of the components of msg.Insurance Suite are important elements of the product strategy.

The company also offers a wide range of consulting and services, from software implementation to policy migration. In the area of migration, its portfolio also includes the migration software solutions msg.Migration Analyze, msg.Migration System and msg.Migration Archive, as well as the complete solution msg.Migration Factory.

Economic report

Macroeconomic and sector-specific conditions

The outlook for the global economy is overshadowed by wars, geopolitical tension, political uncertainty and potential trade disputes. Nevertheless, the International Monetary Fund (IMF) expects the global economy to be stable and inflation to fall in 2025. Updated in January 2025, its World Economic Outlook forecasts global GDP growth of 3.3 per cent, following expected growth of 3.2 per cent in 2024. It forecasts that inflation will fall to 4.2 per cent. According to Statista, the rate of global inflation was around 5.9 per cent last year.

Like the IMF, the Organisation for Economic Co-operation and Development (OECD) expects global growth of 3.3 per cent in the current year. The OECD Economic Outlook in December 2024 states that the global economy has remained resilient and inflation is slowing. The organisation expects the rate of global inflation to drop to 3.8 per cent. The OECD makes reference to ongoing uncertainty in its Economic Outlook. An exacerbation of the conflicts in the Middle East could lead to volatility on the energy markets and impede growth in turn. The escalating trade disputes also pose a risk to the global economy.

Meanwhile, rapid solutions to the geopolitical conflicts could have a positive impact and could lead to lower energy prices in turn. Should the purchasing power of private households recover faster than expected, rising consumer spending would support the development of the economy. OECD analysts expect growth of 2.8 per cent for the USA in the current year, compared to 4.7 per cent for China.

The performance of the eurozone remains weak. The GDP of the eurozone grew by 0.7 per cent last year. This is according to a rapid assessment by Eurostat, the statistical office of the European Union, on 30 January 2025. Whereas OECD analysts are predicting growth of 1.3 per cent this year in their outlook, the International Monetary Fund is somewhat more cautious. The IMF is forecasting moderate GDP growth of 1.0 per cent in the current year. It argues that this reserved outlook is essentially due to the impacts of geopolitical tensions, weak consumer confidence and persistently high energy prices – especially compared to the USA. The German Economic Institute (IW) in Cologne makes reference to this too in its economic survey in January 2025. According to the report, at an average of 11 dollars in

2024 according to World Bank data (2025), gas prices (per million BTU) were five times higher than in the USA at 2.2 dollars.

In its Autumn Economic Forecast entitled ‘A gradual rebound in an adverse environment’ in November 2024, the European Commission forecasts growth of 1.3 per cent for the eurozone in the current year. The European Commission predicts growth of 1.6 per cent for 2026. The total inflation in the eurozone may fall to 2.1 per cent in 2025, following on from a likely rate of 2.4 per cent in the previous year. The European Commission notes the uncertainty and risks due to the wars in Ukraine and the Middle East. Additionally, the protectionist policies of trading partners could disrupt global trade and impact the EU economy. According to the European Commissioner for Economy Paolo Gentiloni, it is of vital importance to the future that EU countries increase their competitiveness through investments and structural reform in order to increase the potential growth and equip themselves to manage the rising geopolitical risks.

The German economy remains weak: economic output shrank for the second time in a row last year. Germany’s GDP fell by 0.2 per cent in 2024, as announced by the Federal Statistical Office on the basis of initial calculations on 15 January 2025. It had already decreased by 0.3 per cent in 2023. The last time Germany saw two successive years of negative economic growth was in 2002 and 2003. According to the statistical office, better economic development was impeded by economic and structural strains last year. These included increased competition for German exports in important markets, high energy costs, persistently high interest rates and uncertain economic outlooks.

The Federal Statistical Office also reported that the manufacturing and construction sectors in particular were forced to suffer significant losses. The manufacturing sector reported a decrease of 3.0 per cent year-over-year. Sectors such as mechanical engineering and the automotive industry in particular produced significantly less. In the most energy-intensive industries, such as chemicals and metals, production remained at a low level. The economic output of the construction industry fell even faster at -3.8 per cent year-over-year. The statistical office attributes this to factors including high construction prices and interest rates, as fewer residential buildings were built as a result.

With growth of 0.8 per cent year-over-year, the overall performance of the service industry was positive in 2024, albeit inconsistent across the various segments. The retail, transport and hospitality sector stagnated, whereas economic activity in the information and communication sector increased by 2.5 per cent.

The challenging economic situation was also reflected in foreign trade, according to the statistical office. Exports of goods and services fell by 0.8 per cent last year. The reason for this is that fewer items of electrical equipment, machines and vehicles were exported. On the other hand, imports grew slightly by 0.2 per cent. Likewise, private consumer spending did not provide a lasting stimulus. It rose by just 0.3 per cent. The pay rises in some sectors had limited success in stimulating consumer spending.

In 2014, consumer prices in Germany rose by 2.2 per cent year-over-year at what was slower rate than previous years, according to a press release from the Federal Statistical Office on 16 January 2025. The year-on-year rate of price increase excluding energy and food, often referred to as core inflation, was 3.0 per cent in 2024 compared to 5.1 per cent in 2023. This means that although core inflation is down, it is still markedly higher than overall inflation. This rate also demonstrates that inflation also remained high in other product groups on an annual average basis in 2024. For example, the price of insurance products rose by 13.2 per cent last year.

In its Annual Economic Report 2025, which was published on 29 January 2025, the German government downgraded its GDP forecast significantly. Whereas the federal government expected GDP growth of 1.1 per cent in the current year in its 2024 autumn forecast, this forecast has now been revised to just 0.3 per cent. According to the Annual Economic Report, the growth initiative that comprised numerous measures designed to bolster the German economy could not be implemented fully due to the collapse of the traffic light coalition in November 2024. External economic risks have also increased significantly with regard to the US trade policy announcements, which is darkening the outlook for exports.

US President Donald Trump kicked off his tariffs offensive shortly after taking office on 20 January 2025, imposing tariffs on goods from China, Canada and Mexico in particular. He initially suspended his planned tariffs on Canada and Mexico. On 11 February 2025, Trump imposed special tariffs on steel and aluminium imports. One week later, at a press conference in Florida, he announced tariffs of 25 per cent on imported cars.

In a speech as early as 17 February 2025, President of the Bundesbank Joachim Nagel warned that the German economy would suffer greatly under US tariffs. Germany’s strong dependence on exports makes it particularly sensitive to a fall in foreign demand. Even though the devaluation of the euro would make it possible to strengthen price competitiveness, it would not be enough to balance out the negative effects.

In spite of these highly uncertain conditions, the performance of the insurance industry was stable last year. In 2024, the industry saw premium growth of 5.3 per cent to 238 billion euros, as reported by the German Insurance Association (GDV) at its annual media conference on 13 February 2025. According to Dr Norbert Rollinger, President of the GDV, the sector has put three difficult years of skyrocketing interest rates and high uncertainty behind it and has now passed the lowest point. Insurance companies are looking to the current year with confidence. The industry experts premiums to increase by 5 per cent to 250 billion euros.

According to the GDV, life insurers saw premium growth of 2.6 per cent to around 94 billion euros in 2024. One-off business increased by 10 per cent compared to 2023. However, life insurers saw current premiums decrease by 0.2 per cent. For the coming year, the GDV forecasts growth of 1.3 per cent to almost 96 billion euros, with rising wages, falling inflation and current interest rate developments likely to make a positive impact. Jörg Asmussen, Chief Executive Officer of the GDV, believes that single-premium business could be a key driver. This business is expected to grow by 4.8 per cent.

Premium income in the non-life segment increased by 7.8 per cent to around 92 billion euros in 2024. As, compared to 2023, the losses have increased more slowly than the premium income, the insurance service result has ultimately improved somewhat with profit of around 1.9 billion. The GDV expects non-life insurers to achieve premium growth of 7.5 per cent to 99 billion euros in the current year. The GDV also expects double-digit growth in the premium income for motor insurance. According to initial estimates, motor insurers recorded a loss of around 2 billion euros in 2024, compared to a decrease of 3 billion euros in 2023. According to the GDV, the high rate of inflation was one key reason for the losses, as repair costs have risen considerably in recent years. The GDV anticipates that motor insurance could break even again in the current year.

The weak economic landscape, interest rate developments, regulations, the shortage of skilled workers, artificial intelligence and the modernisation of IT systems are among the key topics that the insurance industry grappled with last year.

In light of the weakness of the eurozone and slowing inflation, the European Central Bank (ECB) lowered key interest rates on 30 January 2025 for the fifth time in a row, this time by 25 basis points to 2.75 per cent. In the summer of 2022, high rates of inflation caused the ECB to raise interest rates significantly to 4.5 per cent by the end of 2023. Even though interest rates have since been lowered, they are still significantly higher than they were before the war in Ukraine. As the rating agency Assekurata concludes in its ‘Life Insurance Market Outlook 2024’ on 18 June 2024, life insurers have started reversing the additional interest reserves since 2022. The additional interest reserves amounted to 88 billion euros as at the reporting date in 2023, compared to their peak of 96 billion euros in 2021. The first effects of the additional interest reserve reversals can already be observed in the form of higher profit participation, which means that current interest returns rose slightly in 2024.

In light of the higher interest rates, the projected interest rate for new life insurance contracts from 1 January 2025 rose from 0.25 per cent to 1.0 per cent. In its market study entitled ‘Improving Prospects for Guarantees’ in March 2024, Assekurata anticipates that this will broaden the scope for life insurance product design and motivate providers to develop innovative products. The German Association of Actuaries (DAV) recommends a projected interest rate of 1.0 per cent for 2026 too. In light of wars and crises, risks to international free trade, the growing burden on public households and the pressure of inflation, it also predicts that interest rates will remain high.

The increasingly strict regulatory requirements continued to occupy life insurers in the financial year ended. as the EU is pressing forward with a complex regulatory framework in terms of sustainability. The implementation of the EU Sustainable Finance Action Plan has made extensive adjustments necessary. The Artificial Intelligence Act (AI Act), which establishes a legal framework for the use of artificial Intelligence and came into force on 1 August 2024, brings with it new obligations for insurers. And the European Digital Operational Resilience Act (DORA), a regulation intended to strengthen the defence of the entire European financial sector against cyber-risks and ICT incidents, had to be implemented by 17 January 2025. Other new regulations are also imminent, such as the EU’s legislative anti-money laundering package, the Framework for Financial Data Access (FiDA) governing simple access to and the use of financial data, and the Insurance Recovery and Resolution Directive (IRRD).

As the Bundestag election was brought forward to 23 February 2025, the plans of the traffic light coalition – the SPD, Greens and FDP – to reform all three pillars of the pension system were no longer implemented. These were the reform of private pensions (pAV Reform Act), the reform of company pension plans and the pension package II reform – Rentenpaket II – to reform statutory pension insurance.

Driven by stricter regulations, high cost pressure and new technology, the modernisation of IT systems and the digital transformation remain high up on the agenda. Insurers are transforming their core systems to account for changing requirements, such as growing customer expectations, rising demand for personalised offerings, as well as the increasing digitisation of business models. These are the findings of the study entitled 'Insurance Core Systems in Transition', which was published by the consulting firm PwC in August 2024. According to this study, three quarters of insurers in Germany, Austria and Switzerland want to exchange or modernise at least one core system in the next three years. Around 80 per cent of insurers state that increasing the degree of automation and integrability are among the most important goals of the transformation. This is also reflected in insurers' rising expenditure on IT: according to the GDV, the industry spent 6.2 billion euros on IT infrastructure in 2023 – more than ever before. It amounted to 5.9 billion euros in 2022.

According to the GDV, the modernisation of IT infrastructure plays a key role with regard to the use of artificial intelligence in the business strategies of many insurers. As shown by the Deloitte study 'AI in Insurance Companies' in December 2024, most insurers are using the technology to optimise their business processes. They see the greatest untapped potential in loss and contract management. One in two insurers is now investing in this, according to the study.

Cloud computing also retains its great significance. According to the GDV publication 'Digitisation, but Secure' in October 2024, around 80 per cent of insurers now post expenditure on cloud solutions. This is consistent with the findings of the Cloud Monitor 2024 Financial Services from the audit firm KPMG. It finds that 86 per cent of financial and insurance companies with more than 5,000 employees are reliant on cloud solutions. It states that insurers are primarily using the cloud to manage large amounts of data from claims, risk analyses and customer data.

Insurers are also faced with the growing shortage of skilled workers in Germany. On 11 November 2024, the GDV described how, in terms of its IT staff, the industry is facing a shortage of skilled workers in an area that is key to the digital transformation. Demographic changes are exacerbating this shortage: 20 to 30 per cent of IT workers will retire by 2040, according to the GDV's annual IT conference in December 2024. The transfer of knowledge and recruitment of new talent remain a challenge for insurers.

The European life insurance market has recovered somewhat after years overshadowed by the pandemic and soaring rates of inflation. This is the conclusion of the analysis by the investment firm Generali Asset Management 'Core Matters – European Insurance: 2024/26 Outlook' of 15 October 2024. According to this analysis, gross premium income in Europe increased by 1.8 per cent in 2023. However, the results vary significantly from country to country. Whereas Spain reported an increase of 36 per cent, premium incomes in Germany, Italy and Austria decreased by around 5 per cent. Poland saw an increase of almost 10 per cent, France an increase of 5.7 per cent and Poland and Czechia an increase of 3.2 per cent. The Generali analysis does not mention the total amount of the gross premium income. According to Statista, the gross premium incomes of European life insurers amounted to 677.56 billion euros in 2023, compared to 669.6 billion euros in 2022.

The life insurance industry in the USA generated growth of 5.6 per cent in 2023, based on the German insurance industry statistics published by the GDV in September 2024. They show that the gross premium income increased to around 715 billion US dollars. The industry had already reported growth of 9.2 per cent in 2022. The USA is the world's largest life insurance market with a market share of 24.7 per cent, followed by China with a market share of 13.5 per cent and gross premium income of around 390 billion US dollars in 2023.

Development of business

In the German-speaking market, msg life ag and its subsidiaries are the market leader with the services and products they offer for life insurers and pension fund institutions; more than half of all leading life insurers in these countries are their customers. With the regulatory requirements still changing constantly and the increasingly dynamic variety of products, insurance companies are increasingly pursuing a strategy of replacing their previous in-house software solutions with standard software and standard software platforms with new operator models, such as software as a service (SaaS).

msg life's products and consulting services are a fixed part of the msg Group's portfolio for the insurance industry. And as an associated company in the msg Group, msg life is a strategically significant partner for its customers and an attractive employer for the employees.

As part of a major project for an insurance company, msg life ag performed services as a subcontractor for a general contractor until 2024. Over the course of the project in 2024, the insurance company and the general contractor mutually terminated the project under the existing contractual conditions, which led to a settlement agreement. The general contractor assigned the compensation attributable to the subcontractor msg life ag to the insurance company in the form of a credit note in the amount of 19.0 million euros. Under an indemnity obligation, this credit will be taken over and borne in full by msg systems ag, Ismaning.

As part of the TRAIL.X (TRustworthy Artificial Intelligence in Life Insurance) project, msg life has been working with the Ludwig Maximilian University of Munich since 2021 to automatically transfer actuarial functions from a source system to a modern policy administration system with the help of AI. This enables life insurers to replace old system generations in a significantly more affordable and resource-conserving fashion, map their core functions with artificial intelligence and integrate them into a modern system. The subject areas of explainable AI (XAI) and automated machine learning (AutoML) play a key role in this context, as does the use of large language models (LLM).

TRAIL.X breaks new technological ground and will create a fundamentally new hybrid technology at the point where machine learning, software development and actuarial mathematics intersect. The work will be funded by the Bavarian Ministry of Economic Affairs, Regional Development and Energy (StMWi) until the end of 2026. The method is already being used successfully in ongoing migration projects with existing customers.

msg life operates an information security management system (ISMS), which has been certified according to ISO/IEC 27001 in the key core processes since 2022. The ISMS is a systematic approach to implementing information security in order to meet internal and external requirements and identify and deal with risks in order to achieve business objectives. The ISMS is accompanied by measures to ensure digital operational resilience. As a third-party ICT service provider for the insurance industry, msg life is indirectly subject to the strict requirements of the Digital Operational Resilience Act (DORA).

Summarised evaluation of the company’s business situation

The year 2024 was a good one for msg life ag, as most of the projects and plans contained in its strategy were implemented in the reporting period. Consequently, the targets set at the start of the financial year relating to the result under the HGB, a key performance indicator, have been achieved:

last year’s prognosis in the separate financial statements forecast positive net results on the same level as in the previous year; msg life ag finished the 2024 financial year with net profit of 10.5 million euros (previous year: 9.0 million euros). This development was due to an increase in income from profit-pooling contracts (+1.3 million euros higher than in 2023).

The business situation of the company in the 2024 reporting year can therefore be described as positive overall. The foundations exist for positive development in 2025 and beyond.

Research and development

msg life ag did not incur any R&D expenditure in the 2024 financial year (previous year: 9,000 euros). All R&D expenditure was incurred by subsidiaries of msg life ag.

Personnel

On 31 December 2024, msg life ag had 45 permanent employees including managing directors (31 December 2023: 48 permanent employees including managing directors). All key activities in connection with personnel marketing also apply to the subsidiaries of msg life ag.

Earnings, financial and assets position

The following disclosures regarding the earnings, financial and assets position of msg life ag by 31 December 2024 are based on the German Commercial Code (HGB).

Earnings position

Compared to the previous year, sales increased by 49.2 million euros from 37.9 million euros to 87.1 million euros. This development was driven by sales revenue from third parties of 47.2 million euros and sales revenue within the msg life Group, which increased by 2.0 million euros. Other operating income amounted to 19.6 million euros (previous year: 0.4 million euros), of which 19.0 million euros resulted from the indemnity obligation of msg systems ag, Ismaning, as part of a settlement agreement between msg life ag and a customer.

Expenses for the procurement of services were 35.4 million euros higher than in the previous year and amounted to 53.4 million euros in the financial year ended (previous year: 18.0 million euros).

The development of msg life ag's sales and expenses resulting from the procurement of services was essentially due to revenue recognition as part of the termination of a major project in cooperation with msg systems ag, Ismaning.

At 8.8 million euros, personnel expenses remained at the same level as in the previous year (8.7 million euros).

The item of depreciation of property, plant and equipment increased slightly to 1.1 million euros in the reporting period (previous year: 0.9 million euros).

In the financial year ended, other operating expenses rose by 21.5 million euros to 46.2 million euros (previous year: 24.8 million euros), and contain an obligation of 19.0 million euros in connection with a settlement agreement with a customer. The other expenses predominantly consist of administrative costs with affiliated companies, rent, legal fees and consulting expenses, bookkeeping costs and Supervisory Board remuneration.

Under both of its profit transfer agreements, the company recognised income of 20.3 million euros from msg life central europe gmbh (previous year: 18.6 million euros) and 7,000 euros in losses from msg life global gmbh (previous year: income of 0.4 million euros).

At -0.6 million euros in the 2024 financial year, the net interest result of msg life ag deteriorated slightly (previous year: -0.3 million euros), and is primarily comprised of interest expenses for pension and anniversary provisions or accrued interest on IC liabilities to affiliated companies.

Income tax expenses amounted to 1.0 million euros in the 2024 financial year (previous year: 0.7 million euros).

Overall, for the 2024 financial year, msg life ag generated a net profit under the German Commercial Code (HGB) in the amount of 10.5 million euros (previous year: 9.0 million euros).

Financial position

As at the reporting date, msg life ag had access to cash and cash equivalents in the amount of 23.1 million euros (previous year: 8.2 million euros). The cash outflow from operating activities of 3.6 million euros (previous year: 7.1 million euros) stands in contrast to a cash inflow from investing activities of 23.1 million euros (previous year: 14.5 million euros) and a cash outflow from financing activities of 4.5 million euros (previous year: 2.4 million euros).

Essentially, the cash outflow from investing activities comprises dividend payments by subsidiaries and the repayment of a loan. Current investments continue to be recognised as intangible assets and property, plant and equipment. The cash outflow from financing activities was due primarily to dividend payments and the interest for cash pooling.

Financial management and liquidity management sets out to identify key risks within msg life ag at an early stage and to provide adequate liquidity for current business operations and investments.

Assets position

Non-current assets decreased by 4.4 million euros to 60.2 million euros (previous year: 64.6 million euros), essentially due to the repayment of a loan by an affiliated company. Property, plant and equipment came to 2.9 million euros (previous year: 2.3 million euros).

In the financial year ended, the current assets of msg life ag remained almost completely stable at 55.9 million euros (previous year: 56.0 million euros). In this context, both work in progress and payments made on account were reduced completely and therefore recognised. In contrast, the receivables from affiliated companies and cash and cash equivalents increased significantly.

Trade receivables decreased by 0.5 million euros to 4.7 million euros due to the reporting date (previous year: 5.2 million euros).

Receivables from affiliated companies increased by 22.0 million euros to 28.0 million euros (previous year: 6.0 million euros) due to the aforementioned indemnity obligation on the part of msg systems ag, Ismaning. Due to the reporting date, liabilities to affiliated companies increased by 3.4 million euros to 15.3 million euros (previous year: 11.9 million euros).

As at the reporting date, cash and cash equivalents were 14.9 million euros higher than in the previous year, reaching a balance of 23.1 million euros at the end of the year (previous year: 8.2 million euros). Due to the reporting date, the increase was due to a lower commitment of working capital. The company was completely equity-financed in the 2024 financial year (as was the case in the previous year) and, as such, there were no deferred liabilities to banks.

Prepaid expenses decreased slightly by 0.3 million euros year over year.

Equity amounts to 76.7 million euros (previous year: 67.9 million euros), which represents an increase of 8.8 million euros. The net retained profits amounted to 10.5 million euros (previous year: 13.3 million euros).

Liabilities amounted to 39.2 million euros. Totalling 11.9 million euros, the decrease year-over-year was due to the recognition in profit or loss of payments received on account in the amount of 36.6 million euros and the decrease in trade payables by 0.8 million euros because of the reporting date. In contrast, liabilities to affiliated companies increased by 3.4 million euros to 15.3 million euros due to the reporting date. Aside from tax liabilities arising from value-added tax and wage and church tax, the other liabilities, which increased by 22.1 million euros, essentially comprise an obligation as part of a settlement agreement with a customer.

Total assets as at 31 December 2024 amounted to 119.3 million euros (previous year: 124.1 million euros).

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 German Stock Corporation Act (AktG)) and liquidation proceeds (Section 271 AktG), as well as pre-emption rights to shares in the event of capital increases (Section 186 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.

Opportunity and risk report

General

All the following estimations regarding opportunities and risks were made on the reporting date, 31 December 2024.

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

Among the Management Board's most important tasks in the overall management of msg life ag are, in close coordination with the Supervisory Board, laying down general conditions and processes of risk management, 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 risk management system is documented in a risk manual. One employee in msg life ag's Controlling & Risk Management division has been appointed risk manager, and is thereby entrusted with submitting the prevailing risk management system to regular internal evaluation and documenting this process. It is the responsibility of the managers of the individual legal units, divisions and programmes to continuously monitor and deal with the risks that fall within their own remits.

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 ag has set up a monthly controlling and reporting system.

The early risk detection system of msg life ag proved successful in 2024 as well and it was not necessary to revisit it. The entire procedure was approved by the Risk Board (risk manager and Management Board). The employees responsible for this field were trained accordingly. As part of the ISO/IEC 27001 certification, the management of information security risks was expanded further within the overriding central risk management system.

An external audit performed confirmed the adequacy and correctness of msg life's risk management system.

In accordance with the current version of the guideline, monthly reports were prepared on the most significant risks and the operative and central divisional managers and employees with special positions in terms of risks were surveyed three times per year. The Risk Board met three times in 2024. At the same time, data protection, the company's internal auditing, IT security, information security management and compliance management were incorporated into the early risk detection system. The corresponding risk report for 2024 was presented to the Supervisory Board in January 2025. In 2024, msg life ag's profile did not change significantly 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 ag's earnings, financial and assets position.

Strategic opportunities

msg life ag expects the regulation throughout the insurance sector to continue. This regulation, the persistent cost pressure and demographic changes in the insurance sector are necessitating a great deal of adaptation with regard to the solutions currently being used in the insurance sector, and are reinforcing the trend towards the use of standard software and cross-sector platform solutions – such as those offered by the company. At this time, the situation in the insurance market is proving to be an opportunity for the company, as demonstrated by its successful performance over the past few years. Above all, the demand for standard software in conjunction with SaaS offerings in the cloud is increasing. Insurance companies are also facing a shortage of skilled workers that is being exacerbated by demographic changes. This will accelerate the technological transformation and force insurers into drastic transformations in connection with automation and digitisation.

In addition, the use of AI and AI-based services is becoming increasingly important in all areas. This presents both opportunities and risks. The application and use of these innovative technologies takes into account current and future legal regulations. National and international developments alike must be observed here.

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. Additionally, rising regulatory complexity is making it significantly more costly to operate systems, which is causing standard software combined with cloud-based SaaS offerings to become more attractive to insurers.

Product- and service-specific opportunities

In addition, msg life ag's employees are crucial to the company's innovative power – and are therefore instrumental in the growth and profitability of msg life ag and its subsidiaries as a whole.

Risk assessment

The following risks are listed in descending order based on their estimated probability of occurrence and impacts.

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 project and project risk management standards; a standardised process model minimises risks even further. The risk nevertheless remains that projects cannot be realised profitably for msg life ag 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 msg life ag will therefore have to grant a discount or pay compensation. The overall risk profile of all ongoing projects did not increase in 2024. The existing risks of individual projects have been appropriately taken into account for 2025.

Like all software products, msg life ag's products can have defects whose elimination under guarantee increases costs and thereby influences the profit margin or even leads to compensation claims against msg life ag. Generally speaking, msg life ag offers a warranty customary for 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 entirely 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.

msg life ag 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 company's own products. Problems in the execution of projects and software defects that can occur in the operation of software produced by msg life ag can do lasting damage to the reputation of the company and thereby have a substantial impact on the future course of business.

Personnel risks

msg life ag's success depends crucially on the skills, qualifications and engagement of its employees. Certain employees in key positions are particularly important in this respect. If the company is unable to get these employees to commit themselves to the company 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 order to minimise this risk, msg life ag is doing its utmost to offer a motivational working environment and to make it possible for employees to develop and unlock their full potential.

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. If the economic landscape does deteriorate, this could also reduce the volume of the market targeted by msg life ag. 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.

In the event of demand falling as a consequence of economic crises, the company assumes 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.

Competition risks

With its solutions, msg life ag is a leading sector-based service provider for life insurers and pension funds in Europe. This has led to a concentration and therefore an increase in market development risks. At the same time, this improves the company’s market position. msg life ag will therefore attempt to persevere with its existing strategy in its current 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.

IT 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 systems of msg life ag, and also those of its 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 estimated to the fullest extent.

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 penetration tests 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 ag 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.

The risks associated with the use of cloud technologies to outsource services are counteracted with the information security management system (ISMS) and certification in accordance with ISO/IEC 27001. Numerous guidelines have been drawn up to ensure compliance with security standards. Moreover, additional capacities have been built up in the field of security management. This also addresses the stricter compliance and security requirements of legislators and customers.

When developing and deploying SaaS solutions, a great deal of attention is paid to information security and data protection. To this end, a DOR working group has been established, in which the relevant issues specified by legislators will be discussed together with clients and risks addressed.

Appropriate contracts have been drawn up to exclude liability risks that could arise from SaaS solutions offered by msg life ag.

Risks from takeovers

msg life ag is currently interested in expanding its market position in German-speaking countries and internationally, primarily through organic growth. This can also be supported in parallel by strategic acquisitions. The success of an acquisition is dependent upon whether the acquired company can be successfully integrated and the desired synergy effects can be generated.

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. 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 losses from both borrowing capital at excessive interest rates as well as investing surplus funds at interest rates below the market level should be avoided.

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

As at the balance sheet date, the company had loan agreements with two banks totalling 5,000,000 euros. As at the reporting date, the loans of 1.863 million euros had been used exclusively to serve as collateral for security deposits.

Overall assessment of the opportunities and risks

msg life ag 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. Senior management remains confident that the company's earning power constitutes a solid basis for the future development of its business and will generate the resources that will be necessary to pursue the opportunities that present themselves.

Forecast

msg life ag is very well positioned in the field of software and consulting services for insurance companies and pension fund institutions. The company's wide range of digitised products and services, some of which are provided to specific countries through its subsidiaries, gives it excellent market opportunities and a promising competitive position.

In connection with its strategy for the continued internationalisation of msg life ag in order to open up new insurance markets, the company has entered into partnerships with msg global solutions ag, AWS, Azure, Google, IBM and others. The goal is to significantly increase the competitiveness of international insurance companies through a fully digitised end-to-end solution, thereby securing their future.

In the current financial year, msg life ag also expects to see further regulation throughout the insurance industry. The implementation of the EU's Sustainable Finance Action Plan, the Artificial Intelligence Act (AI Act), the Digital Operational Resilience Act (DORA), the EU's legislative anti-money laundering package, the Framework for Financial Data Access (FiDA) or the Insurance Recovery and Resolution Directive (IRRD): the ongoing and upcoming implementation of numerous regulatory requirements continues to necessitate comprehensive changes to the solutions which are currently used and ties up vast amounts of insurers' resources. This means that the use of versatile, cost-effective standard software remains attractive throughout the insurance industry.

Consequently, the German-speaking market will remain challenging for insurance companies this year and probably in the years to come. Other challenges include the weak economic environment, the current changes in interest rates, the shortage of skilled workers, the ongoing trend towards internationalisation and consolidation and the efforts to reduce costs and increase efficiency. Therefore, insurance companies see a clear correlation between modern and flexible IT and success in business.

Given these challenges, micro-service-oriented architectures designed to quickly support modified and digital business models and high system versatility for the rapid introduction of innovative products are factors crucial to the success of insurance companies. More than ever, the platform economy plays a key role in the insurance industry: numerous insurers are now using platforms and ecosystems to provide digital products and services beyond what had previously been their core business. These, in turn, will create new potential to create value.

Likewise, the subject of AI is becoming increasingly important, with most insurers using the technology to optimise their business processes. The use of AI (as well as automated machine learning and large language models) not only generates efficiency gains through automation, but also professionally motivated, new opportunities. In this context, customers of msg life ag now have access to an AI-assisted knowledge base known as msg.ask:it, which is tailored to the content and technical terminology of the insurance industry.

Furthermore, msg life ag is addressing the issue of AI with its TRAIL.X project, in which it is developing a process together with the Ludwig Maximilian University of Munich that automatically transfers actuarial functions from a source system to a modern policy administration system with the help of AI. This will enable life insurers to replace old system generations in a significantly more affordable and resource-conserving fashion, map their core functions with AI and integrate them into a modern system.

The acquisition of closed insurance contract portfolios that are no longer available for sale (‘run-off’ portfolios) from mainly smaller insurance companies remains an important factor for large insurance companies. This enables the latter to achieve positive effects for their books, and buyers can generate significant economies of scale and cost synergies. Here, too, modern asset management with modern and powerful IT systems plays a decisive role in the more efficient management of contracts.

In light of the stricter regulations, high cost pressure and new types of technology, the modernisation of IT systems and digitisation are among the most significant challenges facing the German insurance industry, and the business processes it affects will allow for the ever-greater integration of systems across divisions, segments and corporate boundaries. The digital transformation of the core systems makes it increasingly possible to tap the potential of standardised and automated processes. Fully automated processes lead to enormous gains with regard to efficiency as well as significantly lower costs. 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. Insurers are increasingly committed to cloud solutions with which IT capacities can be adapted to meet the level of demand in a flexible manner.

Digitisation makes it possible to position modern insurance products and services via new channels or integrate them into new sales and partnership platforms, and even to realise new methods of collaborating with a variety of partners. This all requires insurers to make comprehensive modifications to their IT landscapes in order to incorporate such technology and platforms – and msg life ag is taking it into account as it develops its own range of products and services. The company provides SaaS and cloud-based solutions that support insurers with the digitisation process, thanks in no small part to its strategic collaboration with major cloud providers such as Amazon (AWS), Microsoft (Azure), Google and IBM.

Due to these developments, msg life ag anticipates that insurance companies will show a general interest in the software and consulting solutions it will be offering in 2025 – yet still detects a certain level of caution on the part of insurers to commit to major investment plans in light of the persistently challenging market landscape.

msg life ag is pressing ahead with the further technical and functional optimisation and completion of its product range in the fields of life insurance and pensions. Continuous delivery, an important strategic element, will also continue to be developed in the current year in order to further accelerate and economically optimise the development process with and for customers.

The full convergence of the components of msg.Insurance Suite, the central, common insurance platform of the msg Group, and the sales-related collaboration taking place in this context remain central aspects of the product strategy. msg.Insurance Suite is a holistic industrial standard for all sectors of the insurance industry and is therefore a unique overall solution on the market.

msg life ag is experiencing very strong market demand for migration in connection with msg.Insurance Suite. The company is therefore continuously expanding its own expertise in the migration of entire platforms and further accelerating migration projects through innovative, AI-based approaches.

With regard to the economic sanctions in connection with the Russian invasion of Ukraine in February 2022, msg life ag still does not expect any material impact on the operating or economic development of the company – including with regard to the development of its business with new and existing customers and its project business in the 2025 financial year so far.

In the 2025 financial year, msg life ag expects a positive result under HGB to match the previous year (previous year: 10.5 million euros).

Leinfelden-Echterdingen, 25 April 2025

msg life ag

Dr Andrea van Aubel, Chief Executive Officer

Milenko Radic, Member of the Management Board

Marion Schenker, Member of the Management Board

Jan Vatter, Member of the Management Board

Dr Wolf Wiedmann, Member of the Management Board