HYPOPORT

Hypoport AG annual report for 2016

Berlin, 27 March 2017

Key performance indicators

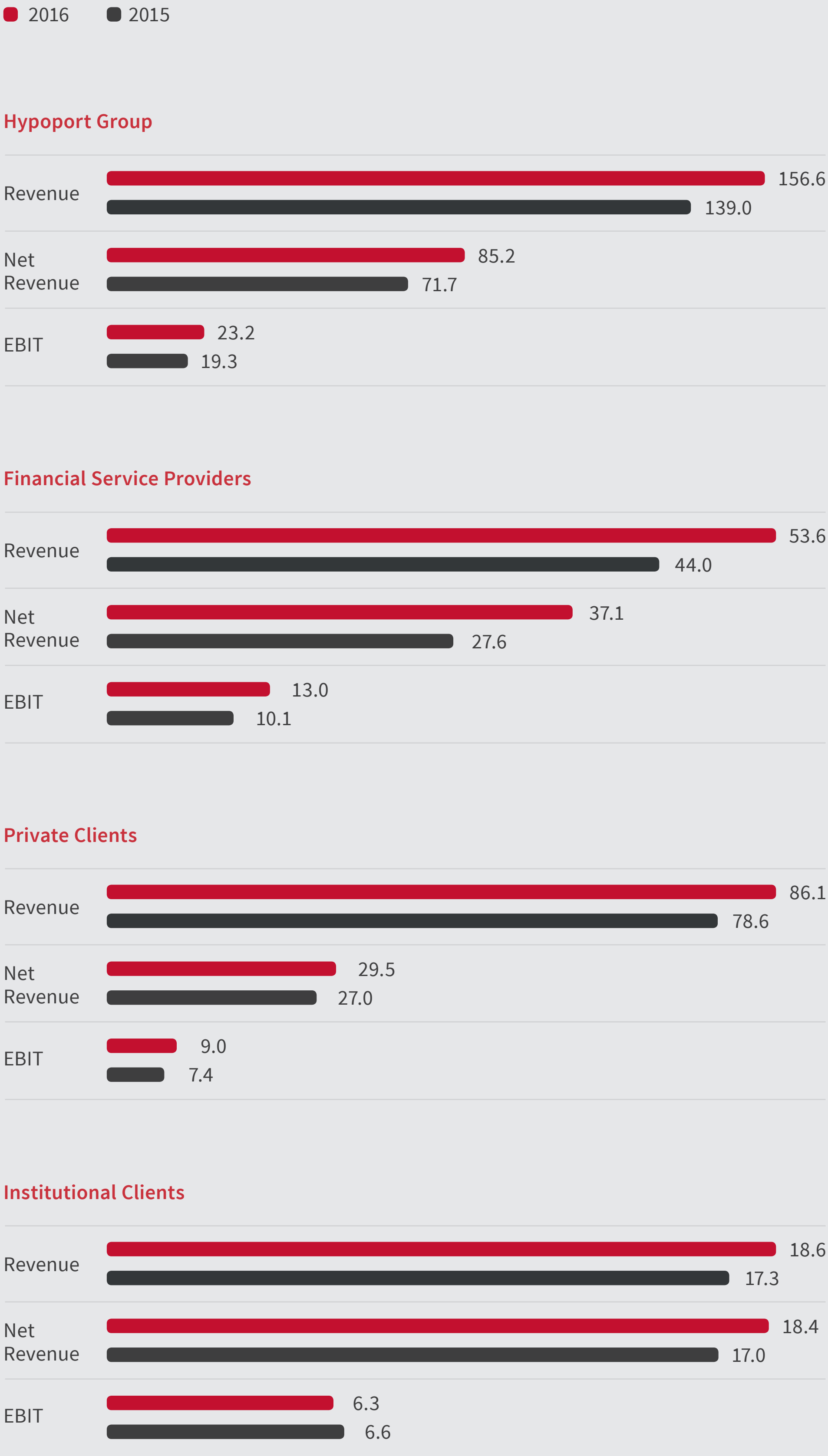
Financial performance (€'000)	01.01. – 31.12.2015	01.01. – 31.12.2016	Change
Revenue	138,982	156,636	13 %
Gross profit	71,676	85,198	19 %
Earnings before interest, tax, depreciation and amortisation (EBITDA)	25,077	28,321	13 %
Earnings before interest and tax (EBIT)	19,260	23,236	21 %
EBIT margin (EBIT as a percentage of gross profit)	13.9	14.8	7 %
Net profit (loss) for the year	15,877	18,074	14 %
attributable to Hypoport AG shareholders	15,871	18,041	14 %
Earnings per share (€)	2.61	3.00	15 %

Financial position (€'000)	31.12.2015	31.12.2016	Change
Current assets	55,725	57,230	3 %
Non-current assets	40,351	54,868	36 %
Equity	52,661	64,133	22 %
attributable to Hypoport AG shareholders	52,391	63,830	22 %
Equity ratio (%)	54.8	57.2	4 %
Total assets	96,076	112,098	17 %

Share performance

Earnings per Share	2016	€3.00
Price-Earnings Ratio	30 December 2016	€25.92
High in 2015	29 July 2016	€97.00
Low in 2015	09 February 2016	€53.59
Market capitalisation	30 December 2016	€481,66 million
Trading volume	daily average for 2016	€2,104,216.54

Revenue, Net Revenue and EBIT (€ million)



Contents

Letter to the shareholders

Dear shareholder,

In 2016, our Group companies once again significantly strengthened their market position. Moreover, we introduced some highly promising new business models and, having focused on organic growth for many years, integrated new subsidiaries into the Group. We are taking a careful approach to supplementing our rapid organic growth by acquiring companies whose success will benefit the Hypoport Group. These new activities are still 'tender seedlings' – from the perspective of the Group as a whole in 2016. I am confident that, by leveraging synergies between existing and new subsidiaries, we will enable them to make an additional and substantial contribution to the growth of the Hypoport Group in the near future.

This annual report shows that our business models in the mortgage finance market have once again enabled us to generate strong growth in 2016. Our ever increasing market penetration is underpinned by our superior business models and technologies. At the same time, the implementation of the Mortgage Credit Directive and the absence of stimulus from interest rates in the first nine months significantly subdued the market in 2016. All of Hypoport's key performance indicators rose substantially overall. We increased our consolidated revenue by 13 per cent to €156.6 million, while our earnings before interest and tax (EBIT) climbed at the even faster rate of 21 per cent to reach €23.2 million. This means that we can once again report the most successful year in our Group's history.

Our business unit with the highest earnings, Financial Service Providers, generated double-digit growth in all the relevant key figures. We strengthened our competitive position and considerably increased our share of both the mortgage finance market, which contracted slightly, and the personal loans market. By acquiring our new subsidiaries, NKK Programm Service AG and Hyp-Service GmbH, we have laid the foundations for expanding the business unit in the insurance and property valuation markets. At the same time, the percentage rise in both revenue and earnings was well into double figures. This was achieved despite increased costs as a result of stepping up key account management, particularly for regional banks, and software development.

Our business unit with the highest revenue, Private Clients, also widened its share of the mortgage finance and personal loans markets. The numerous awards that we received from consumer magazines for our advice pushed up demand and demonstrate the superiority of our non-captive advisory model. Positive trends in the sale of insurance and other banking products also contributed to the improvement in earnings. Overall, the increase in revenue generated by this business unit's subsidiaries was just into double figures, while their EBIT grew at an even stronger rate.

Our third business unit, Institutional Clients, also delivered a strong performance in the face of sluggish interest rates. The small rise in revenue was achieved despite the housing industry remaining subdued for much of 2016. Higher capital expenditure on existing and new business models meant that EBIT was down slightly year on year.

The results for 2016 show that we have grown in strength once again. Our corporate culture, which is focused on allowing all employees, teams and subsidiaries to flourish, is the basis for our Group's growth. The impact of this culture, combined with our expertise in making financial services better through the use of technology, will enable this positive business performance to continue in 2017. We again expect our Group's revenue and earnings growth to be just into double figures this year.

We would like to thank you, our shareholders, for the confidence that you show in us through your loyalty and the retention of profit in the Company. This was one of the reasons why we were able to invest more than €10 million in the acquisition of new subsidiaries and value-adding share buy-backs last year.

Kind regards,

Ronald Slabke
Chief Executive Officer

Business report

1. Business and economic conditions

Business model and strategy

The Hypoport Group is a technology-based financial service provider. Its parent company is Hypoport AG, which is headquartered in Berlin, Germany. The subsidiaries are divided into three mutually supporting business units: Private Clients, Financial Service Providers, and Institutional Clients. All three units are engaged in the distribution of financial services, facilitated or supported by technology (fintech).

Within the Hypoport Group, Hypoport AG performs the role of a strategic and management holding company with corresponding central functions. Hypoport AG's objectives are the advancement and expansion of its family of subsidiaries.

The Group is managed on the basis of an annual strategy process in which the Group's focus in terms of target markets, positioning, technologies and key financials is decided upon. The strategy process feeds into a qualitative and quantitative four-year plan as well as into the budget for the next financial year. Earnings at Group level (EBIT) and total revenue, which represent the aggregate business performance of the individual operating segments, are the key performance indicators at Hypoport. The KPIs are reviewed monthly and discussed by senior management. This enables any variances from the targets to be identified at an early stage so that suitable corrective action can be taken.

Financial Service Providers business unit

The Hypoport Group, together with its subsidiaries Hypoport Mortgage Market Ltd. (mortgage loans, building finance) and EUROPACE AG (personal loans, credit insurance), uses its EUROPACE B2B financial marketplace – the largest transaction platform – to sell financial products for private clients in Germany. A fully integrated system links roughly 400 partners – banks, insurers and financial product distributors. Several thousand users execute around 35,000 transactions per month via EUROPACE. The volume generated in 2016 was around €45 billion.

GENOPACE GmbH is a joint venture aimed at establishing a financial marketplace within the cooperative banking sector. In addition to the credit cooperatives (Volksbanken) from Düsseldorf/Neuss and Münster, which were the banks that initiated the joint venture, all the major co-operative financial network partners are now shareholders: Münchener Hypothekenbank eG, R+V Versicherung AG, WL BANK AG and Bausparkasse Schwäbisch Hall AG.

FINMAS GmbH is a joint subsidiary with Ostdeutscher Sparkassenverband (OSV), the association of eastern German savings banks, and signs up partners for the financial marketplace within the Savings Banks Finance Group.

Starpool Finanz GmbH – a joint venture with Deutsche Postbank AG – provides small and medium-sized financial product distributors with the EUROPACE marketplace plus support services.

Hypoport InsurTech GmbH, together with its subsidiaries NKK Programm Service AG, Innosystems GmbH and Maklersoftware.com GmbH, develops and operates software solutions for the sale and management of insurance products.

Operating across Germany, Hypservice GmbH inspects properties on behalf of banks, insurers and building finance associations for the purpose of mortgage valuations.

Private Clients business unit

As a provider of financial services for private clients, the Hypoport Group is represented in the market by its subsidiaries Dr. Klein & Co. AG and Vergleich.de Gesellschaft für Verbraucherinformation mbH. The main focus of the Private Clients unit is the sale of mortgage finance to consumers. The Private Clients unit also offers its clients various financial products in the categories of consumer loans, insurance and basic banking products (e.g. instant-access accounts). Initial customer interest is generated online, while subsequent advice is provided by means of online comparisons, on the telephone or, more often, through a franchise system of highly qualified financial advisors in face-to-face meetings. In each case, the Private Clients unit selects the best products for its clients from a broad selection of all appropriate banks and insurance companies. This comprehensive advice is independent of product suppliers and provides private clients with benefits in terms of efficiency and the quality of the product range.

Qualitypool GmbH provides support to advisors working for small financial product distributors in relation to the brokerage of mortgages, personal loans and building finance agreements. It also offers support services for insurance brokers.

Institutional Clients business unit

The Institutional Clients unit, operating under the Dr. Klein & Co. AG brand, has been a major financial service partner to housing companies and commercial property investors since 1954. This business unit provides its institutional clients in Germany with a fully integrated service comprising expert advice and customised solutions in the areas of financial management, portfolio management, and insurance for business customers.

Hypoport B.V., the Group's subsidiary based in Amsterdam, helps banks to analyse and report on securitised or collateralised loan portfolios.

Economic conditions

As the Hypoport Group's business activities are almost exclusively limited to Germany, the following situation analysis relates to the performance of the German economy as part of the eurozone.

Events such as the United Kingdom's vote to leave the European Union and election victories by populists in the United States and Europe led to further social and political uncertainty in the euro area last year. Nonetheless, the eurozone's economy stabilised in 2016, with the International Monetary Fund predicting economic growth of 1.7 per cent for the year as a whole (2015: 2.0 per cent). Rising real incomes led to increased consumer spending and provided strong growth stimulus.

Unlike the US Federal Reserve, the European Central Bank decided against raising its key interest rate. This was because inflation remained low in the eurozone and economic difficulties persisted in some parts of Europe. The decision by many countries to reduce oil production caused the oil price, and thus consumer prices, to rise at the end of the year: the year-on-year increase of 1.1 per cent resulted in the highest rate of inflation since September 2013. However, for as long as the inflation target of 2 per cent remains a distant prospect, key lending rates are unlikely to go up.

In Germany, gross domestic product grew at its fastest rate for five years, advancing by 1.9 per cent in 2016 (2015: 1.7 per cent). The main reason for the robust economic output in 2016 was, once again, consumer and government spending. There was also increased capital expenditure in areas such as property. Strong domestic demand thus helped to make up for what was only a small rise in the foreign trade surplus. The GfK Group consumer climate index shows that consumers' optimism was rooted in a buoyant labour market, rising employment figures and the associated growth in income. The ifo Institute of Economic Research business climate index also went up between January and December 2016, climbing by 3.6 per cent. Companies therefore confirmed the positive economic outlook. A key contributing factor was the business climate in the primary construction industry, whose subindex reached a record high at the end of the year.

Sectoral performance

The Hypoport Group and its segments operate in a range of individual financial services markets but focus on mortgage finance. The Private Clients and Financial Service Providers business units are affected by conditions in the consumer financial services sector. The Institutional Clients business unit targets companies in the housing and real-estate sectors.

Financial services for private clients

As in previous years, demand for financial products was influenced by the generally positive economic sentiment and, in particular, by the low level of interest rates. Although low interest rates generally have a positive effect on demand for lending products, insurance products did not become any more appealing.

Mounting European and domestic regulation is adversely affecting the financial services market in Germany. For years, banks and insurance companies in particular have been forced to use key resources to implement laws and directives (e.g. the EU's Mortgage Credit Directive, Basel III, Solvency II, MiFiD 2 and IDD 2), which has had the overall effect of inhibiting market performance.

Lending market

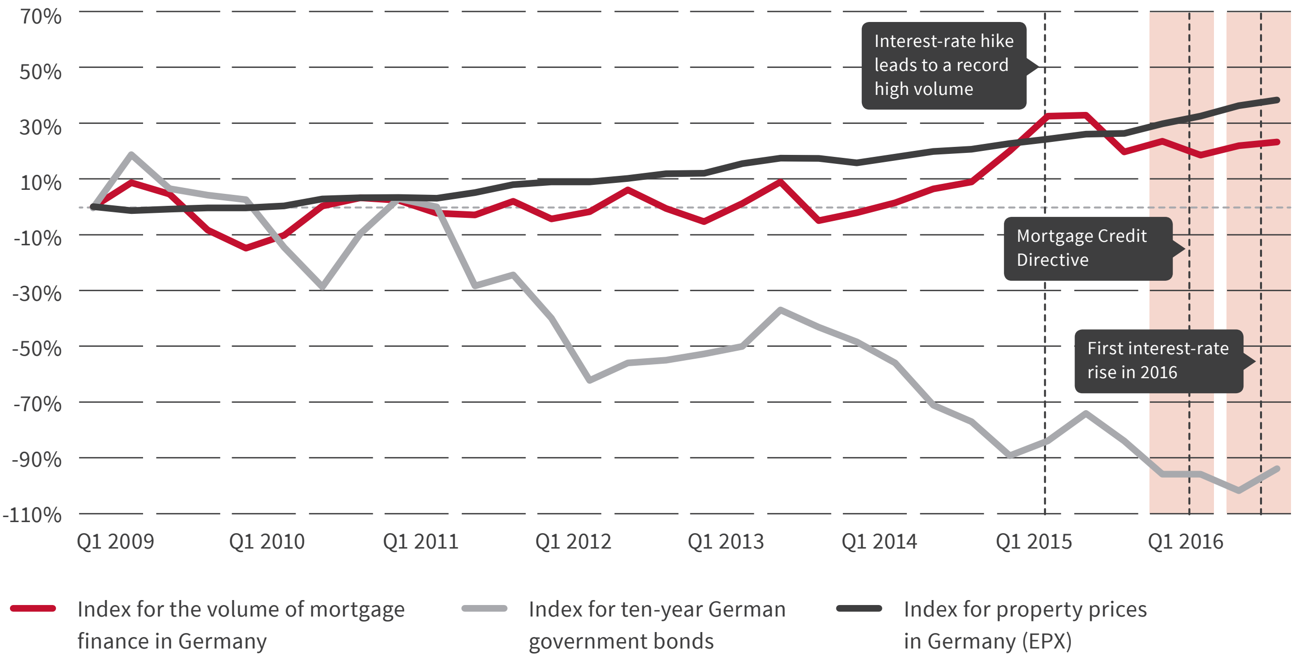
For Germany's private housing market, 2016 was characterised by further price rises and only a slight increase in completions. This fundamentally very positive market environment for home loans was, however, impacted by two major events. The Mortgage Credit Directive, which came into force in the spring, caused the overall market volume to contract sharply in April and May. Then in November 2016, the market picked up suddenly on the back of the first interest-rate hike in 18 months.

According to the German Bundesbank, the total value of Germany's mortgage finance market declined by around 4 per cent in 2016 to €235 billion overall (2015: €244 billion), despite the stimulus from the housing market.

The best interest rate for a ten-year mortgage fell to 0.93 per cent in the period January to March 2016, then remained roughly static before dropping to its lowest level of 0.78 per cent in the period July to November. However, the best interest rate began to rise again from November and reached 0.94 per cent at the end of the year.

The total volume of new building finance agreements came to €89.2 billion in 2016, a year-on-year decrease of approximately 9 per cent (2015: €98.5 billion).

In contrast, the personal loans market expanded for the fourth year in succession. The total market volume for new personal loan agreements was up by around 6 per cent year on year to €95.8 billion (2015: €90.1 billion).



Insurance market

In the insurance industry, premium income held steady in 2016. According to the German Insurance Association (GDV), the premium income collected by its 450 or so members totalled €194.2 billion (2015: €193.9 billion). While life insurance products lost further appeal due to low interest rates and new legislation, premium income from both non-life insurance and private health insurance increased slightly.

Financial services for institutional clients

At the start of the year, the volume of loans on housing companies' books stood at €194.8 billion. Despite the lack of stimulus from interest rates during the remainder of the year, the corresponding volume of loans rose to €201.3 billion in the third quarter – passing the €200 billion mark for the first time.

The interest-rate hike in November pushed up demand for mortgage finance from institutional clients. The volume of loans on housing companies' books therefore reached €204.7 billion at the end of 2016.

Business performance

In 2016, Hypoport's consolidated revenue rose by 13 per cent to €156.6 million (2015: €139.0 million). Earnings before interest and tax (EBIT) advanced by 21 per cent to €23.2 million (2015: €19.3 million). In its 2015 outlook, Hypoport had forecast revenue and earnings growth in 2016 for both the Hypoport Group and the individual business units that was just into double figures. This forecast was achieved both by the Group and by the Financial Service Providers and Private Clients business units. The Institutional Clients business unit achieved single-digit revenue growth and a slight decline in earnings as the impulse-free interest rates in the first three quarters led to a delayed take-up of financing for necessary and already planned new projects.

The revenue and selling expenses stated below for the individual business units include revenue with other segments of the Hypoport Group and associated selling expenses.

Financial Service Providers business unit

The total volume of transactions generated by the Financial Service Providers business unit across all banking products in 2016 amounted to €44.7 billion, a year-on-year rise of 12 per cent (2015: €39.8 billion*). Despite contraction of the market as a whole, the volume attributable to the mortgage finance segment increased by 14 per cent to €35.4 billion (2015: €31.2 billion*). The introduction of the Mortgage Credit Directive subdued not only the overall market volume but also the volume of transactions on our marketplaces in April and May. As the year continued, however, the technical implementation of the Mortgage Credit Directive in EUROPACE resulted in efficiency gains for partners, and the volume increased accordingly. The small interest-rate rise in November had a positive impact on the transaction volume at the end of the year.

The volume of building finance loans went up by 3 per cent to €7.0 billion (2015: €6.8 billion*). The biggest increase was in the volume of personal loans, which advanced by 25 per cent to €2.3 billion (2015: €1.9 billion).

The Savings Banks Finance Group achieved a transaction volume of €3.6 billion in its role as a product supplier and therefore saw its new digital business via Europace grow by 40 per cent (2015: €2.6 billion*). The institutions in the cooperative financial network, which notched up a transaction volume of €2.7 billion, also stepped up their involvement in technology-based mortgage finance via EUROPACE with year-on-year growth of 67 per cent (2015: €1.6 billion*).

Greater inroads were also made in savings bank and cooperative bank sales. In 2016, FINMAS expanded the volume of business concluded via EUROPACE on the basis of advice provided by the Savings Banks Finance Group by 34 per cent to a total of €1.5 billion (2015: €1.1 billion*). GENOPACE made even more substantial gains with the cooperative financial network, with whom the volume of business arranged using EUROPACE technology rose by 56 per cent to €1.0 billion (2015: €0.7 billion*).

The number of partners actively using EUROPACE advanced by 16 per cent to 399 companies (31 December 2015: 345 partners). GENOPACE increased its number of contractual partners to a total of 174 partner banks, a rise of 23 per cent (31 December 2015: 141 partners). The number of partners using FINMAS, the financial marketplace for members of the Savings Banks Finance Group, was up by 26 per cent to 144 savings banks (31 December 2015: 114 partners).

** The 2015 transaction numbers for mortgage finance and building finance have been reduced by 12.5 per cent to ensure comparability following the switch to a different data collection method.*

Revenue and earnings

The revenue generated by the Financial Service Providers business unit rose by 22 per cent to €53.6 million in 2016 (2015: €44.0 million). EBIT climbed by 29 per cent to €13.0 million (2015: €10.1 million). The Financial Service Providers business unit also includes subsidiaries whose purpose is to provide services for EUROPACE. Its operating performance can thus be seen from the EBIT margin, which is based on gross profit. At 35 per cent, the EBIT margin remained at the high level reported in 2015 despite a sharp rise in capital expenditure and the acquisition of low-margin subsidiaries.

Financial figures Financial Service Providers	2015	2016	Change
Transaction volume (billion €)			
Total	39.8	44.7	12 %
Mortgage finance [1)]	31.2	35.4	14 %
Personal loan	1.9	2.3	25 %
Building finance [1)]	6.8	7.0	3 %
Partners (number)			
Europace (incl. Genopace + Finmas)	345	399	16 %
Genopace	141	174	23 %
Finmas	114	144	26 %
Revenue and earnings (million €)			
Revenue	44.0	53.6	22 %
Gross profit	27.6	37.1	34 %
EBIT	10.1	13.0	29 %

1) changes the number of counts, values of 2015 are adjusted by 12.5% downwards

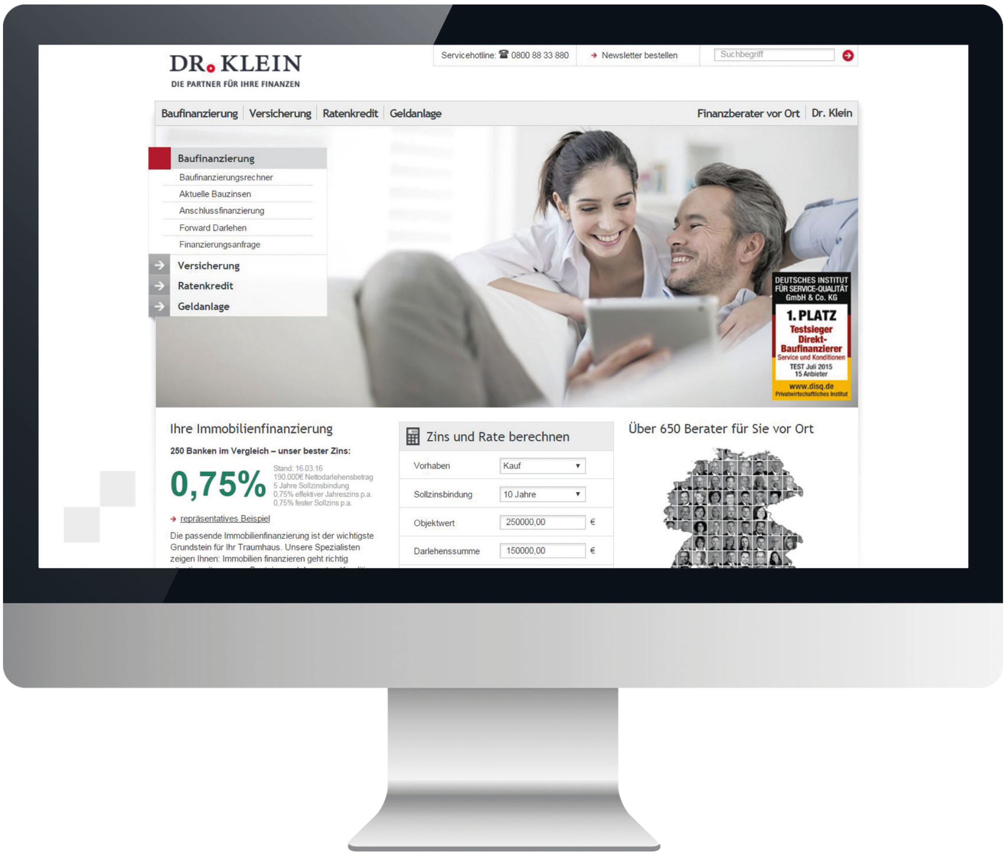
Private Clients business unit

The Private Clients business unit concentrated on signing up customers and offering initial advice on financial products. The number of active mortgage advisors grew significantly, climbing by 20 per cent to 524 (31 December 2015: 437 advisors).

In the loan brokerage segment, the volume of new lending brokered went up 7 per cent overall to reach €8.5 billion (2015: €7.9 billion*).

** The 2015 transaction numbers for mortgage finance and building finance have been reduced by 12.5 per cent to ensure comparability following the switch to a different data collection method.*

With an increase of 7 per cent to €8.1 billion, the mortgage finance product segment made the biggest contribution to growth in absolute terms (2015: €7.6 billion). However, the strongest relative growth was achieved by the personal loans product segment, which jumped by 74 per cent to €316 million (2015: €181 million). Because competition in the online personal loans business is very intense, the Private Clients unit again concentrated on profitable face-to-face advisory services and cooperation with other branch-based financial service providers in 2016.



Revenue and earnings

In 2016, revenue in the Private Clients business unit rose by 10 per cent to €86.1 million (2015: €78.6 million). At the same time, EBIT advanced by 21 per cent to €9.0 million (2015: €7.4 million). In the Private Clients business unit, selling expenses consist of commission paid to distribution partners (e.g. advisors in the franchise system) and the cost of acquiring leads. Gross profit comprises the difference between the commission paid by product suppliers and these selling expenses. In 2016, selling expenses rose in line with revenue, with a 10 per cent increase to €56.6 million (2015: €51.6 million). The operating performance of the Private Clients business unit can be seen from the EBIT margin, which is based on gross profit and rose to 31 per cent (2015: 28 per cent).

Financial figures Private Clients	2015	2016	Change
Transaction volume (billion €)			
Financing	7.94	8.49	7 %
Mortgage finance [1)]	7.6	8.1	7 %
Personal loan	0.181	0.316	74 %
Building finance [1)]	0.194	0.114	-41 %
Number of franchise advisors (financing)	437	524	20 %
Insurance policies under management	**31.12.2015**	**31.12.2016**	
Insurance policies u. m. (total)	122.6	128.2	5 %
Insurance policies u. m. (life insurance)	63.9	64.6	1 %
Insurance policies u. m. (private health insurance)	33.7	35.8	6 %
Insurance policies u. m. (SHUK)	25.0	27.8	11 %
Number of franchise advisors (insurance)	224	171	-24 %
Revenue and earnings (million €)	**2015**	**2016**	
Revenue	78.6	86.1	10 %
Gross profit	27.0	29.5	9 %
EBIT	7.4	9.0	21 %

1) changes the number of counts, values of 2015 are adjusted by 12.5% downwards

Institutional Clients business unit

In the Institutional Clients business unit, the volume of new loans brokered for corporate clients in 2016 was €1.9 billion (2015: €2.1 billion). This volume is largely generated by brokering a large number of small to medium-sized loans. Predominantly sluggish interest rates in the first three quarters of the year led to a delay in the take-up of loans for necessary new-build projects that were already in the pipeline. Similarly, forward finance for renewals did not pick up until the fourth quarter. The volume of loan renewals business, which is sensitive to interest rates, declined year on year to €224 million (2015: €277 million). In 2016, the volume of new loans brokered came to €1.7 billion (2015: €1.8 billion).

Revenue and earnings

The revenue generated by the Institutional Clients business unit increased slightly in 2016, advancing by 7 per cent to €18.6 million (2015: €17.3 million). At €6.3 million, EBIT was a little lower than in the previous year (2015: €6.6 million).

Financial figures Institutional Clients	2015	2016	Change
Transaction volume (million €)			
Brokered loans (total)	2,082	1,891	-9 %
New business	1,806	1,668	-8 %
Renewals	277	224	-19 %
Consulting revenue (million €)	4.7	4,9	3 %
Revenue and earnings (million €)			
Revenue	17.3	18.6	7 %
Gross profit	17.0	18.4	8 %
EBIT	6.6	6.3	-4 %

2. Financial performance

Against the backdrop of the operating performance described above and despite the contraction of the market, EBITDA increased to €28.3 million (2015: €25.1 million) and EBIT to €23.2 million (2015: €19.3 million). The EBIT margin (EBIT as a percentage of gross profit) rose from 26.9 per cent to 27.3 per cent.

Own work capitalised largely relates to the pro-rata personnel expenses and operating costs incurred by developing and refining the internally generated financial marketplaces. In the reporting year, 62 per cent of total development costs were capitalised (2015: 61 per cent).

Other operating income mainly comprised income of €904 thousand from other accounting periods (2015: €513 thousand), income of €748 thousand from the reversal of provisions (2015: €326 thousand), income of €725 thousand from employee contributions to vehicle purchases (2015: €617 thousand) and income of €358 thousand from subleases (2015: €470 thousand).

Personnel expenses rose because the average number of employees during the period advanced from 569 to 709 (mainly as a result of acquisitions) and because of salary increases.

The rise in other operating expenses essentially relates to administrative expenses of €8.007 million (2015: €5.616 million) and operating expenses of €6.305 million (2015: €5.514 million).

Of the depreciation/amortisation expense and impairment losses of €5.085 million (2015: €5.817 million), €3.075 million (2015: €4.151 million) was attributable to capitalised development costs.

The net finance costs mainly comprised interest expense and similar charges of €326 thousand (2015: €451 thousand), which stemmed from bank loans totalling €10.5 million (2015: €11.0 million).

Financial performance	2016 €'000	2015 €'000	Change €'000
Revenue	156,636	138,982	17,654
Selling expenses	-71,438	-67,306	-4,132
Gross Profit	85,198	71,676	13,522
Own work capitalised	5,662	4,663	999
Other operating income	3,066	2,179	887
Personnel expenses	-46,359	-38,224	-8,135
Other operating expenses	-19,327	-15,246	-4,081
Income from companies accounted for using the equity method	81	29	52
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**28,321**	**25,077**	**3,244**
Depreciation, amortisation expense and impairment losses	-5,085	-5,817	732
Earnings before interest and tax (EBIT)	**23,236**	**19,260**	**3,976**
Net finance costs	-401	-146	-255
Earnings before tax (EBT)	**22,835**	**19,114**	**3,721**
Current income taxes	-1,922	-2,158	236
Deferred taxes	-2,839	-1,079	-1,760
Net profit for the year	**18,074**	**15,877**	**2,197**

3. Net assets

The following information on the structure of the Hypoport Group’s assets, equity and liabilities as at 31 December 2016 is based on the balance sheet figures aggregated according to liquidity. Receivables and liabilities falling due less than twelve months after the balance sheet date are reported as ‘current’, while all others – unless shown separately – are reported as ‘non-current’.

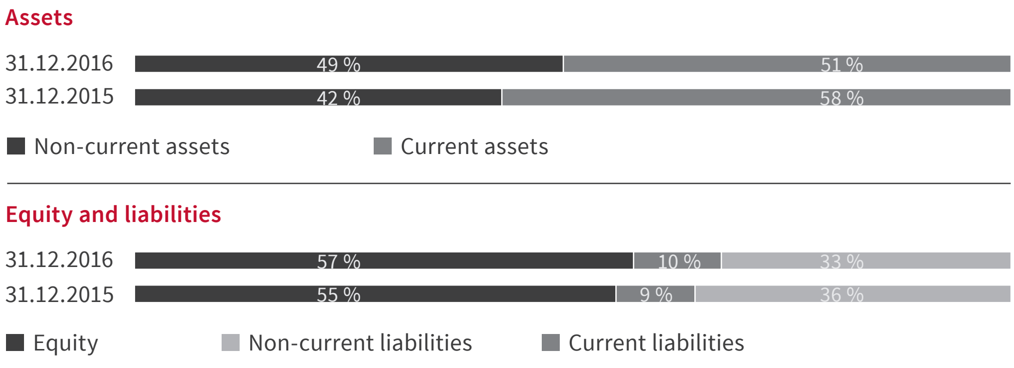
Net asset

Assets	2016 €'000	%	2015 €'000	%	Change €'000
Intangible assets	41,660	**37.2**	31,887	33.2	9,773
Property plant and equipment	2,631	2.3	2,571	2.7	60
Investments accounted for using the equity method	1,089	1.0	34	0.0	1,055
Financial assets	576	0.5	465	0.5	111
Trade receivables	6,475	5.8	3,580	3.7	2,895
Other assets	1,850	1.7	1,418	1.5	432
Deferred tax assets	587	0.5	396	0.4	191
Non-current assets	**54,868**	**48.9**	**40,351**	**42.0**	**14,517**
Trade receivables	31,686	28.3	29,371	30.6	2,315
Other current items	3,031	2.7	1,481	1.5	1,550
Income tax assets	102	0.1	116	0.1	-14
Cash and cash equivalents	22,411	20.0	24,757	25.8	-2,346
Current assets	**57,230**	**51.1**	**55,725**	**58.0**	**1,505**
Total assets	**112,098**	**100.0**	**96,076**	**100.0**	**16,022**

Equity and Liabilities					
Subscribed capital	6,195	5.5	6,195	6.4	0
Treasury shares	-253	-0.2	-156	-0.2	-97
Reserves	57,888	51.6	46,352	48.3	11,536
	63,830	56.9	52,391	54.5	11,439
Non-controlling interest	303	0.3	270	0.3	33
Equity	**64,133**	**57.2**	**52,661**	**54.8**	**11,472**
Financial liabilities	6,270	5.6	6,920	7.2	-650
Provisions	87	0.1	97	0.1	-10
Other liabilities	10	0.0	10	0.0	0
Deferred tax liabilities	4,784	4.3	2,033	2.1	2,751
Non-current liabilities	**11,151**	**10.0**	**9,060**	**9.4**	**2,091**
Provisions	154	0.1	113	0.1	41
Financial liabilities	4,441	4.0	4,342	4.5	99
Trade payables	18,776	16.8	20,430	21.3	-1,654
Current income tax liabilities	1,731	1.5	1,022	1.1	709
Other liabilities	11,712	10.4	8,448	8.8	3,264
Current liabilities	**36,814**	**32.8**	**34,355**	**35.8**	**2,459**
Total equity and liabilities	**112,098**	**100.0**	**96,076**	**100.0**	**16,022**

The Hypoport Group's consolidated total assets as at 31 December 2016 amounted to €112.1 million, which was a 17 per cent increase on the total as at 31 December 2015 (€96.1 million).

Balance sheet structure



Non-current assets totalled €54.9 million (31 December 2015: €40.4 million). They largely consisted of development costs of €21.1 million for the financial marketplaces (31 December 2015: €15.6 million) and goodwill of €18.6 million (31 December 2015: €14.8 million).

Current other assets essentially comprised commission of €0.9 million paid in advance to distribution partners (31 December 2015: €0.6 million) and prepaid expenses of €0.9 million (31 December 2015: €0.5 million).

The equity attributable to Hypoport AG shareholders as at 31 December 2016 had grown by €11.4 million, or 21.8 per cent, to €63.8 million. The equity ratio increased from 54.8 per cent to 57.2 per cent as a result of the net profit reported for the year.

Other current liabilities mainly comprised bonus commitments of €4.7 million (31 December 2015: €4.4 million) and tax liabilities of €1.3 million (31 December 2015: €0.9 million). Total financial liabilities declined, mainly because there were scheduled repayments of seven bank loans totalling €4.5 million while a new loan amounting to €4.0 million was taken out.

4. Financial position

The changes in the Company's liquidity position at the balance sheet date are shown in the following table.

Liquidity position at the balance sheet date	31.12.2016 €'000	31.12.2015 €'000	Change €'000
Current liabilities	36,814	34,355	2,459
Cash and cash equivalents	22,411	24,757	-2,346
	14,403	9,598	4,805
Other current assets	34,819	30,968	3,851
Surplus cover	**20,416**	**21,370**	**-954**

The cover ratio of non-current assets to non-current equity and liabilities is shown in the table below.

Cover ratio	31.12.2016 €'000	31.12.2015 €'000	Change €'000
Non-current assets	54,868	40,351	14,517
Equity	64,133	52,661	11,472
	-9,265	-12,310	3,045
Non-current liabilities	11,151	9,060	2,091
Surplus cover	**20,416**	**21,370**	**-954**

155 per cent (31 December 2015: 162 per cent) of the current liabilities of €36.814 million (31 December 2015: €34.355 million) are covered by current assets.

117 per cent (31 December 2015: 131 per cent) of non-current assets are funded by equity.

	31.12.2016	31.12.2015
Return on investment = EBIT / (equity + non-current liabilities)	30.9 %	31.2 %
Cash flow (CF) return on equity = CF from operating activities / equity	28.6 %	50.7 %
EBIT margin = EBIT / gross profit	27.3 %	26.9 %
Tier-1 liquidity = cash and cash equivalents / current liabilities	60.9 %	72.1 %
Equity ratio = equity / total equity and liabilities	57.2 %	54.8 %
Gearing = liabilities / total equity and liabilities	42.8 %	45.2 %
Tier-1 capital ratio = equity / (Intangible assets + Property, plant and equipment)	144.8 %	152.8 %

We have used the cash flow statement to show the sources and application of funds and to disclose the changes in the Company's financial position during the year under review.

The cash flow statement presented in the consolidated financial statements shows the net cash inflows and outflows broken down by type of activity (operating activities, investing activities and financing activities). Positive amounts denote a net cash inflow, while negative amounts stand for a net cash outflow.

Cash flow during the reporting period rose by €2.1 million to €25.8 million (2015: €23.7 million). This increase was largely attributable to the year-on-year improvement in the net profit reported for the year.

The total net cash generated by operating activities in 2016 amounted to €18.3 million (2015: €26.7 million). The cash used for working capital went up by €10.4 million to €7.5 million (2015: minus €2.9 million).

The net cash outflow of €13.3 million for investing activities (2015: €7.1 million) consisted primarily of increased capital expenditure of €6.9 million on non-current intangible assets (2015: €5.7 million) and €3.4 million for the acquisition of NKK Programm Service AG.

The net cash of €7.4 million used by financing activities (2015: €6.9 million) related to borrowing of €4.0 million (2015: €0.0 million), scheduled loan repayments of €4.5 million (2015: €4.6 million) and the purchase of treasury shares for €6.9 million (2015: €2.3 million).

Cash and cash equivalents as at 31 December 2016 totalled €22.4 million, which was €2.4 million higher than at the beginning of the year.

Cash and cash equivalents at the end of the period consisted exclusively of cash on hand and at banks.

At the balance sheet date, there were other financial commitments totalling €12.715 million (31 December 2015: €11.432 million) in respect of rentals, leases and maintenance agreements covering several years. Included in these other financial commitments were commitments of €3.594 million (31 December 2015: €3.401 million) due within one year, €7.869 million (31 December 2015: €7.687 million) due in one to five years and €1.252 million (31 December 2015: €344 thousand) due in more than five years.

Overall statement on the Hypoport Group's economic position:

The operating performance of the Hypoport Group was generally very positive, and in line with our expectations. The Group's financial performance and financial position in the reporting period were also very encouraging. As a result of the increase in EBIT, Hypoport's financial performance can be described as good. The financial position can be considered stable in view of the equity ratio and level of liquidity. This also takes into account information obtained after the end of the financial year.

5. Capital expenditure and finance

The main capital expenditure in 2016 related to the foundation of DR. Klein Firmenkunden AG (the institutional clients business unit acquired from Dr. Klein & Co. Aktiengesellschaft), Hypservice GmbH (inspection of properties for the purpose of mortgage valuations) and Hypoport InsurTech GmbH (establishment of an insurance platform), the acquisition of NKK Programm Service AG (software for administration of insurance portfolios) and the minority interest in Fundsaccess AG (technology solution along the advisory process for brokerage pools, asset managers, banks and insurers) as well as the refinement of the EUROPACE financial marketplaces. There was also capital expenditure in connection with the insurance platform and advisory systems for consumers and distributors.

Capital expenditure was financed by both operating cash flow and new borrowing.

6. Unrecognised assets

As at 31 December 2016, Hypoport AG held 253,115 treasury shares that, on that date, had a total market value of around €20 million. These shares can be used to service employee share ownership programmes and to fund acquisitions.

One asset that is recognised in our subsidiaries, but only to a minor extent, is internally generated software, e.g. for the processing of loan brokerage transactions or the administration of insurance portfolios.

In the course of their brokerage activities, the subsidiaries obtain information on their clients' assets and income and on the financial products sold to them. This client base and transaction portfolio constitute an unrecognised asset because this information can be used to sell further suitable financial products to the same client in future. For example, Dr. Klein in particular can also offer advice on the renewal or refinancing of existing mortgage deals well in advance of the end of the original fixed-interest period, for which it may receive another commission from the product supplier.

In the Financial Service Providers business unit, the subsidiaries Hypoport Mortgage Market Ltd. and EUROPACE AG provide several thousand loan brokerage advisors with access to the EUROPACE marketplace so that they can process their new business in mortgages, building finance and personal loans. As a result, a substantial distribution capability is assembled, which in turn exerts a considerable appeal for further product suppliers that offer either the same or similar financial products. This potential future extension of the product range enables additional transactions to be processed on the EUROPACE marketplace and constitutes a significant unrecognised asset. It also makes it easy for affiliated loan brokerage advisors to participate in the renewal or refinancing of financial products that have already been brokered on the EUROPACE marketplace, and allows them to benefit financially in the form of additional agency commission.

Moreover, in the Private Clients business, the Dr. Klein subsidiary possesses a brand with a positive reputation that is becoming increasingly well-known. Dr. Klein regularly comes top in the product tests and reviews conducted by independent consumer organisations, and the growing number of regional franchisees and advisors is also raising its profile beyond the internet. Many new clients are increasing the brand's recognition by recommending Dr. Klein to others after having received good advice from it. This constitutes a significant unrecognised asset, because a trusted brand provides a valuable competitive advantage in the sale of financial products.

7. Employees

The number of employees in the Hypoport Group rose by 38 per cent compared with the end of 2015 to 797 people (31 December 2015: 577 employees), partly due to the acquisition of NKK Programm Service AG and HypService GmbH. The average number of people employed in 2016 was 709, which was a year-on-year increase of 25 per cent (2015: 569 people).

The table below gives a breakdown of the Company's employees by business unit at the balance sheet date.

	31.12.2016		31.12.2015		Change	
Employees	**Number**	**%**	**Number**	**%**	**Number**	**%**
B2B Financial Marketplaces – Financial Service Providers*	377	47	197	34	180	91
Financial Product Sales – Private Clients	240	30	232	40	8	3
Financial Product Sales – Institutional Clients	91	12	74	13	17	23
Administration	89	11	74	13	15	20
	797		**577**		**220**	**38**

*included Information Technology, adjusted for the previous year

In today's business environment, which is dominated by myriad social and economic changes, a company's workforce is the key competitive factor. The lasting success and ongoing evolution of a company's business are essentially guaranteed by a suitably qualified and highly motivated workforce. The skills, dedication, creativity and motivation of these employees determine Hypoport's ability to compete and adapt in future. Human resources management is therefore geared to finding, recruiting, retaining and developing talented people as Hypoport employees. In order to achieve these goals, Hypoport is constantly taking steps to ensure that it provides all members of staff with the necessary training and development opportunities and to enhance its corporate culture. Hypoport uses a number of tools to encourage a performance-driven culture and an entrepreneurial mindset among its workforce. The development and performance dialogues held twice a year provide a setting in which managers and their staff can hold a structured discussion about aspirations, development opportunities and performance incentives. By offering long-term healthcare and sickness-prevention schemes and providing attractive sports and leisure facilities, Hypoport has created the optimum working conditions to ensure that its staff achieve the right work/life balance. To this end, it offers a number of individual and flexible working-time models that include solutions for working at home, childcare at some sites and customised schemes that make it easier for employees to return to work after they have taken parental leave. Hypoport AG's activities and numerous projects in the reporting year placed exceptional demands on our workforce. We would like to take this opportunity to thank all members of staff wholeheartedly for their valuable contribution and their commitment.

8. Marketing

The objective of all our marketing activities is to build and maintain long-term client relationships. The individual elements of our marketing mix are geared to our clients' needs and the target market. In addition to our product-related, pricing and distribution policies, promotional campaigns accounted for a large proportion of these activities. In order to achieve a fully integrated marketing and communications mix, we stepped up all relevant aspects of our public relations, print advertising, print media, direct marketing, sales promotions and trade fair exhibitions.

9. Remuneration report

The overall structure and level of Management Board remuneration are determined by the Supervisory Board, which currently comprises its chairman Dr Ottheinz Jung-Senssfelder, its vice-chairman Roland Adams and Christian Schröder. Both the structure and amount of this remuneration are reviewed regularly by the Supervisory Board and adjusted as necessary.

The main criteria used to assess the appropriateness of remuneration are the functions and responsibilities of each Management Board member and their personal performance. The financial situation, performance and sustainable development of the Company, customary remuneration in a comparable environment and the pay structure in other parts of the Company and other German companies are also taken into account. Furthermore, the level of remuneration is set so as to be competitive in the market for highly qualified executives.

The total remuneration for members of the Management Board in 2016 was composed of a basic salary, variable year-end remuneration and fringe benefits. Fringe benefits are essentially the use of a company car and insurance cover.

The adjustment of the change in basic salary and the level of variable annual remuneration are determined annually on the basis of Group EBIT, three-year EBIT, the three-year EBIT delta and the change in EBIT. Consolidated EBIT is defined as earnings before interest and tax (EBIT) as reported in the Hypoport Group's IFRS consolidated annual financial statements excluding expenses for variable annual remuneration for members of the Management Board of Hypoport AG. Three-year EBIT equals average consolidated EBIT for the three financial years prior to the financial year just ended. It is always at least €5.0 million. The three-year EBIT delta equals half of the percentage change in three-year EBIT compared with three-year EBIT in the previous year. The change in EBIT equals consolidated EBIT less three-year EBIT.

The basic salary is increased or decreased by the three-year EBIT delta each year. It is always at least €204,000.00.

The amount of variable annual remuneration equals a percentage ('bonus rate') of the change in EBIT.

The bonus rate for the next year is increased or decreased each year conversely to the three-year EBIT delta. The level of change equals the three-year EBIT delta as a percentage of the bonus rate.

The variable annual remuneration must be no more than the basic salary for the financial year just ended.

The changes in basic salary and year-end remuneration are determined by the Supervisory Board on the basis of the Company's consolidated annual financial statements. Any changes made apply retrospectively from 1 January of the year concerned.

The Management Board members' service contracts contain no agreements that would apply in the event of a change of control resulting from a takeover bid. No loans or advances had been granted as at 31 December 2016.

The employment contracts of all members of the Management Board include a non-competition clause that applies to the two years after the end of the contract. During the period that the non-competition clause applies, Hypoport AG must pay annual compensation equivalent to half of the average contractually agreed remuneration benefits regularly paid out over the previous three years. There are no service contracts between the Company or one of its subsidiaries and one or more members of the Management Board that include a provision for the payment of benefits at the end of employment.

The Company bears the cost of maintaining a reasonable level of cover under a directors' and officers' liability insurance policy for the members of the Management Board. This policy specifies an excess of at least 10 per cent of the insurance claim up to one-and-a-half times the annual remuneration of the Management Board member concerned.

No pension payments or annuities have been agreed with any of the members of the Management Board. The Company pays Mr Ronald Slabke an amount of €1 thousand per annum for pension insurance cover. In return for Mr Hans Peter Trampe waiving his right to a company car, the Company pays him an amount of €18 thousand per annum for private pension insurance. Once the Company has paid these contributions, it is not obliged to provide any further benefits.

The remuneration for the Management Board for 2016 totalled €2,386 million and was broken down as follows:

Board of Management Remuneration €'000	Fixed remuneration 2016	Fixed remuneration 2015	Variable remuneration 2016	Variable remuneration 2015	Fringe benefits 2016	Fringe benefits 2015	Total remuneration 2016	Total remuneration 2015
Ronald Slabke	325	204	311	204	16	12	652	420
Hans Peter Trampe	325	204	311	204	22	22	658	430
Stephan Gawarecki	325	204	311	204	54	53	690	461
Thilo Wiegand*	162	204	156	204	68	15	386	423
Total	**1,137**	**816**	**1,089**	**816**	**160**	**102**	**2,386**	**1,734**

* Mr. Thilo Wiegand resigned from the Board of Management of Hypoport AG with effect from 30 June 2016.

The two tables below show the benefits granted (including fringe benefits and the maximum and minimum remuneration achievable for variable remuneration components) and the allocations made to members of the Management Board for 2016 presented in accordance with the German Corporate Governance Code (DCGK).

Remuneration and Benefits Granted €'000	Ronald Slabke Chairmann Joined Dec. 21, 2001				Hans Peter Trampe Institutional Clients Joined Jun. 1, 2010			
	Target value 2015	Target value 2016	Minimum value 2016	Maximum value 2016	Target value 2015	Target value 2016	Minimum value 2016	Maximum value 2016
Fixed remuneration	204	325	325	325	204	325	325	325
Fringe benefits	12	16	16	16	22	22	22	22
Total	**216**	**341**	**341**	**341**	**226**	**347**	**347**	**347**
Variable remuneration	204	311	0	325	204	311	0	325
Aggregate remuneration	**420**	**652**	**341**	**666**	**430**	**658**	**347**	**672**

Remuneration and Benefits Granted €'000	**Stephan Gawarecki Private Clients Joined Jun. 1,2010**				**Thilo Wiegand* Financial Service Providers Joined Jun. 1, 2008**			
	Target value 2015	Target value 2016	Minimum value 2016	Maxi-mum value 2016	Target value 2015	Target value 2016	Minimum value 2016	Maxi-mum value 2016
Fixed remuneration	204	325	325	325	204	162	162	325
Fringe benefits	53	54	54	54	15	68	68	68
Total	**257**	**379**	**379**	**379**	**219**	**230**	**230**	**393**
Variable remuneration	204	311	0	325	204	156	0	325
Aggregate remuneration	**461**	**690**	**379**	**704**	**423**	**386**	**230**	**718**

* Mr. Thilo Wiegand resigned from the Board of Management of Hypoport AG with effect from 30 June 2016.

Allocation of Remuneration in/for 2015 and 2016 €'000	**Ronald Slabke Chairman Joined Dec. 21, 2001**		**Hans Peter Trampe Institutional Clients Joined Jun. 1, 2010**		**Stephan Gawarecki Privat Clients Joined Jun. 1, 2010**		**Thilo Wiegand* Financial Service Providers Joined Jun. 1, 2008**	
	2016	2015	2016	2015	2016	2015	2016	2015
Fixed remuneration	325	204	325	204	325	204	162	204
Fringe benefits	16	12	22	22	54	53	68	15
Total	**341**	**216**	**347**	**226**	**379**	**257**	**230**	**219**
Variable remuneration	204	185	204	185	204	185	204	185
Aggregate remuneration	**545**	**401**	**551**	**411**	**583**	**442**	**434**	**404**

* Mr. Thilo Wiegand resigned from the Board of Management of Hypoport AG with effect from 30 June 2016.

The remuneration for members of the Supervisory Board is stipulated in the Company's statutes and is determined by the Annual Shareholders' Meeting. It was last amended by a resolution adopted by the Annual Shareholders' Meeting on 12 June 2015 and consists of three components: annual fixed remuneration, special remuneration for the chairman and vice-chairman of the Supervisory Board, and a performance-related element.

Pursuant to section 12 of the Company's statutes, the members of the Supervisory Board receive fixed remuneration of €15,000.00 for every full financial year during which they serve on the Supervisory Board, plus reimbursement of their out-of-pocket expenses. In addition, the members of the Supervisory Board receive variable remuneration equivalent to 0.1 per cent of any positive earnings before interest and tax (EBIT) as reported in the Company's IFRS consolidated annual financial statements, but in any event no more than €5,000.00 for every full financial year during which they serve on the Supervisory Board. Both the fixed and variable remuneration are payable at the end of the Annual Shareholders' Meeting that formally approves the acts of management for the previous financial year, unless the Annual Shareholders' Meeting decides otherwise. The chairman of the Supervisory Board receives double the amount of the fixed and variable remuneration, the vice-chairman one and a half times the amount.

Members of the Supervisory Board who have served for less than a full financial year receive pro-rata fixed and variable remuneration in proportion to the period for which they have served on the Supervisory Board.

The Company reimburses all members of the Supervisory Board for any value added tax paid in respect of their remuneration and out-of-pocket expenses. The Company bears the cost of maintaining a reasonable level of cover under a directors' and officers' liability insurance policy for the members of the Supervisory Board. No excess has been agreed.

The remuneration for the Supervisory Board for 2016 totalled €95 thousand and was broken down as follows:

Remuneration of the Members of the Supervisory Board €'000	Fixed remuneration		Variable remuneration		Fringe benefits		Total remuneration	
	2016	2015	2016	2015	2016	2015	2016	2015
Dr. Ottheinz Jung-Senssfelder	30	**30**	10	**10**	2	**2**	42	**42**
Roland Adams	23	**13**	7	**4**	2	**1**	32	**18**
Christian Schröder	15	**15**	5	**5**	1	**1**	21	**21**
Total	**68**	**58**	**22**	**19**	**5**	**4**	**95**	**81**

10. Disclosures under German takeover law

The following information is disclosed pursuant to section 315 (4) of the German Commercial Code (HGB).

Composition of subscribed capital

The Company's subscribed capital amounted to €6,194,958.00 at the end of 2016. It is divided into 6,194,958 no-par-value registered shares.

All shares confer the same rights and obligations. Each share confers one vote at the Annual Shareholders' Meeting and determines shareholders' entitlement to the Company's profits. Shareholders' rights and obligations are defined in detail by the provisions of the German Stock Corporation Act (AktG), in particular by sections 12, 53a et seq., 118 et seq. and 186 AktG.

Restrictions on voting rights and the transfer of shares

The Management Board is not aware of any restrictions on voting rights or the transfer of shares.

Shareholdings exceeding 10 per cent of the Company's voting rights

The following shareholding in Hypoport AG was known to us at the time this management report was prepared:

Ronald Slabke, Berlin, holds 36.29 per cent of Hypoport's shares. Of these, the 34.77 per cent of the voting shares held by Revenia GmbH, Berlin, are attributable to him pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG).

There are no further direct or indirect shareholdings exceeding 10 per cent of the Company's voting rights.

Shares with special rights conferring powers of control

There are no shares with special rights conferring powers of control. In particular, there are no powers to appoint Supervisory Board members pursuant to section 101 (2) AktG.

Type of control over voting rights in cases where employees are shareholders in the Company but do not directly exercise their control rights

In cases where employees of Hypoport AG are shareholders in the Company, they directly exercise their control over voting rights.

Statutory regulations and provisions of the statutes concerning the appointment and dismissal of Management Board members and amendments to the statutes

The members of the Management Board are appointed by the Supervisory Board pursuant to sections 84 and 85 AktG and section 5 (2) of the Company's statutes. The Management Board comprises at least two persons pursuant to section 5 (1) of the Company's statutes; the number of Management Board members is determined by the Supervisory Board. If the Management Board is short of a member, this member is appointed by the courts in urgent cases at the request of an interested party pursuant to section 85 AktG.

Section 179 AktG states that amendments to the Company's statutes require a resolution to be passed by the Annual Shareholders' Meeting; section 16 of the statutes states that, unless mandatory legal provisions specify otherwise, amendments to the statutes are adopted by a simple majority of votes cast. The Supervisory Board has the authority to make amendments concerning the wording only pursuant to section 19 of the Company's statutes.

Powers of the Management Board to issue and repurchase shares

The Annual Shareholders' Meeting held on 1 June 2012 voted to set aside the unused authorisation granted on 1 June 2007 and to issue a new authorisation. The Management Board was authorised – subject to the consent of the Supervisory Board – to increase the Company's subscribed capital by up to a total of €3,097,479.00 by issuing new registered no-par-value shares for cash or non-cash capital contribution on one or more occasions on or before 31 May 2017. The Management Board can decide – subject to the consent of the Supervisory Board – to disapply the shareholders' statutory pre-emption rights.

The Annual Shareholders' Meeting held on 12 June 2015 adopted a resolution authorising the Management Board to purchase treasury shares amounting to a total of up to 10 per cent of the subscribed capital in existence at the time the resolution was adopted. The shares thus purchased, together with other treasury shares that are in the possession of Hypoport AG or are attributable to it pursuant to sections 71d and 71e AktG, must at no time account for more than 10 per cent of the Company's subscribed capital in existence at that time. The authorisation may be utilised either in full or partially, on one or more occasions, in pursuit of one or more objectives by Hypoport AG or by its Group companies or for its or their account by third parties. The authorisation is valid until 11 June 2020. The Management Board may determine whether the shares are purchased through the stock market or by means of a public purchase offer or by means of a public invitation to submit such an offer.

Material agreements by the Company that are conditional upon a change of control resulting from a takeover bid

There are no material agreements between Hypoport AG and third parties that either become effective, are amended or end in the event of a change of control resulting from a takeover bid.

Compensation agreements between the Company and Management Board members or employees in the event of a takeover bid

There are no compensation agreements between Hypoport AG and Management Board members or employees in the event of a takeover bid.

11. Corporate governance declaration

Hypoport AG has issued the declaration required by section 289a (1) HGB and has made it permanently available to the public on the Company's website at www.hypoport.com.

Opportunities and risks report

Business activities always entail the assumption of risk. For Hypoport, risk means the threat of potential losses or opportunity costs. Internal or external factors can give rise to this risk. Hypoport's risk policy focuses on continuously and permanently increasing the value of the Company, achieving its medium-term financial targets and safeguarding it as a long-term going concern. Consequently, we see risk and opportunity management first and foremost as an entrepreneurial function that consists of exploiting opportunities in good time while identifying the risks that arise from doing so as quickly as possible and weighing them up in a responsible manner and with shareholder value in mind. The task of management and all employees is to optimise the likelihood of either of these factors occurring in order to safeguard the Company's interests.

Hypoport has introduced a risk management and early-warning system as required by section 91 (2) AktG. Throughout the Group, the individual organisational units identify and assess risks locally by compiling a risk inventory at least once a year. In this context, experts from all departments analyse and assess material risks using self-assessments, which are divided into a risk potential assessment, for identifying and assessing material risks, and the resulting proposed actions. In order to assess a risk that has been identified, the probability of the risk scenario arising and the potential loss level are determined. Risks that have been identified are managed using appropriate risk control strategies. All risks are also registered, measured and monitored on a quarterly basis. The Hypoport Group's early-warning system for risk is adjusted as soon as possible to reflect changes in the market environment.

1. Integrated opportunity and risk management system

Internal monitoring system

The central feature of Hypoport's internal monitoring system is an appropriate, impermeable separation of functions. This is ensured by our organisational structures, job specifications, and processes, which are laid down in the Company's electronic manual and regularly reviewed for compliance. In addition to these provisions and as part of its monitoring role, Group internal audit carries out audits to ensure that the system is effective and functions properly.

The internal audit department carries out audit activities and produces audit reports in consultation with Hypoport AG's Supervisory Board and at its request. Should risks arise, Hypoport AG's internal auditors can also conduct special audits at short notice. As service providers, Group subsidiaries are required to take precautions to ensure the continuity and quality of the processes outsourced by banks and insurance companies. This also means that the Hypoport Group has to comply with the regulatory requirements that apply to its partners and with their duties to provide information, inspection, examination and access rights.

As a company whose business depends on trust, data protection is a particularly high priority for Hypoport. The data protection team ensures a high level of data security, as do the regular audits carried out by partners and by product standards regulator TÜV SÜD. Other data protection tasks include establishing and monitoring processes that comply with data protection legislation and dealing with requests made by customers, partners and employees.

Financial planning and reporting and control system

With the aid of strategic planning and an internal reporting system, an efficient financial planning and reporting process helps with the early detection of opportunities and risks that could threaten the Hypoport Group as a going concern.

As part of its strategic planning process, Hypoport assesses potential risks and opportunities in advance of key business decisions. This results in the systematic formulation of long-term and short-term business targets and objectives right down to each business unit and cost centre.

Alongside the management of risks and opportunities, the market and competitive environment is continually monitored from the different perspectives relevant to Hypoport. The achievement of targets and objectives (target/actual comparison) is analysed at all managerial levels during regular meetings at which control measures are agreed and their effectiveness is reviewed. The reporting system enables such risks to be monitored appropriately during business activities.

Early-warning systems

Information on future developments and trends is exchanged across all levels in the Company in regular meetings, reports and protocols and is assessed by the appropriate unit. This ensures that internal and external information can be analysed on a timely basis for its relevance to risk and that the findings are implemented throughout the Hypoport Group.

From the full range of risks to which we are exposed, we have described below the types of risk that we consider to be material at present.

2. Macroeconomic risk

Hypoport's business environment is affected by changes in economic and political conditions, so we continuously monitor political, economic, regulatory and business developments in the markets in which we operate. When assessing their target markets, management and product distributors constantly use the internal and external information sources available so that they can identify imminent changes in these markets as early as possible and adjust their strategic and operational focus in line with these developments.

Given the particular risks arising from the uncertainty that still surrounds the economy in the wake of the sovereign debt crisis, risks tend to be mitigated because the Group's business activities are distributed across a large number of customer groups and a wide range of products in at least some individual markets.

3. Sectoral and industry risks

Sectoral risks to the Hypoport Group largely arise in connection with changes in the markets for housing, loans and insurance. Fiscal and socio-political parameters, the influence of the capital markets and regulatory requirements for intermediaries play a key role.

The most important sectoral risk remains any weakening of demand for mortgage finance, because this product segment still accounts for a significant proportion of the Hypoport Group's activities. The main triggers for such a downturn could be the housing market or long-term interest rates.

The mortgage finance market in Germany is experiencing a growth phase. Purchase prices are being pushed up by huge excess demand for both luxury and basic housing in the urban centres. Home-building is increasing steadily throughout Germany. Rising rents are driving the trend for home ownership. These developments are increasing the volume of mortgage finance, and this will continue to benefit Hypoport.

The interest rates on long-term investments, which serve as the benchmark rate for property finance, could also have a significant impact on the demand for finance and, consequently, on the performance of several Group companies. A sharp rise in long-term interest rates might curb demand for such finance. Given the persistently challenging economic and sovereign debt situation in the eurozone, we currently do not expect interest rates to rise significantly. The recent trend in 2016 confirms this assumption.

If major product suppliers were to withdraw competitive terms and conditions or products from the Hypoport Group, terminate collaborative arrangements or reduce remuneration, or if one or more distribution partners were to restrict or end their relationship with Hypoport, this could result in a contraction in revenue. Given the large number and diversity of its product suppliers and distribution partners, the Hypoport Group's reliance on individual counterparties is limited and so is the risk to which it is exposed. Overall, the Hypoport Group has a broad range of strong partners. Group companies broker financial products supplied by more than 500 insurance companies, banks and building finance associations.

The risks associated with the product range are mitigated by working with respected product suppliers with whom we maintain long-lasting relationships. The Hypoport Group carries out extensive market research to identify market trends and customer preferences, which it meets by working with its product partners to provide competitive products tailored to customers' requirements. By doing so, we may even face lower margins due to the stiff competition in our market. Hypoport maintains a constant dialogue with its partners to ensure that its products are competitive and high quality.

Because the internet is used intensively by financial product distributors to acquire new business and by financial marketplaces to communicate and execute transactions, the Hypoport Group is especially reliant on the fact that the internet continues to be available to and accepted by its clients and partners. Any impairment of its acceptance or technical availability could have serious consequences for the financial performance of several subsidiaries. The perennial debate about the security of the internet and the data it transmits has not curbed its growing use in recent years. The internet's increasing importance for the entire economy and the high level of capital spending by the telecoms industry in the net's infrastructure mean that we are unlikely to see global technical disruptions to the internet's availability.

Changes to regulatory parameters are accompanied by new requirements and, perhaps, new risks. Hypoport constantly monitors all efforts to introduce far-reaching regulation of the financial services market in Germany, particularly those with the aim of increased investor protection, and it promptly analyses their impact on its business model and strategic positioning in the markets. To comply with more stringent requirements, combined with increasing supervision by the regulatory authorities, Hypoport will take measures such as the systematic expansion of its staff training and development and the enhancement of its risk and compliance management.

Competition for highly qualified financial advisors has also increased. Transparent contractual conditions, competitive pay, the quality of our advisors and our non-captive status put us in an excellent position in the market.

Increasingly restrictive legal requirements in respect of financial advisory services, financial products and technological innovations demand that companies operate on an efficient scale. The financial services market is in the process of consolidating and becoming more concentrated. The need to achieve critical mass is currently driving the market in mergers and acquisitions. Given its current shareholder structure, a hostile takeover of the Company would be impossible. Nonetheless, its shareholder structure is constantly and carefully reviewed to detect any changes.

Hypoport is well prepared for the forthcoming changes.

4. Operational risk

Information technology (IT) is key to all the Hypoport Group's business models. If the EUROPACE platform were to fail, this would reduce the revenue generated by the transaction-based business models of our subsidiaries, impair the work of our Dr. Klein financial product distribution and could damage Hypoport AG's general reputation as a technology partner.

The Company therefore pursues a groupwide IT strategy to mitigate its IT risks. When selecting our IT systems and IT service providers we usually opt for standard software packages from reputable suppliers and service providers. Proprietary software developed specifically for Hypoport to supplement standard software solutions undergoes continuous quality control. To ensure that they work properly, we subject all IT systems to rigorous testing before they go live. State-of-the-art data centres with off-site contingency premises, back-up systems and mirror databases are used to protect the data held by the Hypoport Group. Special access and authorisation systems monitored by data protection officers protect the Hypoport Group's IT systems against unauthorised access. Its IT systems are also protected by comprehensive virus protection and effective IT security.

Every year, substantial amounts are spent on upgrading the IT infrastructure and IT application systems to ensure that our IT systems are efficient.

The availability of existing and new expertise is particularly important in a growth company. The Hypoport Group regularly conducts HR planning to ensure that the necessary resources are available either inhouse or from external partners. In addition, it conducts regular staff development and performance appraisal reviews at all levels as a means of staff retention. High-quality staff training and development, interesting career prospects, appropriate employee benefits and attractive remuneration models encourage staff loyalty.

Timely and high-quality product development forms the backbone of any service-driven technology company. The Hypoport Group brokers financial products provided by established suppliers, generally banks, insurance companies and building finance associations. During the advisory process, individual products and rates are combined to produce personal solutions tailored to meet customers' particular needs. By constantly monitoring its product portfolio, the Hypoport Group is able to mitigate the risks that arise if individual products lose their appeal or their quality deteriorates. We have also defined clear development-related processes and responsibilities and introduced planning tools that help to ensure that development projects can be completed on schedule and on budget.

Building and enhancing a brand image forms an integral part of any successful product strategy. The names and logos used by Hypoport AG and its subsidiaries are trademarks and, as such, are protected against unauthorised use.

Hypoport has taken out insurance covering potential liability risks and compensation claims in order to limit and provide cover for the Group's operational risk. The insurance cover is reviewed regularly and amended if general parameters change.

5. Financial risk

As a medium-sized company, Hypoport AG is exposed to a number of financial risks. Because of its rapid growth, the Company's need for capital is constantly increasing. It meets this demand for capital by working closely with its lenders. Its shareholders help to increase the Company's financial strength and mitigate its financial risks by retaining its profits.

To ensure that it can secure sufficient borrowing, Hypoport AG maintains business relationships with several banks. It discusses its future borrowing requirements with these institutions in a timely fashion. We subject our banking partners to rigorous selection criteria, assessments and ongoing reviews to ensure that they are reliable lenders and suitable partners. In doing so, we reduce the risk that such banks – which are subject to frequent strategic changes – call in their loans at short notice.

Liquidity management is one of the core functions of the Group Finance business unit. Liquidity is managed and surplus liquidity is invested by the Hypoport Group's central cash management unit with the involvement of all of its major Group companies. In addition, the Hypoport Group can draw on credit lines from its partner banks.

Commission is the Hypoport Group's most important source of income and cash flow. Its financial planning and reporting units constantly analyse the impact that potential changes to existing commission models and to regulatory and fiscal parameters would have on the products that are sold.

A further aspect of the Company's financial risk is the credit risk attaching to its receivables. The Management Board centrally approves the credit terms it allows as part of its operating activities and these terms are documented in the Company's electronic manual. Most of the Hypoport Group's accounts receivable are owed by medium-sized and large financial service providers. Credit risk stems primarily from commission receivable from product partners and from advance payments of commission to distribution partners. In brokerage business it is common for product suppliers to sometimes take several weeks to pay commission, resulting in commission that has been earned but not received occasionally being paid to distribution partners in advance. The Hypoport Group mitigates these risks by means of thorough receivables management and by imposing strict criteria on its selection of counterparties. Appropriate provisions are recognised for receivables when they appear at risk, taking account of the latest information about the credit standing of the debtor, anticipated commission income and the age structure of the receivables.

The Hypoport Group provides for cancellation risk in its insurance business by retaining appropriate amounts of the commission due to agents and by recognising cancellation provisions. The provisioning level is based on the commission income received during the liability period and the claims for reimbursement of commission anticipated on the basis of past experience.

The Group's interest-rate risk stems from non-current, interest-bearing liabilities. Floating-rate liabilities expose the Group to interest-related cash flow risks. Under its financial risk policy, the vast majority of liabilities it assumes have to be subject to fixed interest rates.

The Company's transparent financial reporting system and the healthy structure of its balance sheet also help to minimise its financial risks. They are supported by an early-warning system in the form of Group planning across all business units. This enables the Company to discuss its financial requirements with its lenders in a timely manner.

6. Strategic risk

Strategic risks can arise if the Company's management misjudges significant developments and trends in the financial services sector or fails to identify them at a sufficiently early stage. This can result in key decisions being made which, in terms of the achievement of the Company's long-term objectives and targets, prove with hindsight to be disadvantageous and may be difficult to reverse. Strategic risks also result from unexpected changes in market and macroeconomic conditions that have an adverse impact on earnings.

The management of strategic risk forms part of the overall coordination of the Company and is the responsibility of the Management Board.

The Group Management Board regularly reviews the strategy adopted for the Hypoport Group as part of the long-term planning process. Corporate and divisional strategies form the basis on which the four-year plan and the budget for the following year are compiled. To this end, we continuously monitor the political, economic and legal/regulatory environment and keep our strategic market position under constant review. All of the key value drivers for the Hypoport business model are analysed and managed on an ongoing basis by means of comprehensive financial planning and reporting activities at head office and in the business units. This enables us, where necessary, to respond to changing market conditions by adjusting our business model or processes. When formulating such strategic initiatives, the Management Board liaises closely with the Supervisory Board.

This system ensures that strategic risk is identified on a timely basis and preventive action can be taken at a sufficiently early stage.

Impartial advice and financial optimisation for retail and corporate customers are the cornerstones of the Hypoport Group business model. A wide range of products is essential to supplying advice that is tailored to customers' needs. The Hypoport Group constantly reviews the distribution of its product groups across suppliers in order to monitor the risk of losing its operational independence as a result of one product supplier dominating its revenue streams.

7. Other risks

Reputational risk is the risk arising from damage to the image of the entire sector, the Hypoport Group or one or more of its operational units as perceived by customers, employees, business partners or the general public. We are particularly exposed to the risk that media reporting of a transaction or business practice involving one of our customers could damage public confidence in our Group. We minimise potential advisory risk by ensuring that we provide high-quality advice at all times. The use of IT-based advisory tools is one of the ways in which we ensure that this is the case. Full documentation of customer meetings and strict criteria for selecting new product suppliers and products help us to achieve this goal.

The Hypoport Group mitigates legal risk by making use of inhouse legal counsel, but also uses external advisors when required. The Group's legal departments constantly track and assess ongoing legal cases and help the Managing Board and company managers with corporate policy decisions.

Hypoport constantly monitors changes in tax law and analyses any impact they may have on the Group. Internal and external experts review compliance with fiscal legislation in accordance with tax regulations and the administrative instructions issued by the tax authorities.

The types of business carried out by service providers such as the Hypoport Group have little adverse impact on the environment. No material environmental risks arise from the Hypoport Group's operational activities.

In addition to the risks described above, general risks exist which cannot be foreseen and are consequently difficult to manage. They include political changes and risk factors such as natural disasters and terrorist attacks. Such factors may have a negative impact on the economic situation and may indirectly impair the future financial performance of the Hypoport Group.

8. Aggregate risk

Hypoport maintains a risk management system that enables it to address the risks relevant to our Company in an appropriate manner. We review the structure of the risk management system on an annual basis to ensure we can react promptly to changes in risk positions and to new legislation. The effectiveness of our risk management system and its implementation are also reviewed on a regular basis by external auditors and the internal audit department. All risks currently identified and weighted according to the likelihood of their occurrence have been compensated for by preventive measures and do not present any evident threat to the continued existence of the Company.

The cumulative expected value of the ten biggest risks is €3.7 million. At present we have not identified any additional risks that might jeopardise the Company as a going concern. The risks described, and those of which we are not yet aware or have currently assessed as immaterial, could have a negative impact on the forecasts we expressed in the outlook. Despite the use of a proven risk management system, the possibility cannot be entirely ruled out that risks that are as yet unidentified or classed as immaterial could arise in the future and have a material impact on the Company's financial position and financial performance. The overall assessment of the risk position is the same as it was in 2015, i.e. it is still considered to be low. No significant risks that could have a material effect on the continued existence of Hypoport AG as a going concern have arisen since the balance sheet date.

9. Disclosures pursuant to section 315 (2) no. 5 HGB

The following description of the material features of the internal control and risk management systems used for the consolidated financial reporting process is required by section 315 (2) no. 5 HGB.

Main features of the internal control and risk management systems used by Hypoport AG and the Hypoport Group for the financial reporting process

The main features of Hypoport AG's existing internal control system applicable to the (consolidated) financial reporting process are described below.

The internal control system used in the Hypoport Group incorporates all the principles, procedures and measures needed to ensure that its financial reporting is effective, efficient and carried out correctly and to ensure that it complies with the relevant legislation.

The Company and the Group have a clear management and organisational structure in which key interdepartmental functions are managed centrally by the Company while individual companies within the Group enjoy a high degree of independence.

Accounting, financial control and financial reporting – the areas primarily involved in the financial reporting process – have clearly segregated roles in order to prevent fraudulent acts and abuse. Their areas of responsibility have been clearly allocated.

By employing highly qualified professionals, offering training and continuing professional development and adhering strictly to the double-checking principle in accounting and finance, Hypoport ensures that local (HGB and national tax law) and international financial reporting standards (IFRS) are complied with in both the separate and the consolidated financial statements.

Centralised key functions that report directly to the Management Board ensure that there is integrity and accountability in respect of the finance function and financial reporting.

There is an effective system of standards and policies (e.g. accounting standards, payment guidelines, travel policy etc.), which is constantly updated. Various checklists and descriptions of procedures are also available.

The areas involved in the financial reporting process are equipped with the necessary resources in terms of both quality and quantity.

Specific training and professional development courses generate a high degree of quality awareness among all those involved in the process throughout the Group network.

Incoming and outgoing accounting data is subject to regular random checks to ensure that it is complete and accurate. Software is used to carry out in-built validation checks – as part of payment runs, for example.

Appropriate controls have been integrated into all the processes relevant to financial reporting (e.g. checking by a second member of staff, analytical checks).

The Company's clearly defined work processes and the way in which it documents and follows up on all matters that have to be accounted for ensure that the entries in its bookkeeping system are complete and properly checked.

The accounting-related internal control system guarantees that bookkeeping records are checked to make sure that they are arithmetically and factually correct.

All material separate financial statements for the Group companies that are included in the consolidated financial statements are audited by an external auditor or sworn auditor at least once a year.

Updating and continuous enhancement of the Group reporting system is undertaken centrally at parent company level, where ongoing contact with the finance directors or chief financial officers at the Group subsidiaries is also maintained. Interim Group reporting in accordance with IFRS, including the reconciliation of intercompany charges in accordance with the German Commercial Code (HGB), the German Stock Corporation Act (AktG) and German Securities Trading Act (WpHG), is consolidated on a quarterly basis.

The finance function, which acts as a direct point of contact for financial reporting and Group financial statements for the Management Board and the directors/managing directors of the subsidiaries, prepares and compiles the consolidated financial statements in accordance with IFRS.

The finance function also acts as a central contact point at Group level for special issues in the Group, such as specific accounting questions. Ad-hoc analysis requested by the Management Board during the year is also carried out by the finance function.

Because all Group companies are required to report their financial results to the Group parent company in a standard format every month of the year, deviations of actual figures from the budget during the year are identified quickly and it is possible to take appropriate swift action. Processes connected with financial reporting are regularly reviewed for efficiency and effectiveness and they are subject to an ad-hoc (non-process-based) internal audit.

As far as possible, standard software is used for the Company's financial systems.

The IT systems used for financial reporting purposes are protected by special security devices against unauthorised access in order to ensure that accounting-related data cannot be accessed, used or altered by non-approved persons. Access authorisations are issued for specific functions. Only those areas that are responsible for recording the transactions concerned are given write access. Functions that process information use read-only access.

We centrally manage and monitor the relevant IT systems used in our financial reporting process, and we carry out regular system back-ups to prevent any data loss and system malfunctions as far as possible.

The main features of Hypoport AG's existing internal risk management system applicable to the (consolidated) financial reporting process are described below.

The objective of the risk management system is to identify potential risks at an early stage and, where possible, to take appropriate action to counter them as quickly as possible. The Management Board is responsible for setting up and monitoring the system. The risk management system is part of the Group's planning, control and reporting process.

The principles on which the risk management system is based include the responsibility of each employee to prevent losses to the Company, and they lay down certain procedures and aids for fulfilling this responsibility. This applies in particular to financial reporting.

Risk is assessed by comparing the likelihood of risks occurring with the potential losses they may cause, and outcomes of individual risks are collated to form a risk portfolio.

The risk management system includes quarterly reports that all departments, including financial reporting, are required to submit and a procedure for reacting quickly to sudden negative developments. Actions to avert or minimise risk are defined and categorised.

Notes on the main features of the internal control and risk management systems used by Hypoport AG and the Hypoport Group for the financial reporting process

The internal control and risk management system in connection with the financial reporting process, the main features of which are described above, ensures that at all times commercial transactions are correctly recorded, processed and recognised in the Company's accounts and are incorporated into its financial reporting process.

Clearly defined areas of responsibility, in both financial reporting itself and in risk management and internal audit, as well as ensuring that the accounting function is adequately equipped with the necessary human and material resources, enable the areas involved in the financial reporting process to work efficiently. Precise statutory and corporate rules and guidelines ensure that the financial reporting process is conducted consistently and properly. Clearly defined checking mechanisms (particularly checking by a second person) within the areas involved in the financial reporting process itself, systematic controls undertaken by internal and external auditors and the early identification of risk by the risk management function ensure that financial reports are error free and coherent.

In particular, this ensures that financial reporting at Hypoport AG and across the Hypoport Group is carried out uniformly and in line with statutory requirements, generally accepted accounting principles, international accounting standards and Group policy. It also ensures that transactions are recorded, recognised and evaluated uniformly and accurately in all the Group financial reports that are published, so that the public is provided with complete, accurate information that is reliable and timely.

10. Limitations

The internal control and risk management system makes it possible for the organisational, control and monitoring structures built into the Hypoport Group to record, process and assess all company-related information and for the information to be presented appropriately in the consolidated financial statements.

However, due to the nature of the business, it is not possible to rule out discretionary personal decisions, criminal acts and other circumstances that could impair the effectiveness and reliability of the internal control and risk management systems in use. As a result, even though the system is applied across the Group it is not possible to guarantee with absolute certainty that information in the consolidated financial statements has been recognised correctly, promptly or in full.

The statements made relate only to the subsidiaries included in Hypoport AG’s consolidated financial statements whose financial and operating policies Hypoport AG is able to influence directly or indirectly in order to benefit from the activities undertaken by these companies.

11. Opportunities

We assess and exploit the opportunities that arise for us and our business at all levels of the Group. We monitor trends and developments in our product areas and identify operational opportunities.

Our lean structures shorten our decision-making channels and allow us to respond quickly to customer preferences and market trends.

The level of excess demand in the housing market has been rising for a number of years. The comparatively low proportion of home ownership in Germany, the trend for small households and the expected net immigration in 2017 and subsequent years mean that there will be no let-up in the high level of demand going forward. In 2016, the housing shortfall stood at around one million homes. Demand exceeds supply in all categories – from public housing to luxury apartments. As a result, property prices nationwide, but particularly in major cities, have risen steadily in recent years. Nonetheless, house prices in Germany are still generally modest compared with other European countries. As a result of the lack of land for development and the lengthy approval processes, supply remains too inelastic, both in the rented accommodation market and in terms of the homes available to buy. Completions lag so far behind actual demand that, all other things being equal, satisfying the pent-up demand will take several more years even if the expected 5 per cent or so rise in construction activity materialises. Moreover, rising rental prices and attractive lending conditions are encouraging many tenants to become owners. As a Group, we are ideally placed in all the individual markets to benefit from market growth.

Further opportunities for distribution will arise if we manage to increase the number of our advisors or enhance their productivity to a greater extent than planned. In recent years, we have made significant improvements in our sales support, particularly with regard to IT systems. We are constantly increasing the digitalisation of our distribution processes using new algorithms and our wealth of data. In future, end-to-end electronic processes along our entire value chain should allow us to make our advisors more productive, cut unit costs and enhance our attractiveness as a partner company.

The importance of innovative, professional financial product distributors who offer impartial advice and allow customers to select the best product for them will continue to grow. The successful sale of financial products and services will involve growing levels of complexity for all market participants, which will make it increasingly necessary to provide all stakeholders with automated, technology-based support, such as that offered by EUROPACE.

The increasing regulation of the financial services sector – aimed at stabilising the financial system and affording greater protection for investors – provides us with the opportunity to use acquisitions as a means of growth. The highly fragmented market for financial advisors in Germany will continue to consolidate as a result of the minimum standards introduced for training, transparency and record keeping. Small independent brokers, in particular, are increasingly finding it difficult to implement the new requirements in a commercially viable manner, and are looking for bigger, more efficient and more powerful partners. The high quality of our advice and our non-captive status put us in an excellent position in the market.

While continuously monitoring the market and competitive environment from the Company's various perspectives, Hypoport examines the market for potential acquisition targets, including among fintech companies. An acquisition could create opportunities for enhanced revenue potential.

The opportunities described, and those of which we are not yet aware or have currently assessed as immaterial, could result in a positive deviation from the figures provided in our forecast.

Outlook

Economic forecasts for Germany and the rest of the eurozone in 2017 are subject to significant uncertainty. For example, it is not yet clear how the trade policy of the newly elected US president, Donald Trump, will impact on business in Europe. It is also difficult to predict what influence US geopolitical and monetary policy will have on the eurozone. Other events that may be a significant factor for economic growth are the start of the Brexit process as well as the elections in France, Germany and the Netherlands. Germany is well placed to cope with this heightened uncertainty and the various imponderables: following robust growth of 1.9 per cent in 2016, the German government anticipates that gross domestic product will rise by a further 1.4 per cent in 2017. Deutsche Bundesbank predicts calendar-adjusted GDP growth of 1.8 per cent this year, 1.6 per cent in 2018 and 1.5 per cent in 2019. According to the forecasts, the growth trend will thus be sustained in the coming years, weakening only slightly. This expansion will continue to be driven primarily by strong domestic demand, although a slight rise in exports is also expected.

Whereas the US Federal Reserve raised the key interest rate in December, we believe that the ECB will maintain its expansionary monetary policy this year. It can be assumed that interest rates on mortgages and building loans will remain low for as long as the ECB continues with its bond buying programme.

The construction industry – particularly residential construction – will bolster the wider economy. After all, demand for housing will, despite falling immigration, remain higher than the number of completions. The German Construction Industry Association anticipates that around 320,000 homes will be completed in 2017, which is not sufficient to eliminate the excess demand of around one million homes. More land for development, consolidation of existing homes, no further increases in real estate transfer tax rates and the simplification of approvals and the awarding of contracts could certainly help to counteract the steadily growing shortage of homes. The housing industry's willingness to increasingly build mass-scale housing will accelerate this process.

The insurance industry will benefit from the overall economic situation. The German Insurance Association (GDV) anticipates that premium income will increase by at least 1 per cent across all types of insurance.

The Financial Service Providers business unit is focusing on expanding its market share in all market segments. It also aims to increase the depth of services provided to individual customers – thus strengthening customer loyalty – by offering new products and additional services. Moreover, it will continue to widen its range of insurance solutions, which should boost business performance as early as this year.

The Private Clients business unit is concentrating on signing up customers for financial products. It takes an end-to-end, integrated approach when handling customer enquiries. This strategy, combined with increasing economies of scale, is having a positive impact on revenue and earnings.

The Institutional Clients business unit predicts a rise in the implementation of projects for new housing, which will have a positive effect on business performance. Moreover, the business unit intends to generate further growth by offering additional products and digitalising its customer processes.

Based on the capital spending decisions that we have already taken and the future projects that we are planning, we anticipate that the Hypoport Group will require financial resources of approximately €10.7 million in 2017. Most of this will go on the expansion and refinement of the EUROPACE, GENOPACE and FINMAS financial marketplaces and on the establishment of the insurance platform. The budget envisages the ability to fund a large part of the capital expenditure from cash flow.

As at the balance sheet date, the Hypoport Group had sufficient equity and adequate cash and cash equivalents. Our business model is not very capital intensive and generates large cash flows. As a result, Hypoport is largely immune to developments in the capital markets. Rising interest rates or more restrictive bank lending would not have a negative impact on our liquidity or our ability to fund ourselves in 2017. We will essentially use our cash flows to increase the Hypoport Group's financial strength and for capital investment.

The Hypoport Group and its subsidiaries are well placed in the market for 2017. Assuming that the German economy performs well, and there is no significant turmoil in the real-estate markets, we expect the Group as a whole to achieve a percentage increase in revenue and earnings that is just into double figures in the coming year. Because we believe that the performance of all business units will be on a par, we are providing a forecast at Group level only.

This management report contains statements about economic and political developments as well as the future performance of the Hypoport Group. These statements are assessments that we have reached on the basis of the information available to us at the present time. If the assumptions underlying these assessments do not prove to be correct or if other risks emerge, the actual results could deviate from the outcome we currently expect.

Berlin, 21 March 2017
Hypoport AG – The Management Board

Ronald Slabke | Stephan Gawarecki | Hans Peter Trampe

Responsibility statement

“We assure that, to the best of our knowledge and in accordance with the accounting standards applied, the consolidated financial statements give a fair presentation of the Company’s financial position and financial performance, the group management report gives a fair presentation of the Hypoport Group’s business, profits and position and that the material opportunities and risks of its expected development are described.”

Berlin, 21 March 2017
Hypoport AG – The Management Board

Ronald Slabke | Stephan Gawarecki | Hans Peter Trampe

Hypoport's shares

Share price performance

The price of Hypoport shares fluctuated significantly in 2016, and trading activity increased. Having risen sharply in the previous year, the share price entered a phase of consolidation at the beginning of 2016. Until April, the price hovered just below its starting price (4 January 2016) of €75.50. The shares dropped to their lowest point of the year on 9 February 2016, when they stood at €53.59. They rose steadily in the period April to July, reaching an all-time high of €97.00 on 29 July 2016. The shares then fell in value again until mid-November, before going back up at the end of the year. On the last day of trading, 30 December 2016, Hypoport shares closed at €77.75. With market capitalisation of around €500 million, the shares are positioned in the bottom third of the SDAX.

Earnings per share

Earnings per share for 2016 came to €3.00 (2015: €2.61).

Performance of Hypoport shares (daily closing prices, Xetra, €) up to 30 Dec 2016

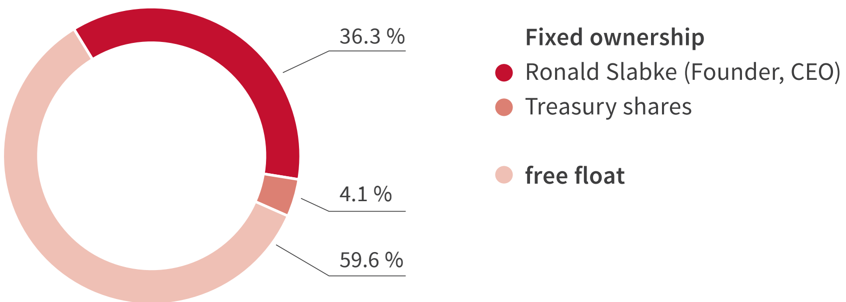
Trading volumes

The daily volume of Hypoport shares traded in 2016 averaged €2,104,216.54. The highest average daily turnover was in the first quarter (41,989 shares), followed by the fourth quarter (30,992 shares). An average of 30,552 shares per day were traded in the second quarter. The lowest daily turnover was recorded in the third quarter, when an average of only 24,125 Hypoport shares changed hands. In terms of trading activity, the shares are positioned in the top third of the SDAX.

Shareholder structure

The free float in Hypoport's shares amounts to 60.1 per cent. The breakdown of shareholders as at 30 December 2016 was as follows.

Breakdown of shareholders as at 30 December 2016



Research

The table below shows the research studies on Hypoport's shares published in 2016.

Analyst	Recommendation	Target price	Date
Oddo Seydler	Buy	€102.00	16 Dec 2016
Berenberg	Buy	95.00	14 Dec 2016
Warburg	Buy	€115.00	09 Dec 2016
Oddo Seydler	Buy	€102.00	28 Nov 2016
Equinet Bank	Buy	€100.00	01 Nov 2016
Oddo Seydler	Buy	€102.00	31 Oct 2016
Warburg	Buy	€115.00	24 Oct 2016
Equinet Bank	Buy	€100.00	24 Oct 2016
ODDO Seydler	Buy	€102.00	22 Sept 2016
Warburg	Buy	€117.00	16 Sept 2016
Equinet Bank	Buy	€100.00	25 Aug 2016
Montega	n.a.	n.a.	01 Aug 2016
Warburg	Buy	€117.00	19 Jul 2016
Warburg	Buy	€108.00	05 Jul 2016
Warburg	Buy	€108.00	18 May 2016
ODDO Seydler	Buy	€89.00	03 May 2016
Montega	Buy	€83.00	03 May 2016
Warburg	Buy	€92.00	26 Apr 2016
Montega	Buy	€78.00	19 Apr 2016
ODDO Seydler	Buy	€74.00	18 Apr 2016
ODDO Seydler	Buy	€74.00	22 Mar 2016
Montega	Buy	€78.00	15 Mar 2016
ODDO Seydler	Buy	€72.00	23 Feb 2016
Montega	Buy	€78.00	19 Jan 2016
ODDO Seydler	Buy	€102.00	16 Jan 2016
ODDO Seydler	Neutral	€77.00	11 Jan 2016

Designated sponsor

Designated sponsors enhance a share's liquidity by quoting binding prices at which they will buy and sell the share. The designated sponsor for Hypoport AG is Oddo Seydler Bank AG, Frankfurt am Main.

Inside information according to article 17 MAR

As a publicly traded company we are required to disclose facts that could influence our share price as inside information pursuant to article 17 of the Market Abuse Regulation (MAR). Seven inside information disclosures pursuant to article 17 MAR (or ad-hoc disclosures pursuant to section 15 WpHG) were published in 2016.

- **1 November 2016**
  Inside information pursuant to article 17 MAR: Hypoport AG approves share repurchase programme
- **21 October 2016**
  Inside information pursuant to article 17 MAR: Results for January to September: sharp year-on-year rise in earnings
- **15 July 2016**
  Inside information pursuant to article 17 MAR: Half-year results: sharp year-on-year rise in earnings
- **7 June 2016**
  Ad-hoc disclosure: Hypoport acquires NKK Programm Service AG
- **15 April 2016**
  Ad-hoc disclosure: Strong start to the year with sharp year-on-year rise in earnings
- **4 March 2016**
  Ad-hoc disclosure: Record results in 2015, with sharp year-on-year rises in revenue and earnings
- **12 February 2016**
  Ad-hoc disclosure: Hypoport AG approves share repurchase programme

Inside information according to article 17 MAR can be downloaded from our website at www.hypoport.com/investor-relations/publications/.

Notification of directors' dealings

The table below shows the directors' dealings notified and published in 2016.

Transaction date	Notifying person/entity	Transaction	Stock exchange	Number of shares	Execution price
03 Aug 2016	Hans Peter Trampe	Sale	Off-exchange	10,000	88.82
03 Aug 2016	Gawarecki GmbH	Sale	Off-exchange	10,000	88.82
02 Aug 2016	Hans Peter Trampe	Sale	Off-exchange	35,000	90.41
02 Aug 2016	Gawarecki GmbH	Sale	Off-exchange	35,000	90.41
24 May 2016	Monika Schröder	Sale	XETRA	1,000	84.50
24 May 2016	Christian Schröder	Sale	XETRA	1,000	84.50
02 May 2016	Dr. Ottheinz Jung-Senssfelder	Sale	XETRA	1,000	70.80

Key data on Hypoport's shares

WKN	549 336
ISIN	DE 000 549 3365
Stock exchange symbol	HYQ
Type	No-par-value shares
Notional value	€1.00
Subscribed capital	€6,194,958.00 €
Stock exchanges	Frankfurt
XETRA	XETRA
Market segment	Regulated market
Transparency level	Prime Standard
Membership of indices	SDAX
	CDAX
	Classic All Share
	DAXplus Family
	GEX
	Prime All Share
Performance	
Share price as at 4 January 2016	€75.50 (XETRA)
Share price as at 30 December 2016	€77.75 (XETRA)
High in 2016	€97.00 (29 July 2016)
Low in 2016	€53.59 (9 February 2016)
Market capitalisation	€481.7 million (30 December 2016)
Trading volume	€2,104,216.54 € (daily average for 2016)

Consolidated financial statements

IFRS consolidated income statement for the year ended 31 December 2016

	Note	2016 €'000	2015 €'000
Revenue	(3.1)	156,636	138,982
Selling expenses	(3.2)	- 71,438	- 67,306
Gross profit		**85,198**	**71,676**
Own work capitalised	(3.3)	5,662	4,663
Other operating income	(3.4)	3,066	2,179
Personnel expenses	(3.5)	- 46,359	- 38,224
Other operating expenses	(3.6)	- 19,327	- 15,246
Income from companies accounted for using the equity method	(3.7)	81	29
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**28,321**	**25,077**
Depreciation, amortisation expense and impairment losses	(3.8)	- 5,085	- 5,817
Earnings before interest and tax (EBIT)		**23,236**	**19,260**
Financial income	(3.9)	227	366
Finance costs	(3.9)	- 628	- 512
Earnings before tax (EBT)		**22,835**	**19,114**
Income taxes and deferred taxes	(3.10)	- 4,761	- 3,237
Net profit for the year		**18,074**	**15,877**
attributable to non-controlling interest	(4.12)	33	6
attributable to Hypoport AG shareholders	**(3.11)**	**18,041**	**15,871**
Earnings (loss) per share (€)	**(3.11)**	**3.00**	**2.61**

Consolidated statement of comprehensive income for the period 1 January to 31 December 2016

	2016 €'000	2015 €'000
Net profit (loss) for the year	18,074	15,877
Total income and expenses recognized in equity*)	0	0
Total comprehensive income	18,074	15,877
attributable to non-controlling interest	33	6
attributable to Hypoport AG shareholders	18,041	15,871

* There was no income or expense to be recognized directly in equity during the reporting period.

IFRS consolidated balance sheet as at 31 December 2016

Assets	Note	31.12.2016 €'000	31.12.2015 €'000
Non-current assets			
Intangible assets	(4.1)	41,660	31,887
Property, plant and equipment	(4.1)	2,631	2,571
Financial assets	(4.2)	1,089	34
Investments accounted for using the equity method	(4.3)	576	465
Trade receivables	(4.4)	6,475	3,580
Other assets	(4.5)	1,850	1,418
Deferred tax assets	(4.6)	587	396
		54,868	**40,351**
Current assets			
Trade receivables	(4.4)	31,613	29,269
Trade receivables from joint ventures	(4.4)	73	102
Other assets	(4.5)	3,031	1,481
Current income tax assets	(4.5)	102	116
Cash and cash equivalents	(4.7)	22,411	24,757
		57,230	**55,725**
		112,098	**96,076**
Equity and Liabilities			
Equity			
Subscribed capital	(4.8)	6,195	6,195
Treasury shares	(4.10)	-253	-156
Reserves	(4.11)	57,888	46,352
Equity attributable to non-controlling interests	(4.12)	303	270
		64,133	**52,661**
Non-current liabilities			
Financial liabilities	(4.13)	6,270	6,920
Provisions	(4.15)	87	97
Other liabilities	(4.14)	10	10
Deferred tax liabilities	(4.5)	4,784	2,033
		11,151	**9,060**
Current liabilities			
Provisions	(4.15)	154	113
Financial liabilities	(4.13)	4,441	4,342
Trade payables		18,707	20,394
Trade payables from joint ventures		69	36
Current income tax liabilities		1,731	1,022
Other liabilities	(4.14)	11,712	8,448
		36,814	**34,355**
		112,098	**96,076**

Consolidated statement of changes in equity for 2015 and 2016

2015 €'000	Subscribed capital	Capital reserves	Retained earnings	Equity attributable to Hypoport AG shareholders	Equity attributable to non-controlling interest	Equity
Equity as at 1 Jan 2015	6,116	2,209	30,263	38,588	264	38,852
Sale of own shares	9	136	91	236	0	236
Purchase of own shares	-86	0	-2,218	-2,304	0	-2,304
Total comprehensive income	0	0	15,871	15,871	6	15,877
Equity as at 31 Dec 2015	**6,039**	**2,345**	**44,007**	**52,391**	**270**	**52,661**

2016 €'000	Subscribed capital	Capital reserves	Retained earnings	Equity attributable to Hypoport AG shareholders	Equity attributable to non-controlling interest	Equity
Equity as at 1 Jan 2016	6,039	2,345	44,007	52,391	270	52,661
Sale of own shares	4	260	42	306	0	306
Purchase of own shares	-101	0	-6,807	-6,908	0	-6,908
Total comprehensive income	0	0	18,041	18,041	33	18,074
Equity as at 31 Dec 2016	**5,942**	**2,605**	**55,283**	**63,830**	**303**	**64,133**

Consolidated cash flow statement for the period 1 January 2016 to 31 December 2016

	2016 €'000	2015 €'000
Earnings before interest and tax (EBIT)	23,236	19,260
Non-cash income / expense	-718	1,599
Interest received	18	27
Interest paid	-363	-457
Income taxes paid	-1,749	-1,564
Current tax	-1,336	160
Change in deferred taxes	1,676	-1,079
Income from companies accounted for using the equity method	-81	-29
Depreciation and amortisation expense, impairment losses / reversals of impairment losses on non-current assets	5,085	5,817
Gains / losses on the disposal of	-3	10
Cash flow	**25,765**	**23,744**
Increase / decrease in current provisions	41	8
Increase / decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	-6,701	-1,661
Increase / decrease in trade payables and other liabilities not attributable to investing or financing activities	-793	4,602
Change in working capital	**-7,453**	**2,949**
Cash flows from operating activities	**18,312**	**26,693**
Payments to acquire property, plant and equipment / intangible assets	-7,671	-7,105
Cash outflows for acquisitions less acquired cash	-5,556	0
Proceeds from the disposal of financial assets	10	54
Purchase of financial assets	-33	-5
Cash flows from investing activities	**-13,250**	**-7,056**
Purchase of own shares	-6,908	-2,304
Proceeds from drawdown of loans under finance facilities	4,000	0
Redemption of bonds and loans	-4,500	-4,600
Cash flows from financing activities	**-7,408**	**-6,904**
Net change in cash and cash equivalents	-2,346	12,733
Cash and cash equivalents at the beginning of the period	24,757	12,024
Cash and cash equivalents at the end of the period	**22,411**	**24,757**

Notes to the consolidated financial statements

1. Basis of presentation

1.1 Business background and company-law information

Hypoport AG (referred to below as 'Hypoport'), whose registered office is located in Berlin, Germany, is entered in the commercial register of the Berlin-Charlottenburg local court under HRB 74559. The Company's business address is Klosterstrasse 71, 10179 Berlin, Germany.

As the parent company of the Hypoport Group, Hypoport AG is required by section 290 of the German Commercial Code (HGB) to prepare consolidated financial statements and a group management report. Because the Company's shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange (WKN 549336), this obligation applies irrespective of whether certain minimum size criteria are met. As a parent entity that is listed on a stock exchange, the Company is obliged to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). It is required by section 315a (1) HGB to comply with supplementary provisions of the German Commercial Code.

The consolidated financial statements for 2016 have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU. Furthermore, a group management report has been added to the IFRS consolidated financial statements to meet the requirements of the HGB. The IFRS consolidated financial statements comprise the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, the consolidated statement of comprehensive income, the consolidated cash flow statement and the notes to the consolidated financial statements. The disclosures required by section 315a (1) HGB are presented in the notes to the consolidated financial statements and in the remuneration report, which forms part of the group management report. The consolidated financial statements were completed on 10 March 2017 and are expected to be submitted to the Supervisory Board on 24 March 2017 to be approved for publication.

The consolidated balance sheet is broken down into current and non-current items in accordance with IAS 1.51 et seq.

The consolidated income statement is presented under the nature-of-expense method.

The consolidated financial statements and the separate financial statements for the entities included in the IFRS consolidated financial statements have been prepared in euros.

To improve clarity, all figures in the IFRS consolidated financial statements and the group management report are presented in thousands or millions of euros. We wish to point out that the application and aggregation of rounded amounts and percentages and the use of automated calculation methods may give rise to rounding discrepancies.

All figures on the quantities and volumes of financial products sold (e.g. volume of loans brokered, life insurance premiums, or volume of transactions processed on EUROPACE) include cancellations and, consequently, cannot be compared directly with the revenue figures shown, which exclude cancellations. The relevant figures shown in each case are calculated at a cut-off point in the product transaction process that is appropriate for the accrual method of accounting used. The growth of the subsidiaries in the Financial Service Providers and Private Clients business units can be seen from the volume of loans on the transaction platform. A transaction is included in the volume as soon as the advisor has set its status to 'customer has accepted the offer'. The volume is the volume before cancellations. Cancellations that occur later in this process – e.g. as a result of additional credit checks or health checks performed by product suppliers or the exercise of cancellation rights by consumers – are not taken into account in the relevant figures shown.

The switch to BaufiSmart had a dampening effect of around 10–15 per cent in numerical terms on the volume of transactions reported in 2016. To enable a comparison with previous years, the volume of mortgage finance and building finance transactions in previous years has been reduced by a flat rate of 12.5 per cent.

The financial year for all the companies in the Group is the same as the calendar year.

The Hypoport Group's presence in the financial services market is based on various business models.

These consolidated financial statements have been prepared on a going-concern basis.

1.2 Application of IFRS

All pronouncements by the International Accounting Standards Board (IASB) that were required to be applied by 31 December 2016 have been adopted. All the principles of the framework, the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) and the earlier interpretations of the Standing Interpretations Committee (SIC) applicable at the balance sheet date have been applied.

The following revised or new standards issued by the IASB were required to be applied for annual periods beginning on or after 1 January 2016:

- Disclosure Initiative (Amendments to IAS 1: Presentation of Financial Statements)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27: Separate Financial Statements)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) (1 January 2016, not endorsed)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11: Joint Arrangements)
- Various: Annual Improvements 2012–2014 Cycle.

DISCLOSURE INITIATIVE (AMENDMENTS TO IAS 1: PRESENTATION OF FINANCIAL STATEMENTS)
These amendments, which were published in December 2014 as part of the Disclosure Initiative, relate to the principle of materiality in the presentation of all parts of financial statements. The specified structure for the notes to the financial statements has been abolished, which means entities are free to decide on the sequence of the notes. It has been clarified that immaterial information should not be included in the notes, even if other standards explicitly stipulate that the information be disclosed. Clarification is provided on the presentation in the statement of comprehensive income of shares of equity-accounted entities' other comprehensive income. These changes have no influence on Hypoport's consolidated financial statements.

AMENDMENTS TO IAS 16: PROPERTY, PLANT AND EQUIPMENT AND IAS 38: INTANGIBLE ASSETS
The amendments published in May 2014 set out the conditions under which it is acceptable to select revenue-based methods for the depreciation of property, plant and equipment or amortisation of intangible assets. These amendments are not relevant to the Hypoport Group because it does not make use of any revenue-based depreciation or amortisation methods.

AMENDMENTS TO IAS 16: PROPERTY, PLANT AND EQUIPMENT AND IAS 41: AGRICULTURE
Bearer plants that are used for the harvesting of biological assets over more than one period without acting as agricultural produce themselves, e.g. grape vines or olive trees, can currently be measured at fair value. The amendments published in June 2014 clarify that bearer plants will in future have to be treated as property, plant and equipment in accordance with IAS 16 and measured at amortised cost. By contrast, the produce of bearer plants will continue to be recognised at fair value under IAS 41. These amendments have no impact on Hypoport's consolidated financial statements.

EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS (AMENDMENTS TO IAS 27: SEPARATE FINANCIAL STATEMENTS)
These amendments published in August 2014 permit the equity method to be used in separate financial statements to account for investments in subsidiaries, joint ventures and associates. The option of recognising such investments under IAS 39 or at cost remains unchanged. The amendments are not relevant to Hypoport AG, because no IFRS separate financial statements are prepared in accordance with section 325 (2a) HGB.

AMENDMENTS TO IAS 28: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES, IFRS 10: CONSOLIDATED FINANCIAL STATEMENTS AND IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES
The amendments published by the IASB in December 2014 entitled Investment Entities: Applying the Consolidation Exception clarify which of an investment entity's subsidiaries have to be consolidated and which are to be carried at fair value. The amendments apply prospectively and are not relevant to Hypoport.

AMENDMENTS TO IFRS 11: JOINT ARRANGEMENTS
The provisions published in May 2014 specify the accounting treatment of acquisition of an interest in a joint operation that constitutes a business within the meaning of IFRS 3. Accordingly, the acquirer must measure identifiable assets and liabilities at fair value, report the costs associated with the acquisition as expenses, recognise deferred taxes and capitalise any residual

amounts as goodwill. The disclosure requirements of IFRS 3 must also be observed. The amendments apply prospectively and have not had any impact on Hypoport's financial statements.

ANNUAL IMPROVEMENTS 2012–2014 CYCLE
Provisions arising from the annual improvement project that were published in September 2014 include amendments to four standards: IFRS 19, IAS 34, IFRS 5 and IFRS 7. In addition to minor amendments to content, the requirements largely relate to clarifications regarding recognition, disclosure and measurement. The amendments have no material influence on the presentation of the consolidated financial statements.

The initial application of the above IFRS requirement did not give rise to any material impact on the presentation of financial position and financial performance or on the notes to these consolidated financial statements.

Furthermore, the IASB has issued the following standards, interpretations and amendments to existing standards that the Hypoport Group is not yet required to apply to these financial statements:

- Disclosure Initiative (Amendments to IAS 7: Statement of Cash Flows) (effective for annual periods beginning on or after 1 January 2017, not endorsed by the European Commission)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12: Income Taxes) (1 January 2017, not endorsed)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (date of first-time adoption deferred indefinitely)
- Transfers of Investment Property (Amendments to IAS 40) (1 January 2018, not endorsed)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (1 January 2018, not endorsed)
- Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4: Insurance Contracts) (1 January 2018, not endorsed)
- IFRS 9: Financial Instruments (1 January 2018, endorsed)
- IFRS 14: IFRS 14: Regulatory Deferral Accounts (decision not to launch the endorsement process for the interim standard but to wait for the final standard)
- IFRS 15: Revenue from Contracts with Customers (1 January 2018, not endorsed)
- IFRS 16: Leases (1 January 2019, not endorsed)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (1 January 2018, endorsed)
- Annual Improvements to IFRS Standards 2014–2016 Cycle (1 January 2017/2018, not endorsed).

DISCLOSURE INITIATIVE (AMENDMENTS TO IAS 7: STATEMENT OF CASH FLOWS)

The amendments should enable the users of financial statements to better evaluate changes in financial liabilities. To this end, it is necessary to disclose additional information on cash and non-cash changes to financial liabilities whose cash inflows and outflows are classified as cash flows from financing activities. Hypoport expects the amendments to result in more extensive disclosures in the notes to the financial statements.

RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES (AMENDMENTS TO IAS 12: INCOME TAXES)

These amendments relate to the recognition of deferred tax assets on unrealised losses on available-for-sale financial assets. They clarify that tax assets must be recognised on deductible temporary differences arising from unrealised losses on debt instruments held if the entity has the ability and intention to hold these instruments to maturity. Moreover, they clarify that the question of whether deferred tax assets are usable depends on there being taxable profit before reversal of the deductible differences if sufficient, adequate deferred tax liabilities are not available. These amendments are not expected to have any material impact on Hypoport's financial statements.

AMENDMENTS TO IAS 28: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES AND IFRS 10: CONSOLIDATED FINANCIAL STATEMENTS

The amendments published in September 2014 clarify how the sale or contribution of assets by an investor to an associate or joint venture must be recognised. The originally envisaged date of first-time adoption for annual periods beginning on or after 1 January 2016 was postponed indefinitely by means of an amendment in December 2015. A new date will be set by the IASB. It is not possible to assess the impact on the presentation of financial position and financial performance because the amendments have to be applied to future transactions on a prospective basis.

TRANSFERS OF INVESTMENT PROPERTY (AMENDMENTS TO IAS 40)

These amendments specify that a property can only be recognised as held as an investment, or cease being recognised as such, if an actual change of use has taken place. A change to the intentions for the use of a property does not constitute a change in use. These amendments have no impact on Hypoport's financial statements.

CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS (AMENDMENTS TO IFRS 2)

The amendments clarify that the measurement of cash-settled share-based payment transactions with vesting and non-vesting conditions must be carried out using the same approach as used for the measurement of equity-settled share-based payments. Moreover, rules are provided for the first time concerning the accounting for cash-settled share-based payments that, as a result of a modification, become equity-settled share-based payments. An exception to the principles of IFRS 2 has also been introduced, according to which a commitment in its entirety should be classified as an equity-settled share-based payment where the entity is obliged to withhold an amount to meet the employee's tax liability arising from the share-based payment and to remit it to the tax authority. These amendments are not expected to have any material impact on Hypoport's financial statements.

APPLYING IFRS 9 'FINANCIAL INSTRUMENTS' WITH IFRS 4 'INSURANCE CONTRACTS' (AMENDMENTS TO IFRS 4: INSURANCE CONTRACTS)
The amendments to IFRS 4 relate to the first-time adoption of IFRS 9 by insurers and are not relevant to Hypoport.

AMENDMENTS TO IFRS 9: FINANCIAL INSTRUMENTS
When it published the fourth and final version of this new standard in July 2014, the IASB completed the project on the recognition of financial instruments that it had started in 2008 in response to the financial crisis. The new standard replaces the previous provisions in IAS 39 Financial Instruments: Recognition and Measurement governing the recognition and measurement of financial assets and contains new requirements for hedge accounting. The requirements for calculating impairment losses are replaced by the expected-loss model. The IASB has set 1 January 2018 as the mandatory date for first-time adoption. The impact on the presentation of the Group's financial position and financial performance is still being assessed but, based on the findings so far, is not expected to be material.

IFRS 14: REGULATORY DEFERRAL ACCOUNTS
This standard published in January 2014 allows companies adopting IFRS for the first time to continue to report price-regulated sales transactions in accordance with the accounting principles they previously applied. This standard is of no relevance to the Hypoport Group.

AMENDMENTS TO IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS
This standard published in May 2014 aggregates the requirements for revenue recognition that were previously included in various standards and interpretations. At the same time, it establishes consistent basic principles applicable to all categories of revenue-related transaction across all sectors that govern the amount of revenue to be recognised and the point in time at which or the period of time over which it is recognised. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the interpretations IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The amendments come into effect on 1 January 2018. The impact of IFRS 15 Revenue from Contracts with Customers is being examined as part of a groupwide project to implement the new rules. Some of the significant Group companies have not yet been included in the analysis. Based on the findings so far, the Group does not anticipate any material impact on the presentation of its financial position or financial performance or on earnings per share.

AMENDMENTS TO IFRS 16: LEASES
IFRS 16 replaces the existing IAS 17 and related interpretations. Lessees no longer need to distinguish between finance leases and operating leases. Instead, accounting is based on the right-of-use approach. Right-of-use assets and lease liabilities have to be recognised by lessees on their balance sheets unless the lease term is less than twelve months or the assets being leased have a low value. Lessor accounting is largely the same as under the old rules, with leases continuing to be classified according to the criteria used in IAS 17. Early adoption is possible, provided IFRS 15 is also applied. IFRS 16 Leases will have a small impact on the components of the consolidated financial statements and on the presentation of the Group's financial position and financial performance:

Balance sheet: Currently, obligations under operating leases have to be disclosed in the notes to the financial statements. In future, the rights and obligations have to be recognised on the balance sheet as right-of-use assets and lease liabilities. Hypoport expects the lease liabilities presented in note 7.1 Other financial commitments to give rise to a material increase in lease liabilities and non-current assets with effect from the date of first-time adoption. This growth in the assets and liabilities on the balance sheet will cause the equity ratio to decrease. Net financial liabilities will rise in line with the increase in lease liabilities.

Income statement: In future, lessees will recognise depreciation, impairment losses and interest expenses instead of the lease expense in respect of operating leases. This change will lead to a slight improvement in EBITDA and EBITA and to an improvement in EBIT.

Cash flow statement: The changes to the reporting of operating lease expenses will result in an improvement in cash flows from operating activities and a deterioration in cash flows from financing activities.

Hypoport has launched a groupwide project to assess the impact and to implement the new rules. It cannot reliably estimate the quantitative effects until the project has been completed.

AMENDMENTS TO IFRIC 22: FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION
This interpretation clarifies that the exchange rate used to translate payments or receipts of advance consideration in foreign currencies must also be used to recognise the subsequent assets, expenses and income. These amendments are not expected to have any material impact on Hypoport's financial statements.

ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2014–2016 CYCLE
In December 2016, the IASB issued Annual Improvements to IFRS Standards 2014-2016 Cycle as part of its annual improvement projects. The amendments relate to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures. They primarily provide clarification in relation to the scope of application, as well as other matters. The amendments to IFRS 1 and IAS 28 must be applied for annual periods beginning on or after 1 January 2018, while the amendments to IFRS 12 must be applied for annual periods beginning on or after 1 January 2017. The amendments have no material influence on the presentation of the consolidated financial statements.
Hypoport does not intend to adopt these standards and interpretations, or the amendments resulting from them, on a voluntary basis before their effective dates.

The Company is currently analysing the potential impact of all the relevant aforementioned amendments and new standards on the financial position and financial performance of the Hypoport Group.

The IASB has also issued further standards and interpretations which, as things stand, have no significant impact on the consolidated financial statements.

1.3 Basis of consolidation

Apart from Hypoport AG as the parent company, the IFRS consolidated financial statements include 14 (2015: ten) domestic and international subsidiaries in which the Company directly or indirectly holds the majority of voting rights, and four (2015: three) joint ventures.

The following table shows the entities included in the consolidated financial statements in addition to Hypoport AG:

Subsidiary	Holding in %
Dr. Klein & Co. AG, Lübeck	100.00
Europace AG, Berlin	100.00
GENOPACE GmbH, Berlin	100.00
Hypoport B.V., Amsterdam	50.025
Hypoport Invest GmbH, Berlin	100.00
Hypoport Mortgage Market Ltd., Westport (Irland)	100.00
Hypoport Systems GmbH, Berlin	100.00
Qualitypool GmbH, Lübeck	100.00
Starpool Finanz GmbH, Berlin	100.00
Vergleich.de Gesellschaft für Verbraucherinformation mbH, Berlin	100.00
Qualitypool GmbH, Lübeck	100.00
Starpool Finanz GmbH, Berlin	50.025
Vergleich.de Gesellschaft für Verbraucherinformation mbH, Berlin	100.00
Joint ventures	
FINMAS GmbH, Berlin	50.00
Hypoport on-geo GmbH, Berlin	50.00
LBL Data Services B.V., Amsterdam	50.00
Associated company	
IMMO CHECK Gesellschaft für Informationsservice mbH, Bochum	33.33

With the exception of FINMAS GmbH, Hypoport on-geo GmbH, LBL Data Services B.V. and IMMO Check Gesellschaft für Informationsservice mbH (which are accounted for under the equity method owing to lack of control), all of the major Hypoport Group companies are fully consolidated.

1.4 Principles of consolidation

The separate financial statements for the entities included in the Hypoport IFRS consolidated financial statements and the separate financial statements for the parent are prepared to the same balance sheet date using uniform accounting policies.

The consolidated financial statements include Hypoport AG and the subsidiaries over which it exerts direct or indirect control. Control is generally deemed to be exerted by the entity that holds a majority of voting rights. Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group acquires control. They are deconsolidated as soon as control by the parent comes to an end.

Subsidiaries are consolidated in accordance with IFRS 3. This involves recognising all of the subsidiaries' assets and liabilities at fair value. The pro-rata equity calculated in this way is compared with the carrying amount of the investment concerned. Any positive differences that are attributable to separately identifiable intangible assets acquired as part of the business combination are shown separately from goodwill. If a useful life can be determined for these assets, they are amortised over their estimated useful life. Intangible assets with an indefinite useful life are tested for impairment annually and, where necessary, an impairment loss is recognised. Any remaining positive differences are recognised as goodwill and tested for impairment annually in accordance with IAS 36. The option of recognising any non-controlling interests at fair value (full-goodwill method) has not been utilised. As required by IFRS 3.19, these interests are recognised at their proportionate share of the identifiable net assets. When the acquisition costs incurred in business combinations are being determined, conditional purchase price components are recognised at their fair value at the date of first-time consolidation. Subsequent deviations from this value are recognised in profit or loss. Transaction costs are expensed as incurred in accordance with IFRS 3. Any negative differences or negative goodwill arising on consolidation are immediately recognised in profit or loss.

In contrast, it has been decided not to apply IFRS 3 retroactively to business combinations prior to 1 January 2004 in accordance with IFRS 1.15 in conjunction with Annex B. In accordance with IFRS 1, Annex B, B2, (j), the assets and liabilities of the subsidiary in this case have been restated as at 1 January 2004 as if IFRS had been specified for the separate financial statements of the subsidiary. The subsidiary's equity restated in this way has then been used for consolidation purposes. Any positive difference between the parent's share of these restated carrying amounts and the acquisition cost for the subsidiary in the separate financial statements of the parent has been reported as goodwill. Negative differences have been accounted for in consolidated reserves.

The Hypoport Group consolidates its investments in joint ventures using the equity method. The carrying amount for long-term equity investments accounted for under the equity method in the consolidated financial statements will be increased or decreased annually to reflect any changes in the proportion of equity held by Hypoport. When equity-accounted investments are included for the first time, differences arising from first-time consolidation are treated in accordance with the principles of full consolidation. Changes in the proportion of equity, including write-downs on goodwill, are recognised in profit (loss) from equity-accounted long-term equity investments. If the Group's share in a loss relating to a joint venture is equivalent to or exceeds its original interest in the entity (including other unsecured receivables), no further losses are reported. Further losses are only reported if obligations have been assumed for the joint venture or payments have been made on its behalf.Long-term equity investments that have a minor impact on the Group's financial position and financial performance individually and whose impact is immaterial overall, are included in the consolidated financial statements at acquisition cost minus impairment losses.

The basis rollover method is used to recognise common control transactions.

The assets and liabilities in step acquisitions are recognised at their fair value at the acquisition date. Existing investments are measured at fair value through profit or loss. Goodwill is determined at the acquisition date. Differences arising from the acquisition or sale of investments in affiliated companies without any acquisition or loss of control are recognised in other comprehensive income.

Trade receivables, loans and other receivables are fully offset against the corresponding liabilities and provisions as part of the elimination of intercompany balances between the subsidiaries included in consolidation.

Income and expenses resulting from goods supplied or services rendered within the Hypoport Group are eliminated. Material intercompany profits and losses resulting from goods supplied or services rendered within the Hypoport Group are fully eliminated; such profits and losses are eliminated on a pro-rata basis in cases where the equity method of consolidation is used.

Non-controlling interests in the equity and profit or loss of companies controlled by the parent company are shown separately in the consolidated financial statements. The necessary deferred taxes are recognised on consolidation.

1.5 Currency translation

In the separate financial statements for the companies in the Group, all receivables and payables denominated in foreign currency are measured using the mid rate on the balance sheet date regardless of any existing hedging.

Where, in the case of receivables, the closing rate is lower or, in the case of payables, the closing rate is higher, the foreign currency value translated at the closing rate is reported. Any exchange differences arising as a result are recognised in consolidated income.

1.6 Use of assumptions and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires that the Company make some assumptions and estimates with regard to the recognition and measurement of assets and liabilities, income and expense, and contingent liabilities. The assumptions and estimates relate for the most part to the definition of useful lives, the recognition and measurement of receivables and provisions, intangible assets, and the realisation of future tax relief. In individual cases, the actual values may differ from the assumptions and estimates. Any changes as a result of new information, more experience or subsequent developments are recognised immediately in income in accordance with IAS 8.

Material discretionary decisions largely relate to the capitalisation of development costs and the determination of their useful life as well as to the assumptions underlying the impairment test for goodwill.

1.7 Acquisitions

The Hypoport Group carried out the following acquisitions in 2016.

On 27 January 2016, Hypoport AG founded DR. KLEIN Firmenkunden AG, Lübeck. The object of the company is to manage its own assets and provide management consultancy services (for which a licence is not required). This business was allocated to the Institutional Clients business unit.

On 25 May 2016, Hypoport AG founded Hypservice GmbH, Berlin. The object of the company is the performance of services for banks, insurers and finance companies. In particular, this involves inspecting property and obtaining documents. The company does not carry out any business for which a licence is required. These activities were allocated to the Financial Service Providers business unit.

On 26 May 2016, Hypoport AG acquired a shelf company and renamed it Hypoport InsurTech GmbH, Berlin. The object of this company is the acquisition, administration, remarketing and disposal of equity investments in the insurance technology segment. It carries out these activities in its own name and for its own account, not as a service for third parties. It also operates business models in the insurance technology segment, excluding any activities for which a licence is required. This business was allocated to the Financial Service Providers business unit.

On 7 June 2016, Hypoport InsurTech GmbH acquired 100 per cent of the voting shares in NKK Programm Service AG ('NKK'), an unlisted software company in the insurance sector that is headquartered in Regensburg. Since 1988, NKK has offered its customers software solutions for the administration of insurance policies. OASIS, its core product, provides insurance brokers and financial service providers with a powerful solution for administration, invoicing and financial planning and reporting. As a result of the acquisition, both partners are maximising the potential for synergies from technology transfer and joint market access. A purchase price of €4.166 million was agreed. This includes an amount of €350 thousand that has been retained as security. The purchase consideration was largely attributable to software and goodwill. The acquisition was accounted for using the acquisition method. NKK was included in the interim consolidated financial statements with effect from 1 July 2016. These activities were allocated to the Financial Service Providers business unit.

The fair values of the identifiable assets and liabilities of NKK were as follows as at the acquisition date:

NKK initial consolidation	Fair value recognises on acquisition €'000
Assets	
Intangible assets	2,958
Property, plant and equipment	100
Financial assets	51
Trade receivables	258
Other current items	204
Cash and cash equivalents	410
	3,981
Liabilities	
Trade payables	(124)
Other liabilities	(2,567)
Deferred tax liabilities	(884)
	(3,575)
Total identifiable net assets at fair value	406
Goodwill arising on acquisition (provisional)*	3,760
Purchase consideration transferred	**4,166**
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in Cashflow from investing activities)	410
Cash paid	(3,816)
Net cash outflow	**3,406**

If new information comes to light within a year of the acquisition date about facts and circumstances that existed at the time of acquisition and that would have led to adjustments to the amounts above or would have led to additional provisions being recognised, the accounting treatment of the acquisition will be restated.

Since the time of acquisition, NKK has contributed €2.6 million to revenue and €0.5 million to net profit for the year. If the business combination had taken place at the start of the year, consolidated revenue would have amounted to €161.2 million and net profit for the year to €19.2 million. The goodwill recognised is primarily the result of expected synergies, revenue growth, future market developments and the skills and expertise of NKK's existing employees. These advantages are not recognised separately from goodwill because they do not satisfy the recognition requirements for intangible assets. The goodwill recognised is non-deductible for tax purposes.

The Group incurred costs of €82 thousand for legal advice and due diligence in connection with the acquisition. These costs are shown under administrative expenses in the income statement and under cash flows from operating activities in the cash flow statement.
The other acquisitions do not have a material influence on the Group's financial position and financial performance.

1.8 Acquisitions after the reporting period

All of the shares in Maklersoftware.com GmbH (insurance software), Innosystems GmbH (insurance software) and Innofinance GmbH (financial services for insurers) were acquired on 10 January 2017. By acquiring these two software companies and the financial service provider, the Hypoport Group is significantly bolstering its competitive position in the insurtech market. In addition to the efficient administration of insurance portfolios, the Hypoport Group can now offer market participants proven advisory software and a comprehensive price comparison tool for insurance products.

The consideration transferred for the acquisition of the shares in Maklersoftware.com GmbH amounted to €4.0 million and consisted entirely of the purchase price paid.

The following table provides a preliminary overview of the fair values of Maklersoftware.com GmbH as at the date of first-time consolidation:

Maklersoftware.com initial consolidation	Fair value recog-nises on acquisition €'000
Assets	
Intangible assets	1,996
Property, plant and equipment	1,061
Financial assets	221
Trade receivables	388
Other current items	220
Cash and cash equivalents	317
	4,203
Liabilities	
Financial liabilities	(800)
Trade payables	(164)
Other liabilities	(248)
Deferred tax liabilities	(599)
	(1,811)
Total identifiable net assets at fair value	2,392
Goodwill arising on acquisition (provisional)*	1,608
Purchase consideration transferred	**4,000**
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in Cashflow from investing activities)	317
Cash paid	(4,000)
Net cash outflow	**3,683**

The accounting for the business combination, particularly the fair value measurement of the assets and liabilities, had not been completed as at the reporting date. The resulting preliminary goodwill amounted to €1.6 million.

The consideration transferred for the acquisition of the shares in Innosystems GmbH amounted to €4.0 million and consisted entirely of the purchase price paid.

The following table provides a preliminary overview of the fair values of Innosystems GmbH as at the date of first-time consolidation:

Innosystems initial consolidation	Fair value recog-nises on acquisition €'000
Assets	
Intangible assets	1,492
Property, plant and equipment	42
Financial assets	28
Trade receivables	254
Other current items	0
Cash and cash equivalents	2
	1,818
Liabilities	
Financial liabilities	(0)
Trade payables	(136)
Other liabilities	(107)
Deferred tax liabilities	(446)
	(689)
Total identifiable net assets at fair value	1,129
Goodwill arising on acquisition (provisional)*	2,871
Purchase consideration transferred	**4,000**
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in Cashflow from investing activities)	2
Cash paid	(4,000)
Net cash outflow	**3.998**

The accounting for the business combination, particularly the fair value measurement of the assets and liabilities, had not been completed as at the reporting date. The resulting preliminary goodwill amounted to €2.9 million.

The consideration transferred for the acquisition of the shares in Innofinance GmbH amounted to €2.0 million and consisted entirely of the purchase price paid.

The following table provides a preliminary overview of the fair values of Innofinance GmbH as at the date of first-time consolidation:

Innofinance initial consolidation	Fair value recognises on acquisition €'000
Assets	
Intangible assets	739
Property, plant and equipment	0
Financial assets	3
Trade receivables	416
Other current items	0
Cash and cash equivalents	41
	1,199
Liabilities	
Financial liabilities	(0)
Trade payables	(52)
Other liabilities	(60)
Deferred tax liabilities	(222)
	(334)
Total identifiable net assets at fair value	865
Goodwill arising on acquisition (provisional)*	1,135
Purchase consideration transferred	**2,000**
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary (included in Cashflow from investing activities)	41
Cash paid	(2,000)
Net cash outflow	**1,959**

The accounting for the business combination, particularly the fair value measurement of the assets and liabilities, had not been completed as at the reporting date. The resulting preliminary goodwill amounted to €1.1 million.

2. Accounting policies

2.1 Intangible assets

Goodwill arising on the consolidation of subsidiaries, capitalised development costs in connection with the development and refinement of transaction platforms, patents, software, licences and similar rights are reported under intangible assets. Any intangible assets acquired are reported at cost at the date of acquisition.

All intangible assets, with the exception of goodwill, have a finite useful life. They are amortised on a straight-line basis over the period of their use. The useful lives applied to these assets vary between three and 15 years. If there are any indications of impairment, depreciable intangible assets are subjected to an impairment test and, where required, an impairment loss is recognised to ensure that the carrying amount of the asset is reduced to the recoverable amount in accordance with IAS 36.

All amortisation expense and impairment losses on intangible assets are reported in the income statement under depreciation, amortisation expense and impairment losses.

In accordance with IFRS 3 and IAS 38, goodwill is not amortised. Instead, an impairment test is carried out in accordance with IAS 36 once a year (or in the intervening period if there are indications of impairment) and, where required, an impairment loss is recognised to ensure that the carrying amount of the asset is reduced to its recoverable amount (impairment-only approach).

An impairment loss is recognised in income if the recoverable amount for the asset is below the carrying amount. The recoverable amount is based on the fair value less costs to sell. The fair value equals the value in use and is calculated using the discounted cash flow method. The cash flows are derived from the Company's four-year strategic plan. This plan is based on expertise gained in the past, the latest financial results, and the strategic plan adopted. It takes appropriate account of sectoral and macroeconomic trends (such as developments in the housing market, movements in interest rates, regulation of the financial markets, changes in state pension and healthcare systems, etc.) as well as historical developments. The annual plans are based on certain bottom-up assumptions for the entire Hypoport Group. Certain cash flow parameters (such as depreciation, amortisation, impairment and taxes) are determined on the basis of defined criteria. The annuity method with a growth rate of zero per cent is used to calculate cash flows for post-planning periods. The cash flows are then discounted back to the balance sheet date using a discount rate that reflects the risks specific to the asset. The discount rate is based on the weighted average cost of capital (WACC). This interest rate reflects current market assessments of the effect of the time value of money as well as the risks specific to the cash-generating unit. As required by IAS 36, the Company determines the applicable WACC by using market information that is based on a peer group of Hypoport. This market information consists of beta factors, gearing levels, and market interest rates on loans.

In order to calculate the WACC, the Company also performs sensitivity analysis in which it makes assumptions that differ from its original estimates; Hypoport considers these assumptions to be improbable but still possible. In doing so, the Company factors in uncertainty in the form of estimates and carries out additional impairment tests for scenarios that are less favourable than estimated. These scenarios verified the recoverability of goodwill in particular in each case. The continued validity of the parameters used was monitored by the Management Board between the end of the reporting year and the date on which the consolidated financial statements were prepared.

If impairment is identified, an impairment loss is first recognised for any available goodwill in the cash-generating unit concerned. Any residual amount is then allocated pro rata to the other assets in the cash-generating unit concerned on the basis of the residual carrying amount of each individual asset at the balance sheet date. If the reasons for a previously recognised impairment loss no longer exist, the impairment loss is reversed (except in the case of goodwill), but the reversal cannot result in a carrying amount that is higher than the amortised carrying amount that would have applied if the impairment loss had never been recognised.

Provided they meet the preconditions of IAS 38, development costs are capitalised at cost if the costs can be clearly attributed and it is certain that the product is technically feasible and can be brought to market. Furthermore, there must be a sufficient probability that the development activity will generate future economic benefits. If the criteria for capitalisation are not satisfied, the costs are expensed as incurred.

The capitalised development costs comprise all costs directly attributable to the development process plus an appropriate portion of development-related overheads. Finance costs are capitalised. Software platforms are amortised on a straight-line basis from the point at which they come into operation over an estimated useful life of ten years if they are being used for the first time or five years in the case of enhancements. Capitalised development costs that are not yet amortised are tested for impairment annually in accordance with IAS 36.

At the start of the year, the Group reviewed the useful life of the EUROPACE software. In the past, the estimated useful life had been assumed to end on 31 December 2018. Based on experience with the previous version, it is now expected that the software can be used until 31 December 2025. The resulting lower amortisation expense in the reporting year was €1.985 million. The impact of this change on the actual and expected amortisation expense for future years is as follows:

Depreciation €'000	2016	2017	2018	2019	2020	later
(Reduction) increase in depreciation expense	(1,985)	(1,985)	(1,985)	889	889	4,444

2.2 Property, plant and equipment

Property, plant and equipment is recognised at cost and reduced by depreciation and any impairment losses. Property, plant and equipment is depreciated on a straight-line basis over its estimated useful life. Useful lives of between three and 15 years are applied to these assets.
If there are any indications of impairment, an impairment test is carried out. If the recoverable

amount of an asset is less than its carrying amount, an impairment loss is recognised to reduce the carrying amount to the recoverable amount in accordance with IAS 36. If the reason for a previously recognised impairment loss no longer exists, the impairment loss is reversed such that the carrying amount of the asset is restored to the amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

2.3 Borrowing costs
Borrowing costs that are directly allocable to the acquisition, construction or manufacture of a qualifying asset are capitalised as part of acquisition and manufacturing costs. All other borrowing costs are expensed as incurred.

2.4 Financial assets
Financial assets include receivables from financial services, trade receivables, receivables from banks, cash on hand, marketable securities, financial investments and other long-term equity investments.

Financial assets, such as equities or interest-bearing securities, are classified as held-for-trading if they are acquired with the intention of selling them in the short term. Gains and losses on held-for-trading financial assets are recognised in income.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not publicly traded in an active market, such as trade receivables. Once they have been initially recognised, loans and receivables are measured at amortised cost under the effective interest method, net of any impairment losses. Gains and losses are recognised in the net profit (loss) for the period if the loans and receivables are derecognised or impaired. The interest rate effects of using the effective interest method are also taken to income.

Dividends are taken to income as soon as a legal entitlement to payment arises.

Other long-term equity investments comprise investments in associates unless they are recognised under the equity method. These investments are carried at their fair value on the consolidated balance sheet. Where possible, the fair value is determined on the basis of market prices. If the fair value cannot be derived from comparable transactions during the period concerned and it has been decided not to base the investments' measurement on discounted future cash flows because these cash flows cannot be reliably determined, the carrying amount used is the acquisition cost minus impairment losses.

2.5 Impairment of financial assets
At each balance sheet date, the carrying amounts of financial assets are tested to see whether there is objective evidence of any impairment; such evidence could be serious financial difficulties on the part of the borrower or significant changes in the technological, economic, legal or market environment of the borrower. In the case of equity instruments, a sustained or significant fall in their fair value would constitute objective evidence that they may be impaired.

Loans and receivables: The amount of impairment on loans and receivables is the difference between the asset's carrying amount and the present value of its anticipated future cash flows, which are discounted using the financial asset's original effective interest rate. The impairment is recognised in income.

If the amount of the impairment loss decreases in a subsequent reporting period and if this decrease can be objectively attributed to an event that occurred after the impairment was recognised, the previously recognised impairment loss is reversed and taken to income.

Most impairment losses on loans and receivables (e.g. trade receivables) are charged to impairment accounts. The decision as to whether a credit risk is recognised through an impairment account or by a direct impairment loss on the receivable depends on how high the probability of default is estimated to be. If receivables are classified as irrecoverable, the respective impaired asset is derecognised.

2.6 Impairment of deferred tax assets

The Company reviews its deferred tax assets at each reporting date to identify any impairment. This assessment requires the senior management team to make assumptions about the level of future taxable profit as well as further positive and negative influencing factors. The actual utilisation of deferred tax assets depends on the Company's ability to generate the necessary taxable profit in future so that it can take advantage of tax loss carryforwards and tax allowances before they expire. Although loss carryforwards can still be carried forward indefinitely in Germany, annual utilisation in Germany is restricted by minimum taxation requirements.

In the year under review, the existing limit on offsetting losses imposed by the minimum taxation requirement meant that capitalisation restrictions for deferred taxes relating to losses were taken into account when offsetting deferred tax assets against deferred tax liabilities.

Having conducted this review, the Group recognised deferred tax assets worth €587 thousand as at 31 December 2016 (31 December 2015: €396 thousand). In the reporting year, the minimum taxation requirements in Germany resulted in deferred tax assets amounting to €0 thousand (2015: €0 thousand) not being recognised.

The total amount of deferred tax assets recognised might be reduced if future taxable profit or income turns out to be lower than expected or if amendments to tax legislation limit the utilisation of tax loss carryforwards or tax allowances in terms of their timing or amount. Conversely, the total amount of deferred tax assets recognised would have to be increased if future taxable profit or income turned out to be higher than expected.

2.7 Leases

Under IAS 17, a leasing partner is classified according to whether beneficial ownership in the leased asset is attributable to the lessee (finance lease) or the lessor (operating lease). The classification is based on the extent to which the risks and rewards incident to ownership lie with the lessee or lessor. Hypoport AG has entered into operating leases as a lessee, in particular for vehicles and photocopiers. The related lease costs are expensed as incurred. The Hypoport Group does not currently have any significant leases classified and recognised as finance leases.

2.8 Trade receivables and other assets

Trade receivables and other assets are recognised at the lower of amortised cost and market value. Appropriate impairment losses are recognised to account for any identifiable risks. These impairment losses are reversed if the reasons for previously recognised write-downs no longer apply. Irrecoverable receivables are derecognised. Payments subsequently received for amounts that have already been derecognised are taken to income and offset against the impairment losses on trade receivables reported in the income statement.

All receivables due for payment in more than one year are classified in the Group as non-current.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and overdraft facilities. Utilised overdraft facilities are shown on the balance sheet as liabilities to banks under current financial liabilities. Cash is measured at nominal value.

2.10 Treasury shares

Treasury shares in the parent purchased within the Group are deducted from equity at cost. Income or expense related to the purchase, sale, issue or recall of treasury shares is recognised directly in equity under reserves.

2.11 Provisions

A provision is recognised when an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at their expected settlement value in accordance with IAS 37 or, where appropriate, in accordance with IAS 19. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation. Estimates of the outcome and financial impact of the obligation depend on management’s assessment as well as empirical values obtained from similar transactions and, where necessary, appraisals provided by independent experts (such as lawyers). The underlying information includes information obtained as a result of events that occur between the end of the reporting period and the date on which the consolidated financial statements are prepared. Where the provision being measured involves a large population of events, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used. In cases where an obligation is expected to result in an outflow of resources after more than one year and if the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. When estimating the future outflow of economic benefits, the Company factors in inflation assumptions where appropriate. Provisions for onerous contracts are measured at the lower of the expected cost of performing the contract and the expected cost of terminating it. Additions to provisions are recognised in profit or loss. Accruals are reported under other liabilities.

Claims for reimbursements from third parties are recognised separately from provisions if their recovery is virtually certain.

If the amount of the obligation is reduced as a result of a change in assessments, the provision is reversed pro rata and recognised as income.

2.12 Financial liabilities

Financial liabilities include trade payables, liabilities to banks, bonds and other liabilities.

Financial liabilities recognised at amortised cost: Once they have been initially recognised, financial liabilities are measured at amortised cost under the effective interest method.

2.13 Trade payables and other liabilities

Liabilities are recognised if it is probable that an outflow of resources embodying economic benefits will be required to settle an obligation and this amount can be reliably determined.

Other current liabilities are recognised at their repayment or settlement value. Non-current liabilities are generally recognised at amortised cost using the effective interest method. Liabilities are classified as non-current if the agreement concerned does not require repayment within twelve months.

2.14 Contingent liabilities

In accordance with IAS 37.27, contingent liabilities are not recognised on the balance sheet. However, contingent liabilities are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

2.15 Employee benefits

The employees in the Group are for the most part insured under the mandatory statutory pension insurance scheme and therefore pay into a government defined-contribution plan. The Group does not have any legal or constructive obligation under this pension entitlement to make any contributions over and above those required by the scheme. Contributions to defined-contribution plans are made in the year in which employees perform the work with which the contributions are earned. The Company also pays contributions to private pension insurance providers in line with statutory or contractual requirements or on a voluntary basis under a defined-contribution pension plan. Once the Company has paid these contributions it is not obliged to provide any further benefits. The regular contribution payments are recognised as an expense for the respective year within EBIT.

2.16 Recognition of revenue and expense

Provided that persuasive evidence of an arrangement exists, revenue is recognised to the extent that it is sufficiently probable that future economic benefits will flow to Hypoport and the amount of revenue can be measured reliably. This is the procedure irrespective of when payment is received. If the inflow of economic benefits is deemed to be improbable owing to customer-related credit risks, revenue is recognised to the extent that the customer has already made irrevocable payments. Revenue is measured at the fair value of the consideration received or receivable minus any rebates or discounts granted and excluding any taxes or levies payable.

Hypoport recognises revenue (commissions) from the brokerage of loans when the relevant loan agreement is signed, irrespective of when payment is received. Special volume-related commissions are generally recognised when the relevant target figure is achieved.

Hypoport recognises revenue (commissions) from the brokerage of insurance contracts when the policy is issued. The Company recognises adequate provisions to cover its obligation to repay part of the commissions it has received in the event that brokered insurance contracts are terminated before they mature; these provisions for such cancellation risks are based on empirical values. Regular chargebacks arising from the cancellation of commissions are recognised as selling expenses.

In accordance with IAS 18, revenue arising on service transactions is recognised on performance of the services provided that the amount of income, the percentage of completion at the balance sheet date, the costs already incurred in the transaction and the expected costs to complete can be reliably measured and it is sufficiently probable that the transaction will lead to an inflow of resources embodying economic benefits.

Operating expenses are recognised when a service is used or at the point the expense is incurred.
Interest income and expense are recognised under the effective interest method.

Dividends on long-term equity investments are recognised in profit or loss as soon as a legal entitlement arises.

Income taxes are recognised by the company concerned in accordance with local legislation.

2.17 Income taxes and deferred taxes

Current income taxes are calculated on the basis of the taxable income determined by the Company using the tax rates applicable at the balance sheet date.

Deferred taxes are determined using the liability method in accordance with IAS 12. Deferred income taxes represent the net tax expense/income in respect of temporary differences between the carrying amount of an asset or liability on the balance sheet and its tax base. Deferred taxes are recognised to account for timing differences between the carrying amount of assets and liabilities on the IFRS consolidated balance sheet and the corresponding balance sheet for tax purposes as a result of consolidation processes (with the exception of goodwill) and for recoverable loss carryforwards.

The accounting treatment of deferred tax assets on loss carryforwards still takes account of the minimum taxation requirement in circumstances where, in the absence of the expectation of future taxable earnings, deferred tax assets are only recognised in the amount of any surplus deferred tax liabilities.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. At each balance sheet date, the Group reviews the carrying amount of deferred tax assets and reassesses unrecognised deferred tax assets; the amounts are remeasured, where required.

Hitherto unrecognised deferred tax assets are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered. On the other hand, the carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised, either as a whole or in part.

In accordance with IAS 12, deferred taxes are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The impact on deferred taxes of changes to tax legislation is recognised in income in the period in which the relevant tax law comes into force. Currently, the German companies in the Group are subject to an overall tax rate of 30 per cent, comprising the corporation tax rate, solidarity surcharge and an average trade tax rate. Non-German subsidiaries are currently subject to tax rates of between 12.5 per cent and 25.5 per cent.

Where there is any uncertainty concerning the tax circumstances of individual companies in the Group, deferred taxes on as yet unused tax loss carryforwards are determined on the basis of a limited planning horizon of four years. Tax provisions that limit the use of loss carryforwards in individual companies are also taken into account.

3. Disclosures for individual items on the income statement

3.1 Revenue

Revenue for the most part comprises commissions received, special commissions and fees in respect of services. The breakdown by business unit is as follows:

Revenue	2016 € million	2015 € million
B2B Financial Marketplaces – Financial Service Providers	51.9	43.0
Financial Product Sales – Private Clients	86.0	78.6
Financial Product Sales – Institutional Clients	18.6	17.3
Other	0.1	0.1
	156.6	**139.0**

3.2 Selling expenses

The table below gives a breakdown of selling expenses.

Selling expenses	2016 €'000	2015 €'000
Commissions	66,471	63,470
Lead costs	4,967	3,836
	71,438	**67,306**

Fee and commission expenses include write-offs of €892 thousand relating to insurance commission receivable (2015: €432 thousand) and income from the reversal of impairment charges of €705 million on advances paid for insurance commission (2015: impairment charges of €1.017 million).

3.3 Own work capitalised

Own work capitalised of €5.662 million (2015: €4.663 million) comprises work on the development and enhancement of internally generated financial marketplaces. Of the total development costs of €9.192 million reported for 2016 (2015: €7.660 million), €3.530 million was therefore expensed as incurred (2015: €2.997 million).

3.4 Other operating income

Other operating income mainly comprised income of €904 thousand from other accounting periods (2015: €513 thousand), income of €748 thousand from the reversal of provisions (2015: €326 thousand), income of €725 thousand from employee contributions to vehicle purchases (2015: €617 thousand) and income of €358 thousand from sub-leases (2015: €470 thousand).

3.5 Personnel expenses

Personnel expenses are broken down as follows:

Personnel expenses	2016 €'000	2015 €'000
Wages and salaries	39,832	33,032
Social security contributions	6,232	5,024
Post-employment and other employee benefits	295	168
	46,359	**38,224**

The cost of defined-contribution pension plans amounted to €2.860 million (2015: €2.317 million).

3.6 Other operating expenses

The breakdown of other operating expenses is shown in the table below.

Other operating expenses	2016 million €	2015 million €
Operating expenses	6.3	5.5
Other selling expenses	3.5	2.9
Administrative expenses	8.0	5.6
Other personnel expenses	0.8	0.6
Other expenses	0.7	0.6
	19.3	**15.2**

The operating expenses consisted mainly of building rentals of €2.2 million (2015: €2.0 million) and vehicle-related costs of €1.8 million (2015: €1.5 million). The other selling expenses related to advertising costs and travel expenses of €3.5 million (2015: €2.9 million). The administrative expenses largely comprised IT-related costs of €4.5 million (2015: €2.9 million) and legal and consultancy expenses of €1.3 million (2015: €1.0 million). The other personnel expenses mainly consisted of training costs of €0.6 million (2015: €0.5 million).

3.7 Profit (loss) from equity-accounted long-term equity investments

Profit (loss) from equity-accounted long-term equity investments relates to the pro-rata net profit (loss) for the period of the four joint ventures FINMAS GmbH, LBL Data Services B.V., Hypoport on-geo GmbH, and IMMO Check Gesellschaft für Informationsservice mbH. As in 2015, no impairment losses were recognised in the share of profit (loss) of equity-accounted investments.

Further disclosures regarding equity-accounted long-term equity investments can be found in note 4.3 Equity-accounted long-term investments.

3.8 Depreciation, amortisation expense and impairment losses

Of the depreciation/amortisation expense and impairment losses of €5.085 million (2015: €5.817 million), €3.844 million (2015: €4.701 million) was attributable to intangible assets and €1.241 million (2015: €1.116 million) to property, plant and equipment.

3.9 Net finance costs

The breakdown of net finance costs is as follows:

Net finance costs	2016 €'000	2015 €'000
Financial income		
Other interest and similar income	227	365
Income from other securities and lending of financial assets	0	1
	227	**366**
Finance costs		
Interest expense and similar charges	628	512
	-401	**-146**

The finance costs mainly comprise interest expense and similar charges of €326 thousand (2015: €451 thousand) incurred by the drawdown of loans and use of credit lines. Financial income largely consists of the unwinding of discounts on non-current receivables and other non-current assets totalling €178 thousand (2015: €270 thousand).

3.10 Income taxes and deferred taxes

This item includes current and deferred tax income and expense in the following amounts:

Income taxes and deferred taxes	2016 €'000	2015 €'000
Income taxes and deferred taxes	4,761	3,237
current income taxes	1,922	2,158
deferred taxes	2,839	1,079
in respect of timing differences	1,375	452
in respect of tax loss carryforwards	1,464	627

A current income tax benefit of €0 thousand (2015: €138 thousand) relates to tax income from previous years. Taxes are determined on the basis of the relevant tax legislation for the individual companies.

The total losses carried forward for corporation tax and trade tax purposes at the reporting date amounted to €10.199 million (2015: €6.149 million) and €9.569 million (2015: €5.022 million) respectively. The loss carryforwards can be carried forward indefinitely in Germany. In 2016, no deferred tax assets were recognised on the losses carried forward for corporation tax and trade tax purposes. These losses amounted to €9.492 million (2015: €0 thousand) and €8.862 million (2015: €0 thousand) respectively.

The tax rates computed on the basis of current legislation are unchanged year on year at 30.0 per cent for companies in Germany and between 12.5 per cent and 25.5 per cent for subsidiaries outside Germany.

Any payment of dividends to the parent companies' shareholders has no impact on income taxes.

The table below reconciles the tax expense anticipated for 2015 and 2016

to the tax expense actually reported for those years.

Reconciliation of Expected to Actual Income Tax Expense	2016 €'000	2015 €'000
Earnings before tax	22,835	19,114
Tax rate to be applied	30.0 %	30.0 %
Expected tax expense	-6,851	-5,734
Effect of non-deductible expenses	-250	-188
Effect of differing tax rates	2,145	1,909
Deffered taxes of loss carry forwards	30	549
Effect of using the equity method	24	0
Tax expense for previous years	0	138
Other tax-related effects	141	89
Current tax expense	-4,761	-3,237
Tax rate for the Group	20.8 %	16.9 %

3.11 Earnings per share

The figure for earnings per share is determined in accordance with IAS 33. Basic earnings (loss) per share is calculated by dividing the net profit (loss) for the period attributable to the shareholders of Hypoport AG by the weighted average number of outstanding shares. Diluted earnings (loss) per share is calculated by dividing the net profit (loss) for the period by the total weighted average number of outstanding shares, adjusted for the dilutive effect of potential new shares. The figure for the earnings (loss) per share becomes diluted if the average number of shares is increased as a result of adding in the issue of potential shares in connection with options.

There was no dilutive effect in the current reporting period or in the previous year. The weighted number of outstanding shares is calculated on the basis of a daily balance.

Earnings Per Share	2016	2015
Net income for the year (€'000)	18,074	15,877
of which attributable to Hypoport AG stockholders	18,041	15,871
Basic weighted number of outstanding shares ('000)	6,013	6,075
Earnings per share (€)	**3.00**	**2.61**

As a result of the purchase and sale of treasury shares, the number of shares in issue fell by 97,315, from 6,039,158 as at 31 December 2015 to 5,941,843 as at 31 December 2016.

4. Disclosures for individual items on the balance sheet

4.1 Intangible assets and property, plant and equipment

For information on the change in intangible assets and property, plant and equipment in the year under review, please see the consolidated statement of changes in non-current assets on the final page of these notes.

The additions to internally generated financial marketplaces include €11 thousand (31 December 2014: €12 thousand) in borrowing costs at an average funding rate of 2.60 per cent (31 December 2014: 3.45 per cent). Most of the intangible assets – with a carrying amount of €15.6 million (31 December 2014: €14.7 million) – related to internally generated financial marketplaces. Their remaining useful lives amounted to between one and ten years.

The carrying amounts for goodwill as at 31 December 2016 related to goodwill arising on the first-time consolidation of subsidiaries. The increase resulted from the first-time consolidation of NKK Programm Service AG. For the purposes of impairment testing, the goodwill has been assigned to the following cash-generating units, which reflect the segments in the Group:

Acquired goodwill €'000	Institutional Clients	Private Clients	Financial Service Providers	Total
Cost of acquisitions as at 1 January 2016	6,943	7,653	230	**14,826**
Additions	0	0	3,761	**3,761**
Cost of acquisitions as at 31 December 2016	6,943	7,653	3,991	**18,587**

4.2 Financial assets

The table below gives a breakdown of non-current financial assets:

Financial Assets	2016 €'000	2015 €'000
Other shareholdings	1,040	9
Loans to companies with which an investment relationship exists	34	0
Loans to third parties	10	20
Loans to employees	5	5
	1,089	**34**

Other long-term equity investments essentially comprise shares in Fundsaccess AG, Munich (13.8 per cent shareholding, equity in 2015: €1.291 million, net profit for 2015: €345 thousand). Because the above parties have been granted the option of making unscheduled repayments at any time, the carrying amounts of these loans at the balance sheet date do not differ significantly from their fair values.

No specific write-downs have been recognised. There are no material overdue receivables.

4.3 Equity-accounted investments

In the consolidated financial statements, four joint ventures (2015: three) are accounted for using the equity method. They are FINMAS GmbH, Berlin (Hypoport's interest: 50 per cent), Hypoport on-geo GmbH, Berlin (Hypoport's interest: 50 per cent), LBL Data Services B.V., Amsterdam (Hypoport's interest: 50 per cent) and IMMO Check Gesellschaft für Informationsservice mbH, Bochum (Hypoport's interest: 33.33 per cent). All of these interests are held directly by the Group.

Investments accounted for using the equity method	2016 €'000	2015 €'000
Investments accounted for using the equity method as of the beginning of the year	465	436
Additions	30	0
Proportional net income	81	29
Investments accounted for using the equity method as of the end of the year	**576**	**465**

The additions relate to IMMO Check Gesellschaft für Informationsservice mbH. There are no obligations or contingent liabilities relating to the investments in joint ventures.

The following table shows the aggregate income-statement and balance-sheet data for the equity-accounted investments.

Financial information on companies for using the equity method (Hypoport stake)	2016 €'000	2015 €'000
Income statement information		
Revenue	5,683	5,261
Selling expenses	-4,809	-4,578
Personnel expenses	-419	-245
Other operating expenses	-277	-367
Income taxes and deferred taxes	-29	-33
Earnings before interest and tax	122	62
Earnings before tax	115	61
Net income	81	29
Balance sheet information		
Noncurrent assets	113	72
There of property, plant and equipment	92	72
Current assets	1,900	1,038
Thereof cash and cash equivalents	1,326	376
Total assets	**2,013**	**1,110**
Equity	348	465
Noncurrent liabilities	0	0
Current liabilities	1,665	645
Thereof financial liabilities	0	0
Total equity and liabilities	**2,013**	**1,110**

4.4 Trade receivables

Trade receivables	2016 €'000	2015 €'000
Trade receivables from		
third parties	38,088	32,849
joint ventures	73	102
	38,161	**32,951**

In the case of trade receivables it is assumed that their carrying amount (net of any impairment losses) corresponds to their fair value.

The table below shows impairment losses on receivables.

Impairments of Trade Receivables	2016 €'000	2015 €'000
Balance as at 1 January	87	103
Addition to impairment of receivables	36	10
Irrecoverable receivables written off	6	26
Balance as at 31 December	**117**	**87**

Impairment charges of €139 thousand (31 December 2015: €236 thousand) were directly recognised.

The Hypoport Group usually grants its clients a credit period of 30 days, although some companies grant up to 90 days. The table below gives a breakdown of its overdue, but not impaired, receivables by age.

The table below shows impairment losses on receivables:

Past-Due Trade Receivables	2016 €'000	2015 €'000
1 to 90 days	333	315
90 to 180 days	19	40
180 to 360 days	297	5
More than 360 days	28	28
Total	**677**	**388**

4.5 Current income tax assets and other assets

The breakdown of current income tax assets and other assets is as follows:

Current other assets	2016 €'000	2015 €'000
Financial assets		
Trade secutities	800	0
	800	0
Non-financial assets		
Advance payment of commissions	867	629
Advances	856	544
Prepaid expenses	102	116
Current income tax assets	232	58
VAT credits	22	27
Other	254	223
	2,333	1,597
	3,133	**1,597**

The following asset amounts are only recoverable after one year and are therefore reported as non-current assets:

Non-current other assets	2016 €'000	2015 €'000
Advance payment of commissions	1,792	1,397
Rent deposits	58	21
	1,850	**1,418**

Specific write-downs of €1.773 million (31 December 2014: €756 thousand) were recognised. In the year under review, €1.017 million was added (2014: €230 thousand). There are no material overdue receivables.

4.6 Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities (including comparison with prior-year figures) is as follows:

Deferred tax assets	2016 €'000	2015 €'000
Deferred tax assets		
In respect of tax loss carryforwards	212	1,676
Rental and lease obligations	21	28
Other temporary differences	0	7
Consolidation	375	322
Offsetting	21	1,637
	587	**396**

Deferred tax liabilities	2016 €'000	2015 €'000
Deferred tax liabilities		
Intangible assets	1,662	1,770
Property, plant and equipment	15	18
Receivables	3,114	1,842
Other temporary differences	14	38
Provisions	0	2
Offsetting	21	1,637
	4,784	**2,033**

4.7 Cash and cash equivalents

The breakdown of cash and cash equivalents (including comparison with prior-year figures) is as follows:

Cash and cash equivalents	2016 €'000	2015 €'000
Cash at banks	22,404	24,753
Cash on hand	7	4
	22,411	**24,757**

4.8 Subscribed capital

The Company's subscribed capital remains unchanged at €6,194,958.00 (31 December 2015: €6,194,958.00) and is divided into 6,194,958 (31 December 2015: 6,194,958) fully paid-up, registered no-par-value shares.

The Annual Shareholders' Meeting held on 10 June 2016 voted to carry forward Hypoport AG's distributable profit of €40,057,309.43 to the next accounting period.

4.9 Authorised capital

The Annual Shareholders' Meeting held on 1 June 2012 voted to set aside the unused authorisation granted on 1 June 2007 and to issue a new authorisation. The Management Board was authorised – subject to the consent of the Supervisory Board – to increase the Company's subscribed capital by up to a total of €3,097,479.00 by issuing new registered no-par-value shares for cash or non-cash capital contribution on one or more occasions on or before 31 May 2017. The Management Board can decide – subject to the consent of the Supervisory Board – to disapply the shareholders' statutory pre-emption rights.

4.10 Treasury shares

Hypoport held 253,115 treasury shares as at 31 December 2016 (equivalent to €253,115.00, or 4.1 per cent, of the subscribed capital of Hypoport AG), which are intended for acquisitions and to be issued to employees. The change in the balance of treasury shares and the main data relating to transactions in 2016 are shown in the following table:

Change in the balance of treasury shares in 2016	Number of shares	Proportion of subscribed capital %	Cost of purchase €	Sale price €	Gain or loss on sale €
Opening balance as at 1 January 2016	**155,800**	**2.515**	**3,052,562.52**		
Dissemination in January 2016	10	0.000	121.04	521.10	400.06
Buy in February 2016	2,466	0.040	149,230.26		
Dissemination in February 2016	95	0.002	1,149.88	5,519.50	4,369.62
Buy in March 2016	14,160	0.229	876,520.28		
Dissemination in March 2016	245	0.004	2,965.48	15,924.25	12,958.77
Buy in April 2016	15,736	0.254	955,963.84		
Dissemination in April 2016	2,648	0.043	30,990.59	154,155.21	123,164.62
Dissemination in May 2016	49	0.001	556.64	3,743.30	3,186.66
Dissemination in September 2016	178	0.003	2,022.08	14,260.84	12,238.76
Dissemination in October 2016	20	0.000	227.20	1,555.28	1,328.08
Buy in November 2016	22,089	0.357	1,480,818.24		
Dissemination in November 2016	14	0.000	159.04	919.65	760.61
Buy in December 2016	46,859	0.756	3,445,430.51		
Dissemination in December 2016	736	0.012	8,189.84	51,963.59	43,773.75
Balance as at 31 December 2016	**253,115**	**4.086**	**9,914,143.86**		

The release of treasury shares was recognised directly in equity and offset against retained earnings.

4.11 Reserves

The breakdown of reserves can be found in the attached consolidated statement of changes in equity.

Capital reserves include the premium from the capital increase carried out in 2001 (€400 thousand), the premium from the issuance of shares under the 2002–2004 employee share ownership programme from 2006 to 2009 (€1.187 million), amounts equivalent to the par value of the treasury shares recalled in 2006 (€99 thousand), an amount equivalent to the imputed share of subscribed capital for the treasury shares recalled in 2007 (€247 thousand) and income from the issuance of shares to employees (€674 thousand, of which €260 thousand relates to 2016).

Retained earnings include the profits generated by the entities included in the consolidated financial statements prior to the first-time consolidation on 1 January 2004, the capital gains on the sale of treasury shares, the losses on the recall of treasury shares and three negative goodwill amounts arising from business combinations. These negative goodwill amounts are reported under retained earnings, because profits had been retained after the acquisition but before the date of first-time consolidation.

All the remaining adjustments made under the first-time adoption of IFRS on 1 January 2004 and recognised directly in equity, together with a statutory reserve of €7 thousand (2015: €7 thousand), are also reported under this item.

4.12 Non-controlling interests and financial information for non-controlling interests in subsidiaries

Total non-controlling interests in the period under review amounted to €303 thousand (2015: €270 thousand), of which €203 thousand (2015: €170 thousand) related to the non-controlling interest in the equity of Starpool Finanz GmbH (minority interest of 49.975 per cent) and €100 thousand (2015: €100 thousand) to GENOPACE GmbH (minority interest of 49.975 per cent).

There is a control and profit-and-loss transfer agreement between Hypoport AG and GENOPACE GmbH, as a result of which the entire net loss for 2016 of GENOPACE GmbH amounting to €277 thousand (2015: loss of €212 thousand) remained within the Group.

The aggregate financial information for Starpool Finanz GmbH, the main packager providing sales support for the Group's platform partners on an earnings-neutral basis, is presented below.

Summarised balance sheet Starpool Finanz GmbH	2016 €'000	2015 €'000
Current		
Assets	9,738	8,554
Liabilities	(9,586)	(8,373)
Total current assets	152	181
Non-current		
Assets	254	159
Liabilities	(0)	(0)
Total non-current liabilities	254	159
Net assets	**406**	**340**

Summarised statement of comprehensive income Starpool Finanz GmbH	2016 €'000	2015 €'000
Revenue	23,922	20,952
Pre-tax profit	101	21
Income tax expense	-33	-9
Post-tax profit	68	12
Other comprehensive income	0	0
Total comprehensive income	68	12
Total comprehensive income attributable to non-controlling interest	33	6
Dividends received attributable to non-controlling interest	0	0

Summarides cash flow statement Starpool Finanz GmbH	2016 €'000	2015 €'000
Cash flow	106	60
Change in working capital	1,349	2,319
Cash flows from operating activities	1,455	2,379
Cash flows from investing activities	(134)	(113)
Cash flows from financing activities	0	0
Net change in cash and cash equivalents	1,321	2,266
Cash and cash equivalents at the beginning of the period	3,853	1,587
Cash and cash equivalents at the end of the period	5,174	3,853

The information listed above relates to amounts before the elimination of intercompany profits and losses.

4.13 Financial liabilities

The table below gives a breakdown of financial liabilities:

Financial liabilities	2016 €'000	2015 €'000
Non-current		
Liabilities to banks		
Loans	6,067	6,667
Other liabilities		
Rental and lease obligations	203	253
	6,270	6,920
Current		
Liabilities to banks		
Loans	4,400	4,300
Other liabilities		
Rental and lease obligations	41	42
	4,441	4,342
	10,711	**11,262**

Some of the financial liabilities are subject to fixed interest rates. Others are subject to variable interest linked to the Euribor rate plus a bank margin. The interest rates varied between 1.75 per cent and 4.20 per cent (2015: between 2.60 per cent and 4.20 per cent). These interest rates are the normal market rates for the financial liabilities and the companies concerned.

The Hypoport Group has various credit lines with domestic banks. The table below shows all overdraft facilities and the amounts utilised at the relevant balance sheet dates.

Credit line	2016 €'000	2015 €'000
Credit line	1,500	1,500
Amount utilised	0	0
Credit line available	**1,500**	**1,500**

The average interest rate on the overdraft facilities utilised was 3.79 per cent (2015: 4.30 per cent). The Company also had unutilised non-current loan commitments of €0.0 million (31 December 2015: €5.0 million).

The table below shows the interest-rate risk and agreed interest refix dates associated with financial liabilities at the balance sheet date.

Maturities of contractual cash flows from financial liabilities	2016 €'000	2015 €'000
6 months or less	2,198	2,298
6 to 12 months	2,202	2,002
1 to 5 years	4,267	6,667
More than 5 years	1,800	0
	10,467	**10,967**

The table below gives a breakdown of the residual maturities of non-current financial liabilities.

Maturities of non-current financial liabilities	2016 €'000	2015 €'000
Between 1 and 2 years	1,952	4,056
Between 2 and 5 years	2,518	2,819
More than 5 years	1,800	45
	6,270	**6,920**

The carrying amounts and fair values of non-current financial liabilities are shown below.

Carrying amounts and fair values of non-current financial liabilities	Carrying amount		Fair value	
	2016 €'000	2015 €'000	2016 €'000	2015 €'000
Liabilities to banks	6,067	6,667	6,071	6,842
Rental and lease obligations	203	253	203	253
	6,270	**6,920**	**6,274**	**7,095**

The fair values of non-current financial liabilities are based on discounted cash flows, which were calculated using interbank swap rates plus a risk and liquidity margin.

The stated carrying amounts of current financial liabilities are roughly the same as their fair values.

4.14 Other liabilities

The breakdown of other liabilities is as follows:

Current other liabilities	2016 €'000	2015 €'000
Tax liabilities		
Value-added tax	487	286
Wage tax and church tax	863	611
	1,350	**897**
Personnel		
Financial assets		
Bonuses	4,651	4,404
Outstanding holiday entitlements	704	499
Wages and salaries	866	359
Non-financial assets		
Employers' liability insurance association	190	139
Disabled persons levy	62	38
Social security contributions	142	173
Partial retirement	31	52
	6,646	**5,664**
Other		
Financial assets		
Outstanding invoices	848	384
Commissions to be passed on	400	84
Year-end costs	170	153
Share repurchase	1,208	0
Non-financial assets		
Advance payment of commissions	278	987
Deferred income	613	234
Sundry	199	45
	3,716	**1,887**
	11,712	**8,448**

The following liability amounts are only recoverable after one year and are therefore reported as non-current liabilities:

Non-current other liabilities	2016 €'000	2015 €'000
Rent deposits	10	10
	10	**10**

4.15 Provisions

The changes in provisions in the year under review were as follows:

Provisions	01.01.2016 €'000	Utilisation €'000	Additions €'000	31.12.2016 €'000
Non-current provisions				
Cancellations	87	87	87	87
Rental and lease obligations	10	10	0	0
	97	**97**	**87**	**87**
Current provisions				
Litigation	54	0	0	54
Cancellations	59	59	70	70
Other	0	0	30	30
	113	**59**	**100**	**154**

The provisions for cancellations relate to the probable repayment of commissions to insurers owing to policyholders' withdrawal.

5. Cash flow statement disclosures

Cash flows from investing and financing activities are determined directly on the basis of the cash inflows and outflows. In contrast, cash flow from operating activities is determined indirectly from the net profit (loss) for the year. This indirect method of determining the cash flows takes into account changes in the balance sheet items in connection with operating activities and adjusts them for the effect of currency translation and changes to the entities included in the consolidation.

Apart from income tax payments, interest receipts and payments are also assigned to the cash flows from operating activities because they are primarily used to finance operating activities.

Investing activities include additions to property, plant and equipment, financial assets and intangible assets, as well as additions in respect of the capitalisation of development costs.

Cash and cash equivalents, as reported in the cash flow statement, comprises all liquid funds recognised on the balance sheet, i.e. cash on hand and at banks.

The composition and reconciliation of cash and cash equivalents with the balance sheet is explained in note 4.7.

6. Segment reporting

The Hypoport Group prepares its segment reporting by business unit in line with its internal organisational and reporting structure. This organisational structure breaks the Group down into three target-group-oriented business units (Financial Product Sales – Institutional Clients, Financial Product Sales – Private Clients and B2B Financial Marketplaces – Financial Service Providers) and one function-oriented business unit (Administration). The target-group-oriented business units bring together different business lines with similar opportunities and risks.

B2B Financial Marketplaces – Financial Service Providers focuses on financial product distributors and product suppliers. The core product in this business unit is the EUROPACE marketplace, which was originally introduced in 1999. Independent distributors use EUROPACE to process their financing transactions with the product suppliers they represent.

The Financial Product Sales – Private Clients business unit offers mortgage finance, personal loans, insurance, current accounts and deposit accounts through three distribution channels (online, branch-based and agent sales).

The Financial Product Sales – Institutional Clients business unit focuses on the provision of financial support for housing companies, borrowing, management consultancy and support for property transactions and the insurance portfolio. This unit also supports issuers with the provision of information technology and a range of services.

Administrative expenses in respect of management, administration, accounting and human resources are reported under the heading ‘Reconciliation’, which also includes any consolidation effects. The Information Technology business unit, which had been reported under ‘Reconciliation’ in 2015, was reclassified to the Financial Service Providers business unit in 2016. This reclassification did not have any material impact on the earnings of the individual segments because, in previous years, nearly all IT costs had been charged to the Financial Service Providers business unit.

The disclosures for the individual segments are all based on the same standard accounting policies applicable to the consolidated amounts in the consolidated financial statements.

Earnings at segment level (EBIT) and total revenue, which represent the aggregate business performance of the individual operating segments, are the key performance indicators.

Where a segment comprises several companies, the effects of intercompany transactions are eliminated in the course of consolidation. The supply of goods and services between segments is always invoiced at market prices. In cost transfers within the Group, the direct costs actually incurred are transferred between the relevant entities.

The segment disclosures are derived directly from the internal reporting used by the top level of operating decision-makers in the Company for management purposes. Financial liabilities and the corresponding interest expense and similar charges are not determined for individual business units for internal control purposes. Financial liabilities and the corresponding interest expense and similar charges are shown in the reconciliation table.

Segment assets are deemed to comprise direct operating receivables and non-current assets used for the relevant segment's operating activities.

Segment liabilities comprise the trade payables and provisions attributable to the operating activities concerned.

The reported revenue of €156.6 million (2015: €139.0 million) included €4.8 million (2015: €4.4 million) generated by customers domiciled in European countries other than Germany, and the remaining revenue was generated by customers in Germany. Within the Group, two product partners generated revenue of €45.4 million and €16.7 million respectively (2015: two product partners generated €34.0 million and €19.4 million respectively).

In the Financial Service Providers operating segment, one product partner generated revenue of €26.3 million (2015: two product partners generated €18.0 million and €5.8 million respectively). In the Private Clients operating segment, two product partners generated revenue of €19.1 million and €12.0 million respectively (2015: €16.0 million and €13.2 million). In the Institutional Clients operating segment, three product partners generated revenue of €3.9 million, €1.9 million and €1.9 million respectively (2015: two product partners generated €3.5 million and €3.0 million respectively).

The segment breakdown of business performance in 2016 was as follows:

2016 (€'000)	Financial Service Providers	Private Clients	Institutional Clients	Reconciliation	Group
Segment revenue in respect of third parties	**51,897**	**86,000**	**18,591**	**148**	**156,636**
2015	43,018	78,528	17,334	102	138,982
Segment revenue in respect of other segments	**1,750**	**82**	**45**	**-1,877**	**0**
2015	947	56	9	-1,012	0
Total segment revenue	**53,647**	**86,082**	**18,636**	**-1,729**	**156,636**
2015	43,965	78,584	17,343	-910	138,982
Gross profit	**37,130**	**29,528**	**18,422**	**118**	**85,198**
2015	27,607	26,972	17,009	88	71,676
Segment earnings before interest, tax, depreciation and amortisation (EBITDA)	**15,354**	**10,027**	**6,943**	**-4,003**	**28,321**
2015	13,993	8,364	7,132	-4,412	25,077
Segment earnings before interest and tax (EBIT)	**13,024**	**9,024**	**6,343**	**-5,155**	**23,236**
2015	10,059	7,445	6,585	-4,829	19,260
Segment assets	**56,146**	**29,113**	**23,590**	**3,249**	**112,098**
2015	50,118	20,490	22,346	3,122	96,076
Segment liabilities	**19,959**	**7,998**	**2,427**	**17,581**	**47,965**
2015	17,745	9,334	1,504	14,832	43,415
Segment capital expenditure	**6,081**	**630**	**722**	**731**	**8,164**
2015	4,421	560	701	1,423	7,105
Segment depreciation/amortisation expense, impairment losses	**2,330**	**1,003**	**600**	**1,152**	**5,085**
2015	3,934	919	547	417	5,817
Significant non-cash expenses	**3,973**	**2,091**	**1,512**	**111**	**7,687**
2015	2,637	2,427	1,175	55	6,294

Of the total non-current assets of €54.868 million (31 December 2015: €40.351 million), €13.130 million (31 December 2015: €10.946 million) was located in European countries other than Germany, €10.068 million (31 December 2015: €10.068 million) of which was located in Ireland. Non-current assets located in Germany totalled €41.738 million (31 December 2015: €29.405 million).

The difference between Group assets and segment assets largely comprises unallocated non-current assets of €1.795 million (31 December 2015: €2.249 million) and deferred taxes of €587 thousand (31 December 2015: €396 thousand). The difference between Group liabilities and segment liabilities mainly relates to financial liabilities of €10.711 million (31 December 2015: €11,262 million), deferred taxes of €4.784 million (31 December 2015: €2.033 million) and income tax liabilities of €1.731 million (31 December 2015: €1.022 million).

The carrying amounts of and contributions to profits from equity-accounted joint ventures were €338 thousand (2015: €272 thousand) and a profit of €37 thousand (2015: loss of €4 thousand) respectively in the Financial Service Providers segment, and €237 thousand (2015: €193 thousand) and a profit of €44 thousand (2015: profit of €33 thousand) respectively in the Institutional Clients segment.

7. Other disclosures

7.1 Other financial commitments

At the balance sheet date, there were total other financial commitments of €12.715 million (31 December 2015: €11.432 million) relating to non-cancellable rentals, leases and maintenance agreements covering a number of years. Included in these other financial commitments were commitments of €3.594 million (31 December 2015: €3.401 million) due within one year, €7.869 million (31 December 2015: €7.687 million) due in one to five years, and €1.252 million (31 December 2015: €344 thousand) due in more than five years. The cost of rentals and leases (minimum leases) amounted to €3.233 million in 2016 (2015: €2.955 million). Rental income of €358 thousand (2015: €470 thousand) was generated by sub-leases.

The Group has options to extend its main office leases for five years.

7.2 Legal disputes

Neither Hypoport AG nor its subsidiaries are involved in, or were involved in, any legal or arbitration proceedings that could have had a significant impact on the Group's financial position as at 31 December 2016 and no proceedings of this type are foreseen.

As in previous years, appropriate provisions were recognised by each Group company for all potential financial charges arising from legal or arbitration proceedings. Overall, charges of this type are not expected to have any material impact on the Group's future financial position.

7.3 Related parties

IAS 24 requires disclosure of the names of persons or entities that control, or are controlled by, Hypoport AG. Transactions between Hypoport AG and its subsidiaries are eliminated during consolidation and therefore do not have to be reported in this note.

IAS 24 also requires disclosure of the names of persons who can exercise significant influence over the Company.

The parties covered by the requirements also include key management personnel, their close family members and other entities via which a named person exercises control or significant influence over Hypoport AG. The parties covered by this requirement during the reporting period were the members of the Group Management Board and Supervisory Board of Hypoport AG and their close family members.

Related party transactions are conducted on an arm's-length basis.

The total remuneration for the members of the Group Management Board in 2016 amounted to €2,386 million (2015: €1,734 million); the total remuneration for the members of the Supervisory Board came to €95 thousand (2015: €81 thousand). In all cases, all the benefits were due for payment within one year.

The table below shows the number of shares in Hypoport AG directly or indirectly held by the members of the Group Management Board and Supervisory Board as at 31 December 2016.

	Shares (number) 31 Dec 2016	Shares (number) 31 Dec 2015
Group Management Board		
Ronald Slabke	2,248,381	2,288,381
Stephan Gawarecki	142,800	187,800
Hans Peter Trampe	108,690	153,690
Supervisory Board		
Dr. Ottheinz Jung-Senssfelder	9,500	10,500
Roland Adams	0	0
Christian Schröder	14,700	15,700

Ronald Slabke, Berlin, holds 36.29 per cent of Hypoport's shares. Of these, the 34.77 per cent of the voting shares held by Revenia GmbH, Berlin, are attributable to him pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG). All the shares in Revenia GmbH are held by Ronald Slabke, the Chief Executive Officer of Hypoport AG. The decrease in the voting rights controlled by Ronald Slabke resulted from the dissolution of a trust relating to 40,000 shares.

Stephan Gawarecki, Preetz, holds 2.31 per cent of Hypoport's shares. Of these, the 2.31 per cent of the voting shares held by Gawarecki GmbH, Preetz, are attributable to him pursuant to section 22 (1) sentence 1 no. 1 WpHG.

Hans Peter Trampe, Berlin, holds 1.75 per cent of Hypoport's shares.

The companies in the Hypoport Group have not carried out any further disclosable transactions with members of either the Supervisory Board or the Group Management Board or with companies on whose management or supervisory bodies these persons are represented. This also applies to close family members related to these persons.

Revenue of €200 thousand was generated by joint ventures in 2016 (2015: €126 thousand). As at 31 December 2016, receivables from joint ventures amounted to €73 thousand (31 December 2015: €102 thousand) and liabilities to such companies amounted to €69 thousand (31 December 2015: €36 thousand).

7.4 Management Board

The members of the Management Board were as follows:

- Ronald Slabke (Chief Executive Officer), graduate in business administration, Berlin, responsible for Financial Service Provider business unit, human resources, IT, finance and administration, new markets and strategic investments, member of the supervisory boards of Dr. Klein & Co. AG and Europace AG

- Hans Peter Trampe, graduate in business administration, Berlin, responsible for the Institutional Clients business unit, member of the supervisory board of Europace AG

- Stephan Gawarecki, graduate in business administration, Preetz, responsible for the Private Clients business unit, member of the supervisory board of Europace AG.

Mr Thilo Wiegand resigned as a member of the Hypoport AG Management Board with effect from 30 June 2016 in order to focus entirely on his extended remit as Chief Executive Officer of Europace AG.

The total remuneration for the members of the Management Board in 2016 amounted to €2.386 million (2015: €1.734 million); for further information please refer to the remuneration report in the group management report (I.9).

7.5 Supervisory Board

The following persons were members of the Company's Supervisory Board in 2016:

- Dr Ottheinz Jung-Senssfelder (chairman of the Supervisory Board), lawyer, Erlangen; directorships at other companies: chairman of the supervisory board of BRANDAD Systems AG, Fürth

- Roland Adams (vice-chairman of the Supervisory Board), management consultant, member of the supervisory board of Kretschmar Familienstiftung, Berlin, deputy chairman of the board of directors of Mind Institute SE, Berlin

- Christian Schröder, graduate in business administration, auditor, Lübeck.

The total remuneration for the members of the Supervisory Board in 2016 amounted to €95 thousand (2015: €81 thousand); for further information please refer to the remuneration report in the group management report (I.9).

7.6 Investments pursuant to section 21 (1) WpHG

Pursuant to section 21 (1a) of the German Securities Trading Act (WpHG), Mr Ronald Slabke, Germany, informed us on 1 November 2007 that his voting share in our Company stood at 36.03 per cent on 26 October 2007 (2,177,433 voting rights). Of these, 35.17 per cent of the voting shares held by Revenia GmbH (2,125,825 voting rights) are attributable to him pursuant to section 22 (1) sentence 1 no. 1 WpHG.

Pursuant to section 21 (1) WpHG, Deutsche Postbank AG, Frankfurt am Main, Germany informed us on 17 March 2016 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 5 per cent threshold on 15 March 2016 and stood at 4.99 per cent (309,000 voting rights) on that date.

Pursuant to section 21 (1) WpHG, Union Investment Privatfonds GmbH, Frankfurt am Main, Germany informed us on 17 March 2016 that its voting share in Hypoport AG, Berlin, Germany had exceeded the 3 per cent threshold on 14 March 2016 and stood at 3.727 per cent (230,883 voting rights) on that date.

Pursuant to section 21 (1) WpHG, Deutsche Bank AG, Frankfurt am Main, Germany informed us on 8 April 2016 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 5 per cent threshold on 29 March 2016 and stood at 3.034 per cent (187,983 voting rights) on that date. All the voting rights are fully attributable to Deutsche Bank AG via its direct subsidiary Deutsche Postbank AG pursuant to section 22 (1) sentence 1 no. 1.

Pursuant to section 21 (1) WpHG, Union Investment Privatfonds GmbH, Frankfurt am Main, Germany informed us on 23 September 2016 that its voting share in Hypoport AG, Berlin, Germany had exceeded the 5 per cent threshold on 22 September 2016 and stood at 5.09 per cent (315,252 voting rights) on that date.

Pursuant to section 21 (1) WpHG, Hypoport AG, Berlin, Germany informed us on 16 November 2016 that its voting share in Hypoport AG, Berlin, Germany had exceeded the 3 per cent threshold on 9 November 2016 and stood at 3.01 per cent (186,253 voting rights) on that date.

Pursuant to section 21 (1) WpHG, Sparta AG, Hamburg informed us on 27 April 2015 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 22 April 2015 and stood at 2.99 per cent (equivalent to 185,000 voting rights) on that date.

Pursuant to section 21 (1) WpHG, Kretschmar Familienstiftung, Berlin, whose Chief Executive Officer is Professor Thomas Kretschmar, informed us on 9 December 2015 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 9 December 2015 and stood at 2.863 per cent (equivalent to 177,366 voting rights) on that date.

Pursuant to section 21 (1) WpHG, Wallberg Invest S.A., Luxembourg, Luxembourg informed us on 5 October 2015 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 30 September 2015 and stood at 2.47 per cent (equivalent to 152,921 voting rights) on that date. Pursuant to section 21 (1) WpHG, FAS S.A., Luxembourg, Luxembourg informed us on 7 October 2015 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 30 September 2015 and stood at 2.47 per cent (equivalent to 152,921 voting rights) on that date. The 2.47 per cent (equivalent to 152,921 voting rights) is attributable to the company pursuant to section 22 (1) sentence 1 no. 1 WpHG. Pursuant to section 21 (1) WpHG, Luxembourg, Marcel Ernzer, Luxembourg, also informed us on 7 October 2015 that his voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 30 September 2015 and stood at 2.47 per cent (equivalent to 152,921 voting rights) on that date. The 2.47 per cent of the voting rights (equivalent to 152,921 voting rights) are attributable to Mr Ernzer pursuant to section 22 (1) sentence 1 no. 1 WpHG.

Pursuant to section 21 (1) WpHG, Deutsche Balaton Aktiengesellschaft, Heidelberg, Germany informed us on 10 June 2015 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 9 June 2015 and stood at 2.98 per cent (equivalent to 184,844 voting rights) on that date. Pursuant to section 21 (1) WpHG, VV Beteiligungen Aktiengesellschaft, Heidelberg, Germany also informed us on 10 June 2015 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 9 June 2015 and stood at 2.98 per cent (equivalent to 184,844 voting rights) on that date. The 2.98 per cent of the voting rights (equivalent to 184,844 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 1 WpHG. Pursuant to section 21 (1) WpHG, Delphi Unternehmensberatung Aktiengesellschaft, Heidelberg, Germany also informed us on 10 June 2015 that its voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 9 June 2015 and stood at 2.98 per cent (equivalent to 184,844 voting rights) on that date. The 2.98 per cent of the voting rights (equivalent to 184,844 voting rights) are attributable to the company pursuant to section 22 (1) sentence 1 no. 1 WpHG. Pursuant to section 21 (1) WpHG, Wilhelm Konrad Thomas Zours, Germany also informed us on 10 June 2015 that his voting share in Hypoport AG, Berlin, Germany had fallen below the 3 per cent threshold on 9 June 2015 and stood at 2.98 per cent (equivalent to 184,844 voting rights) on that date. The 2.98 per cent of these voting rights (equivalent to 184,844 voting rights) are attributable to Mr Zours pursuant to section 22 (1) sentence 1 no. 1 WpHG.

This information was taken from the most recent notification received by the Company from each party subject to disclosure requirements. All published notifications from investors in the reporting year and other years are available on the Hypoport Group's website at www.hypoport.com/investor-relations/corporate-governance/. It should be noted that the details of shareholding percentages and number of voting rights may now be out of date.

7.7 Share-based payment

The Company's employees receive a certain number of shares in Hypoport AG that is determined by their period of service as well as shares amounting to €585.00 if the Company achieves certain targets. The total related expense recognised in 2016 was €306 thousand (2015: €236 thousand). Total liabilities in relation to share-based remuneration amounted to €292 thousand (2015: €13 thousand).

7.8 Auditors' fees and services

The fees incurred for services rendered by the auditors BDO AG Wirtschaftsprüfungsgesellschaft in 2016 amounted to €103 thousand for audits of financial statements (2015: €103 thousand) and €6 thousand for other attestation services (2015: €4 thousand).

7.9 Average number of persons employed during the financial year

In 2016, the Company employed an average of 709 (2015: 569) people in addition to the members of the Management Board.

The table below gives a breakdown of the average numbers of employees by business unit.

Average number of persons employed during the financial year	31 Dec 2016 Number	%	31 Dec 2015 Number	%	Change Number	%
Financial Product Sales Private Clients	243	34	214	38	29	14
Financial Product Institutional Clients	87	12	73	13	14	19
B2B Financial Marketplaces Financial Service Providers	299	42	195	34	104	53
Administration	80	11	87	15	-7	-8
	709		**569**		**140**	**25**

7.10 Financial risk management

As a result of its business activities, the Hypoport Group is exposed to various financial risks; these include market risk, credit risk, liquidity risk and interest-related cash flow risk. It does not use any derivative financial instruments to hedge against specific risks.

The Hypoport Group is exposed to only a very limited currency risk because only very small amounts of its assets and liabilities are denominated in currencies other than the Company's functional currency.

If the exchange rate of the euro to the US dollar had been 10 per cent higher or lower on 31 December 2016, and assuming that all other variables had remained constant, the Hypoport Group's net profit (loss) for the year would have been €0 thousand (31 December 2015: €0 thousand) higher or lower.

If the exchange rate of the euro to the pound sterling had been 10 per cent higher or lower on 31 December 2016, and assuming that all other variables had remained constant, the Hypoport Group's net profit (loss) for the year would have been €0 thousand (31 December 2015: €0 thousand) higher or lower.

The Hypoport Group's credit risk stems primarily from its trade receivables, advance commissions, and other financial assets. In 2016, it recognised impairment losses of €1.039 million (2015: €679 thousand) to cover the probability of irrecoverable receivables. Such receivables are estimated by the management of the Hypoport Group on the basis of past experience and current economic conditions.

The credit risk relating to cash and cash equivalents is limited because these are all held at investment-grade banks. There is no significant concentration of credit risk in the Group because this risk is spread across a large number of counterparties and clients.

The maximum credit risk is shown by the carrying amount of each financial asset reported on the balance sheet.

The main source of liquidity risk lies in the rapid expansion of the Group. The risks associated with the expansion of the Group are monitored by the Management Board and currently are not material given the high level of liquidity and excellent equity ratio in the Group.

The table below gives a breakdown of the contractual residual maturities of the Hypoport Group's financial liabilities. It shows the non-discounted cash flows of financial liabilities based on the earliest date on which the Hypoport Group can be obliged to pay. The table contains payments of both interest and principal.

€'000	Maturities					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Fixed-rate financial liabilities	23	1,145	3,452	4,525	1,872	**11,017**
2015	29	1,209	3,357	6,899	0	**11,494**
Rental and lease obligations	4	8	38	162	41	**253**
2015	5	7	31	214	38	**295**
2016	27	1,153	3,490	4,687	1,913	**11,270**
2015	34	1,216	3,388	7,113	38	**11,789**

Because the Hypoport Group does not hold any significant interest-bearing assets, its net profit (loss) for the year and its operating cash flow are largely immune to changes in market interest rates.

The Group's interest-rate risk stems from non-current, interest-bearing liabilities. Floating-rate liabilities expose the Group to interest-related cash flow risks. Its financial risk policy requires that the vast majority of liabilities it assumes be subject to fixed interest rates. In 2016 and 2015, only its unutilised credit lines carried floating interest rates.

7.11 Additional information on financial instruments

The table below shows the carrying amounts and fair values of individual financial assets and liabilities for each category of financial instrument and reconciles these amounts to the corresponding balance sheet items. Because the balance sheet items 'Other receivables' and 'Other liabilities' contain financial instruments as well as non-financial assets and non-financial liabilities, these amounts are reconciled in the column 'Non-financial assets/liabilities'.

Financial instruments 2016 €'000	Measured at amortised cost		Measured at fair value	Non-financial assets/liabilities	
	Carrying amount	Pro forma: fair value	Carrying amount	Carrying amount	Carrying amount on balance sheet at 31 Dec 2016
Trade receivables	38,161	-	-	-	38,161
Loans and receivables	38,161	38,161	-	-	38,161
Financial assets	1,089	-	-	-	1,089
Loans and receivables	1,089	1,089	-	-	1,089
Other assets	800	-	-	4,081	4,881
Loans and receivables	800	800	-		800
Non-financial assets				4,081	4,081
Cash and cash equivalents	22,411	-	-	-	22,411
Loans and receivables	22,411	22,411	-	-	22,411
Total financial assets	**-**	**-**	**-**	**-**	**62,461**
Thereof: loans and receivables	-	-	-	-	62,461
Financial liabilities	10,711	-	-	-	10,711
Measured at amortised cost	10,711	10,715	-	-	10,711
Trade payables	18,706	-	-	-	18,706
Measured at amortised cost	18,706	18,706	-	-	18,706
Other liabilities	8,847	-	-	2,875	11,722
Measured at amortised cost	8,847	8,847	-	-	8,847
Non-financial liabilities	-	-	-	2,875	2,875
Total financial liabilities	**-**	**-**	**-**	**-**	**38,264**
Thereof: measured at amortised cost	-	-	-	-	38,264

Financial instruments 2015 €'000	Measured at amortised cost		Measured at fair value	Non-financial assets/liabilities	
	Carrying amount	Pro forma: fair value	Carrying amount	Carrying amount	Carrying amount on balance sheet at 31 Dec 2015
Trade receivables	32,951	-	-	-	32,951
Loans and receivables	32,951	32,951	-	-	32,951
Financial assets	34	-	-	-	34
Loans and receivables	34	34	-	-	34
Other assets	0	-	-	2,899	2,899
Loans and receivables	0	0	-		0
Non-financial assets				2,899	2,899
Cash and cash equivalents	24,757	-	-	-	24,757
Loans and receivables	24,757	24,757	-	-	24,757
Total financial assets	**-**	**-**	**-**	**-**	**57,742**
Thereof: loans and receivables	-	-	-	-	57,742
Financial liabilities	11,262	-	-	-	11,262
Measured at amortised cost	11,262	11,437	-	-	11,262
Trade payables	20,394	-	-	-	20,394
Measured at amortised cost	20,394	20,394	-	-	20,394
Other liabilities	5,883	-	-	2,575	8,458
Measured at amortised cost	5,883	5,883	-	-	5,883
Non-financial liabilities	-	-	-	2,575	2,575
Total financial liabilities	**-**	**-**	**-**	**-**	**37,539**
Thereof: measured at amortised cost	-	-	-	-	37,539

In accordance with level two of the measurement hierarchy specified by IFRS 13, the fair values of receivables, loans and primary liabilities are calculated as the present value of future cash inflows and outflows. These cash flows are discounted using an interest rate prevailing at the balance sheet date and factor in the respective maturities of assets and liabilities as well as the credit rating of Hypoport AG. If a market value or market price is available, this is recognised as the fair value.

Because most trade receivables, trade payables, other receivables, other liabilities, and cash and cash equivalents have short maturities, their carrying amounts at the balance sheet date do not differ significantly from their fair values.

The table below breaks down the income, expenses, gains and losses resulting from financial instruments into the following categories:

Financial instruments 2016 €'000	Loans and receivables	Held-to-maturity investments	Fair value/ held for trading	Liabilities measured at amortised cost	2016
Interest and similar income	227	-	-	-	227
Interest expense and similar charges	-	-	-	-628	-628
Impairment losses	-1,039	-	-	-	-1,039
Net result	**-812**	**0**	**0**	**-628**	**-1,440**

Financial instruments 2015 €'000	Loans and receivables	Held-to-maturity investments	Fair value/ held for trading	Liabilities measured at amortised cost	2015
Interest and similar income	365	-	-	-	365
Interest expense and similar charges	-	-	-	-512	-512
Impairment losses	-679	-	-	-	-679
Net result	**-314**	**0**	**0**	**-512**	**-826**

7.12 Capital risk management

Hypoport AG's statutes do not specify any capital requirements. The Hypoport Group pursues two main objectives in terms of its capital management: firstly, to ensure that the Company continues to operate as a going concern so that it can continue to generate returns for its shareholders and provide its other stakeholders with the services they require; and secondly, to maintain the optimum capital structure so that it can lower its cost of capital and meet the minimum capital requirements resulting from its borrowings. The financial covenants agreed for a loan were complied with.

The Hypoport Group monitors its capital in terms of its level of gearing, which is the ratio of net debt to equity. Net debt consists of total financial liabilities minus cash and cash equivalents. Equity comprises the total shares in issue plus reserves.

The table below shows the Company's gearing as at 31 December 2016 and 31 December 2015:

Company's gearing	2016 €'000	2015 €'000
Financial liabilities	10,711	11,262
Minus cash and cash equivalents	22,411	24,757
Net debt	-11,700	-13,495
Equity	64,133	52,661
Gearing	-18 %	-26 %

7.13 Exemption from disclosure requirements under section 264 (3) HGB

The fully consolidated German subsidiaries listed below have met the conditions specified by section 264 (3) HGB and are therefore exempted from the requirements to disclose their separate financial statements documentation and to prepare a management report:

- Dr. Klein & Co. Aktiengesellschaft, Lübeck, Germany
- Europace AG, Berlin, Germany
- GENOPACE GmbH, Berlin, Germany
- Hypoport Systems GmbH, Berlin, Germany
- Qualitypool GmbH, Lübeck, Germany
- Vergleich.de Gesellschaft für Verbraucherinformation mbH, Berlin, Germany
- DR. KLEIN Firmenkunden AG, Lübeck, Germany
- NKK Programm Service AG, Regensburg, Germany
- NKK Consulting AG, Regensburg, Germany
- Hypoport InsurTech GmbH, Berlin, Germany
- Hypservice GmbH, Berlin, Germany.

7.14 Declaration of compliance with the German Corporate Governance Code

Hypoport AG has issued its corporate governance declaration, including the declaration of conformity required by section 161 of the German Stock Corporation Act (AktG). The declaration can be viewed on the Company's website at www.hypoport.com.

7.15 Events after the reporting period

The basis of consolidation has increased following the purchases of companies presented in note 1.8 Acquisitions after the reporting period. This will result in slight changes to the Group's financial position and financial performance. Revenue will go up, and there is likely to be a positive impact on EBIT. The number of employees will also rise.

Apart from the aforementioned matters, no other events have occurred so far that are of particular significance to the financial position and financial performance of the Hypoport Group in 2017.

Berlin, 21 March 2017
Hypoport AG – The Management Board

Ronald Slabke | Stephan Gawarecki | Hans Peter Trampe

Consolidated statement of changes in non-current assets 2016

	Cost				
	Balance 1 Jan 2015 €'000	Additions €'000	Disposals €'000	Reclassification €'000	Changes in consolidation €'000
I. Intangible assets					
1. Patents, licences, trademarks and similar rights and assets, including licences for such rights and assets					
1.1 Software	5,353	928	248	0	386
1.2 Development costs	46,097	5,554	0	838	2,572
2. Goodwill	14,826	0	0	0	3,761
3. Advance payments and development costs in progress	1,097	416	0	-838	0
	67,373	**6,898**	**248**	**0**	**6,719**
II. Property, plant and equipment					
1. Land, leasehold improvements and buildings, including buildings on land owned by others	21	0	0	0	0
2. Office furniture and equipment	9,085	1,266	317	0	100
	9,106	**1,266**	**317**	**0**	**100**
	76,479	**8,164**	**565**	**0**	**6,819**

	Cumulative depreciation, amortisation and impairment				Carrying amount	
Balance 31 Dec 2016 €'000	Balance 1 Jan 2016 €'000	Additions €'000	Disposals €'000	Balance 31 Dec 2016 €'000	Balance 31 Dec 2016 €'000	31 Dec 2015 €'000
6,419	3,910	769	248	4,431	1,988	1,443
55,061	31,576	3,075	0	34,651	20,410	14,521
18,587	0	0	0	0	18,587	14,826
675	0	0	0	0	675	1,097
80,742	**35,486**	**3,844**	**248**	**39,082**	**41,660**	**31,887**
21	21	0	0	21	0	0
10,134	6,514	1,241	252	7,503	2,631	2,571
10,155	**6,535**	**1,241**	**252**	**7,524**	**2,631**	**2,571**
90,897	**42,021**	**5,085**	**500**	**46,606**	**44,291**	**34,458**

Consolidated statement of changes in non-current assets 2015

	Cost				
	Balance 1 Jan 2015 €'000	Additions €'000	Disposals €'000	Reclassification €'000	Balance 31 Dec 2015 €'000
I. Intangible assets					
1. Patents, licences, trademarks and similar rights and assets, including licences for such rights and assets					
1.1 Software	5,004	595	246	0	5,353
1.2 Development costs	40,860	3,128	0	2,109	46,097
2. Goodwill	14,826	0	0	0	14,826
3. Advance payments and development costs in progress	1,294	1,912	0	-2,109	1,097
	61,984	**5,635**	**246**	**0**	**67,373**
II. Property, plant and equipment					
1. Land, leasehold improvements and buildings, including buildings on land owned by others	21	0	0	0	21
2. Office furniture and equipment	9,106	1,415	1,493	57	9,085
3. Advance payments and constructions in progress	2	55	0	-57	0
	9,129	**1,470**	**1,493**	**0**	**9,106**
	71,113	**7,105**	**1,739**	**0**	**76,479**

Cumulative depreciation, amortisation and impairment				Carrying amount	
Balance 1 Jan 2015 €'000	Additions €'000	Disposals €'000	Balance 31 Dec 2015 €'000	Balance 31 Dec 2015 €'000	31 Dec 2014 €'000
3,590	566	246	3,910	1,443	1,414
27,441	4,135	0	31,576	14,521	13,419
0	0	0	0	14,826	14,826
0	0	0	0	1,097	1,294
31,031	**4,701**	**246**	**35,486**	**31,887**	**30,953**
21	0	0	21	0	0
6,881	1,116	1,483	6,514	2,571	2,225
0	0	0	0	0	2
6,902	**1,116**	**1,483**	**6,535**	**2,571**	**2,227**
37,933	**5,817**	**1,729**	**42,021**	**34,458**	**33,180**

Report of the supervisory board

The Supervisory Board hereby reports on the discharge of its responsibilities in the 2016 financial year.

In 2016, the Supervisory Board continued to apply due care and diligence in discharging the responsibilities incumbent upon it under the law, the Company's statutes, its rules of procedure and the German Corporate Governance Code. The Supervisory Board supported the Management Board in its running of the Company. This advisory and monitoring function was based on the detailed written and oral reports submitted by the Management Board, which informed the Supervisory Board in a regular, comprehensive and timely fashion about the Company's strategic planning and budgeting, changes in its business performance and financial position, its strategic development, the risk situation, risk management and relevant compliance matters, important transactions and the current position of the Company and the Hypoport Group. The Supervisory Board was informed at regular intervals either during or in advance of Supervisory Board meetings. The Management Board and the Supervisory Board were also in regular contact outside the meetings, so the Supervisory Board was kept abreast of particularly important events at all times. The Supervisory Board also obtained information about key developments for itself and supported the Management Board in an advisory capacity. All decisions and actions of fundamental importance that required approval were discussed with the Supervisory Board at an early stage and submitted to the Supervisory Board for approval.

The Supervisory Board held five scheduled meetings in 2016. In addition, one regular and three non-scheduled Supervisory Board meetings were held by telephone. Four further resolutions were adopted in writing (by email) at the request of the Supervisory Board chairman following detailed preparation and dissemination of information in each case. All members of the Supervisory Board attended every meeting and took part in the other resolutions adopted outside meetings.

No members of the Supervisory Board were subject to conflicts of interest.

Key points of the Supervisory Board's deliberations

The Supervisory Board's deliberations centred primarily on matters concerning the corporate strategy and business activities of the Company and the Hypoport Group, important transactions such as acquisitions, the effectiveness of the internal control and risk management system, and decisions and action taken by the Management Board that required approval. Furthermore, the Supervisory Board examined the Group's structure.

The meeting on **28 and 29 January 2016** was primarily a chance to discuss strategy. The Management Board presented the future development requirements and opportunities in relation to all business activities. This provided the basis for a detailed and critical discussion. The Supervisory Board then noted with approval the strategies presented by the Management Board. It did the same for the planning for 2016, which the Management Board also presented. In addition, the Supervisory Board voted to comply with the German Corporate Governance Code and to submit a declaration of conformity in accordance with section 161 of the German Stock Corporation Act (AktG).

On **12 February 2016,** a non-scheduled Supervisory Board meeting was held by telephone. The Supervisory Board adopted a resolution, based on the Management Board's decision, to run a share repurchase programme from 17 February 2016 to 10 June 2016 with the intention of providing treasury shares for employee share ownership schemes and other means of issuing shares to employees of the Company and the Hypoport Group.

A representative of the Company's auditor, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, attended the meeting held on **23 March 2016** and presented a comprehensive report on BDO's audit of the separate financial statements for 2015 and the consolidated financial statements for 2015. As required by section 171 AktG, the Supervisory Board reviewed and approved the separate and consolidated financial statements for 2015 as well as both management reports.

Furthermore, the Supervisory Board examined the Management Board's proposal for the appropriation of profit, which it approved and voted to adopt.

The Supervisory Board also discussed its own report on the 2015 financial year and voted to adopt it.

The Management Board reported on the fourth quarter of 2015 and on the fact that the 2016 financial year had started positively.

Moreover, the Supervisory Board dealt with the preparations for the Annual Shareholders' Meeting, particularly the intended change to the Management Board's existing authorisation to acquire treasury shares.

During the meeting, the individual components of the Management Board's remuneration were also presented before being unanimously approved by the Supervisory Board.

On **21 April 2016,** after having made appropriate preparations and discussed the draft agenda for the 2016 Annual Shareholders' Meeting, the Supervisory Board adopted a written resolution on its motions to be put to the 2016 Annual Shareholders' Meeting.

The Supervisory Board meeting held by telephone on **29 April 2016** mainly dealt with the interim report for the first quarter of 2016.

On **10 May 2016,** the Supervisory Board adopted a written resolution on a transaction that, in accordance with the Management Board's rules of procedure, required the Supervisory Board's consent. The transaction concerned the rental and refurbishment of additional offices in Munich.

On 3 June 2016, a non-scheduled Supervisory Board meeting was held, at which the Management Board reported on the planned acquisition of NKK Programm Service AG and provided a detailed explanation of the intended purchase, the results thus far of the due diligence and the evaluation of the deal structure. The Supervisory Board approved the plan to acquire NKK Programm Service AG.

At the Supervisory Board meeting held on **10 June 2016,** the Management Board reported on the first quarter and announced the establishment of HypService GmbH. It also explained that Mr Thilo Wiegand had resigned as a member of the Hypoport AG Management Board with effect from 1 July 2016 and would focus entirely on his remit as Chief Executive Officer of Europace AG going forward.

Also in June 2016, the Management Board informed the Supervisory Board that, in future, it would only discuss interim financial reporting with the Supervisory Board after publication, so as to ensure as little delay as possible in the publication of the financial reports. The change to the way that the Supervisory Board is involved in interim financial reporting and the associated non-compliance with the recommendation in paragraph 7.1.2 sentence 2 of the German Corporate Governance Code necessitated an update to the declaration of conformity.

Following the necessary preparations and discussions, the Supervisory Board adopted a written resolution on **21 June 2016** to update the declaration of conformity.

On **14 July 2016,** the Supervisory Board adopted a written resolution on a transaction that, in accordance with the Management Board's rules of procedure, required the Supervisory Board's consent. The transaction concerned the signing of a loan agreement within the framework of the company lending programme of Germany's KfW development bank.

At the meeting held on **2 September 2016,** the Management Board reported on the second quarter of 2016 and on specific developments and trends in the individual business units. The Management Board and Supervisory Board also scrutinised the Group's structure and management. The management appointments and the individual responsibilities in the subsidiaries were also discussed during the Supervisory Board meeting. In addition, the Supervisory Board noted the audit reports from the internal audit department at this meeting. Furthermore, the rules of procedure for the Management Board and Supervisory Board were discussed and the schedule for 2017 was approved.

Adopting a written resolution on **1 November 2016,** the Supervisory Board approved the Management Board's resolution to conduct a further share repurchase programme so that the acquired treasury shares can be used as payment in the context of acquisitions, to service employee share ownership schemes and for other purposes.

The Company's operating performance in the third quarter of 2016 as well as the latest developments and trends in the business units were discussed extensively with the Management Board at the Supervisory Board meeting held on **9 December 2016.**

In addition, the Management Board and Supervisory Board discussed the preparations for the strategy meeting in early February 2017 and agreed on the main strategic questions and issues to be covered during the strategy discussion.

At this meeting, the Management Board and Supervisory Board also scrutinised risk management, the risk monitoring system and the internal control system (financial planning and reporting as well as internal audit). The Hypoport Group's ten biggest risks and their monitoring were described and discussed.

In another agenda item, the Management Board showed how the Group's main finance KPIs had changed over the past five years. It also provided information about capital expenditure in 2016 aimed at future growth.

Furthermore, the Supervisory Board adopted new rules of procedure for the Management Board.

In the absence of the Management Board, the Supervisory Board then reviewed the effectiveness of its own work over the course of the previous year. This review revealed no shortcomings of any kind.

No committees

The Supervisory Board of Hypoport AG has not set up any committees because it consists of only three members.

German Corporate Governance Code

In 2016, the Supervisory Board once again discussed the content of the German Corporate Governance Code and adopted the necessary resolutions on compliance with its recommendations and on individual exceptions from these recommendations. Further information on corporate governance at the Company can be found in the corporate governance report. The remuneration report contains detailed information on the level and structure of remuneration for the Supervisory Board and Management Board. The Management Board and Supervisory Board voted to issue the declaration of conformity required by section 161 AktG and have made it permanently available on the Company's website.

The Supervisory Board and Management Board are aware that good corporate governance that safeguards the interests of shareholders and the capital markets is essential for the Company's success. The Management Board and Supervisory Board regard the recommendations and suggestions of the German Corporate Governance Code and the pertinent statutory legislation as an integral part of the function that they perform for the Company. They examine compliance with these standards at regular intervals, thereby ensuring that the Company's shareholders and employees and, not least, the Company itself take due account of the standards.

Separate and consolidated financial statements

The Management Board submitted to the Supervisory Board the 2016 separate financial statements that it had prepared in accordance with the German Commercial Code (HGB), the 2016 consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), both management reports, the proposal for the appropriation of profit and the corresponding independent auditor's reports.

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, the auditors appointed by the Company, audited its separate financial statements, the consolidated financial statements and both management reports for the year ended 31 December 2016 and issued an unqualified opinion in each case. As required by section 171 AktG, the Supervisory Board reviewed and discussed the separate and consolidated financial statements for 2016 and both management reports. At the Supervisory Board meeting held on **24 March 2017** to discuss the Company's financial statements, the auditors reported in person to the Supervisory Board and provided exhaustive answers to the questions put to them. The Supervisory Board also examined the Management Board's proposal for the appropriation of profit.

The Supervisory Board agreed with the auditors' findings. Having completed its own examination, it had no objections to raise. The Supervisory Board reviewed and approved the separate and consolidated financial statements for 2016 prepared by the Management Board. The financial statements for 2016 have thus been adopted. After itself examining the Management Board's explanation of its proposed appropriation of profit, and after considering all the arguments, the Supervisory Board approved the proposal.

The Supervisory Board would like to thank the Management Board and all employees for their hard work and valuable support.

Berlin, 24 March 2017

Dr Ottheinz Jung-Senssfelder
Chairman of the Supervisory Board

Corporate governance report

The Management Board and Supervisory Board of Hypoport AG are committed to the principles of responsible corporate governance. Hypoport AG is of the firm belief that transparent corporate governance adds value to the Company over the long term. It is also essential if Hypoport AG is to honour the trust placed in it by investors, financial markets, business partners, customers, employees and the public at large. The Management Board and Supervisory Board regard the recommendations and suggestions of the German Corporate Governance Code and the pertinent statutory legislation as an integral part of the function that they perform for the Company. They examine compliance with these standards at regular intervals, thereby ensuring that the Company's shareholders and employees and, not least, the Company itself are fully compliant.

Declaration of conformity with the German Corporate Governance Code

The Management Board and Supervisory Board have carefully examined the German Corporate Governance Code as amended on 5 May 2015, which was published in the German Federal Gazette on 12 June 2015. The declaration of conformity was submitted by the Management Board and Supervisory Board of Hypoport AG on 30 January 2017 and is reproduced below. The declaration of conformity has been made permanently available to the public and can be viewed at www.hypoport.com/investor-relations/corporate-governance/.

Declaration of conformity with the recommendations of the German Corporate Governance Code (DCGK) pursuant to section 161 of the German Stock Corporation Act (AktG)

The Management Board and Supervisory Board of Hypoport AG, Berlin, hereby declare the following:

Since the most recent regular declaration of conformity was submitted on 29 January 2016 and the declaration of conformity was updated in June 2016, Hypoport AG has complied – with the exception of the recommendations listed below – with the recommendations made by the German government commission on the German Corporate Governance Code as amended on 5 May 2015, which were publicly announced by the Federal Ministry of Justice in the official section of the German Federal Gazette and published in the German Federal Gazette on 12 June 2015. In future, Hypoport AG will continue to comply with the recommendations made by the German government commission on the German Corporate Governance Code as amended on 5 May 2015 with the exception of the recommendations listed below.

1. Paragraph 3.8 (3) of the German Corporate Governance Code recommends that an appropriate excess be agreed when taking out directors' and officers' liability insurance for members of

a supervisory board. The D&O insurance concluded by Hypoport AG for members of its Supervisory Board does not at present specify any excess.

Hypoport AG does not believe that an excess of this type would increase the motivation and sense of responsibility with which the members of its Supervisory Board perform their role. Consequently, Hypoport AG does not intend to change its D&O insurance contracts for members of the Supervisory Board.

2. Paragraph 4.2.3 (2) of the German Corporate Governance Code recommends that the level of remuneration for members of the management board overall and with respect to their variable remuneration components be capped. The existing employment contracts of the members of the Management Board of Hypoport AG contain no such caps on the amount of remuneration.

Hypoport AG is of the view that the existing remuneration structure for members of the Management Board – which is designed to ensure a sustainable corporate culture, comprises both fixed and variable components (with variable remuneration components being assessed over a period of several years) and takes account of both positive and negative developments and trends – is, on the whole, appropriate without the imposition of any caps on the amount of remuneration and, even in its existing form, does not encourage individuals to take inappropriate risks. Moreover, the Company is of the view that the existing remuneration structure has proved itself over a period of several years to be appropriate and suited to furthering the Company's interests. Even if no caps are imposed on the amount of remuneration, the specific way in which this remuneration system is designed should ensure that the existing remuneration structure does not create incentives that are contrary to or incompatible with the sustainable corporate culture of Hypoport AG. For these reasons the Company is of the view that it is not necessary to amend the Management Board members' existing employment contracts. On an ongoing basis and, in particular, in connection with the extension of existing Management Board members' employment contracts, however, the Supervisory Board of Hypoport AG will carefully and properly examine and then decide whether it should in future comply with the recommendation made in paragraph 4.2.3 (2) of the German Corporate Governance Code – including with respect to the imposition of a cap on the amount of remuneration – or whether the existing remuneration structure should be retained without any such cap being imposed.

3. Paragraph 5.1.2 of the German Corporate Governance Code recommends, among other things, that an age limit be specified for members of the management board. Paragraph 5.4.1 makes the same recommendation for members of the supervisory board. No age limit has been specified for members of either the Management Board or the Supervisory Board of Hypoport AG.

Hypoport AG believes that setting an age limit would be an inappropriate general restriction on the Supervisory Board's selection of suitable Management Board members and would restrict shareholders in their selection of Supervisory Board members, because a director's experience and personal and professional skills, rather than his or her age, are the relevant factors for recruiting members of the Management Board or Supervisory Board.

4. Paragraph 5.3.1 of the German Corporate Governance Code recommends that supervisory boards set up properly qualified committees in line with the specific circumstances of the company concerned and the number of persons on its supervisory board. Accordingly, paragraph 5.3.2 of the German Corporate Governance Code recommends that an audit committee be set up and paragraph 5.3.3 recommends that a nominations committee be formed. The Supervisory Board of Hypoport AG has not set up any committees.

Because the Supervisory Board consists of only three members, as specified in the Company's statutes, all aspects of its work are carried out by the entire Supervisory Board. Consequently, Hypoport AG does not consider it necessary to form committees. The Supervisory Board in particular believes that the formation of committees would unnecessarily impede its work because it has such a small number of members.

5. Paragraph 5.4.1 (2) of the German Corporate Governance Code recommends that the supervisory board set specific targets for its composition which, while taking account of the company's particular situation, cover the company's international activities, potential conflicts of interest, a specific age limit for members of the supervisory board, a specific time limit on membership of the supervisory board and diversity. Paragraph 5.4.1 (3) states that the supervisory board should take these targets into account when proposing candidates for election, and that both the targets and the progress towards their implementation should be published in the corporate governance report. To date, the Supervisory Board of Hypoport AG has not set such targets for its composition.

The current members of the Company's Supervisory Board were elected by the 2015 Annual Shareholders' Meeting in accordance with the proposals made by the Supervisory Board. Each was elected by a large majority. Their term of appointment is due to end in 2020. The Supervisory Board is of the opinion that its current composition takes full and proper account of the Company's particular situation and believes that this is corroborated by the election results for the Supervisory Board candidates that it had proposed. The Supervisory Board is therefore of the opinion that specific written targets for its composition are inappropriate at the present time. Such binding targets would risk unduly restricting its flexibility to elect suitable candidates of either sex; nor does it appear appropriate to set specific targets at this point, as the terms of appointment of the current members still have until 2020 to run. Due to the size of the Supervisory Board, the Supervisory Board also believes that each vacant position should be filled first and foremost on the basis of candidates' professional suitability, taking due account of the Company's particular situation. Consequently, the Supervisory Board was and still is of the view that there is currently no need to set the specific targets for its composition recommended by paragraph 5.4.1 (2) of the German Corporate Governance Code. Nonetheless, the Supervisory Board will continuously and properly examine whether to comply with the recommendation in paragraph 5.4.1 (2) and (3) of the German Corporate Governance Code in future or whether to retain the current model.

6. Paragraph 5.4.6 (2) sentence 2 of the German Corporate Governance Code recommends that any performance-related remuneration granted to the members of the supervisory board be designed to enhance the company's long-term development and performance. Since the Com-

pany's statutes were amended accordingly in 2010, the remuneration for members of the Supervisory Board of Hypoport AG has consisted of fixed and variable components. The variable remuneration amounts to 0.1 per cent of the amount by which positive earnings before interest and tax (EBIT) as reported in the Company's IFRS consolidated annual financial statements exceeds €5 million, but in any event no more than €5,000 for each full financial year, although the chairman of the Supervisory Board receives twice this amount of remuneration and the vice-chairman receives 1.5 times this amount. Because variable remuneration is based on EBIT, which is an annual performance indicator, the Company does not comply with the recommendation that such remuneration be designed to enhance the company's long-term development and performance, and nor has it done so in the past.

Hypoport AG is of the view that the existing remuneration arrangements can be retained for as long as the current Supervisory Board members remain in post. Although this means that the Company does not comply with the recommendation made in paragraph 5.4.6 (2) sentence 2 of the German Corporate Governance Code, Hypoport AG is of the opinion that the Supervisory Board's remuneration is, in particular, appropriate in relation to the Supervisory Board members' responsibilities and the Company's situation. Although the variable remuneration component is not assessed over a period of several years, the Company is of the view that the Supervisory Board's remuneration in its current form is practicable, appropriate and suited to furthering the Company's interests. In particular, the specific way in which this type of remuneration is designed and the limits imposed on the amount of remuneration should ensure that this arrangement does not create incentives to earn purely short-term returns. This is partly due to the ratio of variable remuneration to fixed remuneration. Even if it reaches its maximum amount, the additional variable remuneration component constitutes less than 50 per cent of the equally appropriate fixed remuneration component. For these reasons the Company is of the view that it is currently not necessary to comply with the recommendation made in paragraph 5.4.6 (2) sentence 2 or to propose to the Annual Shareholders' Meeting that the Company's statutes be amended. Hypoport AG will continuously and properly examine the nature and structure of the Supervisory Board's remuneration based on the actual circumstances prevailing at the time and, within this context, the Company will then decide in each case whether it should in future comply with the recommendation made in paragraph 5.4.6 (2) sentence 2 of the German Corporate Governance Code or whether it should retain its existing model.

7. Paragraph 7.1.2 sentence 2 of the German Corporate Governance Code recommends that the management board discuss the half-year report and any quarterly financial reports with the supervisory board prior to publication. Prior to publication of the 2016 half-year financial report, Hypoport AG refrained for the first time from discussing the report with the Supervisory Board and, in future, will continue to refrain from such discussions before publication.

In Hypoport AG's view, the priority for interim financial reporting is the provision of comprehensive information to the capital markets without delay. Discussing the reports with the Supervisory Board beforehand may lead to delays. The Management Board will continue to keep the Supervisory Board fully informed about Hypoport AG's business performance during the regular meetings.

Disclosures of corporate governance practices

Management Board and Supervisory Board

The Management Board is responsible for running the Company. Its remit includes formulating the Company's targets, objectives and strategy; managing and monitoring its business activities; and establishing and monitoring an effective risk management system. The statutes of Hypoport AG specify that its Management Board should comprise a minimum of two persons. Apart from this stipulation, it is the responsibility of the Supervisory Board to determine the number of members on the Management Board, which currently consists of three members. The Management Board informs the Supervisory Board in a regular, comprehensive and timely fashion about the Company's strategic planning and budgeting, changes in its business performance and financial position, its strategic development, its risk management, important transactions, and the current position of the Company and the Hypoport Group.

The Supervisory Board of Hypoport AG consists of three members. The chairman of the Supervisory Board is elected from among the members of this body. The current members of the Supervisory Board were elected at the 2015 Annual Shareholders' Meeting for the period up to the end of the Annual Shareholders' Meeting that votes on the formal approval of the actions of the Supervisory Board for the 2019 financial year. The Supervisory Board of Hypoport AG has not yet set any targets for its composition.

The Supervisory Board appoints the members of the Management Board. It monitors the Management Board and advises it on the running of the Company. Material decisions taken by the Management Board must be approved by the Supervisory Board. The Supervisory Board meets at least four times a year and, if necessary, meets without the participation of the Management Board or individual members of the Management Board. The Supervisory Board reviews and approves the separate and consolidated financial statements prepared by the Management Board, thereby adopting the separate financial statements.

Informative corporate communications

Open and informative corporate communications form an integral part of good corporate governance. This requires all content to be clearly expressed and readily understandable and, in particular, all target groups to have equal access to the information provided by the Company. Hypoport AG therefore attaches great importance to the dissemination of uniform, comprehensive and timely information. Information on the Company's business situation and financial results is published in its annual, half-yearly and quarterly reports. Information is also published in the form of inside information according to Article 17 MAR and press releases. In addition, all reports, notifications, presentations, statements and other releases are made permanently available in the Press and Investor Relations sections of the Company's website. The scheduled dates of major recurring events – i.e. the dates on which the annual and interim reports are published and the date on which the Annual Shareholders' Meeting is held – are disclosed in a financial calendar, which is published sufficiently far in advance of these dates and is made available on the Company's website.

Furthermore, Hypoport AG maintains an insider list in the manner prescribed by article 18 of Regulation (EU) 596/2014 (Market Abuse Regulation, MAR). The persons concerned have been, and are, informed about their legal obligations and the potential sanctions in this connection.

Financial reporting and auditing of financial statements

Since 2005 the Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Once the consolidated financial statements have been prepared by the Management Board, they are audited by the independent auditors and then reviewed and approved by the Supervisory Board. The Supervisory Board also reviews and approves the separate financial statements prepared by the Management Board, which are thus adopted. The consolidated financial statements are published within 90 days after the end of the financial year.

It has been agreed with the Company's independent auditors that the chairman of the Supervisory Board should be notified immediately of any reasons for exclusions or exemptions or of any misrepresentations in the declaration of conformity that come to light during the course of the audit. The independent auditors notify the Supervisory Board chairman immediately of any matters or events of material importance to the Supervisory Board's work that arise during the course of the audit.

Management Board and Supervisory Board shareholdings and directors' dealings

The members of the Management Board and Supervisory Board hold a considerable number of shares in Hypoport AG. The table below shows the numbers of shares in Hypoport AG directly or indirectly held by the members of the Management Board and Supervisory Board as at 31 December 2016.

Group Management Board	Shares (number)
Ronald Slabke	2,248,381
Stephan Gawarecki	142,800
Hans Peter Trampe	108,690
Thilo Wiegand*	29,000
Supervisory Board	
Dr. Ottheinz Jung-Senssfelder	9,500
Roland Adams	0
Christian Schröder	14,700

* Resigned from the Board on 1 July 2016

In accordance with article 19 (3) MAR, directors' dealings are published at www.hypoport.com/investor-relations/corporate-governance/ as soon as notification has been received.

A list of all the directors' dealings published in 2016 can also be found on the Company's website at www.hypoport.com/investor-relations/corporate-governance/.

The modus operandi of the Management Board and Supervisory Board

The Supervisory Board has appointed a chairman of the Management Board. The Supervisory Board approved the latest version of the rules of procedure for the Management Board on 9 December 2016. These rules of procedure govern the internal workings of the Management Board, the allocation of its responsibilities and its cooperation with the Supervisory Board.

As specified by the Management Board's rules of procedure and schedule of responsibilities, each member of the Management Board has his own area of responsibility. However, the members of the Management Board are collectively responsible for the overall day-to-day management of the Hypoport Group. Moreover, certain material acts can only be carried out on the basis of a decision taken by the Management Board as a whole. The Management Board is quorate if all members of the Management Board participate in voting. Decisions are taken by a simple majority of the votes cast. In practice, the Management Board often takes decisions by reaching a consensus.

The Company's statutes stipulate that if only one person has been appointed to the Management Board, Hypoport AG is represented in and out of court by this one person; if two or more persons have been appointed to the Management Board, the Company is represented either by two Management Board members jointly or by one Management Board member in conjunction with one person with full commercial power of attorney (Prokurist). If two or more persons have been appointed to the Management Board, the Supervisory Board can authorise one or more Management Board members to represent the Company on their own. The Supervisory Board can exempt members of the Management Board from the restrictions under section 181 of the German Civil Code (BGB) within the limits specified by section 112 of the German Stock Corporation Act (AktG). To date, the Supervisory Board has not given individual power of representation to any member of the Management Board.

The Supervisory Board discharges the responsibilities incumbent upon it under the law, the Company's statutes, its rules of procedure and the German Corporate Governance Code. The Supervisory Board regularly advises the Management Board on the running of the Company and monitors its actions. This advisory and monitoring function is based on detailed written and oral reports submitted by the Management Board, which inform the Supervisory Board in a regular, comprehensive and timely manner about the Company's planning and budgeting, its business performance, its strategic development, its risk management, important transactions, and the current position of the Company and the Hypoport Group. Decisions of fundamental importance are discussed with and submitted to the Supervisory Board for approval.

The provisions of section 11 (3) of the statutes state that the Supervisory Board is quorate if all its members participate in voting. The Supervisory Board provides itself with rules of procedure pursuant to section 9 (3) of the statutes. The currently applicable rules of procedure were issued on the basis of a resolution adopted by the Supervisory Board on 31 March 2008. The Supervisory Board has not set up any committees at present because it consists of only three members.

The members of the Supervisory Board are elected for the period up to the end of the Annual Shareholders' Meeting that votes on the formal approval of the acts of management for the fourth financial year after the term of appointment commences. The Annual Shareholders' Meeting may stipulate a shorter term of appointment. The next elections to the Supervisory Board are due to be held at the Annual Shareholders' Meeting in June 2020.

Setting targets for the proportion of women on the Management Board and Supervisory Board and in managerial positions

The Supervisory Board, in accordance with section 111 (5) AktG, and the Management Board, in accordance with section 76 (4) AktG, have decided on the following targets for the proportion of women on the Supervisory Board and Management Board and at the two management levels below the Management Board:

Targets for the Management Board and Supervisory Board

In accordance with section 111 (5) AktG, the Supervisory Board of Hypoport AG adopted a resolution on 26 September 2015 setting a target of 0 per cent for the proportion of women on both the Management Board and the Supervisory Board. A deadline of 30 June 2017 was set for achieving the target figures. At present, both the Management Board and the Supervisory Board of Hypoport AG consist exclusively of male persons.

The Supervisory Board will continue to strive to give due consideration to women when there are personnel changes on the Management Board and Supervisory Board. Because of the small number of Supervisory Board members, the Supervisory Board is currently of the opinion that professional suitability, experience and independence, regardless of gender, should remain the key determinants for its composition. Consequently, the Supervisory Board believes that it is not appropriate to set a target of more than 0 per cent for the proportion of women on the Supervisory Board, because its current flexibility for proposing candidates for vacant Supervisory Board positions would otherwise be unduly impaired. The Supervisory Board is also of the view that professional suitability and experience, regardless of gender, should remain the key determinants for filling vacant positions on the Management Board. Moreover, the term of office of the current Management Board members and the term of their employment contracts extend beyond the implementation period, which ends on 30 June 2017. There is also no intention to replace Mr Thilo Wiegand, who stepped down from the Management Board on 1 July 2016, with another Management Board member. Against this background, no extension of appointment or recruitment of a new member of the Management Board is likely to apply during the implementation period, which ends on 30 June 2017.

Targets for senior management levels

In accordance with section 76 (4) AktG, the Management Board of Hypoport AG adopted a resolution on 26 September 2015 setting a target of 14 per cent for the proportion of women at the first management level below the Management Board and a target of 33 per cent for the second management level below the Management Board, both of which are to be met by 30 June 2017. On the date at which the resolution was adopted, the proportion of women at the first management level below the Management Board was 14 per cent and the proportion of women at the second management level below the Management Board was 33 per cent. The two management levels were defined as follows: the first management level below the Management Board comprises the business unit heads and the second management level below the Management Board comprises managers.

When filling vacant positions at the two management levels below the Management Board in the past, the Management Board already took particular account of aspects of gender diversity as well as professional suitability and experience. Because of the small number of positions to be filled at the two management levels below the Management Board, the Management Board is of the opinion that professional suitability and experience, regardless of gender, should remain the key determinants for filing vacant positions at these management levels.

Shareholders and the Annual Shareholders' Meeting
The shareholders of Hypoport AG exercise their rights at the Company's Annual Shareholders' Meeting. This meeting provides the Company's shareholders with a forum in which to exercise their voting rights, obtain information and conduct a dialogue with the Management Board and Supervisory Board. The Annual Shareholders' Meeting is held within the first six months of each financial year. The chairman of the Supervisory Board chairs the Annual Shareholders' Meeting. The Annual Shareholders' Meeting decides on all matters assigned to it by law.

Hypoport organises and runs its Annual Shareholders' Meetings in such a way that all shareholders are informed in a timely, comprehensive and effective manner both prior to and during the meeting. The aim is to make it as easy as possible for shareholders to participate in the meeting. All documentation to be made available is published on the Company's website as required by law. Shareholders who are unable to attend the Annual Shareholders' Meeting in person have the option of appointing in writing or by email a bank, a shareholder association or another person as a proxy – or of having an employee of Hypoport AG appointed by the Company as a proxy – to exercise their voting rights in accordance with their instructions. Furthermore, the Management Board is authorised to enable shareholders to cast their vote in writing or by email (postal vote) without attending the Annual Shareholders' Meeting.

Berlin, March 2017

Hypoport AG
Management Board and Supervisory Board

Auditor's report

We have audited the consolidated financial statements prepared by the HYPOPORT AG, Berlin, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, meets with legal regulations, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Lübeck, 21 March 2017

BDO AG
Wirtschaftsprüfungsgesellschaft

Prill	Dr. Wißmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Single-entity financial statements

of Hypoport AG 2016 (abridget version)

The single-entity financial statements and the management report of Hypoport AG have been prepared in accordance with German generally accepted accounting principles (German Commercial Code [HGB]) and the provisions of the German Stock Corporation Act (AktG).

The balance sheet and the income statement meet the classification criteria prescribed in sections 266 and 275 HGB. The income statement is presented under the nature-of-expense method pursuant to section 275 (2) HGB.

The full version of the single-entity financial statements, which have received the unqualified opinion of Hypoport AG's auditors, is published in the electronic Federal Gazette under no. HRB 74559 B.

Income statement for the year ended 31 December 2016

	2016 €'000	2015* €'000
Revenue	10,793	14,006
Own work capitalised	0	1,184
Other operating income	1,034	710
Personnel expenses	-9,932	-14,912
Depreciation, amortisation and write-downs on intangible fixed assets and on property, plant and equipment	-100	-701
Other operating expenses	-5,095	-5,623
Income from long-term equity investments	3,222	3,247
Income from profit transfer agreements	17,178	19,001
Income from other securities and lending of financial assets	0	16
Other interest and similar income	123	155
Expense in respect of loss transfers	-847	-212
Interest expense and similar charges	-327	-452
Profit from ordinary activities	**16,049**	**16,419**
Income taxes	-1,428	-741
Other taxes	-6	-6
Deferred taxes	-280	0
Net profit for the year	**14,335**	**15,672**
Profit brought forward	40,057	24,385
Distributable profit	**54,392**	**40,057**

* Prior-year figures for sales and other operating income reclassified due to the redefinition of sales revenues according to BilRUG

Balance sheet as at 31 December 2016

Assets	31.12.2016 €'000	31.12.2015 €'000
Fixed assets		
Intangible assets	7	3,358
Property, plant and equipment	274	216
Financial assets	27,564	24,352
	27,845	**27,926**
Current assets		
Trade receivables	6,768	6,461
Receivables from affiliated companies	39,398	23,247
Receivables from other long-term investees and investors	6	61
Other assets	89	65
Cash and cash equivalents	4,412	11,094
	50,673	**40,928**
Prepaid expenses	**158**	**84**
	78,676	**68,938**
Equity and liabilities		
Equity		
Subscribed capital	6,195	6,195
Treasury shares	-253	-156
Issued capital	5,942	6,039
Capital reserves	2,606	2,346
Retained earnings	7	4,955
Distributable profit	52,576	40,058
	61,131	**53,398**
Provisions	**2,875**	**2,524**
Liabilities		
Liabilities to banks	10,467	10,967
Trade payables	320	267
Liabilities to affiliated companies	2,171	1,454
Liabilities to companies with which an investment relationship exists	20	0
Other liabilities	1,412	313
	14,390	**13,001**
Deferred income	**0**	**15**
Deferred tax liabilities	**280**	**0**
	78,676	**68,938**

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