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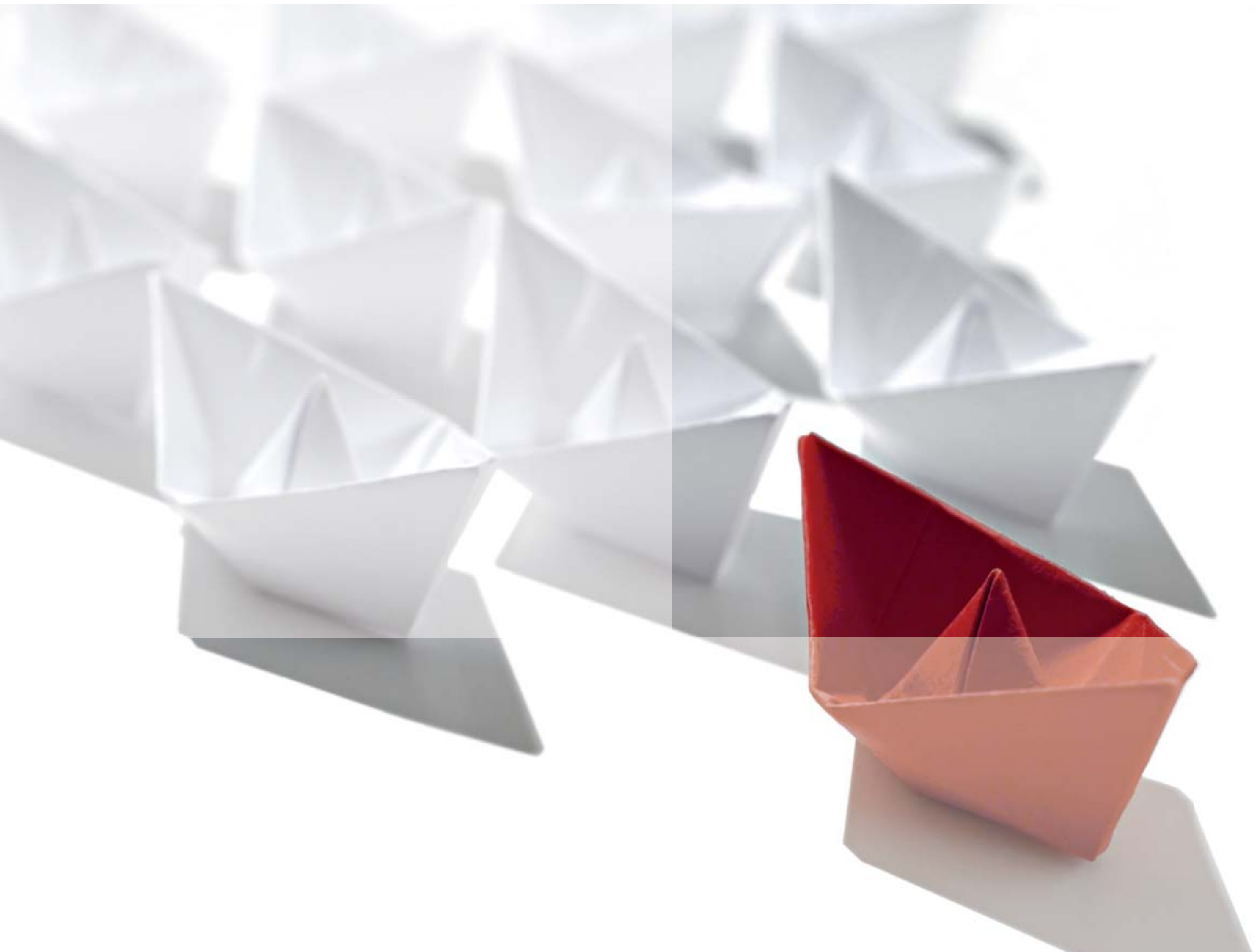

Hypoport AG annual report for 2010

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Key performance indicators

€'000	2010	2009	Change
Continuing operations			
Revenue	66,912	50,474	33 %
Gross profit	40,278	32,024	26 %
Earnings before interest, tax, depreciation and amortisation (EBITDA)	11,147	4,902	127 %
Earnings before interest and tax (EBIT)	6,426	1,220	427 %
EBIT margin (EBIT as a percentage of gross profit)	16.0	3.8	320 %
Basic earnings (loss) per share (€)	0.53	-0.05	1,160 %
Diluted earnings (loss) per share (€)	0.53	-0.05	1,160 %
Hypoport Group			
Net profit (loss) for the year	3,262	-346	1,043 %
atrributable to Hypoport AG shareholders	3,274	-346	1,046 %
Basic earnings (loss) per share (€)	0.53	-0.06	983 %
Diluted earnings (loss) per share (€)	0.53	-0.06	983 %
Current assets	30,130	23,584	28 %
Non-current assets	37,048	31,218	19 %
Equity	27,390	23,925	14 %
attributable to Hypoport AG shareholders	27,202	23,725	15 %
Equity ratio (%)	40.8	43.7	-7 %
Total assets	67,178	54,802	23 %

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1. Letter to shareholders

Dear shareholder

What a year that was!

We are proud to be able to tell you that in 2010 we generated revenue growth of more than 30 per cent and earnings before interest, tax, depreciation and amortisation (EBITDA) in the double-digit millions of euros. We can be particularly proud of this performance because there was little indication at the beginning of the year that we would achieve these record results.

Almost all countries were faced with adverse economic conditions at the start of 2010. Uncertainty among consumers made them reluctant to purchase financial products. Similarly, banks and insurers adopted a more cautious approach as part of a generally greater awareness of risk and credit quality. In short, no one knew a year ago how, when or even whether these conditions would return to normal. We too were not immune to this market environment and, consequently, the Company got off to its worst-ever start to the year. The diversity of our business model mitigated the severity of the losses we incurred and helped us through this period without any major setbacks. Fortunately, market conditions changed in the second quarter of the year, when low interest rates and the improvement in the economy provided stimulus to the property finance market. The third quarter saw us return to our long-term growth trajectory. A year that had started on such a subdued note turned out to be the best in the Company's history. And it is important to emphasise that this fantastic result was driven by all the business lines throughout our organisation.

v.l.n.r.: Thilo Wiegand, Ronald Slabke, Hans Peter Trampe und Stephan Gawarecki

This trend was most clearly evident in our Financial Service Providers business unit. Our EUROPACE platform witnessed very low levels of activity during the winter months. Despite a dip in revenue we continued to invest heavily in strategic market development and technological refinements, and this proved to be the right decision because, over the following months, this business unit staged an unprecedented rally. A sharp increase in the volume of property finance coupled with above-average growth in building finance generated record transaction volumes for two successive quarters. This was largely due to our constantly growing number of partners – now totalling over 140 – and more than ten thousand users, which in turn was partly attributable to the growing acceptance of our EUROPACE platform among public-sector and cooperative German banks. The flexibility and enhanced speed of this platform were crucial in our ability to attract new partners and retain existing ones. An additional success factor and a key decision-making criterion for many partners is that we are not dependent on any individual product suppliers. The €15 billion or so worth of transactions that we generated in 2010 and the total transaction volume of more than €75 billion achieved since we launched the platform demonstrably underline our leadership of this market segment.

In the Private Clients business unit we continued to invest heavily in the expansion of our extensive distribution network. Our business model, under which our advisers only contact prospective customers once they have registered their interest online, provided us with a significant advantage over our competitors at a time when there has been a general crisis of confidence in the financial services market. The quality of our advisory services, which again won a number of awards in 2010, generated above-average growth in our customer base on the back of more upbeat economic conditions. Our independent status and the considerable appeal of the Dr. Klein brand were also key factors behind this success. At the end of 2010 we were able to report strong revenue growth in our mortgage finance and insurance businesses. It was especially encouraging to see that branch-based, online and agent sales all made a valuable contribution to this result. By merging several brands

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in our branch-based sales operations under the Dr. Klein brand we created the largest franchise organisation in the German financial services industry.

The Corporate Real Estate Clients business unit significantly strengthened its customer base right at the beginning of the year. Given the tough prevailing economic conditions, Dr. Klein's excellent customer relationships and strong market position in this corporate segment played a key role in a large number of transactions. This business unit managed to build on its solid start to the year by closing big-ticket deals from the second quarter onwards. What's more, it diversified its activities during the course of the year by broadening its product range and adding new customer segments to its portfolio. This included its strategy of extending its business to cater for municipal borrowers. Viewed in the round, this business unit is experiencing its best year since Dr. Klein was set up in 1954.

The Amsterdam-based Institutional Clients business unit generated robust revenue and earnings throughout 2010, buoyed by the unrelenting demand for tools used to manage large credit portfolios. Additional growth opportunities are presented by further international projects and a potential collaboration tasked with meeting the requirements stipulated by the European Central Bank for banks' financial reporting procedures.

On the whole, therefore, all business units contributed to the Hypoport Group's strong performance in 2010. However, its operating activities also received a huge boost from the general economic climate starting in the second quarter. The fortunes of the three largest business units improved even further towards the end of the year. These exceptionally strong quarters are highly unlikely to be seamlessly followed by further such periods. Economic conditions will remain challenging and eventful in 2011.

Mortgage interest rates are likely to continue to rise. The regulation of financial products is once again a subject of intense scrutiny. The euro-zone economy is precariously balanced while Germany is enjoying buoyant economic growth. Although 2011 has already started by throwing up a few challenges, it also presents opportunities. Our entire workforce of 455 professionals will continue to pull out all the stops this year to ensure that they maximise this potential for you – our all-important shareholders.

Yours sincerely

Ronald Slabke
Chief Executive Officer

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2. Highlights

January

Extensive interest in the EUROPACE marketplace
In 2009, more than 90 partners used the Europace platform. Many other – especially regional – players in the market showed a marked interest in cooperation. The relevance of some of the major players declined over the same period, which pushed transaction volumes down temporarily.

March

Thomas Kretschmar wishes to leave the Hypoport AG Management Board seven months early and stand for election to the Supervisory Board

Prof. Thomas Kretschmar informed the chairman of the Supervisory Board of Hypoport AG that, as announced in 2006 when his contract was last extended, he does not wish to have his Management Board employment contract extended when it expires at the end of 2010. However, he does intend to continue his involvement with the Company as a member of the Supervisory Board. To ensure a seamless transition, Prof. Kretschmar has asked the Supervisory Board to end his Management Board contract early on 31 May 2010. This will enable him to stand for election to the Supervisory Board at the Annual Shareholders' Meeting on 4 June 2010. The Supervisory Board will decide on the premature termination of Prof. Kretschmar's contract at its meeting on 24 March 2010. The Company expects that the major shareholders will approve the move.

Hypoport AG increases the size of its Management Board

The two executive directors of the Hypoport subsidiary Dr. Klein & Co AG have been appointed to the Management Board of Hypoport AG. This means that all four of the Hypoport Group's business units will be represented on the Management Board. The Supervisory Board has today approved Thomas Kretschmar's previously announced intention to step down from the Management Board and has acknowledged his plans to stand as a candidate to join the Supervisory Board.

April

EUROPACE shows that the market is recovering
The transaction figures from the EUROPACE platform indicate that the market for mortgages stabilised towards the end of the quarter. Personal loans and building society accounts are also becoming increasingly popular.

High-quality advice keeps customers happy: Dr. Klein still the best
Dr. Klein again came top of the personal-loans category in the extensive EuroTest consumer survey conducted to find Germany's best bank in 2010. It therefore demonstrated for the seventh time in succession that its focus on quality advice coupled with its highly competitive product range and top-notch partners are exactly what today's consumers are looking for.

June

GENOPACE is changing the way that cooperative banks operate
The first 777 days since the GENOPACE platform was set up have produced highly encouraging results. This business model offers local cooperative banks the tools they need to optimise their sales processes and provides them with pertinent market access so that they can acquire new customers. Faced with a highly competitive market environment at present, growing numbers of cooperative banks are using this cutting-edge distribution channel.

July

Q2 2010: EUROPACE generates record volume of transactions
The volume of transactions generated by the EUROPACE platform hit a new record in the second quarter of 2010, with all product categories contributing to this result. The customised products developed among others for Postbank also demonstrate that Europace's technology can be used for a wide variety of applications and continues to achieve widespread market penetration.

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GENOPACE: The second quarter 2010 comes first three times over!
The transaction volumes on the GENOPACE platform scored top marks at all levels in the second quarter 2010! The largest transaction volume on a daily basis, the highest level for a month and a new record for the quarter demonstrate the growing importance of the platform.

More and more financial advisers are flocking to Dr. Klein
Increasing numbers of financial advisers decided to work with Dr. Klein & Co. AG in the first half of 2010. The main reasons for this decision were the Company's independence, its product training and the diversity of its product range.

August

Hypoport AG demonstrates the superior quality of its business model
The Hypoport Group's business model showed exactly what it is capable of in the second quarter of 2010. The normalisation of market conditions enabled all business units to play to their full strengths, thereby generating significant revenue and earnings growth. The bottom line was boosted by the strong distribution network in business with private clients, the record volume of transactions processed on the EUROPACE platform,and big-ticket deals closed with corporate real estate clients.

September

GENOPACE equals 2009's transaction volume by the end of August
The transaction platform that Hypoport provides for local cooperative banks once again proved to be a success, with its partner banks on this platform achieving 2009's transaction volume within the first eight months of 2010. The marketplace effect is therefore gaining momentum and is reinforcing this trend.

Dr. Klein and G+J Wirtschaftsmedien devise mortgage finance trend indicator

Finding the right mortgage finance deal is a complex process that is fraught with many uncertainties for consumers. What's more, the introduction of the Consumer Credit Directive has made it more difficult to compare interest-rate products directly. Dr. Klein and G+J Wirtschaftsmedien GmbH & Co. KG are enhancing the transparency of this market by launching a simple, reliable and informative indicator of mortgage finance trends.

Pooling our strengths: Dr. Klein merges specialists under a single brand
Dr. Klein is set to strengthen its long-established brand. To this end, we plan to merge the specialists working at Dr. Klein and Freie Hypo under the Dr. Klein brand. This will provide customers with a single point of contact for all types of financial solutions and advice.

Oktober

Q3 2010: EUROPACE grows by almost a billion

The volume of transactions generated by the EUROPACE platform in the third quarter of 2010 grew by €900 million compared with the corresponding period of 2009. The Company managed to achieve this impressive result by winning market share, successfully implementing its new underlying technology and benefiting from benign market conditions. It will underpin this encouraging trend by introducing further measures over the coming quarters.

November

Hypoport Group continues on long-term growth trajectory

Hypoport Group performance in the first nine months of 2010 is reflected in significant double-digit revenue and earnings growth. All business units contributed to the excellent results. Worthy of note is the growth generated by the Private Clients business unit, which also has a positive impact on the performance of the EUROPACE platform. Results for the full twelve months are expected to be similarly encouraging.

3. Report of the Supervisory Board

The Supervisory Board hereby reports on the discharge of its responsibilities in the 2010 financial year.

The Supervisory Board discharged the responsibilities incumbent upon it during 2010 in accordance with the law, the Company's statutes, its rules of procedure and the German Corporate Governance Code. The Supervisory Board regularly advised the Management Board on the running of the Company and continuously supported and monitored its actions. 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, its risk management, 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 funda-mental 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 2010. On four other occasions, resolutions were adopted by telephone or in writing (by email) at the request of the chairman of the Supervisory Board following detailed preparation and dissemination of information in each case. All the members of the Supervisory Board attended each meeting and took part in the resolutions adopted outside the 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 corporate strategy and operational issues concerning the Company and the Hypoport Group, important transactions, the effectiveness of the internal control and risk-management system and decisions and action taken by the Management Board that required approval. The meeting on 25 January 2010 discussed the development and impact of the global financial and economic crisis on the lending policies of mortgage finance providers as well as the shifting market trend towards regional suppliers. The Management Board explained how it had re-sponded to the changing supplier market and how it intended to do so in future. The Supervisory Board endorsed the budget for 2010 as submitted by the Management Board. The Supervisory Board also voted to comply with the German Corporate Governance Code and to submit a declaration of compliance in accordance with section 161 German Stock Corporation Act (AktG). At this meeting the Supervisory Board voted to amend the Company's subscribed capital as specified in its statutes to €6,128,958 after shares had been issued in connection with the exercise of share options in 2009. Furthermore, the Supervisory Board discussed internal audits and – in the absence of the Management Board – the Supervisory Board's evaluation of its own effectiveness during the 2009 financial year.

The meeting held on 24 March 2010 discussed the Company's business performance in the fourth quarter of 2009. Representatives of BDO Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, attended the meeting and presented a comprehensive report on their audit of the single-entity

financial statements and the consolidated financial statements for 2009. As required by section 171 AktG, the Supervisory Board reviewed and approved the single-entity and consolidated financial statements for 2009 and both the management reports. The Supervisory Board also examined the Management Board's proposal for the appropriation of profits, which it approved and voted to adopt.

At the same meeting, Thomas Kretschmar announced his intention to resign from his position on the Management Board of Hypoport AG with effect from 31 May 2010. The Supervisory Board accepted his resignation and thanked him for his valuable contribution. Stephan Gawarecki and Hans Peter Trampe were then appointed to the Management Board of Hypoport AG with effect from 1 June 2010. Ronald Slabke was appointed as Chief Executive Officer of Hypoport AG with effect from 1 June 2010. In addition, he was reappointed to the Management Board and as Chief Executive Officer for the period from 1 January 2011 to 31 December 2015. The chairman of the Supervisory Board was instructed to sign new Management Board employment contracts with Stephan Gawarecki and Hans Peter Trampe. It was also decided that the Management Board employment contract with Ronald Slabke for the period from 1 January 2011 to 31 December 2015 should be negotiated and approved in accordance with the current legal position.

The agenda and the Supervisory Board's proposals for resolutions to be adopted at the 2010 Annual Shareholders' Meeting were approved by written resolution (email) on 16 April 2010.The Supervisory Board meeting held by telephone on 7 May 2010 mainly dealt with the interim report for the first quarter of 2010. At the meeting on 4 June 2010 the Supervisory Board newly elected by the Annual Shareholders' Meeting on 4 June 2010 held its inaugural meeting and elected Ottheinz Jung-Senssfelder as its chairman and Thomas Kretschmar as its vice-chairman. In addition, the Management Board's report on the first quarter of the year was discussed in detail. The meeting also discussed how to amend the rules of procedure for the Management Board in line with the new composition of this body.

The Supervisory Board meeting held by telephone on 6 August 2010 dealt with the interim report for the period to 30 June 2010. Furthermore, the meeting approved the amendment of the Management Board's rules of procedure, as discussed in detail at the previous meeting. The main topic of discussion at the meeting held on 30 August 2010 was the Management Board's report on the Hypoport Group's performance in the second quarter of the year. In addition, the Management Board reported on specific developments and trends in the individual business units. The Supervisory Board meeting held by telephone on 5 November 2010 primarily dealt with the interim report for the period to 30 September 2010. The meeting held on 26 November 2010 looked in detail at the Company's operating performance in the third quarter of 2010 as well as the latest developments and trends in the business units. In particular, the Management Board explained to the Supervisory Board how the Dr. Klein and Freie Hypo brands were being merged and what progress had been made on this project to date.

No committees

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

Corporate Governance Code

Last year, the Supervisory Board discussed the content of the German Corporate Governance Code and its amendments and adopted the appropriate resolutions. The remuneration report contains information on corporate governance at the Company and detailed information on the level and structure of remuneration paid to the Supervisory Board and Management Board. The Management Board and Supervisory Board voted to issue the declaration of compliance required by section 161 AktG and they have made it permanently available to the Company's shareholders. 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 Supervisory Board regularly reviews the effectiveness of its own work.

Changes of personnel on the Management Board

At the meeting on 24 March 2010, Thomas Kretschmar announced his intention to resign his position on the Management Board of Hypoport AG with effect from 31 May 2010. The Supervisory Board accepted this request. His Management Board employment contract was terminated by mutual consent with effect from 31 May 2010. At its meeting on 24 March 2010 the Supervisory Board appointed Stephan Gawarecki and Hans Peter Trampe to the Management Board of Hypoport AG with effect from 1 June 2010. Furthermore, Ronald Slabke was appointed as Chief Executive Officer of Hypoport AG with effect from 1 June 2010.

Single-entity and consolidated financial statements

The Management Board submitted to the Supervisory Board the 2010 single-entity financial statements that it had prepared in accordance with the German Commercial Code (HGB), the 2010 consolidated financial statements prepared in accordance with International Financial Re-porting Standards (IFRS), both management reports, the proposed appropriation of profits and the corresponding independent auditors' reports. BDO Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, the auditors appointed by the Company, audited its single-entity financial statements, the consolidated financial statements and both management reports for the year ended 31 December 2010 and they issued an unqualified opinion in each case. As required by section 171 AktG, the Supervisory Board examined and discussed the single-entity and consolidated financial statements for 2010 and both management reports. The auditors reported to the Supervisory Board in person at the meeting held on 11 March 2011 to discuss the Company's financial statements. The Supervisory Board also examined the Management Board's proposal for the appropriation of profits. The Supervisory Board agreed with the auditors' findings. Having completed its own examination, it had no objections to raise. The Supervisory Board approved the single-entity and consolidated financial statements for 2010 prepared for the Company by the Management Board; they have thus been adopted. After itself examining the Management Board's explanation of its proposed appropriation of profits, 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, den 11 March 2011

Dr. Ottheinz Jung-Senssfelder
Chairman of the Supervisory Board

4. Corporate Governance

Since the last declaration of compliance was submitted on 25 January 2010, Hypoport AG has complied with the recommendations made by the German government commission on the German Corporate Governance Code, which are published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, with the exception of the recommendations listed below. For the corporate governance practices adopted by Hypoport AG in the past, this declaration relates to the recommendations made by the German government commission on the German Corporate Governance Code, as amended on 18 June 2009 and published in the electronic Federal Gazette on 5 August 2009.

1. Paragraph 3.8 (3) of the German Corporate Governance Code recommends that an appropriate excess should 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 currently reflects the legal situation following the effective date of the Act on the Appropriateness of Management Board Remuneration of 31 July 2009 (Federal Law Gazette I, page 2509). It requires supervisory boards to ensure that in future the monetary components of management board members' remuneration are calculated on a multi-year basis. The code also recommends that the variable elements of management board members' remuneration must be structured so as to take account of both positive and negative developments.

   The structure of the variable components of the Hypoport AG Management Board's remuneration is such that negative developments have only been taken into account in so far as board members are only entitled to variable remuneration components if a specific positive earnings figure (EBIT) has been achieved. Management Board members' remuneration is not calculated on a multi-year basis and further positive and negative developments have not been taken into account in the contracts of employment between Hypoport AG and the members of its Management Board, all of which were signed prior to the change in the law.

3. Paragraph 5.1.2 of the German Corporate Governance Code recommends, among other things, that an age limit should 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 it 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 or Supervisory Boards.

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4. Paragraph 5.3.1 of the German Corporate Governance Code recommends that supervisory boards should 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 should 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.

Hypoport AG will continue to comply with these recommendations in future with the exception of the recommendations listed below. For the corporate governance practices adopted by Hypoport AG at present and those to be adopted in future, this declaration relates to the recommendations made by the German government commission on the German Corporate Governance Code, as amended on 26 May 2010 and published in the electronic Federal Gazette on 2 July 2010.

1. Paragraph 3.8 (3) of the German Corporate Governance Code recommends that an appropriate excess should 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.

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4. Paragraph 5.4.1 (2) of the German Corporate Governance Code recommends that the Supervisory Board should 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, and diversity. In particular, these specific targets are supposed to include appropriate quotas for the number of female Supervisory Board members. The Supervisory Board of Hypoport AG has not yet set such targets for its composition.

   Because the current members of the Supervisory Board were elected at the Company's 2010 Annual Shareholders' Meeting, the Supervisory Board was and still is of the view that there is currently no need to specify the targets recommended by paragraph 5.4.1 (2) for the composition of the Supervisory Board. The Supervisory Board is of the opinion that its current composition takes account of the Company's particular situation. The Supervisory Board is also of the view that specific targets for its composition – which take account of the Company's particular situation, especially its size and the number of members of the Supervisory Board – should not be set until it is clear that specific issues have been raised about the composition of the Supervisory Board, so that the latter can then respond appropriately to the situation prevailing at the time.

Berlin, 28 January 2011

Management Board Supervisory Board

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5. Hypoport's shares

Share price performance

Hypoport's shares made modest gains in 2010, rising by 10.6 per cent from €8.50 at the end of 2009 to €9.40 on 30 December 2010. Their highest price was €9.89 on 24 September and their lowest was €5.90 on 2 July.

Performance of Hypoport´s share price, January to December 2010 (daily closing prices on Frankfurt Stock Exchange)

Earnings per share

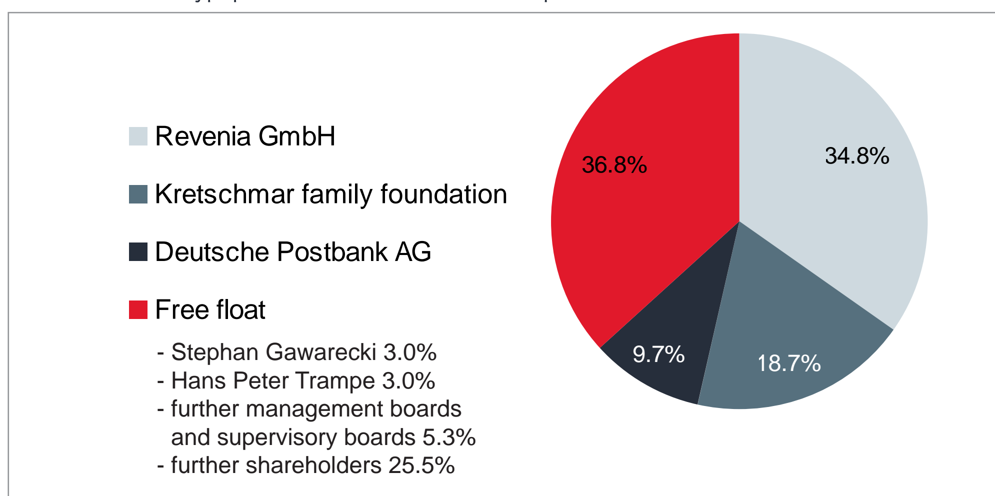
Earnings per share for 2010 amounted to €0.53 (2009: loss per share of €0.06). Continuing operations generated earnings of €0.53 per share (2009: loss of €0.05 per share).

Trading volumes

The average daily volume of Hypoport shares traded jumped by 86 per cent from €6,839.51 to €12,723.29. The highest average daily turnover was in September (4,727 shares), followed by October (3,424 shares). The month with the lowest daily turnover was July, when an average of only 193 Hypoport shares changed hands.

Shareholder structure

The free float in Hypoport's shares amounts to 36.8 per cent.



Breakdown of shareholders as at 31 December 2010

Designated sponsors

Designated sponsors enhance a share's liquidity by quoting binding prices at which they will buy and sell the share. Hypoport AG was sponsored by Landesbank Baden-Württemberg, Stuttgart, until December 2010. Close Brothers Seydler Research AG, Frankfurt am Main, has been its designated sponsor since October 2010.

Research

Three analysts published research studies on Hypoport's shares in 2010. The table below shows their most recent recommendations, the dates on which they were issued, and the target price in each case.

Broker	Recommendation	Target price	Datum der Empfehlung
LBBW	Buy	€13.00	24 November 2010
Close Brothers	Buy	€15.00	17 November 2010
LBBW	Hold	€7.00	15 November 2010
Lang & Schwarz	Buy	€15.00	11 November 2010
Lang & Schwarz	Buy	€14.50	25 October 2010
LBBW	Hold	€7.00	13 August 2010
LBBW	Hold	€7.00	5 August 2010
LBBW	Hold	€7.00	1 June 2010
LBBW	Hold	€11.00	15 March 2010
LBBW	Hold	€11.00	5 March 2010

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Ad-hoc disclosures

As a publicly traded company we are required to make ad-hoc disclosures of facts that could influence our share price. The following ad-hoc disclosure made on 15 March was the only one in 2010:

„Today, Thomas Kretschmar informed the chairman of the Supervisory Board of Hypoport AG that, as announced in 2006 when his contract was last extended, he does not wish to have his Management Board employment contract extended when it expires at the end of 2010. However, he does intend to continue his involvement with the Company as a member of the Supervisory Board. To ensure a seamless transition, Mr Kretschmar has asked the Supervisory Board to terminate his Management Board contract prematurely with effect from 31 May 2010. This will enable him to stand for election to the Supervisory Board at the Annual Shareholders' Meeting on 4 June 2010. The Supervisory Board will decide on the premature termination of Mr Kretschmar's contract at its meeting on 24 March 2010. The Company expects that its major shareholders will approve this move."

Ad-hoc disclosures can be downloaded from our website at www.hypoport.com.

Notification of directors' dealings

The table below shows the directors' dealings notified in 2010.

Transaction date	Notifying person/entity	Transaction	Stock exchange	Number of shares	Execution price
16 September 2010	Monika Schröder	Purchase	XETRA	1,600	€7.30
24 September 2010	Monika Schröder	Purchase	Frankfurt	1,000	€9.87
24 September 2010	Kretschmar Research GmbH*	Purchase	Off-exchange	50,000	€8.00
28 September 2010	Monika Schröder	Purchase	XETRA	300	€9.65
1 October 2010	Hans Peter Trampe	Purchase	XETRA	500	€9.50
6 October 2010	Hans Peter Trampe	Purchase	XETRA	300	€9.35
7 October 2010	Hans Peter Trampe	Purchase	XETRA	1,000	€9.43
8 October 2010	Hans Peter Trampe	Purchase	XETRA	200	€9.50
14 October 2010	Hans Peter Trampe	Purchase	XETRA	1,700	€9.44
28 October 2010	Monika Schröder	Purchase	XETRA	300	€9.65
9 November 2010	Monika Schröder	Purchase	XETRA	900	€9.72
10 November 2010	Hans Peter Trampe	Purchase	XETRA	2,800	€9.67
10 November 2010	Hans Peter Trampe	Purchase	Off-exchange	2,800	€9.67

* Prof. Dr. Thoams Kretschmar is managing director of Kretschmar Research GmbH.

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Key data on Hypoport's shares

Security code number (WKN)	549 336
International securities identification number	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
Market segment	Regulated market
Transparency level	Prime standard
Membership of indices	CDAX
	Classic All Share
	DAXsector All Financial Services
	DAXsubsector Diversified Financial
	GEX
	Prime All Share
Performance	
Share price as at 4 January 2010	€8.57 (Frankfurt)
Share price as at 30 December 2010	€9.40 (Frankfurt)
High in 2010	€9.89 (24 September 2010)
Low in 2010	€5.90 (2 July 2010)
Market capitalisation	€58.2 million (30 December 2010)
Trading volume	€12,723.29 (daily average for 2010)

HYPOPORT
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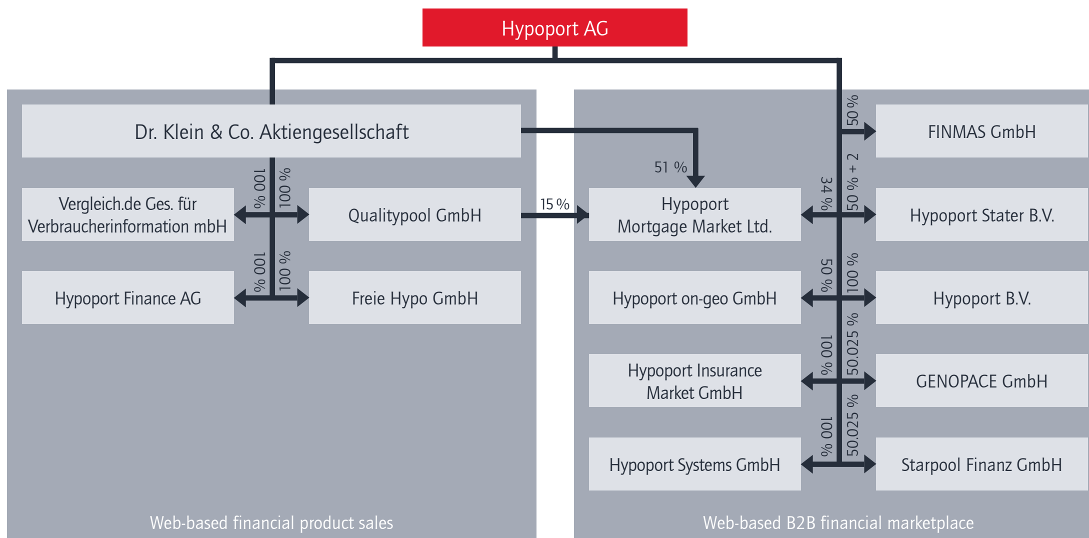
6. Management Report

Business report
1. Business and economic conditions
Business model and strategy

The Hypoport Group is an internet-based financial service provider that offers a full range of financial products. Its parent company is Hypoport AG, which is head-quartered in Berlin, Germany. Its business model is based on two mutually supporting pillars: the Financial Product Sales and B2B Financial Marketplaces divisions.



Operating through its wholly owned subsidiary Dr. Klein & Co. AG and the latter's subsidiaries Vergleich.de Gesellschaft für Verbraucherinformation mbH, Qualitypool GmbH and Freie Hypo GmbH (hereinafter also referred to jointly as ‚Dr. Klein'), the Hypoport Group offers private clients internet-based banking and financial products (providing advice, if requested, either by telephone or face to face) ranging from current accounts and insurance to mortgage finance. Dr. Klein selects the best products for its clients from a wide offering of over 100 leading banks and insurance companies. By using web-based processes, it generates cost advantages that it passes on to its private clients. This usually enables Dr. Klein to offer much better terms and lower prices than individual banks and insurance agents. According to its own surveys, Dr. Klein is also a market leader in the financing of municipal and cooperative housing companies in its Corporate Real Estate Clients business, which has been running since 1954.

The Hypoport Group uses its EUROPACE B2B financial marketplace – Germany's largest online transaction platform – to sell banking products. A fully integrated system links a large number of banks with several thousand financial advisers, thereby enabling products to be sold swiftly and directly. The highly automated processes used on this platform generate significant cost advantages. EUROPACE is now used to process several hundred financing transactions every day.

The growing acceptance of the internet, the superiority of our independent model for selling financial products, and the unique combination of financial product dis-tribution and process-related and IT expertise in a single business model lead us to believe that this model will continue to perform well in 2011.

In addition to its head office in Berlin, Hypoport AG is also represented in Lübeck, Germany.

Economic conditions

Although 2010 saw the global economy bounce back from the financial and economic crisis, the extent of this recovery varied considerably from one region to another.

Whereas economies such as Germany, Japan and Canada are growing at a significant pace, which is boosting employment and consumption, other industrialised countries – such as the United States – have yet to resolve structural problems laid bare by the financial crisis: debt levels are high, consumer spending remains moderate and high unemployment persists. Because labour market conditions remain so challenging, no major growth stimulus is expected to come from private consumption, which accounts for the largest share of US gross domestic product (GDP).

Several European countries – such as Greece, Ireland and Spain – are in a similar situation. Nonetheless, the euro zone as a whole is growing. However, the measures taken by most EU member states to consolidate and reduce their budget deficits coupled with the precarious situation in which the financial services industry remains mired have fuelled doubts as to how the economy will fare over the coming months.

The German economy staged an impressive rally in 2010 and is acting as the main engine of growth in the European Union. Germany's output has almost returned to its pre-crisis levels. Whereas exports were the key driver of economic growth in the first half of 2010, the domestic market made a significant contribution in the second half of the year on the back of higher employment and rising demand. According to Germany's Federal Employment Agency, the number of jobless was around three million, which represented a decrease of some 9 per cent on 2009.

Taken in the round, the International Monetary Fund (IMF) reckons that the global economy expanded by 4.8 per cent in 2010 and that the euro zone generated economic growth of 1.7 per cent. According to forecasts by the ifo Institute of Economic Research, German GDP is likely to have increased by 3.7 per cent in 2010.

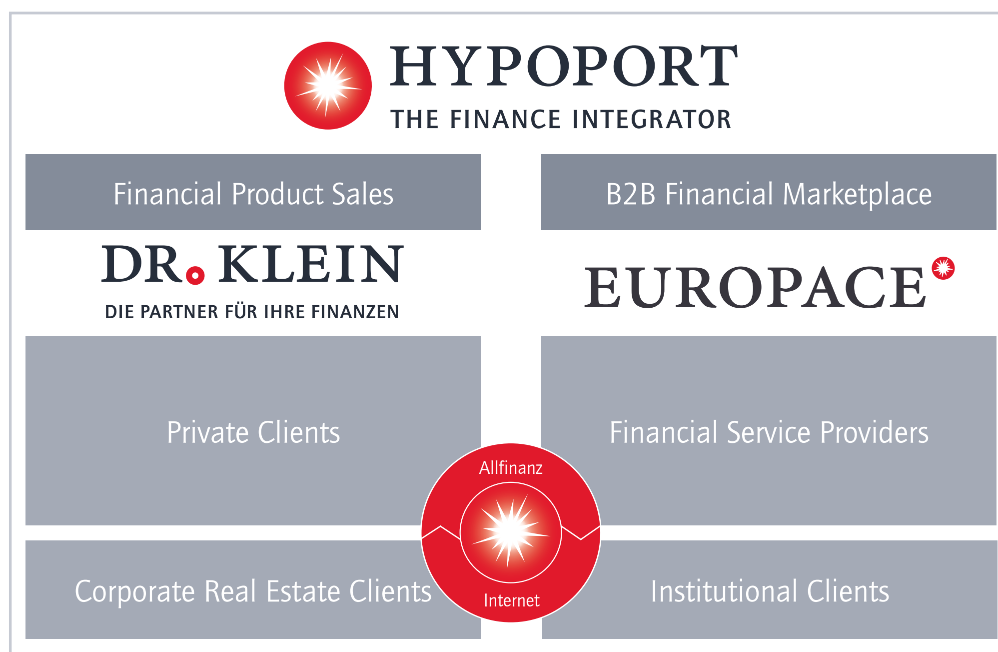
However, doubts about the sustainability of a truly global economic recovery across the board have not diminished because this upturn is due in no small part to the expansionary monetary policies still being pursued by most countries and to government-sponsored fiscal and economic stimulus packages. The downside of the exceptional fiscal and monetary stimulus being provided by governments around the world is that this economic pump-priming is being financed by deficits and the issuance of huge amounts of sovereign bonds. The main concern is therefore directed at the high levels of debt being racked up by individual countries and the consequent uncertainty about their solvency.

When the Greek debt crisis broke, the European Union therefore launched an unprecedented rescue package to prevent euro-zone members facing a looming crisis from going bankrupt. Under this scheme, loans totalling €750 billion are available for emergencies but are conditional on strict budgetary consolidation criteria. Even the European Central Bank (ECB) was forced to flout its rules further, buying government bonds from euro-zone countries in the secondary market for the first time since Europe's single currency was introduced. This move was intended to ensure that the markets functioned properly, thereby strengthening the liquidity of banks in the euro zone and relieving some of the burdens on the financial system.

In response to growing signs that the global economic recovery is slowing, central bankers in the industrialised countries have signalled that monetary policy is unlikely to be tightened any time soon. The US Federal Reserve, for example, has decided not to scale back its expansionary policies for the moment and has announced that it stands ready to take further measures if the economic outlook takes a significant turn for the worse. The Bank of Japan has already stepped up its policy of quantitative easing. Given the prevailing monetary and economic con-ditions, the ECB's Governing Council decided at its meeting on 4 February 2011 to leave interest rates on hold at their all-time low of 1.0 per cent.

Business units and sectoral performance

The Hypoport Group operates as an internet-based distributor of financial products in its Private Clients and Corporate Real Estate Clients business units and as a provider of B2B financial marketplaces in its Financial Service Providers and Institutional Clients business units.



Within the Hypoport Group, Hypoport AG performs the functions of a strategic and management holding company and it includes the central Information Technology unit, which carries out software development for all Group companies as well as IT project management for internal and external clients. Most business operations are conducted by a total of 14 German and international subsidiaries or joint ventures.

Financial Product Sales - Private Clients

The popular market trend for clients to seek advice from independent financial product distributors such as Dr. Klein before purchasing financial products contin-ued in 2010. Private clients remain very much aware of the benefits of independent advice and an innovative, extensive product range that are available on the internet. Independent studies have shown that the market for independent intermediaries in Germany is set to grow significantly over the next few years.

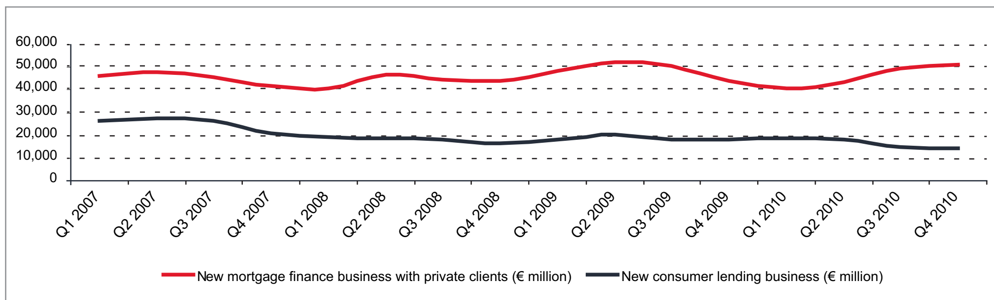
www.drklein.de

Dr. Klein managed to consolidate and build its market position both through the generation of leads on the internet (online distribution) and the sale of financial products through its franchise-based branch network. This combination of acquiring new customers (‚leads') over the internet and face-to-face advice offered by branch-based specialists continues to constitute a key driver of the Company's highly successful business.

The growing acceptance of the internet is continuing to drive the sale of financial products through our primary distribution channel and is creating opportunities to advise customers face to face. Clients can look up information at their leisure whenever they wish and initially remain anonymous. More and more customers are also using the internet to enquire about products or even to sign up online for simple, standard products. The internet has now become the most important tool in our efforts to originate mortgage finance business. Dr. Klein has benefited enormously from this trend.

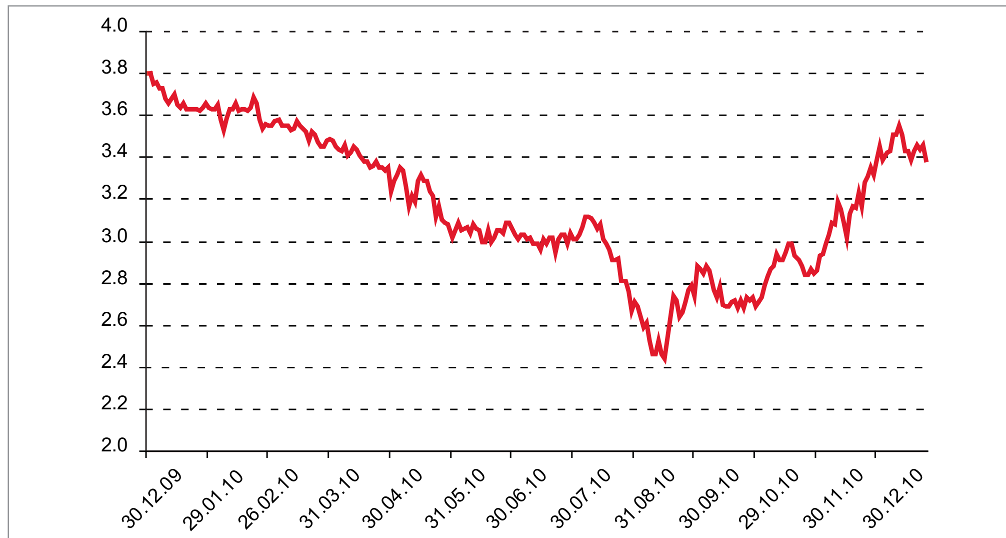
The market in which independent providers of financial products operate continues to be highly competitive. According to Bundesbank statistics, the total volume of mortgage finance provided in 2010 contracted year on year. While the total value of home loans sold in 2009 came to €195.2 billion, demand in 2010 fell by 5.2 per cent to €185.0 billion. We reckon that the Bundesbank's figures present a distorted view of the mortgage finance market. The monthly figures for January and February 2010 suggested an overly optimistic market trend. For the months since March we have seen a significant market recovery that is not yet reflected in the Bundesbank's figures. The total volume of mortgage finance transactions processed on our EUROPACE platform in 2010 grew by 12.4 per cent year on year from €11.4 billion to €12.9 billion.

The Bundesbank also reckons that the level of business in personal loans fell significantly year on year. According to the official statistics, the total volume of transactions in this market contracted by 11.3 per cent from €74.9 billion to €66.5 billion in 2010.



Total volume of private mortage finance and personal loans (source: Deutsche Bundesbank)

The economic environment described above brought about the lowest long-term interest rates in Germany's modern economic history. The fall in ten-year swap rates in the first three quarters of 2010 facilitated the sale of credit products and, while interest rates were falling, full-service providers such as traditional regional and relationship banks temporarily experienced greater competitive pressures than independent intermediaries. The interest-rate hike in the fourth quarter of 2010 boosted short-term demand for real estate, thereby increasing the total volume of loans arranged.



Ten-Year swap rates of the year 2010

Demand for building finance grew slightly year on year. According to the Bundesbank's statistics, the total value of building finance products sold in the first eleven months of 2010 increased by 5.6 per cent year on year from €78.1 billion to €82.5 billion.

The introduction of the German Retirement Income Act (AltEinkG) placed a large proportion of the responsibility for retirement pensions in private hands. There is therefore a high demand for additional private pension provision. Despite the considerable need for funded pensions, the uncertainty triggered by the financial crisis continued to make many people highly reluctant to commit to long-term investments in private pension products.

Frequent changes to the system of statutory and private health insurance also continue to generate greater need for advice and are boosting client demand in this area. This trend too has had a positive impact on Dr. Klein's level of new business.

The insurance industry performed fairly well in general. The stability of Germany's labour market in particular ensured that the country's consumers, who generate more than 80 per cent of demand for insurance, have so far emerged relatively unscathed from the crisis. Overall, the German Insurance Association (GDV) is forecasting an exceptionally sharp rise of 4.7 per cent in gross premium income across all insurance segments for 2010.

According to portfolio investment statistics compiled by the federal association of German fund management companies (BVI), the total value of assets under man-agement in Germany rose by 9.7 per cent in the first eleven months of 2010. German investment companies had total fund assets of €1.510 trillion under management as at 30 November 2010 (31 December 2009: €1.376 trillion), of which €701 billion (31 December 2009: €650 billion) was allocated to retail funds and €809 billion (31 December 2009: €726 billion) to specialised funds for institutional investors.

Consumers increasingly looked for conservative investments during the reporting period, with the result that Bundesbank statistics reported a modest rise in total funds invested in fixed-term, instant-access and savings accounts as at 31 December 2010, which grew by 4.5 per cent from €1,467.3 billion (31 December 2009) to €1,533.0 billion. As a leading online distributor of instant-access and fixedterm products, Dr. Klein benefited from this trend.

Financial Product Sales - Corporate Real Estate Clients

The main target group of this business unit, which forms part of Dr. Klein & Co. AG, consists of municipal and cooperative housing companies. This sector is characterised by a high degree of continuity. The level of housing starts in Germany has remained low for years. Much activity is focused on modernising the existing housing stock.

According to the German Housing and Property Companies Association (GdW), around three-quarters of the funds invested continue to be spent on developing the existing housing stock – i.e. modernising, renovating and maintaining buildings – with only one quarter being spent on new builds. The volume of finance requested was therefore primarily used to optimise existing loan portfolios through debt rescheduling and to carry out modernisation work mainly involving energy-efficiency measures. The proportion of conventional mortgages secured by a first charge continues to decline and is being replaced by more complex financing that is structured accordingly prior to its actual placement. In addition, Dr. Klein is becoming increasingly accepted as a syndicate leader and is now specialising in the structuring of large-scale loans. These transactions merely require the participating banks to act in a purely lending capacity.

Banks' cautious approach to new business and their reluctance to lend in the wake of the financial crisis continued to cause business to shift towards lenders in the insurance industry in 2010. The fact that lenders in this sector do not have a distribution network of their own in the housing industry is strengthening Dr. Klein's position. The services offered by Dr. Klein are also increasingly in demand with real-estate investors who are still focusing on residential property, which is substantially broadening Dr. Klein's customer base.

At the same time, the absence of banking partners is causing a number of housing companies to consider optimising their loan and collateral portfolios. The EUROPACE WoWi portfolio management platform is increasingly being used for this purpose. 2010 was one of the most successful years to date in EUROPACE WoWi's still relatively short history, with many new users being acquired. This demonstrates that IT-based portfolio management is becoming increasingly important, especially given that real-estate professionals are utilising the benefits of software solutions of this kind.

The distribution market for insurance services in the housing sector remains highly fragmented. This means that the individual agents operating in this market are not really specialists, which prevents insurance from being purchased inexpensively and the best-possible advice from being provided. Dr. Klein continued to position itself well in this market in 2010 by offering consistent and high-quality advisory services as well as a specialist product range for the real-estate sector.

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B2B-Financial Marketplaces - Financial Service Providers

The Hypoport Group's EUROPACE platform provides a central marketplace for processing mortgages, personal loans and building finance agreements between independent financial product distributors and product suppliers.

The success of this marketplace is therefore largely determined by the market in mortgages and personal loans as well as independent distributors' market share over time. Consequently, please refer to the comments made in the section Financial Product Sales – Private Clients for an account of the general sectoral trends.

The market is continuing to evolve towards an ‚open architecture' system (where one distributor collaborates with a large number of product suppliers) and away from single-lender models (where the products of only one supplier are sold, e.g. through regional bank branches), which in turn is supporting the development of the EUROPACE platform.

Independent distributors (such as Dr. Klein) advise their clients without any regard to the interests of specific product suppliers and, by consulting with their clients, select the best product from a wide range offered by various suppliers. This distribution model, which is highly beneficial for clients, places greater demands on the technology and processes used by the financial product distributor. Because several thousand financial advisers throughout the sector use the EUROPACE marketplace to perform these functions, valuable synergies are created for the partners involved. Apart from the considerable benefits for the financial product distributors participating, EUROPACE consistently benefits – when looking for new product suppliers to expand the product range – from the strong appeal exerted by the thousands of active financial advisers working for the financial product distributors operating on EUROPACE. A number of new product suppliers were again successfully acquired for this business in 2010.

The volume of transactions processed via the EUROPACE financial marketplace hit a new record of €15.1 billion in 2010 (2009: €12.9 billion), which was a year-on-year increase of 17.1 per cent. The total value of mortgage finance transactions grew by 12.4 per cent to €12.9 billion (2009: €11.4 billion). GENOPACE – the platform for local cooperative banks that we operate as part of a joint venture (GENOPACE GmbH) with members of the cooperative financial services network – generated above-average growth in transaction volumes. The landmark figure of €1 billion in cumulative transaction volumes processed on GENOPACE by all partner banks since April 2008 was surpassed in 2010. More than 40 credit cooperatives throughout the cooperative financial services network now use the facilities provided by GENOPACE. FINMAS – the financial marketplace for Germany's savings banks that we set up at the end of 2009 in collaboration with Ostdeutscher Sparkassenverband, the association of eastern German savings banks (OSV) – commenced operations in 2010 and so already managed to make a modest contribution to the volume of transactions completed during the year. This involvement in FINMAS means that Hypoport is now represented in all segments of the German banking market.

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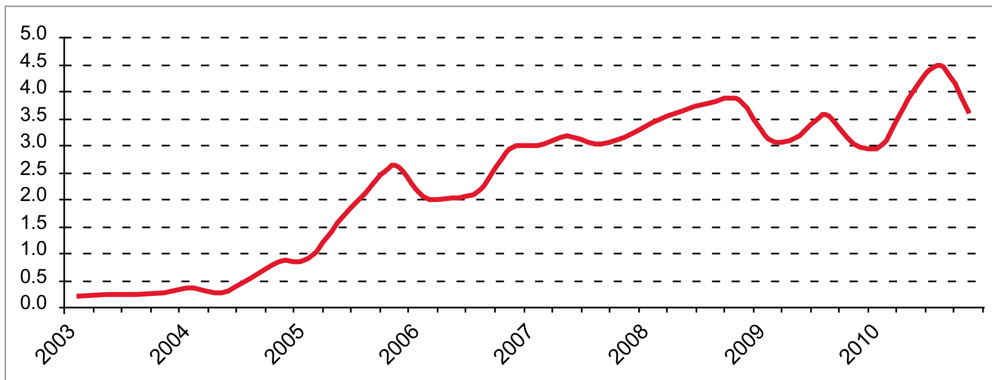
Hypoport's personal-loans business once again generated a transaction volume in excess of €1 billion which, at €1.2 billion, was only marginally lower than the €1.3 billion achieved in 2009.

Building finance, the newest product area, performed very encouragingly, increasing the total value of its transactions to €1.0 billion (2009: €0.2 billion). The close link between this product segment and mortgage finance holds out the prospect that these businesses will continue to generate strong growth.



Volume of transactions on EUROPACE (€ billion)

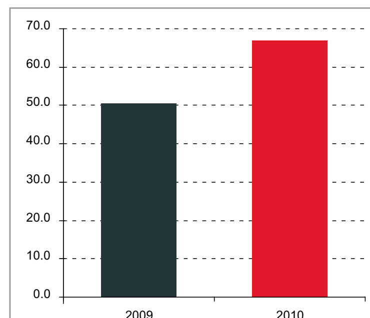
B2B-Financial Marketplaces - Institutional Clients

Events in the European securitisation market in 2010 continued to be driven by the fallout from the financial crisis. Virtually the only way of placing securitisations was within corporate groups or with the European Central Bank.

Our Amsterdam-based subsidiary Hypoport B.V. provides issuers of securitisations with a customised platform for their regular reporting of these transactions. The considerable change processes taking place in the market continue to generate lively demand for EUROPACE for issuers. Hypoport managed to acquire further users in the Netherlands and its first partners in other European countries in 2010.

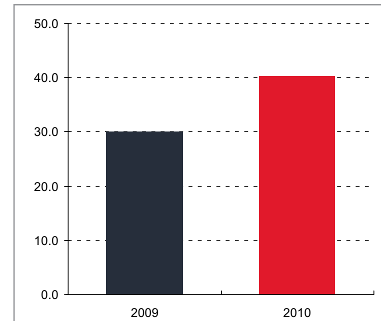
Revenue

The Hypoport Group continued to demonstrate the strength of its growth in 2010. Its revenue jumped by 32.5 per cent from €50.5 million to €66.9 million. This revenue growth was consistent with the sharp rise in gross profit, which increased by 25.8 per cent from €32.0 million to €40.3 million. Consequently, Hypoport comfortably met its target of achieving double-digit revenue growth in 2010.



Group revenue (€ million)

Private Clients business unit
The Private Clients business unit, which specialises in online sales of financial products, once again generated above-average growth in its revenue – which rose by 34.2 per cent to €40.4 million (2009: €30.1 million) – against a backdrop of varying market conditions.
Gross profit in this business unit also rose significantly by 22.0 per cent to €17.2 million (2009: €14.1 million).



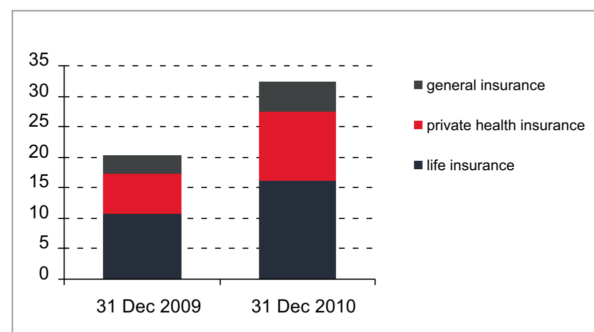
Private Clients revenue (€ million)

Private Clients	2010	2009
Revenue (€ million)	40.4	30.1
Selling expenses (€ million)	23.2	16.0
Net Revenue (€ million)	17.2	14.1

The financing product segment benefited substantially from the strengthening of its business model and from low interest rates and reported strong growth in the volume of its transactions, which increased by 42.0 per cent from €2.2 billion to €3.1 billion.

	2010	2009
Volume of financing transactions (€ billion)	3.11	2.19
mortgage finance	2.73	1.88
personal loans	0.34	0.30
building fianance	0.04	0.01
Volume of insurance transactions (€ million)	15.41	10.85
life insurance	6.50	5.01
private health insurance	7.71	4.86
general insurance	1.20	0.98

Significant growth stimulus led to a massive expansion of the Company's market presence in its insurance products, where the value of its transactions grew by 34.7 per cent from €10.8 million in annual premiums to €14.6 million.
Hypoport achieved year-on-year growth in the portfolio of insurance policies under its management in 2010, raising its annual life insurance premiums by 50.5 per cent from €10.8 million to €16.3 million, its annual private health insurance premiums by 73.8 per cent from €6.4 million to €11.2 million and its annual general insurance premiums by

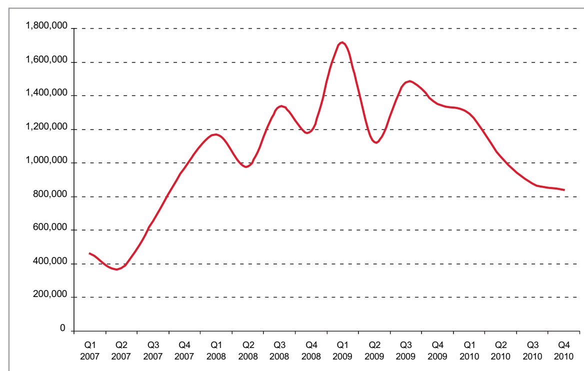


Portfolio of insurance policies/annual premiums (€ million)

58.2 per cent from €3.2 million to €5.0 million. The total portfolio of insurance policies under management therefore reached a new all-time high of €32.4 million in annual premiums at the end of 2010 compared with €20.4 million at the end of 2009.

The broad-based growth in these and other banking products clearly demonstrates that Dr. Klein's strategy of distributing a wide range of financial products and services has given an additional boost to its product segments and further reduced its reliance on individual product categories.

Bucking the trend, the number of leads acquired in 2010 fell by 1.6 million to 4.1 million from the record set in the previous year (2009: 5.7 million). This reflects consumers' current reluctance to put their money into simple investment products such as instant-access and fixed-term deposits because short-term interest rates are extremely low.



Number of Leads

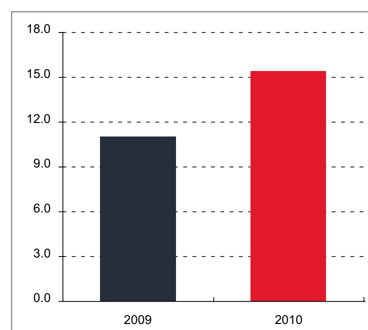
The number of advisers working in the various distribution channels of the Private Clients business unit was significantly increased and had reached a new all-time high by 31 December 2010. The map on the right gives an impressive overview of the extensive network of branches established by our franchisees in Germany.

Distribution channels	31 Dec 2010	31 Dec 2009*
Advisers in branch-based sales	544	431
Branches run by franchisees	178	175
Independent financial advisers acting as agents	2,877	2,382

*) Telephones sales staff were integrated into the branch based sales network.

Financial Service Providers business unit

Financial Service Providers, which is the second-largest business unit, significantly increased its volume of transactions and its revenue on the back of benign market conditions in 2010.



Financial Service Providers revenue (€ million)

The volume of transactions generated by the EUROPACE financial marketplace hit a new record of €15.1 billion in the reporting year.

Mortgage finance continued to account for the largest proportion of total transaction volume in 2010, expanding by 12.4 per cent year on year to €12.9 billion. The contribution made by personal loans to the overall result amounted to €1.2 billion, which was virtually unchanged year on year. Building finance, the latest product to be added to the range, generated a transaction volume of €1.1 billion, almost quadrupling its contribution. The total volume of transactions brokered across all product segments grew by 17.1 per cent year on year. The revenue generated by this business unit increased by an above-average 40.9 per cent to €15.1 million (2009: €12.9 million) on the back of falling cancellation rates, the expansion of packaging and pooling services, and longer average fixed-interest periods. The business unit's gross profit also achieved encouraging growth, rising by 30.9 per cent year on year to a new all-time high of €11.7 million.

EUROPACE	2010	2009
Volume of transactions (€ billion)	15.1	12.9
thereof mortgage finance	12.9	11.4
thereof personal loans	1.2	1.3
thereof building saving	1.0	0.2
Revenue (€ million)	15.4	11.0
Selling expenses (€ million)	3.7	2.0
Net Revenues (€ million)	11.7	9.0

The 16th EUROPACE Conference held in September attracted a record number of more than 195 attendees. The recent refinements made in connection with EUROPACE 2 were especially popular with many of our customers at this event. More than 80 participants attended the 3rd GENOPACE Conference that took place in May.

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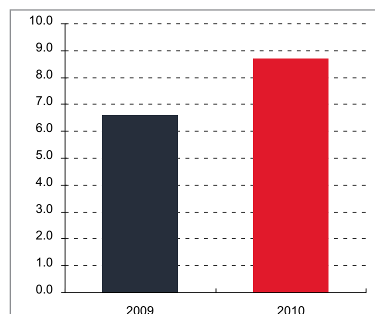
Corporate Real Estate Clients business unit

Despite the challenging market environment, the loan brokerage business increased the volume of new business it transacted by 5.9 per cent to a record of €1.5 billion. We continue to benefit here from our exceptionally strong position in this market as the central intermediary for high-quality commercial real-estate finance in Germany. Revenue hit a new record of €8.7 million in 2010 (2009: €6.6 million) due, among other things, to the larger volume of loan renewals.



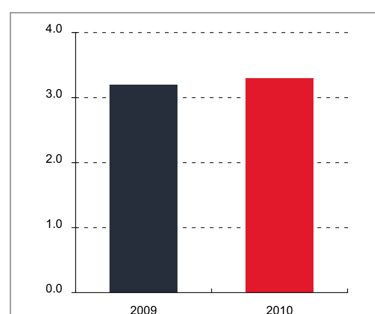
Corporate Real Estate Clients revenue (€ million)

Corporate Real Estate Clients	2010	2009
Loan brokerage		
Volume of new business (€ million)	1,464	1,383
Volume of loan renewals (€ million)	325	217
Revenue (€ million)	8.7	6.6
Selling expenses (€ million)	0.4	0.3
Net Revenue (€ million)	8.3	6.3

Institutional Clients business unit

Institutional Clients, the smallest of the four business units, generated slightly higher revenue of €3.3 million in 2010 (2009: €3.2 million) from its EUROPACE for issuers product (for issuers of securitisations, pfandbriefs and other covered bonds).

Although the fallout from the financial crisis means that securitisations are still not being issued in the market, issuers are greatly in need of automation, advice and tools for increasing transparency as a result of portfolio asset sales, corporate re-structuring and the issuance of covered bonds in return for central bank funding.



Institutional Clients revenue (€ million)

Institutional Clients	2010	2009
Revenue (€ million)	3.3	3.2
Selling expenses (€ million)	0.2	0.4
Net revenue (€ million)	3.1	2.8

2. Financial performance

	2010 €'000	2009 €'000	Change €'000	%
Revenue	66,912	50,474	16,438	32.6
Selling expenses	-26,634	-18,450	-8,184	-44.4
Gross profit	**40,278**	**32,024**	**8,254**	**25.8**
Own work capitalised	5,742	4,599	1,143	24.9
Other operating income	1,363	1,019	344	33.8
Personnel expenses	-24,603	-21,719	-2,884	-13.3
Other operating expenses	-11,633	-11,021	-612	-5.6
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**11,147**	**4,902**	**6,245**	**127.4**
Depreciation, amortisation expense and impairment losses	-4,721	-3,682	-1,039	-28.2
Earnings before interest and tax (EBIT)	**6,426**	**1,220**	**5,206**	**426.7**
Net finance costs	-1,603	-956	-647	-67.7
Earnings before tax (EBT)	**4,823**	**264**	**4,559**	**1,726,9**
Current income taxes	-301	-723	422	58.4
Deferred taxes	-1,260	174	-1,434	824.1
Profit (loss) from continuing operations, net of tax	**3,262**	**-285**	**3,547**	**1,244.6**
Profit (loss) from discontinued operations, net of tax	0	-61	61	100.0
Net profit (loss) for the year	3,262	-346	3,608	1,042.8

The significant improvement in the Hypoport Group's earnings that had been evident since the second quarter of 2010 continued apace right up to the end of the year. 2010 was the most successful year in the Company's history to date. Historically low interest rates continued to boost purchases of real estate and the refinancing of loans, which enabled us to generate another record volume of transactions on our EUROPACE platform and to deliver encouraging results in our business with both private clients and corporate real estate clients.

Against the backdrop of the operating performance described above, EBITDA and EBIT from continuing operations rose to €11.1 million (2009: €4.9 million) and €6.4 million (2009: €1.2 million) respectively.

Consequently, the EBIT margin (EBIT as a percentage of gross profit) surged from 3.8 per cent to 16.0 per cent.

Own work capitalised relates to the pro-rata personnel expenses and operating costs incurred by the expansion of the EUROPACE platform.

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Other operating income mainly comprises income of €532 thousand (2009: €191 thousand) from the reversal of provisions and employee contributions to vehicle purchases of €348 thousand (2009: €296 thousand).

Personnel expenses rose in line with the increase in the average headcount for the year from 441 employees to 452 and the higher bonuses paid.

The rise in other operating expenses essentially relates to operating expenses of €4.266 million (2009: €3.511 million) and selling expenses of €1.887 million (2009: €1.733 million). By contrast, administrative expenses decreased to €4.046 million (2009: €4.399 million).

The net finance costs mainly comprise interest expense and similar charges of €1.291 million (2009: €1.091 million), which stemmed from bank loans totalling €20.0 million (2009: €18.5 million).

3. Net assets

The following information on the structure of the Hypoport Group's assets, equity and liabilities as at 31 December 2010 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 oth-ers – unless shown separately – are reported as ‚non-current'.

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Assets	2010 €'000	2010 %	2009 €'000	2009 %	Change €'000	Change %
Intangible assets	27,809	41.3	25,620	46.9	2,189	8.5
Property, plant and equipment	2,431	3.6	1,758	3.2	673	38.3
Financial assets	501	0.7	435	0.8	66	15.2
Trade receivables	5,004	7.4	2,603	4.9	2,311	85.8
Other assets	26	0.0	13	0.0	13	100.0
Deferred tax assets	1,277	1.9	699	1.3	578	82.7
Non-current assets	**37,048**	**55.0**	**31,218**	**57.1**	**5,830**	**18.7**
Trade receivables	15,453	23.0	14,110	25.7	1,343	9.5
Other current items	3,039	4.5	2,200	4.0	839	38.1
Income tax assets	438	0.7	117	0.2	321	274.4
cash and cash equivalents	11,200	16.7	7,157	13.1	4,043	56.5
Current assets	**30,130**	**45.0**	**23,584**	**42.9**	**6,546**	**27.8**
total assets	**67,178**	**100.0**	**54,802**	**100.0**	**12,376**	**22.6**
Equity and liabilities						
Subscribed capital	6,195	9.2	6,129	11.2	66	1.1
Treasury shares	-13	0.0	0	0.0	-13	>100.0
Reserves	21,020	31.3	17,596	32.2	3,424	19.5
	27,202	40.5	23,725	43.3	3,477	14.7
Non-controlling interest	188	0.3	200	0.4	-12	-6.0
Equity	**27,390**	**40.8**	**23,925**	**43.7**	**3,465**	**14.5**
Financial liabilities	17,914	26.7	17,169	31.3	745	4.3
Provisions	437	0.7	42	0.1	395	940.5
Other current liabilities	10	0.0	10	0.0	0	–
Deferred tax liabilities	2,194	3.3	355	0.6	1,839	518.0
	20,555	**30.6**	**17,576**	**32.1**	**2,979**	**16.9**
Provision	172	0.3	121	0.2	51	42.1
Financial liabilities	2,680	4.0	1,686	3.1	994	59.0
Trade payables	9,631	14.2	5,736	10.4	3,895	67.9
Income tax liabilities	148	0.2	195	0.4	-47	-24.1
Other current liabilities	6,602	9.8	5,563	10.2	1,039	18.7
Current liabilities	**19,233**	**28.6**	**13,301**	**24.2**	**5,932**	**44.6**
Total equity and liabilities	**67,178**	**100.0**	**54,802**	**100.0**	**12,376**	**22.6**

The Hypoport Group's consolidated total assets as at 31 December 2010 amounted to €67.2 million, which was a 22.6 per cent increase on the total as at 31 December 2009 (€54.8 million).

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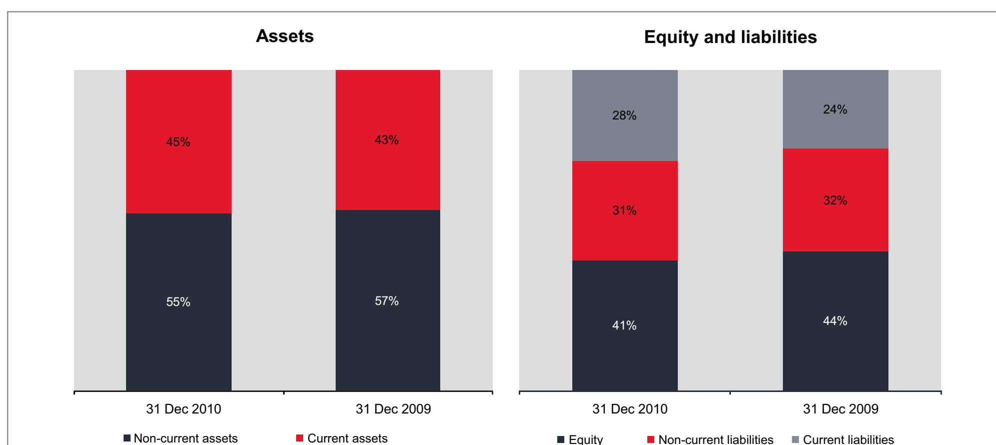

Balance sheet structure

Non-current assets totalled €37.0 million (31 December 2009: €31.0 million). This amount included goodwill which, at an unchanged €14.8 million, remained the largest non-current asset on the balance sheet.

Financial assets essentially comprise a loan of €375 thousand (31 December 2009: €0 thousand) to a joint venture.

Current assets grew by €6.5 million, largely as a result of the €4.0 million expansion in cash and cash equivalents and the €1.3 million increase in trade receivables on the back of the revenue growth.

The equity attributable to Hypoport AG shareholders as at 31 December 2010 had risen by €3.5 million, or 14.7 per cent, to €27.2 million. The equity ratio, which was still high for a publicly traded company, fell slightly from 43.7 per cent to 40.8 per cent because of the growth in total assets.

The €3.0 million increase in non-current liabilities to €20.6 million stemmed primarily from the €1.8 million expansion in deferred tax liabilities.

Current liabilities increased by €5.9 million to €19.2 million, mainly owing to the €3.9 million rise in trade payables and the €0.9 million increase in current financial liabilities. Other current liabilities mainly comprised commissions received in advance totalling €1.6 million (2009: €1.7 million).

Total financial liabilities rose from €18.9 million to €20.6 million primarily owing to new borrowing.

4. Financial position

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

	31 Dec 2010 €'000	31 Dec 2009 €'000	Change €'000
Current liabilities	19,233	13,301	5,932
Cash and cash equivalents	11,200	7,157	4,043
	8,033	6,144	1,889
Other current assets	18,930	16,427	2,503
Surplus cover	**10,897**	**10,283**	**614**

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

	31 Dec 2010 €'000	31 Dec 2009 €'000	Change €'000
Non-current assets	37,048	31,218	5,830
Equity	27,390	23,925	3,465
	9,658	7,293	2,365
Non-current liabilities	20,555	17,576	2,979
Surplus cover	**10,897**	**10,283**	**614**

157 per cent (2009: 177 per cent) of the current liabilities of €19.233 million (2009: €13.301 million) are covered by current assets. 74 per cent (2009: 77 per cent) of non-current assets are funded by equity.

The year-on-year changes in the key figures from the Company's balance sheet, income statement and cash flow statement are shown below.

	31 Dec 2010	31 Dec 2009
Return on investment = EBIT / (equity + non-current liabilities)	13.4 %	2.9 %
Cash flow (CF) return on equity = CF from operating activities / equity	36.5 %	27.0 %
EBIT margin = EBIT / gross profit	16.0 %	3.8 %
Tier-1 liquidity = cash and cash equivalents / current liabilities	58.2 %	53.8 %
Working capital = current assets – current liabilities	10.9 Mio. €	10.3 Mio. €
Equity ratio = equity / total equity and liabilities	40.8 %	43.7 %
Gearing = liabilities / total equity and liabilities	59.2 %	56.3 %
Tier-1 capital ratio = equtiy / (intangible assets + property, plant and equipment)	90.6 %	87.4 %

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 is a condensed version of International Accounting Standard (IAS) 7 and 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 €4.7 million to €7.9 million (2009: €3.2 million) This increase is largely attributable to the significant net profit reported for 2010 after a net loss was incurred in 2009.

The total net cash provided by operating activities as at 31 December 2010 amounted to €10.0 million (2009: €6.5 million). The cash used for working capital declined from €3.3 million to €2.0 million.

The net cash outflow of €7.7 million from investing activities (2009: €5.6 million) stemmed primarily from the €6.3 million increase in capital expenditure on non-current intangible assets.

The net cash inflow of €1.7 million from financing activities (2009: net cash outflow of €1.2 million) largely resulted from new borrowing of €3.0 million and loan repayments of €1.5 million.

The cash flow statement also shows the cash inflows and outflows from the Company's discontinued operations. These are presented in a separate line immediately below.

Cash and cash equivalents as at 31 December 2010 totalled €11.2 million, which was €4.0 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 €8.255 million related to rentals and leases covering a number of years. Included in the other financial commitments are commitments of €2.396 million due within one year and €5.859 million due in one to five years.

Summary assessment of the Company's financial position and financial performance at the time the management report was prepared.

Based on the information available at the time the management report was prepared, the Company's financial position and financial performance have been consistent.

5. Capital expenditure and finance

The main capital expenditures in 2010 related to the expansion and refinement of the EUROPACE, GENOPACE and FINMAS financial marketplaces.

Other capital expenditure during the reporting period related to investment in office furniture and equipment and in externally generated software.

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

6. Unrecongnised assets

The brokerage activities of the Private Clients and Corporate Real Estate Clients business units provide Hypoport with information on its clients' assets and revenue and on the financial products sold to them. This client base and transaction portfolio constitute an unrecognised asset, because Hypoport can use this information to sell further suitable financial products to the same client in future. For example, Hypoport 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 its Financial Service Providers business unit, Hypoport provides several thousand financial advisers with access to its EUROPACE marketplace so that they can process their new business in mortgages, building finance and personal loans. This enables Hypoport to assemble a substantial distribution capability, 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. Furthermore, Hypoport can enable affiliated financial advisers to participate in the renewal or refinancing of financial products that have already been brokered on the EUROPACE marketplace, for which it can earn additional transaction-related fees.

Moreover, Hypoport possesses a valuable brand that is becoming increasingly well-known; this is particularly true of its Private Clients business. Dr. Klein regularly comes top in the product tests and reviews conducted by independent consumer organisations, and the growing number of regional franchisees 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 the Company. This constitutes a significant unrecognised asset for Hypoport, because a trusted brand provides a valuable competitive advantage in the sale of financial products.

In its Institutional Clients business unit, Hypoport has long-term licensing and service agreements on the provision of EUROPACE for issuers for the reporting of ABS transactions throughout their term, which usually runs for many years. These agreements provide Hypoport with long-term income streams and client relationships.

7. Procurement and distribution

Financial Product Sales - Private Clients

By intensifying our online marketing activities for drklein.de and vergleich.de and focusing on acquiring high-quality leads, we continued to provide a sound basis on which to generate sustainable growth in online sales in 2010.

The systematic development of our franchise-based branch sales network was also continued to great effect in 2010. We have so far managed to acquire 146 franchisees (2009: 141) for our stationary distribution channel. By 31 December 2010, 544 advisers (end of 2009: 431) were working in our six flagship stores and at the 174 branches of our franchise partners.

The franchising systems for mortgage finance and insurance products, which had previously been run separately, were merged under the Dr. Klein brand in February 2011 to exploit potential synergies and cross-selling opportunities. However, advisers will retain their specialisation in either mortgages or insurance and pension products under this ‚new' brand.

In 2010 we continued to recruit new partner banks and insurance companies as product suppliers. Because it offers a broad range of products from more than 100 partners, Dr. Klein is setting a clear benchmark against which other financial product distributors are measured. Furthermore, Dr. Klein's growing sales volumes are gradually helping to improve its purchasing terms and conditions, which has significantly strengthened its competitiveness.

Financial Product Sales - Corporate Real Estate Clients

The financial crisis continued to have a considerable impact on the producer market. Banks in particular are being more cautious in their lending policies. We therefore continued to step up our collaboration with insurance companies in 2010 to minimise much of the risk of becoming reliant on individual producers. New transactions were closed with a total of 30 (2009: 28) lenders. The newly acquired partners helped to broaden Dr. Klein's product range further and they increased the variety of products available to our clients.

There is brisk demand for our loan and collateral analysis advisory products and our EUROPACE WoWi software program. These products help strengthen our client loyalty and provide us with vital support in our attempts to acquire new sources of finance.

We are constantly expanding the range of insurance products that we offer the real-estate sector. In addition to the usual types of insurance available, Dr. Klein regularly provides specialist information on current and future issues concerning the real-estate industry.

B2B Financial Marketplaces - Financial Service Providers

Apart from signing up new partners for this platform, we continued to broaden its functionality and refine its technology in 2010, a process in which we increasingly tend to involve our existing partners.

In order to ensure that our EUROPACE marketplace prospers, we need, above all, to attract new distribution partners and product suppliers and to strengthen our business relationships with existing partners and suppliers.

Despite the fact that our partner-specific financial marketplaces GENOPACE and FINMAS are still fairly new, they are already being used by 45 and 19 partner entities respectively, while the total number of partners accessing our EUROPACE platform rose from 119 at the end of 2009 to 141 as at 31 December 2010. These organisations, which include Germany's largest banks, building finance associations and financial product distributors, provide several thousand users with a fully integrated method of purchasing financial services on EUROPACE.

The constantly growing number of major partners on both sides (i.e. distributors and product suppliers) is enhancing the marketplace's appeal to new partners. In 2010 this network effect continued to boost demand for access to this marketplace, thereby consolidating EUROPACE's prominent position in the market.

In order to increase the platform's efficiency and the volume of transactions it can process, our subsidiaries continued to invest heavily in the expansion of the IT infrastructure in 2010. This created considerable spare capacity, which improved the platforms' performance.

B2B Financial Marketplaces - Institutional Clients

Our subsidiary Hypoport B.V. continues to be successful in offering our service for issuers. It handled projects for customers in Germany, the UK and Greece as well as for our established customers in the Netherlands.

8. Employees

The number of employees in the Hypoport Group rose slightly in line with revenue growth and stood at 455 people as at 31 December 2010. This was an increase of 2 per cent on the end of 2009 (31 December 2009: 444 people). The average number of people employed in 2010 was 452, which was a year-on-year increase of 2 per cent (2009: 441 people).

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

	31 Dec 2010 Anzahl	%	31 Dec 2009 Anzahl	%	Change Anzahl	%
Financial Product Sales - Private Clients	161	35	161	36	0	0
Financial Product Sales - Corporate Real Estate Clients	36	8	28	6	8	29
B2B Financial Marketplaces - Financial Service Providers	84	18	85	19	-1	-1
B2B Financial Marketplaces - Institutional Clients	16	4	16	4	0	0
Information Technology	101	22	112	25	-11	-10
Administration	57	13	42	9	15	36
	455		444		11	2

In today's business environment dominated by myriad social and economic changes, a company's workforce is the key competitive factor. The skills, dedication and motivation of these employees determine Hypoport's ability to compete and adapt in future. The Company therefore seeks to recruit, develop and retain the very best people. Focusing on training and development, offering numerous pension and healthcare schemes and maintaining a work/life balance for its employees helped Hypoport succeed in putting this approach into practice in 2010.

A 40-hour working week is standard throughout the Company, although exceptions to this rule can be contractually agreed in individual cases. Employees' remuneration is based on individual agreements and often includes performance-related elements. In addition, the Company pays contributions to government or private pension insurance providers under the terms of its pension scheme. Contributions are either voluntary or based on statutory or contractual requirements.

2010 was the first year in which the Company granted all of its employees a profit-related bonus, which is linked to the Company's performance and in the reporting year consisted of 31 Hypoport shares worth a total of €359.60. By introducing this measure we want to thank our staff for their outstanding contribution in 2010 and align their interests with the Company's increasing value over the long term.

Hypoport'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.

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9. 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.

10. Remuneration report

The overall structure and level of the remuneration paid to the Management Board are determined by the Supervisory Board, which currently comprises its chairman Dr Ottheinz Jung-Senssfelder, its vice-chairman Prof. Dr. Thomas Kretschmar, and Christian Schröder. Both the structure and amount of this remuneration are reviewed regularly, most recently in the summer of 2010.

The total remuneration paid to the members of the Management Board is composed of a fixed annual salary, a guaranteed bonus, a variable year-end payment, and non-cash remuneration.

The main criteria used to assess the appropriateness of remuneration are the functions and responsibilities of the respective Management Board member, his or her personal performance and the financial situation, performance and prospects of Hypoport AG.

The variable year-end payment must be no more than the respective basic salary. The calculation of the year-end payment is based on the Company's EBIT figure as reported in its IFRS consolidated annual financial statements less €5 million. The year-end payment amounts to 5 per cent of this basis of calculation. The year-end payment is reduced by the guaranteed bonus already paid in the respective financial year. It falls due when the Supervisory Board adopts the single-entity annual financial statements and approves the consolidated annual financial statements of Hypoport AG.

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 2010.

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. An excess has been agreed.

No pension payments, annuities or similar benefits have been agreed with any of the members of the Management Board.

The remuneration paid to the Management Board for 2010 totalled €876 thousand and was broken down as follows:

€'000	Fixed remuneration[1] 2010	Fixed remuneration[1] 2009	Variable remuneration 2010	Variable remuneration 2009	Other remuneration 2010	Other remuneration 2009	Total remuneration 2010	Total remuneration 2009
Ronald Slabke	192	180	30	0	15	13	237	193
Thilo Wiegand	192	180	30	0	15	12	237	192
Hans Peter Trampe[2]	112	0	30	0	6	0	148	0
Stephan Gawarecki[2]	112	0	30	0	32	0	174	0
Prof. Dr. Thomas Kretschmar[3]	80	180	0	0	0	4	80	184
Marco Kisperth	0	180	0	0	0	2	0	182
Total	**688**	**720**	**120**	**0**	**68**	**31**	**876**	**751**

1) The fixed remuneration includes the guaranteed bonus

2) Hans Peter Trampe and Stephan Gawarecki were appointed to the Management Board of Hypoport AG with effect from 1 June 2010.

3) Prof. Dr. Thomas Kretschmar resigned from the Management Board of Hypoport AG with effect from 31 May 2010.

The remuneration paid to the 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 4 June 2010 and consists of three components: an 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 a fixed remuneration of €12,000.00 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 a 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, 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.

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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 paid to the Supervisory Board for 2010 totalled €80 thousand and was broken down as follows:

in TEUR	Fixed remuneration 2010	Fixed remuneration 2009	Variable remuneration 2010	Variable remuneration 2009	Other remuneration 2010	Other remuneration 2009	Total remuneration 2010	Total remuneration 2009
Dr. Ottheinz Jung-Senssfelder	24	20	10	2	3	2	37	24
Prof. Dr. Thomas Kretschmar[1]	18	0	7	0	0	0	25	0
Christian Schröder	12	10	5	1	1	0	18	11
Jochen Althoff[2]	0	15	0	2	0	0	0	17
Total	**54**	**45**	**22**	**5**	**4**	**2**	**80**	**52**

1) Prof. Dr. Thomas Kretschmar was elected to the Supervisory Board of Hypoport AG with effect from 4 June 2010.

2) Jochen Althoff stepped down from the Supervisory Board of Hypoport AG with effect from 4 June 2010.

11. 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 2010. 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 shareholdings in Hypoport AG were known to us at the time this management report was prepared:

Ronald Slabke, Berlin, holds 36.19 per cent of Hypoport's shares. Of these, the 34.77 per cent of the voting shares held by Revenia GmbH, Lübeck, are attributable to him pursuant to section 22 (1), sentence 1, no. 1 of the German Securities Trading Act (WpHG).

Thomas Kretschmar is a member of the board of Kretschmar Familienstiftung, Potsdam, which holds 18.67 per cent of Hypoport's shares. Thomas Kretschmar, Potsdam, holds 3.48 per cent of Hypoport's shares. Of these, the 3.48 per cent of the voting shares held by Kretschmar Research GmbH, Potsdam, are attributable to him pursuant to section 22 (1), sentence 1, no. 1 WpHG. All the shares in Kretschmar Research GmbH are held by Thomas Kretschmar, who is a member of the Supervisory Board of Hypoport AG.

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 inter-ested 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

With approval of a resolution at the Annual Shareholders' Meeting on 1 June 2007, the Management Board was authorised, subject to the consent of the Supervisory Board, at any time up to 31 May 2012 to increase the subscribed capital of the Company by way of an issue of no-par-value registered shares for cash and/or non-cash contribution, on one or more occasions, by up to a maximum of €3,000,000.00. The Management Board can decide to disapply the statutory preemption rights of the shareholders, subject to the consent of the Supervisory Board.

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The Annual Shareholders' Meeting held on 4 June 2010 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 of the German Stock Corporation Act (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 3 June 2015. The resolution adopted by the Annual Shareholders' Meeting of Hypoport AG on 5 June 2009 authorising the Management Board to purchase treasury shares was set aside when the resolution issuing this new authorisation came into effect. 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.

The Annual Shareholders' Meeting on 26 August 2002 approved a conditional capital increase of up to €276,808.00 in the Company's subscribed capital. The purpose of the conditional capital increase was to allow share options to be granted to employees, members of the Management Board and to managers in subsidiaries. The conditional capital issued under the resolution adopted on 26 August 2002 amounted to €122,650.00 on 31 December 2010 after shares had been issued in connection with the exercise of share options.

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.

12. Corporate management 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.

II. Opportunities and risks report

It is not possible for medium-sized companies such as the Hypoport Group to influence or control fundamental overarching risks. 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 management first and foremost as an entrepreneurial function that consists of exploiting opportunities whilst weighing up the risks that arise from doing so 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. All risks are 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 risk management system

Internal monitoring system

The central feature of our 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 – which is in the process of being expanded – carries out system audits to ensure that the system is effective and functions properly.

The security and reliability of our IT infrastructure is constantly being refined and is regularly reviewed. The same applies to the Company's compliance with data protection regulations.

Financial planning and reporting

Strategic, operational and functional financial planning and reporting are conducted in all business units and are based on regular strategic reviews. 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.

The achievement of these targets and objectives (target/actual comparison) is analysed at all managerial levels in the form of regular meetings, at which control measures are agreed and their effectiveness is reviewed.

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. Aggregate risk

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. At present we have not identified any additional risks that might jeopardise the Company as a going concern.

3. Macroeconomic risk

Through its various business units, the Hypoport Group serves a number of target groups in diverse product segments. It is therefore affected by the performance of its individual target markets, its competitors in each market and, in particular, the real-estate and capital markets.

A sustained decline in market share and market potential owing to heightened competitive pressures in its business units' respective target markets could have an adverse impact on the performance of the Hypoport Group's business if the profitability of its businesses were impaired. The Hypoport Group took account of this factor by investing in innovation, distribution and quality improvements in 2010 and plans to do the same in 2011. These measures improved its competitive position last year.

The most important macroeconomic risk continues to be a slackening 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 German housing market has remained flat in terms of prices and volumes for many years now, with government intervention regularly causing temporary sharp fluctuations. Given the stable population figures, the slight rise in per capita demand for housing, the weak propensity to invest in residential property as a form of pension provision and the stability of construction prices due to the stiff competition, we believe that conditions in the German housing market will remain stable over the next few years, so we cannot expect to see any significant positive or negative changes in the market.

The interest rate on long-term investments, which serve as the benchmark rate on property finance, could also have a significant impact on the demand for finance and, consequently, on the performance of both Dr. Klein as a financial product distributor and EUROPACE as a financial marketplace. A sharp rise in long-term interest rates might curb demand for such finance, while lower interest rates could stimulate it. We expect interest rates to remain low against a backdrop of persistently challenging economic conditions. The year-to-date trend in 2011 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 – and, consequently, the risk to which it is exposed – is strictly limited.

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 contin-ues 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. However, recent studies suggest that the internet is becoming an increasingly accepted medium by private clients and in business transactions. Even the long-running debate about the security of the internet and the data it transmits has not curbed its growing use in recent years. The internet's growing 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 impairments of the internet's availability.

The Hypoport Group increasingly serves a large number of target groups in various product segments, which reduces its dependence on individual markets. When assessing their target markets, management and product distributors constantly use the internal and external information sources available so that they can identify any imminent changes in these markets before they occur.

If the revenue in one of our business units falls, the low probability of a fall in earnings elsewhere and the low anticipated fall in such earnings therefore mean it is unlikely to give rise to risks that jeopardise the continued existence of the Company as a whole.

The financial services market is growing rapidly. In particular, changes to the system of retirement pensions towards more responsibility for the individual, increasingly complex products and the disintegration of traditionally established (banking) market structures are fuelling the growth of innovative product distribution concepts such as Dr. Klein.

At the same time, however, the market is undergoing a period of consolidation. Increasingly restrictive legal requirements and technological innovations demand that companies operate on an efficient scale. The need to achieve this critical mass is currently driving the market in mergers and acquisitions. The Hypoport Group will be an active player rather than a target in this process. 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.

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 on the B2B financial marketplaces and impair the work of our Dr. Klein financial product distribution and could damage the Hypoport Group's general reputation as a technology partner.

The Company therefore pursues a Group-wide IT strategy to mitigate its IT risks. When selecting our IT systems we usually opt for software packages supplied by reputable providers, supplementing them where necessary with proprietary soft-ware developed specifically for Hypoport. To ensure that they work properly, we subject all IT systems to rigorous testing before they go live. The operation of critical infrastructure is outsourced to specialist service providers. Our internal IT systems are protected physically and systemically against unauthorised access.

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.

Timely and high-quality product development forms the backbone of any service-driven technology company. We have clearly defined 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.

5. Financial risk

As a medium-sized company, the Hypoport Group 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 borrow sufficient amounts, the Hypoport Group 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.

The Company's liquidity is maintained by a central liquidity management system. In addition, the Hypoport Group can draw on credit lines from its partner banks.

A further aspect of the Company's financial risk is the credit risk attaching to its receivables. The Management Board centrally approves the funds it lends as part of its operating activities, and these approved lending limits are documented in the Company's electronic manual. Most of the Hypoport Group's accounts receivable are owed by employees and medium-sized or large financial service providers.

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 should 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. These are supported by an early-warning system in the form of financial and revenue 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.

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 our long-term planning. 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 domestic and international environment and keep our strategic market position under constant review. 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.

7. Disclosures pursuant to section 315 (2), no 5 of the German Commercial Code (HGB)

The following description 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 and clearly allo-cated areas of responsibility.

By employing highly qualified professionals, offering training and continuing pro-fessional development and by strictly adhering to the double-checking principle in accounting, financial control and financial reporting, Hypoport ensures that local (HGB and German 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.

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 vali-dation 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).

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

Updating and continuous enhancement of the Group reporting system is under-taken 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 financial reporting function, which acts as a direct point of contact for financial reporting and Group financial statements for the Management Board and the direc-tors/managing directors of the subsidiaries, prepares and compiles the consoli-dated financial statements in accordance with IFRS.

The financial reporting function also acts as a central contact point at Group level for special issues in the Group, such as specific accounting questions. Special analysis requested by the Management Board during the year is also carried out by the financial reporting and financial control functions.

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 possi-ble 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 are protected from unauthorised access by special security devices.

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 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.

8. 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, defective controls, 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.

9. 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. We proceed with projects if the probable income exceeds the associated costs.

In terms of revenue, we benefit from our diversified business model, which makes Hypoport ideally placed in a highly competitive market. This means that the Group is in an excellent starting position for the next growth phase that will begin as soon as the markets have recovered.

We concentrate closely on our target groups using our multichannel sales strategy to ensure that we optimise our customer focus.

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

Growing demand for financial provision for old age is a long-term trend that is set to continue as life expectancy increases and the birth rate falls. Privately funded pensions will continue to gain in importance given the current challenges faced by countries and their governments in overcoming the present economic crisis. The importance of professional financial product distributors, who offer independent advice and allow customers to select the best product for them, will continue to grow.

III. Events after the balance sheet date

After the balance sheet date there were no particularly significant events that would have affected the presentation of the Company's financial position or financial performance.

IV. Outlook

The global economy will continue on its path of recovery in 2011. However, the International Monetary Fund (IMF) reckons that the discontinuation or probable scaling-back of many governments' fiscal and economic stimulus packages combined with the need to consolidate public finances will trim year-on-year global economic growth to 4.2 per cent in 2011.

The success of the economic recovery going forward could be threatened by a more pronounced slowdown in the US economy, exchange-rate movements, the debt crisis raging in many countries or the continuing high levels of impairment losses being incurred by banks. The mountains of government debt coupled with interest rates that are close to zero per cent provide very little scope for countries to continue their expansionary fiscal and monetary policies. Moreover, many nations are struggling with persistent unemployment. More demanding capital adequacy requirements placed on banks (Basel III) might also curb their lending.

The European Central Bank (ECB) will keep interest rates low this year to shore up the economic recovery. Market experts expect its benchmark rate to be kept on hold at 1.0 per cent until the middle of 2011.

Economic growth in the United States will continue to slow in 2011. In particular, the subdued outlook for consumer spending given the still fragile state of the real-estate and labour markets means that growth is likely to be only moderate. The IMF is forecasting US growth of 2.3 per cent.

The rate of growth in the euro zone as a whole will remain virtually unchanged in 2011. Against a backdrop of the Greek crisis, the parlous state of many countries' public finances and the consequent impact on the stability of Europe's single currency, the IMF reckons that the euro zone will grow by 1.5 per cent this year.

The recovery of the German economy will lose some of its momentum. The ifo Institute of Economic Research expects German GDP to grow by 2.4 per cent in 2011. The main reasons for this trend will be slower export growth and the efforts to consolidate the public finances. Consumer spending will make a more sizeable contribution to growth on the back of encouraging trends in the labour market. Germany will remain a key driver of economic growth in Europe.

Despite the unusually large number of uncertainties confronting the economy going forward, the general parameters influencing Hypoport's sector remain intact.

The acceptance of the internet as an efficient information, communication and transaction medium will continue to grow over the next few years. This trend will benefit Dr. Klein as a web-based distributor of financial products. Given private clients' growing demand for independent advice on financial services on the internet as well as over the telephone and at branches, the market environment will remain encouraging for Dr. Klein over the coming years.

Current demographic trends in Germany are making it increasingly important for individuals to invest more in private pensions. Residential property will play a greater role here in future than it does at present, and it is widely seen as the best form of protection against economic crises and inflation. The growing need to refurbish and renovate an increasingly ageing housing stock coupled with government subsidies – such as the Riester savings products available in Germany – will provide a supportive market environment for real-estate finance. Furthermore, mortgage interest rates are likely to remain low, boosting house-buying and the residential property finance market.

Insurance and investment products continue to benefit from the urgent need for private pension provision. Growing life expectancy is placing a huge strain on state-funded pension schemes. As state pension benefits have been scaled back in recent years, demand for private pension products has risen sharply.

Assuming that macroeconomic conditions remain benign, the German Insurance Association (GDV) expects to see a modest rise in gross premium income across all insurance segments in 2011. One-off, industry-specific factors such as the stiff competition, the degree of market penetration already achieved and the impact of political reforms continue to curb premium income.

The effects of an ageing society and the falling birth rate on the state-run healthcare system are equally dramatic. At present there are few indications that politicians plan to radically reform this system. The growing difficulty of maintaining a tax-funded healthcare system is becoming increasingly clear, and consequently individuals will have to bear some of the cost of their healthcare themselves, which will provide further attractive business opportunities for private health insurance providers and financial product distributors such as Dr. Klein.

Because the Hypoport Group – with its competitive and diversified business models – is well positioned in this growth market despite the slight recent deterioration in the macroeconomic outlook, we are cautiously optimistic that the Company's business will continue to perform well over the next two years, generating significant increases in revenue and gross profit as well as moderate earnings growth.

The Hypoport Group will continue to pursue a balanced growth strategy in 2011, potentially making carefully selected acquisitions that supplement and enhance its business model in strategically important places.

This management report contains statements about economic and political developments as well as the future performance of the Hypoport Group and its companies. 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, 4 March 2011

Hypoport AG – The Management Board

Ronald Slabke

Thilo Wiegand

Stephan Gawarecki

Hans Peter Trampe

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7. Consolidates fiancial statements

IFRS consolidated balance sheet as at 31 December 2010

Assets	31 Dec 2010 €'000	31 Dec 2009 €'000	Note
Non-current assets			
Intangible assets	27,809	25,620	4.1
Property, plant and equipment	2,431	1,758	4.1
Financial assets	501	435	4.2
Trade receivables	5,004	2,693	4.3
Other assets	26	13	4.4
Deferred tax assets	1,277	699	4.5
	37,048	**31,218**	
Current assets			
Trade receivables	15,453	14,110	4.3
Other assets	3,039	2,200	4.4
Current income tax assets	438	117	4.4
Cash and cash equivalents	11,200	7,157	4.6
	30,130	**23,584**	
	67,178	**54,802**	
Equity and liabilities			
Equity			
Subscribed capital	6,195	6,129	4.7
Treasury shares	-13	0	4.10
Reserves	21,020	17,596	4.11
Equity attributabel to non-controlling interest	188	200	4.12
	27,390	**23,925**	
Non-current liabilities			
Financial liabilities	17,914	17,169	4.13
Provisions	437	42	4.15
Other liabilities	10	10	4.14
Deferred tax liabilities	2,194	355	4.5
	20,555	**17,576**	
Current liabilities			
Provisions	172	121	4.15
Financial liabilities	2,680	1,686	4.13
Trade payables	9,631	5,736	
Current income tax liabilities	148	195	
Other liabilities	6,602	5,563	4.14
	19,233	**13,301**	
	67,178	**54,802**	

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IFRS consolidated income statement

for the year ended 31 December 2010

	2010 €'000	2009 €'000	Note
Revenue	66,912	50,474	3.1
Selling expenses	-26,634	-18,450	3.2
Gross profit	**40,278**	**32,024**	
Own work capitalised	5,742	4,599	3.3
Other operating income	1,363	1,019	3.4
Personnel expenses	-24,603	-21,719	3.5
Other operating expenses	-11,633	-11,021	3.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**11,147**	**4,902**	
Depreciation, amortisation expense and impairment losses	-4,721	-3,682	3.6
Earnings before interest and tax (EBIT)	**6,426**	**1,220**	
Financial income	86	135	3.8
Finance costs	-1,689	-1,091	3.8
Earnings before tax (EBT)	**4,823**	**264**	
Income taxes and deferred taxes	-1,561	-549	3.9
Profit (loss) from continuing operations, net of tax	**3,262**	**-285**	
Profit (loss) from discontinued operations, net of tax	0	-61	7.9
Net profit (loss) for the year	**3,262**	**-346**	
attributable to minority interest	-12	0	
attributable to Hypoport AG shareholders	**3,274**	**-346**	
Basic earnings (loss) per share (€)	**0.53**	**-0.06**	**3.10**
from continuing operations	0.53	-0.05	3.10
from discontinued operations	0.00	-0.01	3.10
Diluted earnings (loss) per share (€)	**0.53**	**-0.06**	**3.10**
from continuing operations	0.53	-0.05	3.10
from discontinued operations	0.00	-0.01	3.10

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Consolidated statement of comprehensive income

for the period 1 January to 31 December 2010

	2010 €'000	2009 €'000
Net profit (loss) for the year	**3,262**	**-346**
Total income and expenses recognized in equity*)	**0**	**0**
Total comprehensive income	**3,262**	**-346**
attributable to non-controlling interest	-12	0
attributable to Hypoport AG shareholders	**3,274**	**-346**

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

Consolidated statement of changes in equity for 2009 and 2010

€'000	Subscribed capital	Capital reserves	Retained earnings	Equity attributable to Hypoport AG shareholders	Equtiy attributable to non-controlling interest	Equity
Equity as at 1 Jan 2009	6,113	1,748	16.158	24.019	200	24.219
Issue of new shares	16	36	0	52	0	52
Total comprehensive income	0	0	-346	-346	0	-346
Equity as at 31 Dec 2009	**6,129**	**1.784**	**15.812**	**23.725**	**200**	**23.925**

€'000	Subscribed capital	Capital reserves	Retained earnings	Equity attributable to Hypoport AG shareholders	Equtiy attributable to non-controlling interest	Equity
Equity as at 1 Jan 2010	6,129	1,784	15,812	23,725	200	23.925
Issue of new shares	66	149	0	215	0	215
Purchase of own shares	-14	0	-4	-18	0	-18
Sale of own shares	1	4	1	6	0	6
Total comprehensive income	0	0	3,274	3,274	-12	3.262
Equity as at 31 Dec 2010	**6,182**	**1,937**	**19,083**	**27,202**	**188**	**27.390**

HYPOPORT
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IFRS consolidated financial statements

for the year ended 31 December 2010

	2010 €'000	2009 €'000
Earnings before interest and tax (EBIT)	6,426	1,169
from continuing operations	6,426	1,220
from discontinued operations	0	-51
Non-cash income (+) / expense (-)	-1,522	-218
Interest received (+)	86	135
Interest paid (-)	-1,291	-1,091
Income tax payments (-)	-439	-489
Income tax receipts (+)	1	173
Depreciation and amortisation expense, impairment losses (+) / reversals of impairment losses (-)	4,721	3,511
Gains (-) / losses (+) on the disposal of non-current assets	0	-2
Cash flow	**7,982**	**3,188**
Increase (+) / decrease (-) in current provisions	51	100
Increase (-) / decrease (+) in inventories, trade receivables and other assets not attributable to investing or financing activities	-5,405	1,211
Increase (+) / decrease (-) in trade payables and other liabilities not attributable to investing or financing activities	7,372	1,969
Change in working capital	**2,018**	**3,280**
Cash flows from operating activities	**10,000**	**6,468**
from discontinued operations	0	36
Proceeds from the disposal of property, plant and equipment / intangible assets (+)	0	109
Payments to acquire property, plant and equipment / intangible assets (-)	-7,584	-5,016
Payments to acquire consolidated enterprises (-)	0	-40
Proceeds from the disposal of financial assets (+)	373	81
Purchase of financial assets (-)	-439	-728
Cash flows from investing activities	**-7,650**	**-5,594**
from discontinued operations	0	0
Proceeds from additions to equity (+)	214	52
Payments to shareholders (-)	-16	0
Proceeds from the issue of bonds and drawdown of loans under finance facilities (+)	3,000	0
Redemption of bonds and loans (-)	-1,505	-1,227
Cash flows from financing activities	**1,693**	**-1,175**
from discontinued operations	0	0
Net change in cash and cash equivalents	4,043	-301
Cash and cash equivalents as the beginning of the period	7,157	7,458
Cash and cash equivalents at the end of the period	**11,200**	**7,157**
from discontinued operations	0	0

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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 business address of the Company 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, 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 2010 have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (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 25 February 2011 and are expected to be submitted to the Supervisory Board on 11 March 2011 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 single-entity 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. 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 included in the relevant figures shown.

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 International Financial Reporting Standards (IFRS)

All pronouncements by the International Accounting Standards Board (IASB) subject to mandatory application by 31 December 2010 have been taken into account. All the principles of the framework, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the earlier interpretations of the Standing Interpretations Committee (SIC) applicable at the balance sheet date have been applied.

The following standards and interpretations that had been revised or newly issued by the IASB were subject to mandatory application for annual periods beginning on or after 1 January 2010:

- IAS 39: Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRS 1: Additional Exemptions for First-time Adopters
- IFRS 2: Group Cash-settled Share-based Payment Transactions
- IFRS 3: Business Combinations and IAS 27: Consolidated and Separate Financial Statements
- IFRIC 9 und IAS 39: Embedded Derivatives
- IFRIC 12: Service Concession Arrangements
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- IFRIC 17: Distributions of Non-cash Assets to Owners
- IFRIC 18: Transfers of Assets from Customers

Amendments to IAS 39: Financial Instruments – Recognition and Measurement

The amendments issued in July 2008 address the questions of when inflation can be identified as a risk deemed eligible for hedging and when options may be designated as hedging instruments used to hedge one-sided risks. These amendments to IAS 39 are not relevant to Hypoport.

Amendments to IFRS 1: Additional Exemptions for First-time Adopters

July 2009 saw the publication of additional exemptions to the mandatory retrospective adoption of all standards and interpretations effective at the reporting date in cases where IFRS financial statements are being prepared for the first time. These exemptions relate to entities in the oil and gas industries and to first-time adopters applying the transitional provisions of IFRIC 4. This amendment is therefore not relevant to the Hypoport Group.

Amendments to IFRS 2: Group Cash-settled Share-based Payment Transactions

These amendments, which were issued in June 2009, clarify that entities that receive goods or services as part of share-based payment arrangements must account for these goods or services, regardless of whether the entity itself or another entity in the group fulfils the pertinent obligation and regardless of whether the obligation is settled in shares or cash. Because IFRS 2 incorporates guidance previously included in IFRIC 8 and IFRIC 11, these two interpretations have been withdrawn. These amendments have no impact on these consolidated financial statements because IFRS 2 is not relevant to Hypoport.

Revision of IFRS 3 Business Combinations and amendments to IAS 27 Consolidated and Separate Financial Statements

The IASB issued a revised IFRS 3 and amendments to IAS 27 in January 2008. The key amendment to IFRS 3 is that contingent consideration is recognised at fair value as part of the consideration transferred at the acquisition date. At present, contingent consideration is only recognised if it meets probability and reliable measurement criteria. A non-controlling interest in an acquired entity is measured either at fair value or at the non-controlling interest's proportionate share in the fair value of the acquiree's net identifiable assets. This option is available on a transaction-by-transaction basis. Instead of being included in the acquisition cost, the transaction costs incurred by the acquirer are expensed as incurred. The revised IFRS 3 is effective for annual periods beginning on or after 1 July 2009 and cannot be adopted prospectively until the date of its introduction, which means that it will only apply to business combinations completed after this date. Business combinations completed prior to this date will not be affected. The amendments to IAS 27 primarily concern the accounting treatment of transactions involving non-controlling interests and essentially describe how to account for changes in ownership interests in subsidiaries after control has been acquired, how to account for loss of control over subsidiaries, and how to attribute profit or loss to controlling and non-controlling interests in subsidiaries. IAS 27 requires retrospective adoption in some cases and prospective adoption in others.

The revised IFRS 3 and the amendments to IAS 27 will affect future acquisitions or losses of control over subsidiaries.

Amendments to IFRIC 9 and IAS 39: Embedded Derivatives

These amendments affect entities that apply the reclassification amendment introduced in October 2008. The amendments clarify that all embedded derivatives must be reassessed if a financial asset is reclassified out of the 'at fair value through profit or loss' category. These amendments have no impact on future consolidated financial statements because the Hypoport Group does not apply the reclassification amendment.

IFRIC 12: Service Concession Arrangements

IFRIC 12 was issued in November 2006 and explains the accounting treatment of concession arrangements made with governments or similar institutions to provide public services such as roads, prisons or energy distribution networks. It draws a distinction between two types of service concession arrangement, which determine whether the entity concerned recognises a financial asset or an intangible asset. The entity recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the government. On the other hand, the entity recognises an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. IFRIC 12 is not relevant to Hypoport.

IFRIC 16: Hedges of a Net Investment in a Foreign Operation

This interpretation clarifies what may be designated as a risk when hedging a net investment in a foreign operation and which entity within a group can hold the hedging instrument to mitigate this risk. The application of IFRIC 16 has no impact on the Hypoport Group because it does not use hedge accounting.

IFRIC 17: Distributions of Non-cash Assets to Owners
IFRIC 17 clarifies how an entity should measure non-cash assets that it distributes as a dividend to owners. A dividend payable is recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. The dividend payable is measured at the fair value of the net assets to be distributed. The entity recognises the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. IFRIC 17 has no impact on Hypoport.

IFRIC 18: Transfers of Assets from Customers
The IASB considers IFRIC 18 to be particularly relevant to entities in the utility sector. It clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a supply network or to provide the customer with ongoing access to a supply of goods or services. It also deals with cases in which the entity receives cash from a customer that must be used only to acquire or construct one of the aforementioned assets. The application of IFRIC 18 has no impact on Hypoport.

Apart from the changes introduced by IFRS 3 and IAS 27, the mandatory application of standard amendments and interpretations has had no impact on the Hypoport Group's financial position or financial performance.

Furthermore, the IASB has issued the following standards, interpretations and amendments to existing standards that are not yet subject to mandatory application and that Hypoport has not applied in advance:

- IAS 24: Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)
- IAS 32: Financial Instruments: Presentation – Classification of Rights Issues (1 February 2010)
- IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (1 July 2010)
- IFRS 7: Financial Instruments: Disclosures': Disclosures – Transfers of Financial Assets (1 July 2011)
- IFRS 9: Financial Instruments – Classification and Measurement (1 January 2013)
- IFRIC 14: Prepayments of a Minimum Funding Requirement (1 January 2011)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)

Amendments to IAS 24: Related Party Disclosures

The revision introduced in November 2009 simplifies the disclosure requirements for state-controlled entities. In addition, the definition of ‚related parties' has been thoroughly revised. The Hypoport Group will modify the information it discloses accordingly in response to this amended definition.

Amendments to IAS 32: Classification of Rights Issues

The revision introduced in October 2009 has amended IAS 32 to the effect that rights, options and warrants issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments provided that the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments. IAS 32 has no impact on Hypoport's consolidated financial statements.

Amendments to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

This amendment states that first-time adopters of IFRS do not need to provide comparative prior-period information to meet the new disclosure requirements of IFRS 7 for comparative periods ending before 31 December 2009. This amendment is not relevant to the Hypoport Group.

IFRS 7: ‚Financial Instruments: Disclosures': Disclosures – Transfers of Financial Assets

This standard, which was issued in October 2010, specifies the disclosures required in connection with transfers of financial assets, such as the sale of trade receivables. IFRS 7 now stipulates that even if the financial asset is fully derecognised, comprehensive qualitative and quantitative disclosures on any contractual rights or obligations that may have been retained or acquired, such as default guarantees, are required. The Hypoport Group does not believe that these changes will have a material impact on the presentation of its consolidated financial statements.

IFRS 9: Financial Instruments – Classification and Measurement

The purpose of this standard, which was issued in November 2009, is to replace IAS 39 in the medium term following further revisions. For the time being, the new requirements of IFRS 9 relate purely to financial assets, which in future will be classified – based on entities' individual business models – in only two categories (amortised cost or fair value) instead of four. Under the new standard, embedded derivatives will be assessed in conjunction with the host contract instead of separately from it and reclassifications will no longer be permitted unless they result from changes in an entity's business model. Furthermore, the new standard simplifies the existing arrangements by stipulating a single method for determining impairment in all financial assets as well as a generally applicable requirement to reverse impairment losses. It also includes a number of other amendments, which are mainly designed to simplify existing arrangements. The Hypoport Group is currently examining the potential impact of these amendments on its financial position and financial performance.

IFRIC 14: Prepayments of a Minimum Funding Requirement

These amendments relate to pension plans under which an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. In contrast to the previous arrangements, the economic benefit accruing from these prepaid contributions that reduce future payments of minimum funding requirement contributions is recognised as an asset. These amendments have no impact on these consolidated financial statements because IFRIC 14 is not relevant to Hypoport.

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This recently issued interpretation addresses the accounting by a debtor entity in cases where the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to extinguish all or part of the financial liability and where the creditor is an independent third party. The equity instruments issued are now measured at their fair value and any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. Consequently, IFRIC 19 no longer permits such financial liabilities simply to be taken to equity. These changes have had no material impact on Hypoport's consolidated financial statements.

Other amendments to standards and interpretations have had no significant effect on the financial position or financial performance of the Hypoport Group.

1.3 Basis of consolidation

Apart from Hypoport AG as the parent company, the IFRS consolidated financial statements include eleven (2009: twelve) domestic and international subsidiaries in which the Company directly or indirectly holds the majority of voting rights, and three (2009: three) joint venture companies.

To streamline the structure of shareholdings, Dr. Klein & Co. Consulting GmbH was merged with Dr. Klein & Co. Aktiengesellschaft with effect from 1 January 2010 and is therefore no longer consolidated as a separate entity.

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

	Anteilshöhe in %
Dr. Klein & Co. AG, Lübeck	100.00
GENOPACE GmbH, Berlin	50.025
FINMAS GmbH, Berlin	50.00
Freie Hypo GmbH, Lübeck	100.00
Hypoport B.V., Amsterdam	100.00
Hypoport Finance AG, Berlin	100.00
Hypoport Insurance Market GmbH, Berlin	100.00
Hypoport Mortgage Market Ltd., Westport (Irland)	100.00
Hypoport on-geo GmbH, Berlin	50.00
Hypoport Stater B.V., Amsterdam	50.00
Hypoport Systems GmbH, Berlin	100.00
Qualitypool GmbH, Lübeck	100.00
Starpool Finanz GmbH, Berlin	50.025
Vergleich.de Gesellschaft für Verbraucherinformation mbH, Berlin	100.00

With the exception of Hypoport Stater B.V., Hypoport on-geo GmbH and FINMAS GmbH (all joint ventures consolidated on a pro-rata basis), all companies in the Group are fully consolidated.

The following assets, liabilities, income and expenses recognised for the subsidiary consolidated on a pro-rata basis have been included in the Hypoport Group:

€'000	2010	2009
Assets	2,119	2,052
non-current	1,805	1,666
Liabilities	911	159
non-current	375	0
Revenue	259	78
Personnel expenses	-219	-240
Other operating expenses	-713	-792
Income taxes and deferred taxes	168	127

1.4 Principles of consolidation

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

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.

In business combinations carried out after 1 January 2004, the combination is accounted for in accordance with IFRS 3 using the purchase method of accounting, i.e. by offsetting the cost of the acquired entity against the fair value of the assets and liabilities assumed on the date on which the Group obtains control.

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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 single-entity 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 single-entity financial statements of the parent has been reported as goodwill. Negative differences have been accounted for in consolidated reserves.

All intercompany receivables and payables within the Group are eliminated in consolidation with the elimination of intercompany balances. In the income statement, intercompany revenue and other intercompany income within the Group are offset against corresponding expenses (consolidation of income and expense).

Where intercompany profits and losses have a significant impact on the fair presentation of the Company's financial position and financial performance, such intercompany profits and losses are eliminated.

The Hypoport Group consolidates its investments in joint ventures on a pro-rata basis. For each individual item it aggregates its pro-rata share of the joint ventures' income, expenses, assets, liabilities and cash flows with similar items in its own financial statements. For these purposes, joint ventures include companies in which the Hypoport Group holds a majority of the voting rights but where, because of the relevant companies' memorandum and articles of association, material decisions can only be taken unanimously.

1.5 Currency translation

In the single-entity 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, 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.

2 Accounting policies

2.1 Comparative figures for 2009

The presentation of the balance sheet as at 31 December 2010 has been modified compared with its presentation in the consolidated financial statements for the year ended 31 December 2009. Current and non-current trade receivables, which were previously all reported in a single line item as current assets, are now shown separately as either current assets or non-current assets. €2.693 million of the €16.803 million in trade receivables reported as current assets in 2009 has been reclassified as non-current assets. This reclassification has not affected either the net profit (loss) for the period or the earnings (loss) per share reported by the Hypoport Group.

2.2 Intangible assets

Goodwill arising on the consolidation of subsidiaries, capitalised development costs in connection with the development 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 specific 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 on the face of the income statement as 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 the higher of net realisable value and value in use. The net realisable value is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties less costs to sell. The value in use is determined by discounting the forecast cash flows from the use and disposal of an asset. The cash flows are derived from the Company's four-year strategic plan. The planning assumptions used are adjusted in the light of the latest information available and take appropriate account of sectoral and macroeconomic trends as well as historical developments. The cash flows are not extrapolated beyond the detailed planning period. The cash flows are then discounted back to the balance sheet date using discount rates that reflect the risks specific to the asset.

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 eight years if they are being used for the first time or five years in the case of enhancements.

2.3 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. The following periods of useful life are applied:

	Useful life (years)
Buildings	50
Office furniture and equipment	3 to 13

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.

2.4 Borrowing costs

Borrowing costs are capitalised in accordance with IAS 23.

2.5 Financial instruments

A financial instrument is an agreement that simultaneously gives rise to a financial asset at one entity and to a financial liability or an equity instrument at another entity. Financial instruments recognised as financial assets are reported separately from those recognised as financial liabilities. They are recognised as soon as Hypoport becomes a counterparty to such financial instruments.

Financial instruments are initially recognised at their fair value. When these instruments are subsequently measured, they are allocated to one of the categories mentioned in IAS 39. Transaction costs directly attributable to their acquisition or issuance are factored into their carrying amount unless the financial instruments are recognised at fair value through profit or loss. If their trade date differs from their settlement date (i.e. the date on which they are delivered), Hypoport chooses their trade date for their initial recognition or their derecognition.

2.6 Financial assets

Financial assets include receivables from financial services, trade receivables, receivables from banks, cash on hand, derivative financial assets, and marketable securities and financial investments.

Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss comprise held-for-trading financial assets.

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.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are classified as available-for-sale and do not belong in any of the aforementioned categories.

Once they have been initially recognised, available-for-sale financial assets are measured at fair value, with unrealised gains and losses recognised directly in equity in the reserve for available-for-sale financial assets. If there is objective evidence of impairment or if there are changes in the fair value of a debt instrument as a result of exchange rate movements, they are recognised in income. When financial assets are sold, the cumulative gains and losses on their fair value measurement, which are recognised directly in equity, are taken to income. If the fair value of unlisted equity instruments cannot be sufficiently reliably determined, the shares are measured at amortised cost (net of any impairment losses). Interest received from these financial assets is recognised in the income statement as interest and similar income under the effective interest method. Dividends are taken to income as soon as a legal entitlement to payment arises.

2.7 Impairment of financial assets

At each balance sheet date, the carrying amounts of financial assets that are not recognised at fair value through profit or loss 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.

Available-for-sale financial assets: If the value of an available-for-sale asset is impaired, an amount previously only recognised directly in equity and representing the difference between the asset's acquisition cost (less any repayments and redemptions) and its current fair value (less any impairment losses on this financial asset previously recognised in income) is taken to income. Reversals of impairment losses on equity instruments classified as available-for-sale are recognised directly in equity. Reversals of impairment losses on debt instruments are taken to income if the increase in the instrument's fair value can be objectively attributed to an event that occurred after the impairment loss was recognised in income.

2.8 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.

2.9 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 on the face of the income statement.

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

2.10 Cash and cash equivalents

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

2.11 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.

2.12 Provisions

Provisions are recognised for obligations if the Group has a present legal or constructive external obligation, 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 provision. Future events that may have an effect on the amount required to settle the obligation are taken into account in the provisions providing there is sufficient objective evidence that these events will occur and providing these obligations result from past events.

Other provisions are measured in accordance with IAS 37 and IAS 19 on the basis of a best estimate of the extent of the obligation.

Provisions with a remaining maturity of more than one year are discounted.
Accruals are reported under other liabilities.

2.13 Financial liabilities

Financial liabilities include trade payables, liabilities to banks, bonds, derivative financial liabilities 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.

Financial liabilities at fair value through profit or loss:
Financial liabilities at fair value through profit or loss comprise held-for-trading financial liabilities. Gains and losses on held-for-trading financial liabilities are recognised in income.

2.14 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.

2.15 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.

2.16 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.

The Group has set up an employee share ownership programme involving the issue of treasury shares. The fair value of the work performed by employees as the consideration for the granting of the options is recognised as an expense. The total expense over the period until the option rights become vested is determined on the basis of the fair value of the options granted. The estimate of the number of options that are expected to become exercisable is reviewed at each balance sheet date. The effects of any changes that need to be made to original estimates are recognised in income and with a corresponding adjustment in equity.

The payments received on exercise of the share options are credited (net of directly attributable transaction costs) to subscribed capital (par value) and the share premium.

2.17 Recognition of income and expense

In accordance with IAS 18, revenue arising on service transactions is recognised on performance of the services providing 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. Special volume-related commissions are generally recognised when the relevant target figure is achieved.

Operating expenses are recognised when a service is used or at the point the expense is incurred. Interest income and expense is recognised in the period in which it is earned/incurred.

2.18 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 (with the exception of goodwill) and for recoverable loss carryforwards.

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 some 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:

	2010 € million	2009 € million
Financial Product Sales – Corporate Real estate Clients	8.5	6.4
Financial Product Sales – Private Clients	40.2	30.0
B2B Financial Marketplaces – Financial Service Providers	14.8	10.3
B2B Financial Marketplaces – Institutional Clients	3.3	3.2
Other	0.1	0.6
	66.9	50.5

3.2 Selling expenses

The table below gives a breakdown of selling expenses.

	2010 TEUR	2009 TEUR
Commissions	19,987	12,577
Lead cost	6,647	5,873
	26,634	18,450

3.3 Own work capitalised

Own work capitalised of €5.742 million (2009: €4.599 million) comprises work on the development and enhancement of internally generated financial marketplaces. Development costs of €1.238 million (2009: €2.323 million) were expensed as incurred in 2010.

3.4 Other operating income

Other operating income mainly comprises income of €532 thousand (2009: €171 thousand) from the reversal of provisions and other liabilities, as well as employee contributions to vehicle purchases of €348 thousand (2009: €296 thousand).

3.5 Personnel expenses

Personnel expenses are broken down as follows:

	2010 €'000	2009 €'000
Wages and salaries	21,119	18,680
Social security contributions	3,390	2,964
Post-employment and other employee benefits	94	75
	24,603	21,719

The cost of defined-contribution pension plans amounted to €1.602 million (2009: €1.558 million).

3.6 Depreciation, amortisation expense and impairment losses

Of the depreciation/amortisation expense and impairment losses, €4.131 million (2009: €3.011 million) was attributable to intangible assets and €590 thousand (2009: €671 thousand) to property, plant and equipment.

3.7 Other operating expenses

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

	2010 €'000	2009 €'000
Operating expenses	4,266	3,511
Other selling expenses	1,887	1,733
Administrative expenses	4,046	4,399
Other personnel expenses	428	444
Other expenses	1,005	934
	11,632	11,021

The operating expenses consist mainly of building rentals of €1.849 million (2009: €1.399 million) and vehicle-related costs of €1.007 million (2009: €848 thousand). The other selling expenses primarily relate to advertising costs and travel expenses of €1.887 million (2009: €1.733 million). The administrative expenses largely comprise IT-related costs of €2.116 million (2009: €2.288 million) and legal and consultancy expenses of €570 thousand (2009: €777 thousand). The other personnel expenses mainly comprise training costs of €265 thousand (2009: €245 thousand).

3.8 Net finance costs

The breakdown of net finance costs is as follows:

	2010 €'000	2009 €'000
Financial income		
Other interest and similar income	75	130
Oncome from other securities and lending of financial assets	11	5
	86	135
Finance costs		
Interest expense and similar charges	1,689	1,091
	-1,603	-956

The finance costs mainly comprise interest expense and similar charges of €1.291 million incurred by the drawdown of loans and use of credit lines as well as discounts of €398 thousand on non-current receivables.

3.9 Income taxes and deferred taxes

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

	2010 €'000	2009 €'000
Income taxes attributable to continuing operations	1,561	549
current income taxes	301	698
deferred taxes	1,260	-149
in respect of timing differnces	776	-421
in respect of tax loss carryforwards	484	272
Income taxes attributable to discontinued operations	0	-15
current income taxes	0	-15
deferred taxes	0	0
in respect of timing differences	0	0
in respect of tax loss carryforwards	0	0
	1,561	534

A current income tax expence of €49 thousand (2009: €37 thousand) related to previous years. The income taxes incurred on discontinued operations relate to follow-on activities.

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 balance sheet date amounted to €4.442 million (2009: €5.032 million) and €1.594 million (2009: €3.540 million) respectively. The loss carryforwards can be carried forward indefinitely in Germany. The utilisation of these losses for tax purposes is limited to a maximum of nine years in the Netherlands.

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.

Deferred tax assets of €478 thousand (2009: €389 thousand) have been recognised for loss carryforwards and timing differences despite the losses reported for 2010 and 2009 because it is assumed that all the companies concerned will generate taxable profits in future.

The table below reconciles the tax expense anticipated for 2010 and 2009 to the tax expense actually reported for those years:

	2010 €'000	2009 €'000
Profit (loss) from continuing operations before tax	4,823	264
Profit (loss) from discontinued operations before tax	0	-51
	4,823	213
Tax rate to be applied	30.0 %	30.0 %
Expected tax expense	-1,447	-64
Effect of non-deductible expenses and tax-exempt income	-133	-110
Effect of differing tax rates	132	-484
Restatement/adjustment of loss carryforwards	-40	200
Recognition and measurement of deferred taxes	0	0
Tax expense for previous years	-49	-37
Other tax-related effects	-24	-39
Current tax expense	-1,561	-534
Tax rate for the Group	32.4 %	250.7%

3.10 Earnings per share

The figure for the earnings (loss) 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.

Share options were issued to employees in the years 2002 to 2004. These share options had the following dilutive effect on earnings per share in 2010:

	2010	2009
Net profit (loss) for the year (€'000)	3,274	-346
from continuing operations	3,274	-285
from discontinued operations	0	-61
Basic weighted number of outstanding shares ('000)	6,146	6,118
Basic earnings (loss) per share (€)	**0.53**	**-0.06**
from continuing operations	0.53	-0.05
from discontinued operations	0.00	-0.01
Weighted number of share options ('000) causing a dilutive effect	49	80
Diluted weighted number of outstanding shares ('000)	6,176	6,169
Diluted earnings (loss) per share (€)	0.53	-0,06
from continuing operations	0.53	-0.05
from discontinued operations	0.00	-0.01

The weighted number of outstanding shares is calculated on the basis of a daily balance. The options granted had an average dilutive effect of 30 thousand shares in 2010 (2009: 51 thousand shares).

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 €133 thousand (2009: €0 thousand) in borrowing costs at an average funding rate of 5.0 per cent. Most of the intangible assets – with a carrying amount of €11.8 million (2009: €9.8 million) – related to internally generated financial marketplaces. Their remaining useful lives amounted to between one and eight years.

The carrying amounts for goodwill as at 31 December 2010 once again related to goodwill amounts arising on the first-time consolidation of subsidiaries. For the purposes of impairment testing, the goodwill has been assigned to the following cash-generating units, which reflect the segments in the Group:

	Corporate Real Estate Clients	Private Clients	Financial Service Providers	Institutional Clients	Total
Cost of acquisitions as at 1 January 2010	3,684	7,653	230	3,259	14,826
Additions	0	0	0	0	0
Cost of acquisitions as at 31 December 2010	3,684	7,653	230	3,259	14,826

The impairment tests conducted at the balance sheet date using a risk-free discount rate of 7.4 per cent (2009: 7.6 per cent) revealed no need for any impairment charges.

The sensitivity analysis we conducted revealed that there was no need for any impairment charges on goodwill even if our key underlying assumptions varied within a realistic range. This sensitivity analysis assumed a 10 per cent reduction in future cash flows and a 10 per cent increase in the weighted cost of capital, as variances of this magnitude are realistically possible. In our experience, greater variances than this are unlikely.

4.2 Financial assets

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

	2010 €'000	2009 €'000
Loans to third parties	375	0
Loans to employees	44	360
Loan to joint venture	82	75
	501	435

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.

Specific write-downs of €180 thousand have been recognised. There are no material overdue receivables.

4.3 Trade receivables

	2010 €'000	2009 €'000
trade receivables from		
third parties	20,457	16,760
joint ventures	0	43
	20,457	16,803

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.

	2010 €'000	2009 €'000
Balance as at 1 January	158	134
Addition to impairment of receivables	16	63
Irrecoverable receivables written off	36	39
Balance as at 31 December	**138**	**158**

Impairment charges of €361 thousand (2009: €256 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.

	2010 €'000	2009 €'000
1 to 90 days	84	392
90 to 180 days	171	85
180 to 360 days	2	9
More than 360 days	149	185
Total	**406**	**671**

4.4 Current income tax assets and other assets

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

	2010 €'000	2009 €'000
Financial assets		
Overpayments to suppliers	38	9
receivables from employees	51	0
	89	**9**
Non-financial assets		
Advance payment of commissions	2,201	1,710
Advances	186	81
Prepaid expenses	293	325
Current income tax assets	441	117
VAT credits	180	7
Other	90	81
	3,388	2,308
	3,477	**2,317**

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

	2010 €'000	2009 €'000
Rent deposits	26	13
	26	**13**

There are no material overdue receivables. Specific write-downs of €306 thousand (2009: €194 thousand) were recognised. An additional €112 thousand was recognised in 2010 (2009: €156 thousand).

4.5 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	2010 €'000	2009 €'000
In respect of tax carryforwards	1,039	1,523
Rental and lease obligations	155	50
Other temporary differences	168	247
Consolidation	639	440
Offsetting	724	1,561
	1,277	**699**

Deferred tax liabilities	2010 €'000	2009 €'000
Intangible assets	482	251
Property, plant and equipment	33	34
Receivables	2,400	1,631
Provisions	3	0
Offsetting	724	1,561
	2,194	**355**

4.6 Cash and cash equivalents

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

	2010 €'000	2009 €'000
Cash at banks	11,197	7,154
Cash on hand	3	3
	11,200	**7,157**

4.7 Subscribed capital

The changes to subscribed capital in the year under review were as follow:

Subscribed capital	€
Balance as at 1 January 2010	6,128,958.00
Increase due to exercise of share options	66,000.00
Balance as at 31 December 2010	6,194,958.00

The Company's subscribed capital amounts to €6,194,958.00 (31 December 2009: €6,128,958.00) and is divided into 6,194,958 (31 December 2009: 6,128,958) fully paid-up, registered no-par-value shares.

The Annual Shareholders' Meeting held on 4 June 2010 voted to carry forward Hypoport AG's distributable profit of €10,964,816.49 to the next accounting period.

4.8 Authorised capital

Following approval of a resolution by the Annual Shareholders' Meeting on 1 June 2007, the unused authorisation of 19 December 2006 was set aside and replaced by a new authorisation. The Management Board was authorised, subject to the consent of the Supervisory Board, to increase the subscribed capital of the Company by up to a total of €3,000,000.00 by way of an issue of new registered no-par-value shares for cash or non-cash contribution on one or more occasions on or before 31 May 2012. The Management Board can decide to disapply the statutory pre-emption rights of the shareholders, subject to the consent of the Supervisory Board.

4.9 Conditional capital

The Annual Shareholders' Meeting on 26 August 2002 approved a conditional capital increase of up to €276,808.00 in the Company's subscribed capital. The purpose of the conditional capital increase was to allow share options to be granted to employees, members of the Management Board and to managers in subsidiaries. The conditional capital issued under the resolution adopted on 26 August 2002 amounted to €122,650.00 on 31 December 2010 (31 December 2009: €188,650.00) after shares had been issued in connection with the exercise of share options.

4.10 treasury shares

In 2010, Hypoport purchased 13,600 treasury shares (representing €13,600.00, or 0.22 per cent, of the subscribed capital of Hypoport AG) at a cost of €17 thousand so that they could be issued to employees; 680 of these shares were issued to employees during the reporting period.

The change in the balance of treasury shares and the main data relating to transactions in 2010 are shown in the following table:

Change in the balance of treasury shares in 2010	Number of shares	Proportion of subscribed capital %	Cost of purchase €'000	Sale price €'000	Gain or loss on sale €'000
Opening balance as at 1 January 2010	0	0.00	0.00	–	–
Purchased in December 2010	13,600	0.22	17,000.00	–	–
Sold in December 2010	680	0.01	850.00	0.00	-850.00
Balance as at 31 December 2010	12,920	0.21	–	–	–

This expense incurred by the purchase 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 issue of shares under the 2002–2004 employee share ownership programme from 2006 to 2009 (€1.187 million, of which €148 thousand relates to 2010), an amount 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 (€5 thousand).

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 (2009: €7 thousand), are also reported under this item.

4.12 Non-controlling interest

This item relates to the non-controlling interest in the equity of Starpool Finanz GmbH and GENOPACE GmbH.

4.13 Financial liabilities

The breakdown of financial liabilities is as follows:

	2010 €'000	2009 €'000
Non-current		
Liabilities to banks		
Loans	17,450	17,035
Other liabilities		
Loans from joint ventures	375	0
Rental and lease obligations	89	134
	17,914	**17,169**
Current		
Liabilities		
Loans	2,647	1,653
Other liabilities		
Rental and lease obligations	33	33
	2,680	1,686
	20,595	**18,855**

1,194,492 no-par-value bearer shares in Dr. Klein & Co. AG have been pledged as collateral to lenders. Reported loan liabilities amounting to €3.000 million were subordinated (31 December 2008: €3.000 million).

Some of the financial liabilities are subject to fixed interest. Others are subject to variable interest linked to the Euribor rate plus a bank mark-up. The interest rates varied between 4.2 per cent and 6.5 per cent (2009: between 4.3 per cent and 6.5 per cent). These interest rates are the normal market rates for the financial liabilities and the companies concerned.

The Company has various credit lines from domestic banks. The table below shows all credit lines and the amounts utilised at the relevant balance sheet dates.

	2010 €'000	2009 €'000
Credit line	2,500	3,500
Amount utilised	0	0
Credit line available	**2,500**	**3,500**

The average interest rate on credit lines utilised was 5.59 per cent (2009: 4.70 per cent).

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

	2010 €'000	2009 €'000
6 months or less	888	624
6 to 12 months	1,696	881
1 to 5 years	17,525	17,035
More than 5 years	300	0
	20,409	**18,540**

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

	2010 €'000	2009 €'000
Between 1 and 2 years	11,150	2,318
Between 2 ans 5 years	6,464	14,851
More than 5 years	300	0
	17,914	**17,169**

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

	Carrying amount		Fair value	
€'000	2010	2009	2010	2009
Liabilities to banks	17,450	17,035	17,871	17,815
Loans from joint ventures	375	0	375	0
Rental and lease obligations	89	134	89	134
	17,914	17,169	18,335	17,949

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:

	2010 €'000	2009 €'000
Tax liabilities		
Value-added tax	196	355
Wage tax and church tax	262	308
	458	**663**
Personnel		
Financial assets		
Bonuses	2,692	1,464
Outstanding holiday entitlements	354	289
Wages and salaries	199	155
Severance payments	67	0
Non-financial assets		
Employers' liability insurance association	76	69
Disabled persons levy	43	39
Social security contributions	35	16
Partial retirement	10	0
	3,612	**2,032**
Other		
Financial assets		
Outstanding invoices	324	306
commissions to be passed on	111	304
Year-end costs	126	110
Non-financial assets		
Advance payment of commissions	1,586	1,689
Deferred income	371	405
Sundry	14	64
	2,532	**2,868**
	6,602	**5,563**

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

	2010 €'000	2009 €'000
Rent deposits	10	10
	10	**10**

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4.15 Provisions

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

€'000	1 Jan 2010	Utilisation	Reversals	Additions	31 Jan 2010
Non-current provisions					
rental and lease obligations	0	0	0	395	395
Cancellations	42	0	0	0	42
	42	**0**	**0**	**395**	**437**
Current provisions					
Commissions	0	0	0	150	150
Cancellations	21	21	0	22	22
Sundry	100	0	100	0	0
	121	21	100	172	172

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 section 4.6.

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 four target-group-oriented business units (Financial Product Sales – Corporate Real Estate Clients (formerly Housing Companies), Financial Product Sales – Private Clients, B2B Financial Marketplaces – Financial Service Providers, and B2B Financial Marketplaces – Institutional Clients) and two function-oriented business units (Information Technology and Administration). The target-group-oriented business units bring together different business lines with similar opportunities and risks.

The Financial Product Sales – Corporate Real Estate 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.

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

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 B2B Financial Marketplaces – Institutional Clients business unit supports issuers with the provision of information technology and a range of services.

Administrative expenses in respect of management, administration, accounting and human resources together with IT costs are reported under the heading ‚Reconciliation', which also includes any consolidation effects.

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.

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 €66.9 million (2009: €50.5 million) included €3.3 million (2009: 3.2 million) generated by customers elsewhere in Europe, and the remaining revenue was generated by customers in Germany.

The segment breakdown of business performance in 2010 is as follows:

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2010 (€'000)	Corporate Real Estate Clients	Private Private Clients	Financial Service Providers	Institutional Clients	Reconciliation	Group
Segment revenue in respect of third parties	8,506	40,264	14,804	3,271	67	66,912
2009	6,407	30,011	10,300	3,229	527	50,474
Segment revenue in respect of other segments	163	159	568	0	-890	0
2009	222	86	700	0	-1,008	0
Total segment revenue	8,669	40,423	15,372	3,271	-823	66,912
2009	6,629	30,097	11,000	3,229	-481	50,474
Segment earnings before interest, tax, depreciation amortisation (EBITDA)	4,120	3,695	4,850	956	-2,474	11,147
2009	2,860	2,190	1,199	808	-2,206	4,851
from continuing operations	4,120	3,695	4,850	956	-2,474	11,147
2009	2,860	2,190	1,199	859	-2,206	4,902
from discontinued operations	0	0	0	0	0	0
2009	0	0	0	-51	0	-51
Segment earnings before interest and tax (EBIT)	3,917	3,581	1,193	733	-2,998	6,426
2009	2,684	2,044	-1,413	617	-2,763	1,169
from continuing operations	3,917	3,581	1,193	733	-2,998	6,426
2009	2,684	2,044	-1,413	668	-2,763	1,220
from discontinued operations	0	0	0	0	0	0
2009	0	0	0	-51	0	-51
Segment assets	15,135	20,047	24,001	4,940	3,055	67,178
2009	11,180	17,581	19,320	4,743	1,978	54,802
Segement liabilities	2,204	6,118	5,818	476	25,172	39,788
2009	1,584	4,165	4,453	542	20,133	30,877
Segment capital expenditure	715	89	5,668	155	958	7,585
2009	326	11	4,276	111	292	5,016
Segment depreciation/ amortisation expense, impairment losses	203	114	3,657	223	524	4,721
2009	176	146	2,612	191	557	3,682
Significant non-cash expenses	1,003	2,419	4,697	0	24	8,143
2009	323	822	3,341	0	67	4,553

7. Other disclosures

7.1 Other fiancial commitments

At the balance sheet date there were total other financial commitments of €8.255 million (2009: €9.843 million) related to non-cancellable rentals, leases and maintenance agreements covering a number of years. Included in the other financial commitments are commitments of €2.396 million (2009: €2.424 million) due within one year and €5.859 million (2009: €7.419 million) due in one to five years. The cost of rentals and leases (minimum leases) amounted to €2.164 million in 2010 (2009: €1.957 million).

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

7.2 Related parties

IAS 24 requires disclosure of the names of persons or entities that control Hypoport AG or are controlled by Hypoport AG. Transactions between Hypoport AG and its subsidiaries are eliminated during consolidation and are therefore not subject to the disclosure requirement in this section.

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

The scope of persons covered by the requirements also includes key management personnel, their close family members and other entities via which a named person exercises control or significant influence over Hypoport AG. The persons 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.

The total remuneration paid to the members of the Group Management Board in 2010 was €876 thousand; total remuneration for the members of the Supervisory Board was €80 thousand. In all cases, all the benefits were due for payment within one year.

The members of the Group Management Board and the Supervisory Board directly or indirectly hold shares and options in the parent. The following table shows the numbers of shares held and the options granted by the parent under the share option programme as at 31 December 2010.

	Shares (Number) 31 Dec 2010	Shares (Number) 31 Dec 2009	Options (Number) 31 Dec 2010	Options (Number) 31 Dec 2009
Group Management Board				
Ronald Slabke	2,241,831	2,209,831	0	32,000
Thilo Wiegand	24,000	24,000	0	0
Stephan Gawarecki	187,800	187,800	0	0
Hans Peter Trampe	188,490	174,990	0	20,000
Supervisory Board				
Dr. Ottheinz Jung-Senssfelder	24,000	24,000	0	0
Prof. Dr. Thomas Kretschmar	1,371,974	1,423,624	0	0
Christian Schröder	24,000	24,000	0	0

Ronald Slabke, Berlin, holds 36.19 per cent of Hypoport's shares. Of these, the 34.77 per cent of the voting shares held by Revenia GmbH, Lübeck, 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, Chief Executive Officer of Hypoport AG.

Thomas Kretschmar, Potsdam, holds 3.48 per cent of Hypoport's shares. Of these, the 3.48 per cent of the voting shares held by Kretschmar Research GmbH, Potsdam, are attributable to him pursuant to section 22 (1), sentence 1, no. 1 WpHG. All the shares in Kretschmar Research GmbH are held by Thomas Kretschmar, who is a member of the Supervisory Board of Hypoport AG. Thomas Kretschmar is a member of the board of Kretschmar Familienstiftung, Potsdam, which holds 18.67 per cent of Hypoport's shares.

Hans Peter Trampe, Stahnsdorf, holds 3.04 per cent of Hypoport's shares.

Stephan Gawarecki, Preetz, holds 3.03 per cent of Hypoport's shares. Of these, the 3.03 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.

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 €507 thousand was generated by joint venture companies in 2010 (2009: €532 thousand). As at 31 December 2010, receivables from joint venture companies amounted to €565 thousand (31 December 2009: €40 thousand) and liabilities to such companies amounted to €375 thousand (31 December 2009: €13 thousand).

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7.3 Management Board

The members of the Management Board were as follows:

- Ronald Slabke (Chief Executive Officer), graduate in business administration, Berlin, responsible for human resources, finance and administration, new markets and strategic investments
- Thilo Wiegand, graduate in banking, Grossalmerode, responsible for the Financial Service Providers business unit
- Hans Peter Trampe, graduate in business administration, Stahnsdorf, responsible for the Corporate Real Estate Clients and Institutional Clients business units
- Stephan Gawarecki, graduate in business administration, Preetz, responsible for the Private Clients business unit and marketing

Thomas Kretschmar (formerly responsible for the Corporate Real Estate Clients and Institutional Clients business units, strategy and fundamental issues, communications, legal affairs and data protection) resigned from the Management Board with effect from 1 June 2010. In addition, Hans Peter Trampe and Stephan Gawarecki were appointed to the Management Board of Hypoport AG with effect from 1 June 2010. Hans Peter Trampe is responsible for the Corporate Real Estate Clients and Institutional Clients business units while Stephan Gawarecki is in charge of the Private Clients business unit and the Hypoport Group's marketing activities.

The total remuneration paid to the members of the Management Board in 2010 amounted to €876 thousand; for further information please refer to the remuneration report in the group management report (I.10).

7.4 Supervisory Board

The following persons were members of the Supervisory Board in 2010:

- Ottheinz Jung-Senssfelder (chairman of the Supervisory Board), attorney, Fürth; directorships at other companies: chairman of the supervisory board at mwb fairtrade Wertpapierhandelsbank AG,
- Gräfelfing; chairman of the supervisory board at BRANDAD Systems AG, Fürth; and vice-chairman of the supervisory board at IC Immobilien Holding AG, Unterschleissheim
- Thomas Kretschmar (vice-chairman of the Supervisory Board), member of the board of Kretschmar Familienstiftung, Potsdam
- Christian Schröder, graduate in business administration, auditor, Lübeck.

Thomas Kretschmar was elected to the Supervisory Board at the Annual Shareholders' Meeting on 4 June 2010.

The total remuneration paid to the members of the Supervisory Board in 2010 amounted to €80 thousand; for further information please refer to the remuneration report in the group management report (I.10).

7.5 Investments pursuant to section 21 (1) WpHG

In addition to the investments listed in section 7.2, Deutsche Bank AG, Frankfurt, holds 9.69 per cent of Hypoport's shares. These voting rights are fully attributable via Deutsche Postbank AG pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG).

7.6 Share option plans and share-based payment

The Company has set up an employee share ownership programme („2002-2004 share option plan") for its employees. The objectives of this programme include the recruitment and retention of personnel and the promotion of the success of the business by offering employees the opportunity to purchase shares in the Company.

Under the 2002-2004 share option plan from 2002, a maximum of 115,000 share options were to be issued to the Management Board and members of senior management, and a maximum of 30,000 share options to employees. The share options have a maturity of six years from the date on which they are granted. These options can be exercised at the exercise price stated below during a four-year exercise period following a lock-up period of 24 months immediately after the options are granted.

The „reference price" for the price to be paid on exercise of a share option („exercise price") is €10.00. The exercise price is then determined as follows: up to the end of the first year after the issue date, 100 per cent of the reference price; in the second year after the issue date, 110 per cent of the reference price; in the third year after the issue date, 120 per cent of the reference price; from the fourth year after the issue date onwards, 130 per cent of the reference price. No consideration is paid in return for the share options. Employees are not entitled to the payment of any cash alternative.

The table below shows the status of the Company's share option programmes as at 31 December 2010:

	2002 - 2004 plan
In issue as at 1 Jan 2010	66,000
Granted	0
Exercised	66,000
Expired	0
In issue as at 31 Dec 2010	**0**

The weighted average share price of the options exercised in the period under review was €3.25. The exercise period for all options ended on 31 December 2010.

Under IFRS 2, the market value of the issued share options should be determined using an option pricing model. The total value of options so determined at the issue date should then be allocated evenly over the vesting period and recognised as personnel expenses.

The fair value of the share options at the grant date was determined using the Black-Scholes option pricing model. The calculation is based on the following parameters at each exercise date:

	2002	2003	2004
Issue date/measurement date	31 Dec 2002	31 Dec 2003	31 Dec 2004
share price on issue date (€)	1.50	1.25	1.25
Exercise price (€)	3.19	3.19	3.19
Expected share price volatility (%)	25	25	25
expected dividend yield (%)	0.0	0.0	0.0
Risk-free interest rate (%)	2.2	2.3	2.5
Maturity of options (years)	2	2	2
Option value (€)	**0.50**	**0.28**	**0.28**

Since neither Hypoport AG shares nor options were listed on a stock exchange on the date the fair values of the share options were determined, it was not possible to determine an implied volatility. The Company therefore based its calculation of expected volatility on the historical changes that had affected other companies in its market segment.

The expected maturity of the options is based on the stated intentions of the option holders to exercise the share options as quickly as possible. This is mainly driven by the tax treatment of proceeds from the exercise of share options.

The Company has decided not to recognise personnel expenses in consolidated income during the vesting period because of measurement uncertainties and because the market values determined (estimated) for the issued options as stated above are insignificant.

Furthermore, since the reporting year the Company's employees have received a certain number of shares in Hypoport AG that is determined by their period of service. The Company has decided not to recognise the resultant obligations in the consolidated financial statements because of their insignificance.

7.7 Auditors' fees and services

The fees incurred for services rendered by the auditors BDO Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in 2010 amounted to €89 thousand for audits of financial statements (2009: €73 thousand) and €0 thousand for other attestation services (2009: €8 thousand).

7.8 Average number of persons employed during the financial year

In 2010 the Company employed an average of 452 (2009: 441) people in addition to the members of the Management Board.

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

	31 Dec 2010		31 Dec 2009		Change	
	Anzahl	%	Anzahl	%	Anzahl	%
Financial Product Sales Private Clients	161	35	161	36	0	0
Financial Product Sales Corporate Real Estate Clients	**36**	**8**	**28**	**6**	**8**	**29**
B2B Financial Marketplaces Financial Service Providers	84	18	85	19	-1	-1
B2B Financial Marketplaces Institutional Clients	16	4	16	4	0	0
Information Technology	101	22	112	26	-11	-10
Administration	57	14	42	9	15	36
	455		444		11	2

The total headcount includes people working at joint ventures on a pro-rata basis according to Hypoport's share of the venture. A total of ten people (2009: nine) were employed at such companies.

7.9 Discontinued operations

Because the Company decided in 2008 to close the EUROPACE for investors business and, consequently, to discontinue its Property Finance Europe publication, which are required by IFRS 5 to be presented as discontinued operations, the income and expense from these operations, which essentially relates to ABS GmbH and PFE GmbH, has been reclassified and reported separately on the face of the consolidated income statement as profit (loss) from discontinued operations, net of tax. Comparative items have been restated accordingly as required by IFRS 5.

The table below shows the profit (loss) from discontinued operations, net of tax. The income and expense relating to PFE GmbH is shown under ‚Reconciliation'.

€'000	2010			2009		
	Institutional Clients	Reconciliation	Group	Institutional Clients	Reconciliation	Group
Revenue	0	0	0	0	0	0
Selling Expenses	0	0	0	0	0	0
Gross profit	**0**	**0**	**0**	**0**	**0**	**0**
Own work capitalised	0	0	0	0	0	0
Other operating income	0	0	0	0	0	0
Cost of materials	0	0	0	0	0	0
Personnel expenses	0	0	0	-38	0	-38
Other operating expenses	0	0	0	-13	0	-13
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**0**	**0**	**0**	**-51**	**0**	**-51**
Depreciation, amortisation expense and impairment losses	0	0	0	0	0	0
thereof extraordinary on development work	0	0	0	0	0	0
Earnings before interest and tax (EBIT)	**0**	**0**	**0**	**-51**	**0**	**-51**
Financial income	0	0	0	0	0	0
Finance costs	0	0	0	0	0	0
Earnings before tax (EBT)	**0**	**0**	**0**	**-51**	**0**	**-51**
Income taxes and deferred taxes	0	0	0	15	0	15
Profit (loss) on deconsolidation	0	0	0	-25	0	-25
Profit (loss) from discontinued operations, net of tax	**0**	**0**	**0**	**-61**	**0**	**-61**
Earnings (loss) per share from discontinued operations (€)						
basic			0,00			-0,01
diluted			0,00			-0,01

Profit (loss) from discontinued operations, net of tax, for 2009 related solely to expenses for ABS Service GmbH.

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 2010, and assuming that all other variables had remained constant, the Hypoport Group's net profit (loss) for the year would have been €0 thousand (2009: €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 2010, and assuming that all other variables had remained constant, the Hypoport Group's net profit (loss) for the year would have been €0 thousand (2009: €0 thousand) higher or lower.

The Hypoport Group's credit risk stems primarily from its trade receivables and from other financial assets. In 2010 it recognised impairment losses of €541 thousand (2009: €256 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 in cash and cash equivalents is limited because these are all held by banks within the limits covered by deposit insurance.

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 face of 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.

	Maturities					
€'000	Less than 1 month	1 to 3 months	3 months to 1 year	1to 5 year	More than 5 years	Total
Fixed-rate financial liabilities	309	585	2,220	18,159	305	21,578
2009	303	263	2,431	18,178	0	21,175
Rental and lease obligations	3	9	21	80	0	113
2009	3	8	25	130	30	166
2010	312	594	2,241	18,239	305	21,691
2009	306	271	2,456	18,308	0	21,341

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 should be subject to fixed interest rates. Only its unutilised credit lines were subject to floating interest rates in 2009 and 2008.

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'.

	Measured at amortised cost		Measured at fair value	Non-financial assets/liabilities	
€'000	Carrying amount 31 Dec 2010	Pro forma: fair value	Carrying amount	Carrying amount	Carrying amount on balance sheet at 31 Dec 2010
Trade receivables	20,457	–	–	–	20,457
Loans and receivables	20,457	20,457	–	–	20,457
Financial assets	501	–	–	–	501
Loans and receivables	501	501	–	–	501
Other assets	89	–	–	2,950	3,039
Loans and receivables	89	89	–	–	89
Non-financial assets	–	–	–	2,950	2,950
Cash and cash equivalents	11,200	–	–	–	11,200
Loans and receivables	11,200	11,200	–	–	11,200
Total financial assets	**32,247**	**–**	**–**	**–**	**32,247**
Thereof: loans and receivables	32,247	–	–	–	32,247
Financial liabilities	20,594	–	–	–	20,594
Measured at amortised cost	20,594	21,016	–	–	20,594
Trade payables	9,631	–	–	–	9,631
Measured at amortised cost	9,631	9,631	–	–	9,631
Other liabilities	4,009	–	–	2,593	6,602
Measured at amortised cost	4,009	4,009	–	–	4,009
Non-financial liabilities	–	–	–	2,593	2,593
Total financial liabilities	**34,234**	**–**	**–**	**–**	**34,234**
Thereof: measured at amortised cost	34,234	–	–	–	34,234

€'000	Measured at amortised cost		Measured at fair value	Non-financial assets/liabilities	
	Carrying amount 31 Dec 2009	Pro forma: Fair value	Carrying amount	Carrying amount	Carrying amount on balance sheet at 31 Dec 2009
Trade receivables	16,803	–	–	–	16,803
Loans and receivables	16,803	16,803	–	–	16,803
Financial assets	435	–	–	–	435
Loans and receivables	435	435	–	–	435
Other assets	9	–	–	2,191	2,200
Loans and receivables	9	9	–	–	90
Non-financial assets	–	–	–	2,191	2,191
Cash and cash equivalents	7,157	–	–	–	7,157
Loans and receivables	7,157	7,157	–	–	7,157
Total financial assets	**24,404**	–	–	–	**24,404**
Thereof: Loans and receivables	24,404	–	–	–	24,404
Financial liabilities	18,855		–	–	18,855
Measured at amortised cost	18,855	19,635	–	–	18,855
Trade payables	5,736	–	–	–	5,736
Measured at amortised cost	5,736	5,736	–	–	5,736
Other liabilities	2,628	–	–	2,945	5,573
Measured at amortised cost	2,628	2,628	–	–	2,628
Non-financial liabilities	–	–	–	2,945	2,945
Total financial liabilities	**27,219**	–	–	–	**27,219**
Thereof: measured at amortised cost	27,219	–	–	–	27,219

The fair values of receivables, loans, held-to-maturity investments 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:

€'000	Loans and receivables	Held-to-maturity investments	Fair value/ held for trading	Liabilities measured at amortised-cost	2010
Interest and similar income	75	–	–	–	75
Interest expense and similar charges	–	–	–	-1,689	-1,689
Impairment losses	-541	–	–	–	-541
Net result	**-466**	**0**	**0**	**-1,689**	**-2,155**

€'000	Loans and receivables	Held-to-maturity investments	Fair value/ held for trading	Liabilities measured at amortised-cost	2009
Interest and similar income	130	–	–	–	130
Interest expense and similar charges	–	–	–	-1,091	-1,091
Impairment losses	-358	–	–	–	-358
Net result	**-228**	**0**	**0**	**-1,091**	**-1,319**

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. It complied with the minimum capital requirement of €50 thousand applicable to its subsidiary Hypoport Finance AG pursuant to section 33 of the German Banking Act (KWG). 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 2010 and 31 December 2009.

€'000	2010	2009
Financial liabilities	20,594	18,855
Minus cash and cash equivalents	11,200	7,157
Net debt	9,394	11,698
Equity	27,390	23,925
Gearing	34 %	49 %

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 single-entity financial statements documentation and to prepare a management report:

- Dr. Klein & Co. Aktiengesellschaft, Lübeck, Germany
- GENOPACE GmbH, Berlin, Germany
- Freie Hypo GmbH, Lübeck, Germany
- Hypoport Systems GmbH, Berlin
- Qualitypool GmbH, Lübeck, Germany
- Vergleich.de Gesellschaft für Verbraucherinformation mbH, Berlin, Germany

7.14 Declaration of compliance with the German Corporate Governance Code

Hypoport AG has issued the declaration required by section 161 of the German Stock Corporation Act (AktG) and has made it permanently available to the public on the Company's website at www.hypoport.com.

7.15 Events after the balance sheet date

No material events have occurred since the balance sheet date.

Berlin, 4 March 2011

Hypoport AG – The Management Board

Ronald Slabke

Thilo Wiegand

Stephan Gawarecki

Hans Peter Trampe

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IFRS consolidated financial statements for the year ended 31 December 2010

	Cost			
	Balance 1 Jan 2010 €'000	Additions €'000	Disposals €'000	Balance 31 Dec 2010 €'000
I. Intangible assets				
1. Patents, licences, trademarks and similar rights and assets, including licences for such rights and assets				
1.1 Software	2,435	582	0	3,017
1.2 Development costs	18,368	5,742	0	24,110
2. Goodwill	14,826	0	0	14,826
	35,629	6,324	0	41,953
II. Property, plant and equipment				
1. Land, leasehold improvements and buildings, including buildings on land owned by others	35	0	0	35
2. Office furniture and equipment	4,672	1,260	1	5,931
	4,707	1,260	1	5,966
	40,336	7,584	1	47,919

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Cumulative depreciation, amortisation and impairment					Carrying amount	
Balance 1 Jan 2010 €'000	Additions €'000	Disposals €'000	Change in basis of consolidation €'000	Balance 31 Dec 2010 €'000	Balance 31 Dec 2010 €'000	31 Dec 2009 €'000
1,441	416	0	0	1,857	1,160	994
8,567	3,720	0	0	12,287	11,823	9,801
0	0	0	0	0	14,826	14,826
10,008	4,136	0	0	14,144	27,809	25,621
16	3	0	0	19	16	19
2,934	582	1	0	3,515	2,416	1,738
2,950	585	1	0	3,534	2,432	1,757
12,958	4,721	1	0	17,678	30,241	27,378

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IFRS consolidated financial statements for the year ended 31 December 2009

	Cost			
	Balance 1 Jan 2010 €'000	Additions €'000	Disposals €'000	Balance 31 Dec 2009 €'000
I. Intangible assets				
1. Patents, licences, trademarks and similar rights and assets, includinge licences for such rights and assets				
1.1 Software	2,347	89	1	2,435
1.2 Development costs	16,069	4,599	2,300	18,368
2. Goodwill	14,826	0	0	14,826
	33,242	4,688	2,301	35,629
II. Property, plant and equipment				
1. Land, leasehold improvements and buildings, including buildings on land owned by others	35	0	0	35
2. Office furniture and equipment	4,484	328	140	4,672
	4,519	328	140	4,707
	37,761	5,016	2,441	40,336

Cumulative depreciation, amortisation and impairment					Carrying amount	
Balance 1 Jan 2009 €'000	Additions €'000	Disposals €'000	Change in Basis of consolidation €'000	Balance 31 Dec 2010 €'000	Balance 31 Dec 2009 €'000	31 Dec 2008 €'000
1,041	400	0	0	1,441	994	1,306
8,256	2,611	2,300	0	8,567	9,801	7,813
0	0	0	0	0	14,826	14,826
9,297	3,011	2,300	0	10,008	25,621	23,945
12	4	0	0	16	19	23
2,472	667	34	-171	2,934	1,738	2,012
2,484	671	34	-171	2,950	1,757	2,035
11,781	3,682	2,334	-171	12,958	27,378	25,980

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8. 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, 4 March 2011

Hypoport AG – The Management Board

Ronald Slabke

Thilo Wiegand

Stephan Gawarecki

Hans Peter Trampe

9. Auditor's Opinion

Auditor's Opinion:

„We have audited the consolidated financial statements prepared by the Hypoport AG, Berlin, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2010 to 31 December 2010. 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 § 315a paragraph 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 § 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 the consolidated financial statements, the determination of entities to be included in the consolidated financial statements, 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.

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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 § 315a paragraph 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 and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Lübeck, March 9 2011

BDO Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Beecker	Herbers
(German Public Auditor)	(German Public Auditor)

10. Single-entity financial statements of Hypoport AG 2010 (abridged 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 2010

	2010 €'000	2009 €'000
Revenue	11,237	12,079
	286	0
Other operating income	1,704	2,073
Personnel expenses	-10,642	-10,514
Depreciation, amortisation and write-downs on intangible fixed assets and on property, plant and equipment	-59	-56
Other operating expenses	-4,411	-4,550
Income from long-term equity investments	857	942
Income from profit transfer agreements	5,000	4,672
Income from other securities and lending of financial assets	8	1
Other interest and smiliar income	372	186
Expense in respect of loss transfers	-261	-217
Interest expense and similar charges	-904	-727
Profit (loss) from ordinary activities	**3,187**	**3,889**
Extraordinary expenses	-621	-108
Income taxes	-6	0
Net profit (loss) for the year	**2,560**	**3,781**
Profit brought forward	10,964	7,183
Distributable profit	**13,524**	**10,964**

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Balance sheet as at 31 December 2010

Aktiva	31 Dec 2010 €'000	31 Dec 2009 €'000	
Fixed assets			
Intangible assets	314	4	
Property, plant and equipment	127	154	
Financial assets	34,506	29,574	
Deferred tax assets	882	0	
	35,829	**29,732**	
Current assets			
Trade receivables	1,883	2,432	
Receivables from affiliated companies	9,170	10,918	
Receivables from other long-term investees and investors	232	80	
Other assets	238	219	
Cash and cash equivalents	423	554	
	11,946	**14,203**	
Prepaid expenses	**14**	**11**	
	47,789	**43,946**	
Equity and liabilities			
Equity			
Subscribed capital	6,195	6,129	
Treasury shares	-13	0	
Issued capital	6,182	6,129	
Capital reserves	1,938	1,784	
Retained earnings	7,862	6,525	
Distributable profit	13,524	10,965	
	29,506	25,403	
Provisions	**1,796**	**1,415**	
Liabilities			
Liabilities to banks	14,434	12,839	
Trade payables	588	368	
Liabilities to affiliated companies	1,165	3,434	
Liabilities from other long-term investees and investors	0	41	
Other liabilities	300	445	
	16,487	17,127	
Deferred income	0	1	
	47,789	43,946	

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