

Annual Report 2017

Meine Bank heißt Haspa.

At a glance

	2013 € million	2014 € million	2015 € million	2016 € million	2017 € million
Total assets	40,521	41,947	42,639	43,488	43,670
Receivables from banks	3,029	3,727	2,819	3,102	3,828
Customer loans	29,897	29,492	30,192	30,763	30,901
Securities portfolio	6,950	7,782	8,978	8,498	7,976
Liabilities to banks	5,020	5,005	4,619	3,778	3,782
Customer deposits	28,638	30,472	31,627	33,020	32,662
Equity and fund for general banking risks	2,663	3,163	3,218	3,273	3,353

Short profile

Hamburger Sparkasse AG – Haspa for short – offers a wide range of financial services for private individuals and businesses, serving the more than three million people living in the Hamburg Metropolitan Region.

Haspa is a savings bank committed to serving the public interest. HASPA Finanzholding, a legal entity formed under old Hamburg law, holds 100 percent of the shares in Hamburger Sparkasse AG. HASPA Finanzholding is obligated by its articles of association and bylaws to fulfil the mission entrusted to the savings bank.

Haspa is one of the few independent savings banks in Germany. It is also a member of the Hamburg-based Hanseatischer Sparkassen- und Giroverband (Hanseatic Savings Banks Association – HSGV) and the Frankfurt-based Verband der freien Sparkassen (Association of Independent Savings Banks). Through HSGV, Haspa is affiliated with the Deutscher Sparkassen- und Giroverband e.V. (German Savings Banks Association) in Berlin and Bonn, and therefore fully included in the comprehensive guarantee system of all German savings banks. The German Savings Banks Finance Group has an institutional guarantee scheme that has been recognised as a deposit guarantee scheme under the German Deposit Guarantee Act (Einlagensicherungsgesetz).

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Foreword of the Board of Management

Ladies and Gentlemen,

2017 was a very special year for Haspa, as the first “branch of the future” opened in Hamburg’s Niendorf district in June. This new branch concept means that our branches not only offer financial services but also serve as a meeting place for local people.

The “branch of the future” provides a space for the neighbourhood to come together to plan the next district festival or charitable initiative, for example. These branches can also play host to events such as concerts or readings. Among the other reasons to visit a branch are the presentation areas that we make available to companies or clubs from the local area free of charge.

In December 2017, we opened four more “branches of the future” in Bahrenfeld, Eimsbüttel, Sasel and Wentorf. We are aiming to complete another 30 conversions this year, with the aim of migrating all branches to the new concept by 2020.

The “branch of the future” concept will make our strong regional ties, proximity to the people and skills of our local customer support and consulting staff even more apparent than before. This means that branches remain at the heart of Haspa, Hamburg’s most personal multi-channel bank.

Of course, we are also rapidly expanding our digital offering in this age of digital transformation, as customers want to be able to access modern online and mobile services around the clock in addition to local customer support and consulting.

For example, the JokerApp enables users to access the benefits of our value-added account and take advantage of regional offers on the go. We also launched kiekmo and AINO in 2017, two innovative apps that digitally reinforce our traditional competitive advantages of proximity and regionality.

Furthermore, we are pursuing future growth opportunities in two new business areas. By taking part in start-up accelerators for innovative business models, we connect established companies with innovative start-ups to jointly develop innovative products. In future, HASPA Projektentwicklungs- und Beteiligungsgesellschaft mbH will be directly involved in real estate project developments in our business territory, while we will expand our range of strategic consulting services for corporate customers with CFC Corporate Finance Contor GmbH.

With our innovation and investments in the future, we remain the bank for all of Hamburg – and have been ever since our foundation in 1827. We continue to keep money in circulation in the region and keep the regional business cycle going, and serve the public interest with our multifaceted corporate social responsibility activities, particularly in education and social welfare, art, music and sport.

We thank our customers and business partners for the trust they continue to place in us. Special thanks also go to all Haspa employees for their dedication in a challenging environment. We would also like to thank the Supervisory Board and the Works Council for their constructive cooperation.

Hamburg, 13 February 2018

The Board of Management



Dr. Harald Vogelsang, born in 1959, holds a banking diploma and a law degree, and was appointed to the Board of Management in 2000. He has been Spokesman of the Board of Management of Hamburger Sparkasse AG since 2007.

In his capacity as Spokesman of the Board of Management he is responsible for the Corporate Development, Human Resources and Communication reporting area, to which the Digital Sales, Human Resources, Corporate Communication and Board Staff divisions are assigned.



Frank Brockmann, born in 1963, holds a banking diploma and is a qualified banking services and operations specialist (Bankfachwirt). He has been a member of the Board of Management of Hamburger Sparkasse AG since 2008 and has been Deputy Spokesman of the Board of Management since 2014.

In the Corporate Customers and Treasury reporting area, he is responsible for the Corporate Customers 1, Corporate Customers 2, Real Estate Customers, SME Customers, Treasury, Enterprise Customers and Sales Management Corporate Customers divisions.



Axel Kodlin, born in 1962, holds a banking diploma and a degree in business administration (Diplom-Kaufmann). He was appointed to the Board of Management of Hamburger Sparkasse AG in 2013.

His Processes and IT reporting area comprises Information Technology and Organisation, and the Securities and Transaction Service divisions.



Jürgen Marquardt, born in 1963, holds a banking diploma and a degree in savings bank administration. He has been a member of the Board of Management of Hamburger Sparkasse AG since 2014.

In his Finance and Risk reporting area, he is responsible for the Compliance, Comprehensive Bank Controlling, Credit and Legal and Sales Management Private Customers divisions.



Bettina Poullain, born in 1958, holds a degree in business administration (Diplom-Kauffrau). She has been a member of the Board of Management of Hamburger Sparkasse AG since 2013.

Her Private Customers reporting area includes the Private Customers Central, Private Customers North-East, Private Customers North-West, Private Customers South-East, Private Banking, Audit and Purchasing, Facility Management and Logistics divisions.

Management report

of Hamburger Sparkasse AG for the year ended 31 December 2017

The extremely low level of interest rates with zero and negative rates continues to pose huge challenges for the entire lending industry. Other challenges are digitalisation, high intensity of regulation and fierce competition.

In 2017, Hamburger Sparkasse AG (Haspa) again succeeded in posting a result for the year that was quite respectable on the whole despite the very challenging environment.

Thanks to our sustainable business model focused on the needs of private and commercial customers in the region, we contribute to growth in the Hamburg Metropolitan Region and have achieved success in our business with customers – thanks in no small measure to the great commitment of our employees.

The tables presented in the management report may contain rounding differences.

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1. Fundamental information about the company

Strategic focus

Haspa is the bank for all of Hamburg. As a reliable partner and indispensable promoter of the Hamburg Metropolitan Region, our actions are inseparably intertwined with the interests of Hamburg and the welfare of all its residents.

In particular, we provide opportunities for safe and interest-bearing investments of savings and other funds, promote the ability to save money and accumulate assets among broad sectors of Hamburg's population and serve to fulfil the credit needs of the local economy, especially taking SMEs into account.

We continue to refine our corporate vision and the strategies that we derive from it. In that connection, we will stick to the stable core of our alignment – i. e. a main emphasis on our operations in the Hamburg Metropolitan Region and our focus on all private and corporate customers, the enterprise and real estate customer business, as well as private banking.

Expertise and regionality

We provide comprehensive customer support and consulting services in five areas of competency: financial consulting, asset accumulation, asset optimisation, property financing and corporate customer advisory.

We have divided our business territory into 28 regions that have knowledge of the local market and decision-making authority. Each region comprises at least one financial centre and several branches. In the financial centres our customers can find the range of services offered by all five areas of competency. Financial consultations and advice on asset accumulation are offered at the branches.

Haspa is present in the Hamburg Metropolitan with more than 130 branches and financial centres, plus around 50 self-service branches. At the main branch, our customers can also turn to teams of specialists that service start-up entrepreneurs, larger corporate customers, the property industry as well as Private Banking.

We have forged close ties with the local people and companies by setting up an advisory board in each of these regions. There is also an advisory board for the Real Estate Customers, Private Banking and Corporate Customers divisions. The members of the advisory boards provide significant input for the city districts and Haspa.

Hamburg's most personal multi-channel bank

Our customers are increasingly using digital services. Yet the Internet cannot replace face-to-face contact altogether, Personal customer advisory and service in our branches and centres remains very important to our customers.

We are building on our strategic positioning as the most personal multi-channel bank in the Hamburg Metropolitan Region in order to move closer to our goal of being the most recommended financial partner in Hamburg. We are investing in our new branch concept, expanding our digital offering and opening up new business areas as well as broadening our collaboration with the German Savings Banks Finance Group.

Our new “branch of the future” concept means that our branches not only offer financial services but also serve as a meeting place for local people. This means that our new branch concept provides a space for people from the local neighbourhood to come together, while the branches can also host events. Among the other reasons to visit a branch are the presentation areas that we make available to companies or clubs from the local area free of charge.

The first pilot branch in Niendorf opened its doors in June. In December, we opened four more “branches of the future” in Bahrenfeld, Eimsbüttel, Sasel and Wentorf.

Haspa also optimised and expanded its digital offerings further during the reporting year, as customers want both customer support and advisory services at branches and centres in addition to round-the-clock online customer service that is accessible from PCs, tablets and smartphones.

For example, the JokerApp enables users to access the benefits of our value-added account and take advantage of regional offers on the go. Haspa Next GmbH, the HASPA Group’s innovation lab, has developed innovative apps that digitally reinforce our traditional competitive advantages of proximity and regionality.

2. Report on economic position

2.1. Macroeconomic and sector-specific environment

Strong economic growth in Germany

The German economy expanded by 2.2 percent in 2017, with real gross domestic product rising by 0.3 percentage points compared to the previous year. This strong economic growth is attributable to robust domestic demand. Consumer spending, construction activity and investments all rose considerably amid lower interest rates and the continuing upturn in the labour market. The number of people in gainful employment rose by 1.5 percent to 44.3 million in 2017, the highest level since reunification and the largest growth in ten years.

German consumer prices climbed by 1.8 percent on average in 2017 compared to the previous year, a stronger increase than in the past four years, as the inflation rate was below one percent between 2014 and 2016. The considerable rise in inflation was mainly due to the increase in energy prices.

Despite rising inflation, the European Central Bank (ECB) continued its extremely expansionary monetary policy in 2017 with zero percent and negative interest rates. The ECB kept the rate for main refinancing operations at 0.00 percent, while the interest rate on deposits by banks imposed by the ECB remained at -0.4 percent. The only signs that the central bank is beginning to pursue a less expansionary course are the reduction in the ECB’s bond purchase programme from € 80 billion to € 60 billion per month since April 2017 and the announcement by the ECB at the end of October that it would reduce its bond purchase programme to € 30 billion per month from the start of 2018.

Although this extremely expansionary monetary policy has helped all euro zone countries to return to growth, it is also causing investors to miss out on interest income and reducing the incentive to make private retirement provision.

The German lending industry is being further impacted by low interest rates and regulation – combined with significant investments in digitalisation

The extremely low interest rates continue to limit banks' and savings banks' opportunities to generate revenue. Further challenges are presented by tightened capital adequacy regulations and stricter liquidity requirements as a result of intensified regulation and burdens resulting from the bank levy and the harmonisation of the deposit guarantee system. In 2017, the Markets in Financial Instruments Directive (MiFID II) that came into force on 3 January 2018 amended the requirements for the securities business and caused high implementation costs for banks and savings banks.

In spite of the continuing negative effects, the German lending industry has proven to be stable overall. This applies in particular to the savings banks and the cooperative banks. However, these regional credit institutions continue to experience growing competitive pressure because other banks are muscling in on the stable business with private and corporate customers. Hence, competition continues to be distorted by state-funded German and foreign banks.

Digitalisation is also triggering accelerated structural change in the financial services industry, as the entry of young, technology-focused companies increases the competitive intensity within the financial services market. These fintechs can harness their innovative ideas for a larger number of customers by forming partnerships with established financial services providers.

In light of the rapid pace of digital transformation, the financial services sector is making significant investments in its future. Most banks and savings banks see digitalisation as an opportunity to make processes more efficient, develop new digital offerings and thus keep improving for their customers.

Hamburg's economy on the up

In the first six months of 2017, Hamburg's real gross domestic product rose by 2.0 percent year on year. With this significant growth, Hamburg was on a par with the national average. The Hamburg Chamber of Commerce's economic barometer for Hamburg showed in the third and fourth quarters of 2017 that in each case substantially more of the Hamburg-

based companies surveyed thought that their current business situation as well as their planned investments and human resources planning was good, not bad. These assessments were better at the year-end than in the third quarter. The Hamburg Chamber of Trade's economic survey also suggests strong economic development throughout the year. Against this backdrop, Hamburg's economy is expected to have grown faster than the national average in 2017.

Hamburg's buoyant labour market contributed to the encouraging economic trend in the region on the whole. The number of people in gainful employment in Hamburg rose by around 21,200 in 2017. This strong 1.7 percent growth was higher than the national figure, which increased by 1.5 percent.

Hamburg as a financial centre

Hamburg is Northern Germany's most important financial centre. With a variety of banks, insurance companies and specialised service providers, the Hamburg financial sector is a key driver of the Metropolitan Region.

Just like German financial services providers as a whole, all of Hamburg's credit institutions continued to face major challenges due to low interest rates, tightening regulation, intensive competition and rapid digitalisation. The versatility of the financial centre, the attractiveness of the city and the success of an economy dominated by mid-size enterprises provides a solid platform for Hamburg's positive development as a financial centre.

2.2. Course of business

Haspa continues to grow its customer base

As a retail bank, Haspa focuses on competent and comprehensive services for private customers as well as small and mid-size corporate customers (SMEs) in the Hamburg Metropolitan Region. Haspa has been gaining both customers and deposits thanks to this stable business model. The bank gained a total of 64,000 new customers in the reporting year. This has further consolidated Haspa's strong position.

Private customers are our largest customer group; in 2017 we assisted them yet again in word and deed regarding all financial matters. We also provide intensive customer and consulting services to our corporate customers – whether business start-ups, tradesmen, small business operators, professionals and freelancers or larger mid-size enterprises.

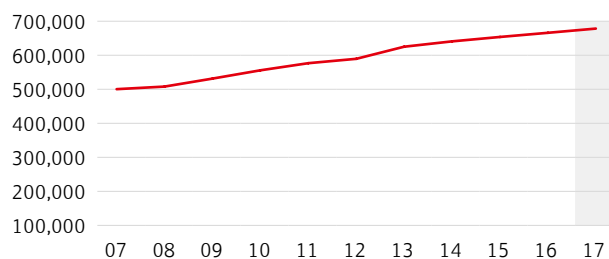
No other bank knows the Hamburg Metropolitan Region better. We are at home in Hamburg and know what our customers need. In-depth knowledge of the market, competent and committed staff, competitive products, in-house expert knowledge, corporate social responsibility for the region and local decision-making authority are the key to our success.

Independent experts and testers yet again confirmed both our employees' closeness to the customers and Haspa's high quality of service and advice. In addition to receiving gratifying awards for our advisory services in the private and corporate customer business, our Private Banking was named the "Best Asset Manager in all German-Speaking Territories" by the trade magazine Elite Report for the fifteenth time in a row.

Increase in the number of giro accounts – continued demand for HaspaJoker and MäuseKonto accounts

Haspa manages almost 1.4 million giro accounts. Of these, almost 672,000 giro account holders – around 12,000 more than at the close of the previous year and over two-thirds of the just under 941,000 private giro account holders – went with the "HaspaJoker" account, Hamburg's advantage account. Besides extensive banking services, these customers also benefit from a multitude of value-added services, which we further expanded and continued to adjust to meet customer requirements in the past year. The number of private giro accounts has risen by just under 5,000 in total. This contrasts with the number of our direct bank accounts, which decreased by just over 13,000.

Number of HaspaJoker accounts 2007 to 2017



We are pleased that the number of customers who have opted for our MäuseKonto account for children, which has won numerous awards, and the benefits associated with it also continues to grow. In the 2017 financial year alone, roughly 7,000 new accounts of this type were opened, bringing the number of MäuseKonto accounts to almost 129,000 at the end of the year.

Satisfactory business development

In view of the further consolidation of our positioning in the Hamburg Metropolitan Region as described earlier, we are satisfied on the whole with our business development in the reporting year. The reduction of deposits payable on demand in the key account segment, particularly in the first half of the year, helped to reduce liabilities to customers. In addition, demand for credit that was significantly lower than the previous year but still at a high level led to another slight increase in receivables from customers on the assets side of the balance sheet. This development was primarily attributable to business loans and real estate financing. Overall, our balance sheet structure continued to be dominated by the customer business amid a challenging competitive and market environment. Here, our history of proximity to customers and customers' trust in Haspa also paid off.

Haspa is striving for further growth in the expansion of its core business by making new investments. In future, HASPA Projektentwicklungs- und Beteiligungsgesellschaft mbH will be directly involved in real estate project developments in our business territory and has already bid successfully for a building complex primarily consisting of two high-rise buildings at the new Hamburg-Altona long-distance railway station. Haspa is also expanding its range of strategic consulting services for corporate customers with CFC Corporate Finance Contor GmbH.

Due to a historically low and negative interest rate environment that mainly depressed net interest income and high, non-tax-deductible expenses arising from the revaluation of pension provisions, Haspa achieved a result for the year that was on a par with the prior-year level. Other developments in the past financial year are described in the section on net assets, financial position and results of operations.

2.3. Net assets, financial position and results of operations

2.3.1. Net assets and financial position

Assets	2017	2016	abs.	rel.
	€ million	€ million		
Cash reserve	690	883	-193	-22%
Receivables from banks	3,828	3,102	+726	+23%
Receivables from customers	30,901	30,763	+138	+0%
Securities	7,976	8,498	-521	-6%
Trading portfolio	71	106	-35	-33%
Other assets	205	136	+69	+50%
Total assets	43,670	43,488	+183	+0%

Equity and liabilities	2017	2016	abs.	rel.
	€ million	€ million		
Liabilities to banks	3,782	3,778	+4	+0%
Liabilities to customers	32,662	33,020	-358	-1%
Securitised liabilities	2,625	2,213	+412	+19%
Trading portfolio	28	37	-8	-23%
Provisions	1,067	1,018	+49	+5%
Equity and fund for general banking risks	3,353	3,273	+80	+2%
Other equity and liabilities	153	149	+4	+3%
Total equity and liabilities	43,670	43,488	+183	+0%

Total assets increased

Total assets rose slightly by € 0.2 billion to just under € 43.7 billion. While liabilities to customers fell slightly, the Pfandbrief securities issues carried out in the first half of the year caused an increase in securitised liabilities.

Liabilities to banks continue to be dominated by pass-through loans – especially of Kreditanstalt für Wiederaufbau – and on the reporting date were almost on a par with the previous year. Pass-through loans are reported as a component of the lending business on the assets side of the balance sheet and at around € 2.3 billion were slightly higher than the figure recorded at the end of the previous year. In addition, further allocations were made to our equity capital, as planned.

This growth on the liabilities side is matched on the assets side of the balance sheet by another slightly smaller increase in receivables from customers compared to the prior-year period. As a result of the bank's cash management activities, the cash reserve and Haspa's proprietary investments in securities fell moderately, while receivables from banks rose considerably. Here, particularly the fixed-interest securities from public-sector issuers held for liquidity purposes were reduced. Only moderate portfolio adjustments were made in the special funds. The increase in other assets results from the expansion of the investment portfolio.

Total assets (in € billion)



Liabilities to customers reduced – further increase in deposits in traditional retail business

Overall, liabilities to customers decreased by around € 0.4 billion or 1 percent to € 32.7 billion. This decline was mainly driven by deposits payable on demand, which fell by around € 0.7 billion or 4 percent to € 18.3 billion as expected. This development is connected with the persistently low level of interest rates and the resulting need to enter into individual custody fee agreements with institutional investors and corporate customers with very high balances. Overall, the bank's portfolio with these customers was reduced, particularly in the first half of the year. By contrast, Haspa continued to expand its portfolio in the traditional retail business. Our customers' trust is also reflected in the development of tried and trusted products. For example, savings deposits rose by € 0.3 billion or approximately 3 percent to € 8.7 billion despite the prevailing uncertainty on the money and capital markets.

For longer-term funding requirements, the market for Pfandbrief securities offers considerable potential as a sustained source of liquidity, against the backdrop of our volume of new loan approvals, which declined year-on-year but is still considerable. Bearer Pfandbrief securities with a volume of € 535 million were issued in the market in the first half of the year. In the context of the funding and investment structure, Haspa's liquidity situation is considered comfortable on account of the large portfolio of liabilities from the customer business. For more information about compliance with the regulatory ratios and the management of the liquidity situation, please refer to the risk report.

Customer deposits	2013	2014	2015	2016	2017
	€ million	€ million	€ million	€ million	€ million
Savings deposits	6,487	7,252	7,826	8,438	8,708
Savings certificates / RentaPlan	1,230	1,291	1,389	1,277	1,255
Time deposits / Promissory note loans	2,596	2,162	1,452	672	680
Registered Pfandbrief securities	2,790	3,011	3,357	3,680	3,732
Deposits payable on demand	15,535	16,756	17,602	18,952	18,287
Total	28,638	30,472	31,627	33,020	32,662

Customer receivables remain high

Receivables from customers rose by € 0.1 billion to € 30.9 billion. Both business loans and real estate financing rose slightly in light of the generally highly encouraging economic trend in Hamburg. In the past financial year, new loan approvals remained at a high level of € 5.2 billion but below the previous year's level. By contrast, personal loans, which are reflected in the balance sheet, continued to decline. This trend was impacted by the brokering of consumer loans within the German Savings Banks Finance Group to S-Kreditpartner GmbH, which has been taking place for several years now.

Customer loans	2013 € million	2014 € million	2015 € million	2016 € million	2017 € million
Business loans	6,291	6,055	5,773	5,710	5,913
Personal loans	2,092	1,886	1,695	1,531	1,460
Real estate financing	21,000	21,207	22,156	23,153	23,260
Public-sector loans	514	344	568	369	268
Total	29,897	29,492	30,192	30,763	30,901

Increase in equity according to planning

Also in view of the European-influenced regulations on regulatory ratios that arose from the international Basel III framework, Haspa's equity increased further in the financial year, continuing the trend of the previous years. At the end of 2017, this amounted to just under € 2.7 billion, while the fund for general banking risks, which from a regulatory perspective is assigned to Common Equity Tier 1 capital, stood at € 0.7 billion. The regulatory ratios relating to own funds are presented in the risk report section.

2.3.2. Results of operations

Income statement	2017 € million	2016 € million	abs.	rel.
Net interest income	725	709	+16	+2%
Net commission income	299	280	+19	+7%
Net income from financing activities	-2	-2	-0	+7%
Administrative expenses	738	675	+63	+9%
Other operating result	-40	-89	+49	-55%
Net revaluation gain/loss	-73	-28	-45	+160%
Result from ordinary activities	170	195	-25	-13%
Extraordinary result	0	-11	+11	-100%
Tax expense	90	104	-14	-14%
Result for the year	80	80	+0	+0%

Result for the year at prior-year level in a still challenging climate

In 2017, both net interest income and net commission income were significantly higher than in the previous year. The development of expenses was also dominated by the interest-related revaluation of our pension provisions. While the net revaluation loss weighed more heavily on the income statement than in the previous year, it remained at an encouraging level and includes a provision for potential risks in subsequent years. After slightly lower tax expenses, the result for the year matches the prior-year level of € 80 million.

Through the continuous strengthening of our equity capital – including the fund for general banking risks – the return on equity before tax marginally exceeded expectations at 5.1 percent, slightly below the level of the previous year. The return on assets required to be disclosed in accordance with section 26a (1) sentence 4 German Banking Act – calculated as net profit over total assets – was 0.2 percent for Haspa at the end of the year.

Net interest income above prior-year level

Net interest income was up € 16 million or 2 percent on the prior-year level at € 725 million, moderately exceeding our expectations. Overall, the interest rates held at an extremely low level through the continuation of the loose monetary policy had a negative impact on various components of net interest income – but, as in the previous year, positive effects were also recorded. In our customer business, which still accounted for by far the largest share of net interest income, the low interest rate level had a clearly negative impact. It was not only lower lending margins that came under pressure; the deposit margins in particular were affected. Overall, the customer business made smaller contributions to net interest income than in the previous year. The target figures were also not entirely reached. While contributions to net interest income from the maturities transformation were substantially higher than the prior-year level even though our risk-taking remained conservative, they were slightly below our expectations. In fluctuations during the year, only about two-thirds of

the limit for the present-value interest rate risk was utilised overall, so – in view of the difficult interest rate environment – a conscious decision was made to forego additional earnings potential. As in the previous year, the year under review was also impacted to a manageable extent by extraordinary factors such as above-par redemptions of securities issued by Haspa. Contributions from Haspa's proprietary investments in securities did not fully reach the previous year's level and our expectations. Investment income once again surpassed projections in 2017 and was above the already high prior-year figure, which also resulted from the sale of shares in the German Savings Banks Finance Group to a payment service provider.

Net commission income up year on year

Net commission income rose substantially by € 19 million or just under 7 percent year-on-year to € 299 million, yet failed to achieve the expected growth. This increase was partly due to commission from the securities business, as the low level of interest rates is still motivating our customers to invest in equities or investment funds. Commissions from the lending business also reported an additional increase connected with the brokering of consumer loans within the German Savings Banks Finance Group to S-Kreditpartner GmbH. In particular, the fee adjustments for current account management and payment transactions that we implemented at the end of 2016 also had an effect. During a period dominated by the low interest rate policy pursued by the European Central Bank, which will continue to impact on us and all retail banks for quite some time, we adjusted our fees – in the case of many account models for the first time in 15 years. By contrast, contributions from the insurance business were slightly down on the previous year.

Net income from financing activities on a par with the previous year

Trading activities serve to support our retail banking business; in particular they comprise gains and losses from securities trading. As in the previous year, net trading expense resulted mainly from the derecognition of repurchased own issues, which will reduce interest expense in future years.

Administrative expenses above prior-year level

Personnel expenses, the largest cost component, rose by € 19 million or 5 percent year-on-year to € 364 million as expected. The trend in personnel expenses continued to be predominantly shaped by actuarial effects in connection with our pension provisions.

Amounting to € 374 million in total, other administrative expenses, amortisation and write-downs of intangible fixed assets as well as depreciation and write-downs of tangible fixed assets were significantly up on the previous year but were slightly below estimates as a result of rigorous cost discipline. This rise was due to planned investments in our new branch concept, the expansion of our digital offering and the opening up of new business areas as well as the broadening of our collaboration with the German Savings Banks Finance Group.

Other operating income more favourable than in previous year

As expected, the charge resulting from other operating income at € 40 million was € 49 million lower than the previous year. This is primarily due to other operating expenses, although this figure was once again impacted by a figure in the high double-digit millions arising from the revaluation of the retirement provision for our employees. The balance of additions to and reversal of provisions also had a positive effect on the commercially conservative estimates.

Net revaluation loss up year on year but still encouraging

The measurement approaches that Haspa uses are conservative, as in the previous years. As a result Haspa's proprietary investments in securities are still measured using the strict lower-of-cost-or-market principle, taking into account the requirement to reverse write-downs.

The risk provisions for the lending business, which remained at a very favourable level, increased marginally year on year. The net revaluation loss of Haspa's proprietary investments in securities likewise reflects lower expenses than in the previous year. The excessive portion of the net revaluation loss essentially stems from a provision for potential risks in subsequent years. Overall, the net revaluation loss is considerably higher than in the previous year and also surpasses projections.

Satisfactory result from ordinary activities

At € 170 million, the result from ordinary activities is satisfactory on the whole. While it declined by € 25 million or 13 percent year on year, it moderately exceeded our expectations.

Extraordinary result no longer affected by German Accounting Law Modernisation Act

In previous years, the extraordinary result was adversely impacted by expenses associated with pension provisions resulting from the initial adjustment effects of the German Accounting Law Modernisation Act (BilMoG). There are no more charges from 2017 onwards, as we allocated the full outstanding pension provision amount ahead of schedule in the previous year.

Tax expense down year on year

The tax expense to be borne fell by € 14 million to € 90 million in the reporting year. This development is primarily due to the differences between the measurement requirements for the financial statements and for the tax base, particularly those connected with provisions.

Development of the most important key performance indicators

The most important financial key performance indicator for our internal management is the operating result before loan loss provisions, as defined by the German Savings Banks Association (DSGV). This business-orientated approach does not include, in particular, any prior-period, external or extraordinary effects; these are instead presented in the non-operating result. Based on the operating result before loan loss provisions of € 324 million in accordance with the definition by the DSGV, the result from ordinary activities came to € 170 million after deduction of € 154 million in total. This deduction is composed of the net revaluation loss of € 73 million and the non-operating result of € 81 million. The development of the non-operating result was particularly dominated by expenses associated with pension provisions as well as greater investments in broadening our collaboration with the German Savings Banks Finance Group. Overall, the operating result before loan loss provisions was slightly above the prior-year level and substantially exceeded projections. However, this projection did not yet include a higher operating result before loan loss provisions arising from the change in the allocation of some of the expenses for our pension provisions.

The most important non-financial key performance indicator for our internal management is gross new customer additions. Our ambitious goals in this area were not fully achieved. There was a significant decline compared to the prior-year figure, although the year under review was less strongly affected by the population trend in the Hamburg Metropolitan Region.

3. Human resources report

Attractive employer in the Hamburg Metropolitan Region

Haspa offers its employees in the Hamburg Metropolitan Region many qualified jobs in a modern and team-based environment. Haspa uses compensation commensurate with performance, personnel development and flexible working hours to promote both motivation and entrepreneurial thinking and acting in its employees. Above and beyond salaries governed by collective agreements we also pay benefits that enhance Haspa's attractiveness as an employer. Promoting diversity and equal opportunity are just as integral to Haspa's corporate culture as is ensuring work-life balance. We also promote the health of our employees through a variety of measures.

Around two-thirds of Haspa's more than 5,000 employees deal directly with our customers. Some 1,600 staff are employed on a part-time basis.

Haspa's focus on the future and efficiency enhancements are reducing our demand for employees. To enable a socially compatible adjustment of our personnel capacity, human resources instruments are available that also enhance Haspa's attractiveness as an employer. For example, these include the option to convert salary into leave, sabbaticals, the promotion of part-time work in later years and early retirement arrangements.

Due to the demographic change, there is still a need for qualified employees and trainees to ensure that we continue to have sufficient staff to provide expert customer support and consulting services and to perform special tasks in our central divisions.

A new generation for the banking business

Haspa offers young people highly qualified training. With more than 300 trainees, we are one of the largest private companies in the Hanseatic City of Hamburg that takes on trainees. We currently train bank managers and office managers. In addition to the apprenticeship at Haspa, there are two dual studies courses: at the Hamburg School of Business Administration (HSBA) Haspa trainees can study a dual-track programme to obtain a Bachelor of Science in Business Administration or a Bachelor of Science in Business Information Systems.

Women make up half of our junior staff. Almost 90 percent of our trainees graduated from secondary school with the Abitur, the German university entrance qualifications. However, we also seek out qualified middle-school graduates who account for 7 percent of our trainees. Middle-school graduates may obtain the Fachhochschulreife, a secondary school degree that is the entrance qualification of technical colleges, as part of our “DualPlus” double qualification offer for trainees.

Our “Top Trainee Model” serves to open up additional training and education programmes and career perspectives to particularly capable and committed trainees. For instance, we already offer our top trainees the assurance that they will be hired one year before their training ends.

In 2017, the Hamburg Chamber of Commerce bestowed its award for outstanding performance in vocational or professional training on Haspa. Furthermore, we were awarded 5 stars – the highest possible ranking – in the survey on Hamburg’s best companies taking on trainees for the third time in a row.

Qualified employees as guarantors of success

Most of Haspa’s success as a retail bank in Hamburg is due to its dedicated and competent employees who demonstrate Haspa’s high quality of service and consulting day in and day out. Young people and staff with many years of professional experience work hand in glove to serve our customers. Our employees’ average age is about 42, and their qualifications are

very high. Around 90 percent of our workforce are qualified bank managers or have completed other vocational business training. More than half have at least one additional degree, for example as banking services and operations specialists or bank business administrators or have a bachelor’s, master’s or other university degree.

HaspaAcademy makes us one of the few companies that combine all educational and training programmes in-house under a single roof. It enhances the professionalism and quality of the training and continued education offered to all of Haspa’s employees in ways appropriate to the needs of both the bank and its target groups. This makes it possible to promote talent even better, expand people’s professional and personal competence as well as intensify both the development of management candidates and training measures.

Haspa values highly-qualified employees. With this in mind, we encourage lifelong learning with a comprehensive range of training opportunities. The clear structure of Haspa’s training programmes allows employees and applicants alike to obtain comprehensive information on the range of our educational and training modules and plan their careers with the available prospects in mind.

Leadership has traditionally been given high priority at Haspa. Our management qualification programmes give us tried-and-tested tools for training and educating both our current executives and the up-and-coming generation.

Women account for 55 percent of our workforce. In management positions, however, female employees are under-represented. For this reason, we hope to encourage an increasing number of women to accept management posts. We promote the careers of women through measures such as the series of seminars on “Strategies for Working Women”. We also offer flexible part-time working models and childcare options, for example during school holidays and in emergencies, and the option to share management positions.

4. Comprehensive Bank Controlling

Forward-looking risk policies in a financial market environment dominated by low interest rates

The ECB maintained its extremely expansionary monetary policy in 2017, keeping its interest rate on deposits by banks – which it had last adjusted in March 2016 – at –0.4 percent.

The German lending industry continues to suffer from the low interest rates and the remaining uncertainty in the financial markets, which stems from both the European sovereign debt crisis and the financial market and economic crisis that preceded it. For instance it remains a challenge for all groups of credit institutions to build equity, also due to the further tightening of banking regulations.

Hamburger Sparkasse AG responded to the challenging environment by pursuing forward-looking risk policies. It believes that it continues to be well positioned to weather the challenges ahead thanks also to its comfortable equity and liquidity position in conjunction with the ongoing development of its risk management.

Comprehensive bank controlling focused on core business and risks

Haspa's comprehensive bank controlling is based on its retail banking strategy comprising the private customer and corporate customer business. In addition, successes and risks from the capital investment and maturities transformation segments as well as the operating business complete the picture.

Integration of the internal and the external view – uniform comprehensive bank controlling

Haspa's comprehensive bank controlling consists of linking internal key performance indicators (KPIs) that have clear economic aims with external KPIs that are subject to the requirements of the German Commercial Code or to regulatory requirements. The integrated analysis of both views enables targeted control of operational and economic processes.

Comprehensive bank controlling as a closed procedural cycle

At Haspa, reports on internal and external KPIs are mainly generated in the comprehensive bank controlling function. The comprehensive bank controlling function also classifies and evaluates the data, which is then used for specific controls. The incorporation of these controls is organisationally separate from the management of implementation measures and is performed by the organisational units which are responsible in each case.

Haspa's strategic alignment is reviewed in annual strategy workshops at the level of the Board of Management. Among other things this process yields the updated mid-term planning for the coming years. The annual planning process in turn generates specific budgets for the coming year. An integrated, monthly reporting system serves to record Haspa's performance with respect to sales, costs and risks, as well as its income, expenses and net revaluation gain/loss. All divisions are also integrated into a quarterly preview process that furnishes updated targets for the year overall and is condensed as part of the reporting to corporate bodies. As a supplementary measure, Haspa's development is analysed on an integrated basis at monthly forecast meetings.

Whilst this closed-circuit process has been in place for years, the respective procedures are subject to continuous improvement in conceptual terms, and the given tools are refined on an ongoing basis.

Flexible earnings analysis

The margins for the lending and deposit business are determined at the transaction level using the market rate method; risk costs for loans are deducted separately. Terms appropriate to the given risks are stipulated with the customers. As is customary for the lending business, they are determined with regard to expected defaults; in terms of equity costs, they are determined with respect to unexpected defaults. Besides the margins from interest transactions, commission income is a key component of earnings. These calculations which are specific to individual transactions and contracts enable us to flexibly support our sales and marketing activities.

Efficient controlling – the prerequisite for successful cost management

All divisions are broken down by appropriate cost centre structures based on our customer-focused organisational structure. Separate budgets are allocated to individual projects. Larger projects are subject to special investment controlling which evaluates them according to business management standards and monitors them from a controlling viewpoint until the desired benefit has been achieved. About 65 projects were subject to investment controlling in 2017. These were principally investments in our new branch concept, expansion of our digital services and development of our collaboration with the German Savings Banks Finance Group. They also included projects addressing compliance with regulatory requirements.

With a view to proper cost accounting allocation, at Haspa all intragroup service relationships are recorded using intragroup settlement procedures.

Effective internal control and risk management system safeguards the accounting process

Pursuant to section 25a (1) German Banking Act, overall responsibility for proper business organisation and the risk management integral to it rests with Haspa's Board of Management. As required by MaRisk, the Board of Management is supported by Compliance and Risk Controlling in this context. Among other things risk management comprises the implementation of internal control procedures consisting of an internal control system and an internal auditing system. Internal Audit is an integral part of Haspa's risk management and internal control procedures. It carries out its responsibilities autonomously and independently on behalf of the full Board of Management.

Risk management and the internal control processes also cover the accounting process. Accounting in turn comprises bookkeeping as well as preparation of both the annual financial statements and the management report. Each Haspa division is responsible for bookkeeping based on prescribed rules for account assignment. S-Servicepartner Norddeutschland GmbH (S-Servicepartner) supports Haspa in preparing its annual financial statements. The subcontracting process is controlled and monitored by the competent Comprehensive Bank Controlling division of Hamburger Sparkasse AG. This ensures that the Information Technology and Organization division as a service-controlling division is involved in the decision-making, management and monitoring processes, taking into account the legal foundations and optimum contract terms and contract contents for Haspa. Organisationally all divisions tasked with accounting are separate from divisions responsible for marketing activities.

The rules for account assignment and the control processes pertaining to the bookkeeping as well as the preparation of the annual financial statements and the management report are specified in various technical guidelines. In particular these work instructions address the controls to be carried out in terms of reconciliations and the requisite documentation. All data related to the financial reporting process of Haspa is processed using IT systems which at all times are subject to access limitation, system activity logs, access controls, data backups and data protection.

Internal Audit directly or indirectly reviews the accounting related internal control and risk management systems based on a risk oriented audit plan. This also includes functional separation, data processing security, documentation of control actions and compliance with technical guidelines. The accuracy of our data processing programmes is ensured by means of strict separation of the development, testing and production systems and through a defined development process for software packages with the pertinent testing and release procedures. Introduction of new or amended parameters can only be placed in production within the scope of defined change management. In its reviews, Internal Audit verifies that these procedures are followed properly.

If the financial reporting process is carried out using centralised third-party data processing equipment, the pertinent providers are obligated under the general agreements closed with them to comply with all statutory and regulatory requirements relevant to the outsourced activities. Compliance with these statutory and regulatory requirements is monitored by the internal auditing departments of the given third-party providers as well as by Haspa's Internal Audit.

5. Risk report

Identification and assessment of material risks

In the regular risk inventory, the risks to which Haspa is exposed are identified and their significance is assessed. Most of the material risks are assessed using appropriate quantitative measurement methods and managed as a whole in the analysis of the risk-bearing capacity. Any further risks that are not included in the analysis of the risk-bearing capacity are taken into account using other measurement methods and are consequently also considered in key decisions.

Comprehensive bank controlling focusing on risk-bearing capacity

Incurring risk in targeted ways is at the heart of all banking activity. The objective of risk management is to identify at an early stage and comprehensively measure, monitor and control the risks that could jeopardise Haspa's success or even the continuation of the institution as a going concern. Continuous safeguarding of a bank's risk-bearing capacity is an integral part of effective risk management.

The main objective of Haspa's economic risk-bearing capacity system is ensuring the continuation of the institution as a going concern. To achieve this objective, Haspa uses a present value going concern approach (confidence level of 95 percent) with an integrated regulatory perspective as the leading management approach. This approach is intended to ensure that Haspa complies with the regulatory capital requirements and is able to continue as a going concern even if all risks materialise. For the protection of creditors and the prevention of considerable disadvantages for the overall economy, Haspa also considers a present value liquidation approach (confidence level of 99.95 percent), which must be strictly complied with as an additional cornerstone of the risk-bearing capacity concept.

To limit the risk exposure, in the going concern approach risk budgets are defined for each individual risk type, whereas in the liquidation approach an overall limit is defined that spans all risk types. Depending on the holding period of the type of risk, the amount of the risk budget corresponds either to the net present value (NPV) limit or the sum of the NPV limit and the loss limit. The risk budgets are derived from the available cover assets, which consist mainly of equity capital and in the reporting year amounted to more than € 4.2 billion. When the total risk budget – comprising the sum total of the individual risk budgets – is being derived, care is taken in particular to ensure compliance with the regulatory capital adequacy requirements in accordance with the Capital Requirements Regulation (CRR) even when all risk budgets are utilised in their totality and at the same time. The existence of Haspa as a going concern has thus been ensured. As at the end of 2017 – and in the course of 2017 –, the total risk exposure was around € 400 million.

Regular stress testing enables us to determine the bank's overall risk. The results of the stress tests are adequately taken into account in the assessment of the bank's risk-bearing capacity. In these stress tests, which are not specific to any type of risk, the scenarios of a major economic downturn and a price slump on Hamburg's real estate market are analysed.

Furthermore, when planning their future capital requirements, institutions must adequately take possible adverse developments deviating from expectations into account. Appropriate adverse planning of future capital requirements was performed in 2017 taking into account the continued low level of interest rates and a general economic slump.

Material risks are subject to continuous monitoring by means of suitable early warning systems that identify significant developments as quickly as possible, thus enabling timely countermeasures based on thresholds.

Knowledge of the regional market and portfolio risk management limit credit risks

Haspa's credit risk stems from the lending business associated with private, corporate, enterprise and real estate customers. Our customer loan portfolio continues to be broadly diversified and largely secured by mortgages. The clear focus of the credit portfolio continues to be on highly rated commitments. The utilisation of the credit risk limit at a confidence level of 95 percent was at around € 89 million at year's end. On the whole credit risk is generally covered through appropriate risk provisions.

The internal rating procedures developed jointly with the German Savings Banks Finance Group offer specific tools that are tailored to our customer groups and continuously refined.

The current scoring systems of the German Savings Banks Finance Group are used to assess creditworthiness and determine pricing in the private customer business.

Rating procedures designed to assess credit ratings and determine risk-based pricing are used in our standard corporate customer business. Different procedures apply for small, mid-size and large corporate customers, professionals/freelancers as well as start-up entrepreneurs depending on the given company. A property transaction rating tool tailored to commercial property financing is used for commercial real estate commitments. Automated compact customer rating is additionally applied to enable targeted credit scoring of small corporate customers. The corresponding model of the Landesbank rating is used for project financing in the field of renewable energies.

We handle issuer risk and counterparty credit risk in both our securities investment and interbank business by limiting ourselves to trading partners with first-rate credit ratings as well as a widely diversified portfolio and a strict limit system. In the interbank money market business, we include a range of trading partners and thus avoid becoming dependent on individual market players. The counterparty credit risk is also limited through the high level of collateralisation in the trading business. About 89 percent of the derivatives business is now hedged through standard collateral agreements including central counterpart clearing (CCP) transactions.

Expected counterparty credit risks are hedged using the risk provisions. We use a suitable loan portfolio model (Monte Carlo simulation) to measure unexpected default risks based on the value-at-risk (VaR) method, applying a confidence level of 95 percent for the going concern approach and 99.95 percent for liquidation approach with a holding period of one year.

Moderate risk-taking in the maturities transformation with low interest rates

Maturity transformation risk arises from potential changes in market interest rates relative to the structure of the bank's on and off-balance sheet transactions.

Maturity transformation basically arises from the given loan commitment which tends to be of a longer term nature on the asset side, compared to borrowings which tend to run over a shorter term on the liabilities side. Money and capital market interest rates have an immediate effect on Haspa's bottom line. We measure and control maturity transformation risk in a comprehensive manner using both periodic and net present value methods.

The VaR method is also used to determine this risk. It is quantified at a confidence level of 95 percent in the going concern approach and 99.95 percent in the liquidation approach with a holding period of one month. Sensitivity analyses entailing substantial changes in interest rates are carried out too. Haspa's maturity transformation position is monitored on an ongoing basis. It is reviewed in greater depth and controlled with respect to money and capital market trends at monthly meetings of the Maturity Transformation Committee with the participation of the Board of Management. In addition, ad hoc meetings can be held as necessary to ensure appropriate action in case of rapid changes.

The possible impact of any change in market interest rates on our periodic net interest income is also monitored on a continuous basis. Simulation of various interest rate scenarios shows the sensitivity of the net interest income to changes in market interest rates and also covers the simulation of ad hoc interest rate shocks.

Haspa employs derivative financial instruments, especially standard interest rate swaps, to manage its maturity transformation risk.

Against the backdrop of continually low interest rates, the scale of the maturities transformation was controlled at a moderate level in the 2017 financial year. The interest rate risk, which is characterised by a strategic position in multi-year maturities, is quantified at € 110 million with a confidence level of 95 percent and a holding period of one month at the reporting date.

Capital market risks in an environment of continued loose monetary policy

The stock markets reached new record highs, still driven by the ECB's loose monetary policy. From a level of 11,481 points at the beginning of the year, fluctuations caused the DAX to climb to 13,479 points. The DAX ended 2017 at 12,918 points, with gains of 12.5 percent. Political risks such as Brexit or tensions between the USA and North Korea were largely dismissed. In the meantime the weak US dollar had an adverse impact, losing 12.2 percent against the euro during the course of the year.

Moderate portfolio adjustments in the capital investment segment against the backdrop of low yields

The portfolio volume in special funds remained almost flat on the previous year. The portfolio was restructured through moderate reallocations of the mandates issued and existing asset classes. In addition to the dominant share of low-interest German Pfandbrief securities and government bonds, the portfolio includes corporate bonds, emerging market bonds as well as Italian, Spanish and Portuguese government bonds. The special funds also include shares, real estate funds and alternative investments.

Whereas in previous years a substantial portion of the investments in the special funds had been hedged against foreign currency risks, in both 2016 and 2017 open currency positions in US dollars were entered into to a limited extent.

To determine risk, Haspa employs the VaR method combined with a loss limit based on a portfolio risk model. Overall, the special fund risk with a confidence level of 95 percent at year end is quantified at € 61 million, applying a holding period of one month for the portfolio risk. Investments in real estate are included in this figure with a longer holding period of one year.

Furthermore, the portfolio of proprietary securities investments also comprises direct investments in securities mainly from public-sector issuers that are held for liquidity purposes. An amount of € 500 million of these investments was not replaced in the reporting year.

Country risks

In terms of country risks, Haspa's gross receivables generally originate in Germany due to its regional alignment as a retail bank. There is also a manageable level of investments outside Germany, primarily in European securities.

Low trading risks, as before

Haspa's considerable restraint in taking on equity and foreign exchange trading risk also reflects its alignment as a retail bank in the Hamburg Metropolitan Region. Most of our trading activities are customer initiated, and we only hold closed currency and option positions.

Operational risks integrated in risk management

Operational risks can be found in all of Haspa's divisions and stem from general banking activities. They describe the risk of losses occurring as a consequence of the inappropriateness or the failure of internal processes, employees, the internal infrastructure or external factors. Operational risks can take many forms and are taken into account in the analysis of the risk-taking ability through the allocation of a corresponding risk capital budget. The risks determined applying the basic indicator approach amount to € 156 million at year end.

As part of its internal control system, Haspa has taken many steps to ensure flawless and smooth business procedures. Intragroup procedures and the functionality of technical systems are continuously adapted to both internal and external requirements. Operating processes are subject to a general guideline and technical guidelines, and are monitored by Internal Audit.

Haspa has outsourced portions of its market support processes associated with its lending, deposit and services business, as well as certain aspects of comprehensive bank controlling, to S-Servicepartner and its subsidiaries. Some of the payment processes are outsourced to DSGF Deutsche Servicegesellschaft für Finanzdienstleister mbH. Additionally some IT functions have been transferred to, among others, IBM Deutschland GmbH, Diebold Nixdorf Portavis GmbH, Canon Deutschland Business Services GmbH and EFIS EDI Finance Service AG.

The interaction between outsourcing centres and Haspa with respect to the outsourced functions is subject to and governed by statutory and regulatory requirements using individual and interface-specific agreements. These arrangements have been tried and tested in the interaction between the different entities and are further expanded and refined on an ongoing basis.

Information technology security is one of the focal points in controlling operational risks. Detailed contingency plans are available for all IT functions. These emergency plans also include crisis management protocols as well as procedures designed to ensure uninterrupted business operations for all divisions. Authorised access systems and control and monitoring processes guarantee the protection of confidential information against unauthorised access and modifications of business processes. Effective firewall systems provide protection against unauthorised external access.

Operational risks are measured and managed during an annual risk inventory through analyses of significant loss events and by means of an indicator-based early warning system.

Liquidity risks limited through funding strategy and solid liquidity limit

Liquidity risks may arise in the form of insolvency risk, funding risk and market liquidity risk.

Insolvency risks arise when payment obligations cannot be fulfilled in time or to a sufficient degree. Funding risks arise if liquidity can only be obtained at higher market prices. Market liquidity risks occur when investments cannot be liquidated at the desired time or in the planned amount.

By considering a daily liquidity report which also covers Haspa's funding mix, short-term changes in customer behaviour and possible concentration risks can be identified at an early stage.

Beyond its daily liquidity report, Haspa also uses its divisional planning to develop a strategic liquidity outlook that identifies liquidity needs early on. This enables us to assess our liquidity needs for future maturities and manage cash flows accordingly. Risk scenarios are monitored and analysed. Based on our funding strategy, spotlight systems are used to define and regularly monitor Haspa's risk tolerance, taking into account the funding potential, such that timely control measures can be adopted as necessary.

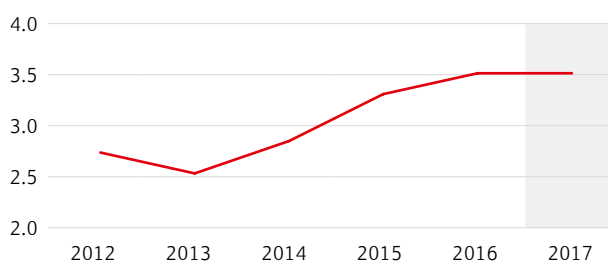
With successful Pfandbrief issues in recent years, Hamburger Sparkasse has tapped into the vast liquidity potential of the Pfandbrief market which will enable it to cover large liquidity needs in future.

For years Haspa has also served as a lender in the interbank lending market. It met the requirements for minimum reserve deposits at any time during the past year.

At year-end, the bank's liquidity ratio pursuant to the German Liquidity Regulation was 3.5 times the required minimum.

The current and prospective requirements for the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) are also clearly being met. Both ratios are an indication that Haspa has comfortable liquidity. At year-end, the LCR is 191 percent and the NSFR is 120 percent.

Liquidity ratio



Solid economic and regulatory risk-taking ability guarantees risks incurred

The bank's risk-taking ability is monitored by comparing it to the available cover assets. Its risk coverage potential is comfortable, also against the backdrop of volatile market conditions.

The CRR, which has been in force since 2014, sets out the regulatory capital adequacy requirements for credit institutions, which are increasingly shaped by European regulations. Compliance with these regulations requires an adequate capital base at all times. As at 31 December 2017, Haspa's total capital ratio applying the standard approach was 13.9 percent and its Tier 1 capital ratio was 13.2 percent. At 16.3 percent and 15.6 percent, respectively, the total capital ratio and the Tier 1 capital ratio of the HASPA Group remained at a comfortable level. The leverage ratio, which indicates an institution's exposures in relation to its own funds and is therefore based more on balance sheet figures, is around 7.2 percent and thus substantially higher than the prospective requirement of 3 percent. Here, too, positive effects of the expansion of our own funds can be seen.

Risk measurement

No going-concern risks or risks with a material effect on its net assets, financial position and results of operations were identified for the current year.

6. Report on expected developments – opportunities and risks

German economy continues its growth trajectory

The good employment situation and income trend as well as favourable financing opportunities created by the ECB's continued low interest rate policy will continue to ensure strong domestic demand in 2018. As a result, Germany's powerful economic growth will continue, with real GDP projected to increase by more than 2.0 percent. The inflation rate will range between 1.5 and 2.0 percent.

The ECB has announced plans to continue its bond purchase programme until at least September 2018 in the amount of € 30 billion per month. Furthermore, changes to key interest rates are not expected until the bond purchase programme has come to an end. The ECB will therefore maintain its existing zero and negative interest rate policy, keeping the rate for main refinancing operations at 0.00 percent in 2018, while the interest rate on deposits by banks imposed by the ECB will remain at –0.4 percent. We only expect the key interest rates to rise slightly in the first half of 2019.

Given the good economic situation, low level of interest rates and the considerable amount of cash available for investment, investors in the financial markets are expected to turn especially to equities again in 2018 despite the price levels achieved on the stock markets in the meantime. At the same time, rising yields are expected on the bond market due to factors such as the expected interest rate hikes in the USA.

Strong economic growth in Hamburg

Hamburg Chamber of Commerce's economic barometer gave highly optimistic assessments of business prospects in the fourth quarter of 2017. Companies are also seeking to recruit more staff on a net basis and significantly expand their investment activities. Forecasts for the export sector are also positive. Expanding international trade and Hamburg's high levels of attractiveness as an economic hub is expected to lead to economic growth above the national average.

Haspa's planning

Based on these assumptions, the following report focuses on Haspa's likely performance including material opportunities and risks. The forecasting horizon covers the current financial year. The forward-looking statements contained in this report are based for one on generally expected macroeconomic developments with a particular focus on the Hamburg Metropolitan Region, for another these statements are based on Haspa's planning for 2018, which results in specific budgets.

Retail banking – core strategic focus

Whilst all of our activities will focus on private and corporate customers as well as our Private Banking,

Private customers are and will remain the foundation of our business. Haspa will continue to expand in the Hamburg Metropolitan Region thanks to its comprehensive services for this customer segment. We will focus on the requirements of our customers in the individual regions, which will increase in the future, such as being able to conduct banking transactions flexibly at all times. With the implemented realignment of our sales organisation we adapted our market identity and enhanced our market presence, thereby laying the groundwork for even more targeted local consulting services. The range of financial services we offer in online banking will also be enhanced so that, in addition to personal contact with customer support

and consulting services, our customers will now also be able to perform banking transactions online and using their mobile phones even more comfortably. This positioning will be systematically expanded with the investments in our new branch concept, the expansion of digital services and the broadening of our collaboration with the German Savings Banks Finance Group. It also plans to further intensify its activities related to corporate customers, as well as its Private Banking.

Well equipped for the future – customer business intensified

By focusing squarely on the retail business and providing comprehensive customer support, we aim to strengthen our competitive advantages of expertise and regionality.

Net interest income in the 2018 financial year is likely to be slightly below the figure for the financial year ended, this is primarily the result of lower estimates concerning the contributions from Haspa's proprietary investments in securities. Overall, low interest rates continue to constitute a challenging environment for Haspa's customer business. If interest rates go up in the current year, this will generally have a positive effect on our customer business and could lead to larger contributions to net interest income.

We expect net commission income to rise considerably in 2018. This is particularly due to an adjusted securities account pricing model – higher portfolio commission combined with lower transaction fees – as well as fee adjustments for corporate customers in the areas of current account management and payment transactions. We also expect increased portfolio commissions from the brokering of consumer loans within the German Savings Banks Finance Group to S-Kreditpartner GmbH as well as positive effects from the establishment of an insurance centre. Depending on how the money and capital markets develop, higher – though also lower – contributions may be made in this area.

Administrative expenses are likely to exceed the 2017 figure slightly in the current year. They will be dominated by investments in our new branch concept, the expansion of our digital offering and the opening up of new business areas as well as the broadening of our collaboration with the German Savings Banks Finance Group. Administrative expenses will also be adversely impacted by extensive projects to implement regulatory requirements. We expect other operating income to be significantly less favourable. The past financial year benefited from a favourable balance of additions to and reversal of provisions with continued commercially conservative estimates.

In view of a likely increase in customer assets and, in particular, the good outcome of 2017, risk provisions for the lending business are conservatively expected to rise in the current year to a significantly higher level. If 2017 is similarly successful as 2016, much lower effects than projected may nevertheless arise here. Overall, we expect lower expenses from the net revaluation loss, including a provision for potential risks in subsequent years.

On the basis of the planning outlined, we expect the operating result before loan loss provisions, according to the definition by the German Savings Banks Association (DSGV), to be slightly lower than in 2017. We expect the gross increase in new customers to be slightly lower than in the previous year.

Due not least to our broadly diversified customer business and on the basis of our tried-and-tested funding strategies and potential, our liquidity situation will remain comfortable.

7. Non-financial declaration in accordance with section 289b HGB

Haspa is obliged to publish a non-financial declaration in accordance with section 289b HGB.

The German Savings Banks Association (DSGV) has developed its own system of savings banks indicators for the non-financial reporting of its savings banks. These indicators relate to sustainability issues and include factors such as entrepreneurial attitude, products and initiatives. These savings banks indicators were officially recognised by the Council for Sustainable Development in 2013 and are compatible with the German Sustainability Code (Deutscher Nachhaltigkeitskodex (DNK)) and the Global Reporting Initiative's reporting guidelines for financial services providers (GRI G4 Sector Disclosures Financial Services) as frameworks.

We have drafted our 2017 Sustainability Report based on the savings banks indicators and in accordance with the criteria of the German Sustainability Code. This Sustainability Report includes the statements required for a non-financial declaration concerning our business model, environmental, employee and social issues, respect for human rights and combating corruption and bribery. We are publishing our 2017 Sustainability Report together with the 2017 Annual Report in the Electronic Federal Gazette.

8. Corporate governance declaration in accordance with section 289f HGB

As an unlisted company subject to co-determination, Haspa is providing a declaration comprising the following statements in accordance with section 289f HGB.

In 2015, the Supervisory Board and the Board of Management laid down targets for the share of women and deadlines for achievement of these targets in the Supervisory Board and the Board of Management as well as in the two management levels below the Board of Management in accordance with section 111 (5) and section 76 (4) of the German Stock Corporation Act (AktG).

A target of 18.75 percent, equivalent to three of the 16 posts, was set for the share of women on the Supervisory Board in 2015. The deadline set for achievement of this target was 30 June 2017. On this date, two Supervisory Board mandates were held by women, meaning that the share of women on the Supervisory Board as of 30 June 2017 fell short of the target at 12.5 percent. Two new mandates needed to be filled when shareholders appointed Supervisory Board members in April 2017. When preparing its election proposals for the General Meeting, the Supervisory Board, with the support of its Nomination Committee, created a profile of requirements that took into account both the target of increasing the share of women on the Supervisory Board and extensive supervisory and company law requirements concerning the

expertise of the candidates to be appointed. Among the other criteria to be applied to candidate selection were the continuation of the staff links between the supervisory bodies of Haspa and its sole shareholder HASPA Finanzholding as well as the reliability and sufficient availability of the candidates, taking into account the position limits set out in the German Banking Act (KWG). Potential candidates were selected and their suitability for a role on the Supervisory Board assessed based on this profile of requirements. Overall, two candidates met the stipulated requirements most closely. As no female candidates with comparable suitability were available, Haspa's committees decided to defer its target of increasing the share of women on the Supervisory Board. At its meeting on 28 June 2017, the Supervisory Board set a target for the share of women in the Supervisory Board of 18.75 percent, equivalent to three of the 16 posts, to be achieved by 30 June 2022.

A target of 20 percent was set for the share of women on the Board of Management in 2015, to be reached by 30 June 2017. With one woman and four men appointed to the Board of Management, this target was reached. At its meeting on 28 June 2017, the Supervisory Board set a target for the share of women in the Board of Management of 20 percent, which applies until 30 June 2022.

A target of 10 percent with a deadline of 30 June 2017 was set by the Board of Management in 2015 for the two management levels below the Board of Management – heads of division and heads of department. With women accounting for around 12 percent of positions at these levels by the end of the first half of 2017, this target was met. The company aims to increase the share of women at the two management levels below the Board of Management to 15 percent by 30 June 2022.

Appendix to the management report

Report on equality and equal pay in accordance with section 21 German Transparency of Pay Act

Not reviewed by the auditor in accordance with German legal requirements.

Measures taken by Hamburger Sparkasse (Haspa) to promote gender equality and its impact during the reporting period

1. Internal framework and its impact

a. Equal treatment and equal opportunities

The equal treatment of all employees, irrespective of factors such as their gender, is a matter of course at Haspa. Employees are committed to general equal treatment and mutual respect when working together. This expectation is laid out in Haspa's Code of Ethics, which forms part of the general guideline of the Board of Management and is thus binding for all employees.

By adhering to this internal framework, the company already comprehensively meets the requirements of the General Equal Treatment Act.

Similarly, the applicable collectively bargained and internal labour provisions have ensured that men and women employed at Haspa receive the same remuneration for the same work.

b. Promoting work-life balance

In recent years, Haspa has introduced various measures to promote work-life balance. With a family-friendly human resources policy and working conditions for both male and female employees, consideration of family needs is part of the company's collaborative organisation. To continue enhancing Haspa's attractiveness as an employer and support work-life balance, flexible working time arrangements, part-time employment, job sharing and financial

support for childcare in the holidays and in emergencies are available to all employees. All measures are well used within the company.

2. Further measures to promote equal opportunities for men and women and their impact

To further increase the share of women in management roles, Haspa laid down targets for the share of women and deadlines for achievement of these targets in the Board of Management as well as in the two management levels below the Board of Management for the first time in 2015 in accordance with section 111 (5) and section 76 (4) of the German Stock Corporation Act (AktG).

A target of 20 percent was set for the share of women on the Board of Management in 2015, to be reached by 30 June 2017. With one woman and four men appointed to the Board of Management, this target was reached. At its meeting on 28 June 2017, the Supervisory Board set a target for the share of women in the Board of Management of 20 percent, which applies until 30 June 2022.

A target of 10 percent with a deadline of 30 June 2017 was set by the Board of Management in 2015 for the two management levels below the Board of Management – heads of division and heads of department. With women accounting for around 12 percent of positions at these levels by the end of the first half of 2017, this target was met, among others by implementing the measures described. The company aims to increase the share of women at the two management levels below the Board of Management to 15 percent by 30 June 2022. In order to steadily increase the proportion of women in management, an increasing number of women is appointed to management positions. This is based on the promotion of the management careers of women through specific measures such as the series of seminars on "Strategies for Working Women".

Measures implemented by Haspa to ensure equal pay for men and women during the reporting period

a. Remuneration system of Hamburger Sparkasse AG

Collective wage agreements are used for the private banking and public banks at Hamburger Sparkasse. The majority of employees at Haspa are in positions with collectively agreed remuneration. Back in 1999, Hamburger Sparkasse agreed a remuneration system with the Works Council in the form of a works agreement that, among other things, ensured equal pay for men and women. This system determines the remuneration for an employee's role according to a job rating system, making it irrelevant whether the post is held by a man or woman.

Haspa's remuneration system applies to all employees working under or outside collective bargaining agreements and is governed by works agreements and individual employment agreements. Total remuneration consists of fixed basic remuneration and variable remuneration.

b. Basic remuneration

Overall remuneration primarily consists of fixed basic remuneration, the amount of which is determined by evaluating the relevant position irrespective of gender, age and weekly working hours. Positions are allocated to remuneration groups with appropriate basic salary bands based on job descriptions. Generally, the more demanding the requirements for the respective function, the higher the remuneration group.

Basic remuneration for employment covered by collective agreements is based on the collective agreements for private banking and the public banks.

While basic remuneration for employment covered by collective agreements is increased in accordance with the outcome of collective salary negotiations, the basic salary bands for employment not covered

by collective agreements are adjusted by means of a decision by the Board of Management, irrespective of gender, age and weekly working hours. The criteria for an individual basic salary increase in a role not covered by collective agreements are the value added by the individual in performing their role, sustained performance improvements and the manner in which the individual performs their role.

c. Variable remuneration

In addition to basic remuneration, employees have the opportunity to receive variable remuneration. The individual payment amount depends on individual performance irrespective of gender, age and weekly working hours, as well as Haspa's success factor.

Headcount figures for the last calendar year of the reporting period (in parenthesis, the change from the previous year)

	Women	Men
Average number of employees, 2016	2,905.5	2,383.3
Average number of part-time employees, 2016	1,421.3	154.3
Average number of employees, 2017	2,920.3 (+0.51%)	2,380.8 (-0.13%)
Average number of part-time employees, 2017	1,441.8 (+1.44%)	153.7 (-0.40%)

Balance sheet

of Hamburger Sparkasse AG for the year ended 31 December 2017

Assets in € '000	31.12.2017	31.12.2016
1. Cash reserve		
a) Cash on hand	477,674	434,093
b) Balance with Deutsche Bundesbank	212,243	449,100
	689,917	883,193
2. Receivables from banks		
a) Payable on demand	1,570,299	1,003,532
b) Other receivables	2,257,616	2,098,092
	3,827,915	3,101,623
3. Receivables from customers	30,900,716	30,762,858
of which: secured by mortgages/mortgage loans	15,163,977	(14,917,415)
Public-sector loans	395,099	(368,561)
Other receivables	15,341,641	(15,476,882)
of which: loans on securities	12,769	(14,656)
4. Debentures and other fixed-interest securities		
b) Bonds and debentures		
ba) by public-sector issuers	3,107,962	3,507,856
of which: eligible as collateral for Deutsche Bundesbank advances	3,107,962	(3,507,856)
bb) by other issuers	418,507	555,116
of which: eligible as collateral for Deutsche Bundesbank advances	418,507	(555,116)
	3,526,468	4,062,972
	3,526,468	4,062,972
5. Equities and other non-fixed interest securities	4,450,009	4,434,775
5a. Trading portfolio	70,518	105,760
6. Long-term equity investments	106,677	53,166
of which: in banks	2,504	(2,504)
in financial services institutions	—	—
7. Shares in affiliated companies	12,524	6,527
of which: in banks	—	—
in financial services institutions	—	—
8. Fiduciary assets	3	48
of which: Fiduciary loans	3	(48)
9. Intangible fixed assets		
a) Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	14,762	23,959
b) Prepayments	5,300	2,263
	20,063	26,222
10. Tangible fixed assets	21,468	20,100
11. Other assets	37,102	25,438
12. Prepaid expenses	7,032	4,819
of which: from the issue and lending business	4,095	(3,414)
Other	2,937	(1,406)
Total assets	43,670,412	43,487,501

Equity and liabilities in € '000	31.12.2017	31.12.2016
1. Liabilities to banks		
a) Payable on demand	194,056	213,918
b) With agreed maturity or notice period	3,587,815	3,563,687
of which: registered mortgage Pfandbrief securities issued	385,452	(447,861)
Other liabilities	3,202,363	(3,115,826)
	3,781,871	3,777,605
2. Liabilities to customers		
a) Savings deposits		
aa) With agreed notice period of three months	8,708,168	8,437,623
ab) With agreed notice period of more than three months	110	150
	8,708,279	8,437,772
b) Other liabilities		
ba) Payable on demand	18,286,859	18,952,293
bb) With agreed maturity or notice period	5,666,612	5,629,786
of which: registered mortgage Pfandbrief securities issued	3,732,267	(3,680,282)
Other liabilities	1,934,345	(1,949,503)
	23,953,471	24,582,078
	32,661,750	33,019,851
3. Securitised liabilities		
a) Debentures issued	2,625,338	2,213,191
of which: mortgage Pfandbrief securities	1,293,563	(876,055)
Other debentures	1,331,776	(1,337,136)
	2,625,338	2,213,191
3a. Trading portfolio	28,176	36,554
4. Fiduciary liabilities	3	48
of which: Fiduciary loans	3	(48)
5. Other liabilities	131,429	130,699
6. Deferred income	21,858	18,115
of which: from the issue and lending business	19,356	(17,023)
Other	2,502	(1,092)
7. Provisions		
a) Provisions for pensions and similar obligations	856,801	799,989
b) Provisions for taxes	50,055	43,901
c) Other provisions	160,131	174,548
	1,066,987	1,018,438
8. Fund for general banking risks	702,000	702,000
of which: Extraordinary item in accordance with section 340e (4) HGB	2,000	(2,000)
11. Equity		
a) Subscribed capital	1,000,000	1,000,000
b) Capital reserves	1,434,000	1,354,000
c) Revenue reserves		
ca) Legal reserve	—	—
cb) Reserve for shares in a parent or majority investor	—	—
cc) Reserves provided for by the articles of association	—	—
cd) Other revenue reserves	217,000	217,000
	217,000	217,000
d) Net retained profits	—	—
	2,651,000	2,571,000
Total equity and liabilities	43,670,412	43,487,501
1. Contingent liabilities		
b) Contingent liabilities from guarantees and indemnity agreements	570,761	578,246
	570,761	578,246
2. Other obligations		
c) Irrevocable loan commitments	2,807,399	3,066,398
	2,807,399	3,066,398

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Income statement

of Hamburger Sparkasse AG for the period from 1 January to 31 December 2017

All figures stated in € '000	2017	2016
1. Interest income from		
a) Lending and money market transactions	863,706	924,255
b) Fixed interest securities and registered government debt	1,774	3,614
	865,480	927,869
2. Interest expense	-276,538	-354,997
	588,942	572,871
3. Current income from		
a) Equities and other non-fixed interest securities	119,442	125,205
b) Long-term equity investments	9,344	4,573
c) Shares in affiliated companies	—	767
	128,787	130,545
4. Income from profit pooling, profit transfer, or partial profit transfer agreements	7,054	5,268
of which: from tax allocations	49	(75)
5. Commission income	320,448	299,036
6. Commission expenses	-21,658	-19,246
	298,789	279,791
7. Net trading income or expense	-1,762	-1,641
8. Other operating income	64,038	59,173
	1,085,849	1,046,007
9. General and administrative expenses		
a) Personnel expenses		
aa) Wages and salaries	-294,320	-289,427
ab) Social security, post-employment and other employee benefit costs	-70,024	-56,317
	-364,344	-345,744
of which: in respect of post-employment benefits	-15,685	(-2,686)
b) Other administrative expenses	-357,883	-311,786
	-722,227	-657,530
10. Depreciation, amortisation and write-downs of tangible and intangible fixed assets	-16,235	-17,674
11. Other operating expenses	-104,009	-147,894
12. Write-downs of and valuation allowances on receivables and certain securities, and additions to loan loss provisions	-73,415	-33,290
13. Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions	—	—
	-73,415	-33,290
14. Write-downs of and valuation allowances on other equity investments, shares in affiliated companies and securities classified as fixed assets	—	—
15. Income from reversals of write-downs of other equity investments, shares in affiliated companies and securities classified as fixed assets	748	5,219
	748	5,219
16. Cost of loss absorption	-599	-138
17. Additions to / withdrawals from the fund for general banking risks	—	—
18. Result from ordinary activities	170,112	194,699
19. Extraordinary income	—	—
20. Extraordinary expenses	—	-10,515
21. Extraordinary result	—	-10,515

All figures stated in € '000	2017	2016
22. Taxes on income	- 90,112	- 104,184
of which: for tax allocations	- 87,842	(- 101,989)
23. Other taxes not included in item 11	-	-
	- 90,112	- 104,184
24. Income from loss absorption	-	-
25. Profit transferred on the basis of profit pooling, profit transfer, or partial profit transfer agreements	- 80,000	- 80,000
26. Net income for the financial year	-	-
27. Retained profits/ losses brought forward	-	-
	-	-
28. Withdrawals from revenue reserves		
a) from the legal reserve	-	-
b) from the reserve for treasury shares	-	-
c) from the reserves provided for by the articles of association	-	-
d) from other revenue reserves	-	-
	-	-
29. Appropriation to revenue reserves		
a) to the legal reserve	-	-
b) to the reserve for treasury shares	-	-
c) to the reserves provided for by the articles of association	-	-
d) to other revenue reserves	-	-
	-	-
30. Net retained profits	-	-

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The tables presented in the annual financial statements may contain rounding differences.

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General disclosures

Hamburger Sparkasse AG (Haspa) prepared its annual financial statements as at 31 December 2017 in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and the requirements of the German Ordinance on Accounting for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), taking into account the requirements of the German Stock Corporation Act (Aktiengesetz – AktG).

The option not to break down prorated interest by residual maturity (section 11 sentence 3 RechKredV) was also applied.

Haspa's registered office is in Hamburg. The Bank has been entered in the commercial register of the Hamburg Local Court under the number HRB 80691.

Accounting policies

Lending business

Receivables from customers and banks were recognised at their nominal value or cost. Any discounts retained in connection with the disbursement of loans with a fixed borrowing rate are allocated over the fixed interest period. For loans with a variable borrowing rate, discounts of up to 2 percent of the loan principal are allocated over the entire term; higher discounts are allocated over no more than five years.

Individual write-downs or provisions take adequate account of recognisable risks in lending. Generalised valuation allowances were recognised for potential risks from receivables. The requirement to reverse write-downs was observed when measuring loans.

All amounts that satisfy the requirements of section 14 German Pfandbrief Act (Pfandbriefgesetz) were reported under the balance sheet item, "Receivables from customers".

Securities

Securities in the bank's own portfolio are largely held for liquidity purposes as well as for trading.

The securities allocated to the liquidity reserve are measured using the strict lower-of-cost-or-market principle subject to simultaneous consideration of the requirement to reverse write-downs.

The appropriate market value of assets that are held in special funds and for which there is no marketable price is determined by the respective fund based on due assessments using suitable measurement models and taking prevailing market conditions into account.

Trading portfolio

Financial assets acquired for trading are recognised in the trading portfolio at fair value less value at risk (VaR). Pursuant to IDW RS BFA 2, the value at risk is accounted for as a total in the larger of the respective balance sheet items (assets or liabilities). Foreign currency financial assets and liabilities in the trading portfolio are translated at average rates.

The corresponding value at risk (VaR) is determined to satisfy regulatory requirements in respect of managing the trading book's market price risks. This VaR is used to calculate the risk discount. It is determined based on a holding period of one month, a data history of 250 days and a confidence level of 95 percent.

Applying the risk discount accounts for the probability of a loss of realisable profits from the measurement at market rates. Changes in the risk discounts are recognised in net trading income or expense. Gains and losses on the prices and the measurement of financial instruments are also recognised in net trading income or expense. This item also includes net revaluation gains/losses from the early repayment of repurchased own issues. Interest income and expense from trading are recognised in net interest income.

Shares in affiliated companies and equity investments

Shares in affiliated companies and equity investments are recognised at cost. The requirement to reverse write-downs was observed for the purpose of remeasurement. Lower values are recognised if special circumstances apply.

Liabilities

Liabilities are measured at the settlement amount. Discounts taken are reported in assets under prepaid expenses whilst premium income is reported in deferred income. In deviation from the above, zero-coupon bonds are accounted for at their present value.

Provisions

The provisions shown adequately account for all recognisable risks as well as all uncertain obligations. Provisions are recognised at their settlement amount dictated by prudent business judgement. Provisions with a remaining term of more than one year are discounted at the average market interest rate published by the Deutsche Bundesbank corresponding to their remaining maturity, which in the case of provisions for pensions is for the past ten years but in the case of provisions for similar long-term obligations as well as other provisions is for the past seven years. Provisions for pensions and similar obligations are recognised based on actuarial principles using the projected unit credit method and the Heubeck 2005 G mortality tables.

The simplification rule in section 253 (2) sentence 2 HGB was applied to the provisions for pensions and similar long-term obligations as well as to other provisions calculated using actuarial opinions and a remaining maturity of 15 years was used for discounting in the aggregate.

As a result of one measurement date being brought forward, a projection of the interest rates at the reporting date was performed for the interest rates used to measure provisions for pensions and similar obligations. The resulting interest rates are 3.68 percent (average market interest rate for the past ten years) and 2.81 percent (average market interest rate for the past seven years). Wage and salary increases (including career trends) of 2.1 percent and pension increases of 1.75 percent were used in the determination of the provisions for pension liabilities. These two parameters are determined on the basis of generally accessible sources and institution-specific assumptions. The age-dependent employee turnover rate as determined by using institution-specific parameters was between 0 percent and 6 percent. These parameters are reviewed annually.

The income and expenses arising from the discounting of provisions are presented separately to achieve transparency and clarity in the notes. Expenses for the accumulation of provisions relating to banking transactions are presented under interest expense, while interest expense for provisions not relating to banking transactions is presented under other operating expenses.

Loss-free valuation of interest rate-related transactions of the banking book (interest rate portfolio)

In compliance with IDW RS BFA 3, to determine any excess of liabilities over assets resulting from business in interest-bearing financial instruments of the banking book, all administrative expenses and the cost of risk expected up until the completion of the business were deducted from the totality of interest-bearing assets and liabilities of the banking book (excluding the trading portfolio) including derivatives. Allowance was made for individual refinancing options in a present value analysis. As there is no excess of liabilities over assets, it is not necessary to recognise a provision.

Currency translation

Foreign currency amounts are translated in accordance with section 340h German Commercial Code in conjunction with section 256a German Commercial Code. Assets denominated in foreign currency that are treated as fixed assets are translated into euros at the acquisition-date foreign exchange rate. Foreign currency securities reported under current assets are measured at the spot exchange rate. Solely the expense from currency translation of securities in foreign currency with a residual maturity of more than one year is recognised.

Pursuant to section 340h German Commercial Code, other foreign currency items, as well as spot and forward transactions not yet settled and not held for trading, are treated as transactions that qualify for hedge accounting. The transactions are hedged based on matching amounts but not matching maturities. Hedged transactions are measured at the cash settlement or forward price.

Both the cash settlement and the forward prices are based on the reference rate of the European Central Bank.

The exchange gains and losses calculated from the translation of the transactions covered in particular are presented separately in the notes under other operating income and other operating expenses, respectively.

Hedges

Haspa applies hedge accounting as defined in section 254 German Commercial Code. Hedge accounting is applied to liabilities and executory contracts considered the underlying transaction; they are hedged using derivative financial instruments.

The interest and other price risks from structured bonds or registered instruments (underlying transactions) are hedged using structured interest rate swaps (hedges). The underlying transactions concern structured bearer debentures shown under “Securitised liabilities” as well as structured registered bonds, promissory note loans and savings certificates recognised in “Liabilities to customers” or “Liabilities to banks”. The respective hedges are structured such that the parameters of the underlying transaction relevant to the hedged risk fully offset each other, both at the inception of the transaction and during the maturity of the underlying transaction (critical terms match).

The currency and interest rate risks of cross currency interest rate swaps with customers are hedged using precisely balanced hedging transactions with banks that have good credit ratings. Both the derivative customer business and the back-to-back hedging business are combined into micro hedges. We also enter into contracts designed to limit interest rates such as caps, floors and collars in connection with the customer lending business. These interest rate options granted to customers are hedged on the basis of the individual contract by means of matching transactions with banks that have good credit ratings.

Both the derivative customer business and the back-to-back hedging business are subject to hedge accounting.

The effectiveness of the given hedge is reviewed by a department separate from trading upon designation of the hedges as well as at the reporting date. In each case the underlying transactions are hedged effectively against the existing risks.

The accounting treatment of the hedges follows the net hedge presentation method pursuant to IDW RS HFA 35. Haspa ensures based on the methods used (critical terms match) that every hedge is effective with respect to the existing fair value and cash flow risks of the respective hedged risk. Changes in the fair value or cash flows of both the underlying transactions and the hedges relative to the hedged risks are likely to balance out in full over the entire hedging period.

Derivatives

Interest rate swaps are used primarily to manage interest rate risks and are included in the loss-free valuation of interest rate-related transactions of the banking book (interest rate portfolio). Haspa also possesses derivative financial instruments to which hedge accounting is applied. Some derivative financial instruments are held for trading.

In the case of options, Haspa’s option writer positions are usually hedged by means of matched transactions. Option premiums received or paid on options not yet settled, as well as margin obligations from forward transactions, are recognised under financial assets and liabilities in the trading portfolio. For the rest, they are accounted for as “Other assets” or “Other liabilities”.

Cash flow statement

The cash flow statement was prepared in compliance with German Accounting Standard No. 21.

Cash flow statement	2017 € million	2016 € million
Net income/loss for the period before profit transfer	80.0	80.0
Depreciation, amortisation and write-downs and valuation allowances on receivables and items of fixed assets/reversals of such write-downs and valuation allowances	87.0	54.3
Increase/decrease in provisions (excluding provisions for income taxes)	96.7	121.5
Other non-cash expenses/income	8.4	2.7
Gain/loss on disposal of fixed assets	0.0	0.1
Other adjustments (net)	0.0	0.1
Increase/decrease in receivables from banks	-766.2	-297.5
Increase/decrease in receivables from customers	-212.7	-611.1
Increase/decrease in securities (unless classified as long-term financial assets)	547.2	489.3
Increase/decrease in other assets relating to operating activities	-13.8	-6.6
Increase/decrease in liabilities to banks	57.1	-817.1
Increase/decrease in liabilities to customers	-364.5	1,386.1
Increase/decrease in securitised liabilities	413.1	191.9
Increase/decrease in other liabilities relating to operating activities	-72.5	-97.3
Interest expense/interest income	-588.9	-572.9
Current income from equities, non-fixed interest securities, equity investments and shares in affiliated companies	-128.8	-130.5
Expenses for/income from extraordinary items	0.0	10.5
Income tax expense/income	90.1	104.2
Interest payments received	909.5	948.0
Payments received from current income from equities, non-fixed interest securities, equity investments and shares in affiliated companies	128.8	130.5
Interest paid	-324.5	-375.3
Extraordinary receipts	0.0	0.0
Extraordinary payments	0.0	0.0
Income tax payments	-69.1	-85.7
Cash flows from operating activities	-123.1	525.2
Proceeds from disposal of long-term financial assets	1.7	1.3
Payments to acquire long-term financial assets	-60.4	0.0
Proceeds from disposal of tangible fixed assets	0.1	0.1
Payments to acquire tangible fixed assets	-5.1	-4.6
Proceeds from disposal of intangible fixed assets	-0.1	0.0
Payments to acquire intangible fixed assets	-6.4	-4.4
Change in cash from other investing activities (net)	0.0	0.0
Cash receipts from extraordinary items	0.0	0.0
Cash payments for extraordinary items	0.0	0.0
Cash flows from investing activities	-70.2	-7.6
Cash receipts from capital contributions of HASPA Finanzholding	80.0	55.0
Cash payments to HASPA Finanzholding from the redemption of shares	0.0	0.0
Cash receipts from extraordinary items	0.0	0.0
Cash payments for extraordinary items	0.0	0.0
Profit transfer to HASPA Finanzholding	-80.0	-80.0
Change in cash from other capital sources (net)	0.0	0.0
Cash flows from financing activities	0.0	-25.0
Net change in cash funds	-193.3	492.6
Effect of exchange rate movements on cash funds	0.0	0.0
Cash funds at beginning of period	883.2	390.6
Cash funds at end of period	689.9	883.2

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Supplementary information on the cash flow statement

The cash flow statement shows the changes in cash funds.

Cash funds are composed of cash-in-hand and balances with Deutsche Bundesbank (cash).

The cash flow statement is prepared for Haspa's single-entity financial statements, which is why cash funds do not include any components attributable to proportionately consolidated entities.

There were no material non-cash investing and financing measures and transactions in the financial year.

There were no restricted cash funds in the reporting period.

Notes to the balance sheet (assets)

Receivables from banks	2017	2016
	€ million	€ million
This item includes:		
Receivables from affiliated companies	5.2	6.9
Receivables from other long-term investees and investors	0.0	0.0
Breakdown of the sub-item b) Other receivables by maturity:		
up to 3 months	1,523.1	1,526.9
more than 3 months up to 1 year	619.5	411.3
more than 1 year up to 5 years	8.2	17.6
more than 5 years	4.5	0.2

Receivables from customers	2017	2016
	€ million	€ million
This item includes:		
Receivables from affiliated companies	259.7	234.9
Receivables from other long-term investees and investors	18.9	21.3
Subordinated receivables	5.5	2.8
of which:		
from affiliated companies	0.0	0.0
from other long-term investees and investors	0.5	0.0
Breakdown of the item Receivables from customers by maturity:		
up to 3 months	1,805.0	1,847.6
more than 3 months up to 1 year	2,058.1	2,095.2
more than 1 year up to 5 years	7,497.9	7,276.6
more than 5 years	18,402.1	18,405.9
with indefinite maturity	1,104.6	1,101.2

Debentures and other fixed interest securities	2017	2016
	€ million	€ million
Of the marketable securities included in this balance sheet item the following are:		
listed	3,477.8	4,038.0
not listed	48.6	25.0
due in the following year	304.0	402.7
The carrying amount of the debentures and other fixed interest securities treated as fixed assets is	0.0	0.0

Equities and other non-fixed interest securities	2017	2016
	€ million	€ million
Of the marketable securities included in this balance sheet item the following are:		
listed	0.0	0.0
not listed	0.0	0.1

This balance sheet item contains shares in special funds with a carrying amount of € 4.4 billion. The fungibility of these shares is limited. Gains on shares in special funds were largely reinvested to the extent that they resulted from rate gains. The interest and dividend income were distributed in full.

Investment funds with a share in excess of 10 percent in € million broken down by investment objective

NAME	ISIN	Carrying amount 31.12.2017	Market value 31.12.2017	Difference	Distribution 2017	Returnable daily	Write-downs omitted
JUPITER-FONDS 1 ¹	DE000DK0ECC6						
Balanced funds: European and international equities, government bonds, Pfandbrief securities, corporate bonds, quantitative management – fundamental asset allocation global: total return (long/short), hedging strategies at the level of the overall fund							
		3,570.8	3,629.7	58.9	96.9	Yes	No
JUPITER-FONDS 2	DE000DK0ECD4						
Bond fund: Euro zone government bonds and Pfandbrief securities							
		418.7	418.7	0.0	4.9	Yes	No
JUPITER-FONDS 3	DE000DK0RCT2						
Property investment fund: Property investment fund shares							
		460.5	517.2	56.7	17.6	Yes	No

¹ The Jupiter-Fonds 1 focuses on euro zone government bonds and Pfandbrief securities.

Trading portfolio	2017 € million	2016 € million
The trading portfolio comprises:		
Derivative financial instruments	29.2	37.8
Receivables	0.0	0.0
Debentures and other fixed interest securities	41.7	68.2
Equities and other non-fixed interest securities	0.0	0.0
Other assets	0.0	0.0
Subtotal	70.9	106.0
Risk discount	-0.4	-0.3
	70.5	105.7

The nominal volume of the derivative financial instruments is € 136.9 million for interest rate swaps and € 0.4 million for currency options.

The amount, timing and probability of occurrence of future cash flows from the derivative financial instruments held for trading are mainly influenced by the interest rate environment, trends on the bond markets and developments in credit spreads.

Long-term equity investments

Long-term equity investments of Hamburger Sparkasse in large corporations that exceed five percent of voting rights (section 340a (4) sentence 2 HGB):

Bürgschaftsbank Schleswig-Holstein GmbH, Kiel
 Bürgschaftsgemeinschaft Hamburg GmbH, Hamburg
 Diebold Nixdorf Portavis GmbH, Hamburg

Long-term equity investments of Hamburger Sparkasse AG as at 31 December 2017 in accordance with section 285 (1) no. 11 HGB¹

Name and registered office of the entity	Equity interest	Equity of the entity	Result for the year of the entity
	in %	€'000 ²	€'000 ²
Direct equity investments			
Bürgschaftsbank Schleswig-Holstein GmbH, Kiel	7.99	39,210.7	564.3
Bürgschaftsgemeinschaft Hamburg GmbH, Hamburg	21.35	24,499.3	535.5
Cenito Service GmbH, Hamburg	100.00	800.0	0.0
CFC Corporate Finance Contor GmbH, Hamburg	49.00	n. a. ⁴⁾	n. a. ⁴⁾
Deka Erwerbsgesellschaft mbH & Co. KG – Unterbeteiligung –, Neuhardenberg	2.96	1,785,143.0	79,963.0
Diebold Nixdorf Portavis GmbH, Hamburg ¹⁰⁾	25.00	16,166.3	2,123.4
DMG Deutsche Malaria GmbH, Hamburg ⁹⁾	18.48	30.1	-93.5
EDD AG, Düsseldorf ⁹⁾	0.44	32,244.6	-542.4
GBP Gesellschaft für Betriebliche Pensionsplanung mbH, Hamburg	100.00	42.6	0.0 ³⁾
Hanseatischer Sparkassen- und Giroverband, Hamburg	74.87 ¹¹⁾	62,496.1	-1.0
Haspa Beteiligungsgesellschaft für den Mittelstand mbH, Hamburg	100.00	5,000.0	0.0 ³⁾
HASPA Projektentwicklungs- und Beteiligungsgesellschaft mbH, Hamburg ⁷⁾	30.00	24.2	-0.3
Haspa-DIREKT Servicegesellschaft für Direktvertrieb mbH, Hamburg	100.00	687.1	0.0 ³⁾
Mittelstandsfonds Hamburg MHH Verwaltungs GmbH, Hamburg	75.20	16.1 ⁵⁾	-2.0 ⁵⁾
Next Commerce Accelerator GmbH, Hamburg	16.66	n. a. ⁴⁾	n. a. ⁴⁾
Next Logistics Accelerator GmbH, Hamburg	15.00	n. a. ⁴⁾	n. a. ⁴⁾
Odewald & Compagnie GmbH & Co. Dritte Beteiligungsgesellschaft für Vermögensanlagen KG, Berlin	1.00	84,290.4	91,938.5
SCHUFA Holding AG, Wiesbaden	2.22	75,479.3	28,228.5
Ventizz Capital Fund IV L.P., St. Helier, Jersey	1.11	85,416.9	-9,150.7
Indirect equity investments via Haspa Beteiligungsgesellschaft für den Mittelstand			
AMAS Beteiligung GmbH, Neu Kaliß	49.98	1,821.2	-3.8
HAM-LOG-GRUPPE Holding GmbH, Hamburg	25.00	25.0	0.0 ³⁾
Hanse-Residenz Lübeck GmbH, Lübeck	5.00 ⁶⁾	414.5	110.8
novomind management group GmbH, Hamburg	21.54	12,886.2	3,924.6
PWM Beteiligungs GmbH, Hamburg	49.99	1,391.7	-0.7
R+S solutions Beteiligungs GmbH, Hamburg	23.00	20,938.3	-61.7
TSH und BGM Beteiligungs GmbH, Visbek	49.00	n. a. ⁴⁾	n. a. ⁴⁾

¹ Equity investments unless insignificant

² Based on the most recent annual financial statements available for 2016 if no other information is given

³ Profit and loss transfer agreement

⁴ New entity – therefore no annual financial statements available for 2016

⁵ Closing liquidation balance sheet as at 12 October 2017

⁶ Another 5% of the shares are held as trustee.

⁷ 2016 Vorratsgesellschaft Fünfzehnte Hammonia Beteiligungsgesellschaft mbH

⁸ 2016 Jomaa Pharma GmbH

⁹ 2016 Börse Düsseldorf AG

¹⁰ 2016 Wincor Nixdorf Portavis GmbH

¹¹ The voting share is 15.38%

Fiduciary assets

Reported fiduciary loans pertain exclusively to fiduciary amounts due from customers.

Intangible and tangible fixed assets

Intangible and tangible fixed assets are recognised at cost less amortisation and depreciation. Depreciation allowed under German tax rules is taken on tangible fixed assets that were acquired by 2009.

Tangible fixed assets contain only operating and office equipment.

Haspa did not use the option of capitalising internally generated software.

Changes in intangible and tangible fixed assets:

	Intangible fixed assets € million	Tangible fixed assets € million
Cost on 01.01.2017	146.5	167.7
Additions	6.2	5.3
Disposals	0.4	6.3
Reclassifications	0.2	-0.2
Cost on 31.12.2017	152.5	166.5
Depreciation, amortisation and write-downs		
Accumulated depreciation, amortisation and write-downs as at 01.01.2017	120.3	147.6
Depreciation, amortisation and write-downs	12.6	3.7
Reversal of write-downs	0.0	0.0
Disposals	0.5	6.3
Reclassifications	0.0	0.0
Accumulated depreciation, amortisation and write-downs as at 31.12.2017	132.4	145.0
Carrying amount as at 31.12.2017	20.1	21.5
Carrying amount previous year	26.2	20.1

Other assets	2017 € million	2016 € million
Other assets comprise the following:		
Capitalised inventories and other assets	2.9	2.7
Adjustment item from foreign currency translation	13.5	1.6
Other receivables from affiliated companies	9.9	7.5
Other receivables from point-of-sale payments	1.4	1.4
Other receivables from commission income	0.0	3.3
Trade receivables from third parties	0.1	2.7
Other receivables from cash collateral	6.2	4.4
Other receivables	3.1	1.8
	37.1	25.4

Prepaid expenses	2017 € million	2016 € million
Prepaid expenses include:		
The difference between the lower of the settlement amount and the issue price of liabilities or debentures	4.1	3.4
Other prepaid expenses	2.9	1.4
	7.0	4.8

Notes to the balance sheet (equity and liabilities)

Liabilities to banks	2017	2016
	€ million	€ million
This item includes:		
Liabilities to affiliated companies	1.1	0.2
Liabilities to other long-term investees and investors	0.9	2.2
Total amount of assets transferred as collateral for the liabilities included in this item	2,316.9	2,188.6
Breakdown of sub-item b) by maturity:		
up to 3 months	128.5	168.1
more than 3 months up to 1 year	177.1	150.5
more than 1 year up to 5 years	1,161.9	849.9
more than 5 years	1,999.7	2,221.7
<hr/>		
Liabilities to customers	2017	2016
	€ million	€ million
This item includes:		
Liabilities to affiliated companies	88.1	136.6
Liabilities to other long-term investees and investors	24.2	23.7
Breakdown of sub-item ab) by maturity:		
up to 3 months	0.0	0.0
more than 3 months up to 1 year	0.0	0.0
more than 1 year up to 5 years	0.1	0.1
more than 5 years	0.0	0.0
Breakdown of sub-item bb) by maturity:		
up to 3 months	265.9	376.8
more than 3 months up to 1 year	432.9	133.7
more than 1 year up to 5 years	684.4	742.6
more than 5 years	4,136.7	4,236.3
<hr/>		
Securitised liabilities	2017	2016
	€ million	€ million
This item includes:		
Liabilities to affiliated companies	25.0	0.0
Liabilities to other long-term investees and investors	0.0	0.0
Debentures issued that are due in the following year	214.2	336.9
<hr/>		
Trading portfolio	2017	2016
	€ million	€ million
The trading portfolio comprises:		
Derivative financial instruments	28.2	36.6
Liabilities	0.0	0.0
Subtotal	28.2	36.6
Risk premium	—	—
	28.2	36.6

The nominal volume of the derivative financial instruments is € 135.7 million for interest rate swaps and € 0.4 million for currency options.

The amount, timing and probability of occurrence of future cash flows from the derivative financial instruments held for trading are mainly influenced by the interest rate environment, trends on the bond markets and developments in credit spreads.

Fiduciary liabilities

The fiduciary liabilities reported exclusively concern liabilities to banks.

Other liabilities	2017 € million	2016 € million
The other liabilities comprise:		
Tax liabilities	12.8	9.7
Liabilities to companies of HASPA Finance Group		
under profit transfer agreements	80.3	80.1
other liabilities	8.3	5.1
Adjustment item from foreign currency translation	1.3	13.6
Trade payables to third parties	19.8	11.5
Other liabilities	8.9	10.7
	131.4	130.7

Deferred income	2017 € million	2016 € million
Deferred income includes:		
The difference between the lower of the nominal amount and the settlement amount of loan receivables	13.2	14.3
The difference between the higher of the settlement amount and the issue price of liabilities or debentures	2.1	2.6
Other deferred income	6.6	1.2
	21.9	18.1

Provisions

The difference between the carrying amount of the pension provisions using the average market interest rate for the past ten years and the carrying amount using the average market interest rate for the past seven years calculated in accordance with section 253 (6) sentence 1 HGB was € 139.4 million as at 31 December 2017.

Pursuant to section 67 (1) sentence 2 Introductory Law to the German Commercial Code, we exercised the right to choose and opted to retain the higher amount in connection with one other provision. The excess cover is € 103.19.

Fund for general banking risks

This position includes an extraordinary item of € 700 million in accordance with section 340g (1) HGB.

Furthermore, an extraordinary item of € 2 million in accordance with section 340e (4) HGB is shown.

Equity

The equity is € 1 billion and is divided into 1,000,000 no par shares. HASPA Finanzholding holds all of these shares.

Statement of changes in equity

The statement of changes in equity shows the development of equity.

in € million	Subscribed capital	Capital reserves	Revenue reserves	Net retained profits	Reported equity
Balance on 31.12.2016	1,000.0	1,354.0	217.0	0.0	2,571.0
Allocation		80.0			
Net income for the financial year				80.0	
Profit to be transferred				-80.0	
Balance on 31.12.2017	1,000.0	1,434.0	217.0	0.0	2,651.0

Contingent liabilities and other obligations

Contingent Liabilities

Guarantees, warranties and indemnity agreements assumed for borrowers are recorded in this item. On the basis of the regular assessments of customers' credit quality as part of our credit risk management processes, we assume that the amounts disclosed here will not result in an economic burden.

Irrevocable credit commitments

The irrevocable credit commitments largely comprise loans that have been not yet been fully disbursed. They are subject to the regular credit monitoring processes that apply to all credit commitments. There has been no increase in related counterparty credit risks.

Notes to the income statement

Interest income

In the financial year, negative interest of € 7.8 million is shown for lending products.

Interest expense

Interest expense includes a total of € 0.6 million due to the unwinding of discounts on provisions related to the banking business. Furthermore, this item includes negative interest of € 7.4 million for deposit products.

Commission income

A portion of 27.2 percent of total commission income is attributable to brokerage and management services for third parties.

Other operating income

This item contains € 10.4 million in income from currency translation. It also includes € 30.6 million in income from the reversal of provisions.

Other operating expenses

Other operating expenses include a total of € 77.2 million due to the unwinding of discounts on long-term provisions.

A total of € 15.9 million was expensed for the recognition of provisions during the reporting year.

Taxes on income

This item totalling € 90.1 million includes € 81.9 million in current tax allocations and € 6.0 million in prior-period tax allocations.

Other disclosures

Disclosures in accordance with section 160 (1) no. 8 German Stock Corporation Act

The following announcement was published by Haspa in the Electronic Federal Gazette on 17 July 2003:

“HASPA Finanzholding, Hamburg, has advised us that they hold a controlling interest (section 20 (4) German Stock Corporation Act in conjunction with section 16 (1) German Stock Corporation Act) in our company.”

Disclosures in accordance with section 285 No. 21 German Commercial Code

No transactions were carried out at off-market terms.

Board of Management and Supervisory Board

In the 2017 financial year, the members of the Board of Management received total compensation of € 3.0 million. Loans and guarantees granted to members of the Board of Management amounted to € 7.8 million.

A total of € 2.0 million was set aside for pension commitments to former members of the Board of Management and their surviving dependants.

The total compensation of the members of the Supervisory Board in financial year 2017 amounted to € 0.7 million. Loans and guarantees granted to members of the Supervisory Board amounted to € 3.8 million.

Expenses for the auditor

The total fee for the auditor paid for auditing services in the 2017 financial year amounted to € 1.1 million.

Amounts not available for distribution in accordance with section 268 (8) German Commercial Code

There were no amounts not available for distribution in accordance with section 268 (8) German Commercial Code in the 2017 financial year.

Other financial obligations

There are obligations arising from letting, rental and lease agreements in effect for the next financial years.

Financial year	€ million	Of which: affiliated and associated companies € million
2018	55.1	22.9
2019	55.8	23.0
2020	56.4	23.0
	167.3	68.9

There are deposit obligations of € 0.1 million in the financial year; there are no obligations to make additional contributions.

In the financial year, Haspa made use of the option to contribute a portion of the annual contributions to the restructuring fund ("European bank levy") and the guarantee system for financial institutions of the German Savings Bank's Organisation in the form of fully hedged payment entitlements. The security provided for this purpose amounted to € 11.2 million.

There were no off-balance sheet transactions pursuant to section 285 no. 3 German Commercial Code at the reporting date.

Report on post-balance sheet date events

No events of special significance took place after the reporting date.

Foreign currency

Total assets and liabilities denominated in foreign currency were translated into € 1,127.3 million and € 581.8 million respectively.

Forward transactions / Derivative financial transactions of Hamburger Sparkasse

The following table shows the volume of transactions in effect at the end of 2017.

as at 31.12.2017	Nominal values			Total	of which: nominal values in the trading portfolio	Market values	
in € million	Maturity up to 1 year	more than 1 year up to 5 years	more than 5 years			Positive	Negative
Interest rate related transactions							
OTC products							
Caps	37.7	58.0	0.7	96.4	0.0	0.0	0.0
Collars	0.0	14.0	0.0	14.0	0.0	0.2	0.2
Floors	0.2	0.0	0.9	1.1	0.0	0.0	0.0
Structured swaps	21.5	161.9	5,119.2	5,302.6	0.0	286.9	36.7
Forward transactions in securities	0.0	80.0	0.0	80.0	0.0	0.2	5.1
Interest rate swaps	3,912.2	9,954.8	11,221.4	25,088.4	272.6	669.8	1,039.6
Stock market instruments							
Interest rate futures	3,083.9	0.0	0.0	3,083.9	0.0	17.9	1.7
Total	7,055.5	10,268.7	16,342.2	33,666.4	272.6	975.0	1,083.3
Currency-related transactions							
OTC products							
Currency options	0.8	0.0	0.0	0.8	0.8	0.0	0.0
Forward currency transactions	4,365.0	100.6	0.0	4,465.6	0.0	30.2	17.9
Currency swaps	10.8	28.8	152.1	191.7	0.0	34.6	31.8
Stock market instruments							
Interest rate futures	264.8	0.0	0.0	264.8	0.0	0.2	0.3
Total	4,641.4	129.4	152.1	4,922.9	0.8	65.0	50.0
Transactions involving other price risks							
OTC products							
Structured swaps	0.0	141.7	8.8	150.5	0.0	6.7	0.6
Stock market instruments							
Index futures	522.4	0.0	0.0	522.4	0.0	5.9	1.8
Index options	30.1	0.0	0.0	30.1	0.0	0.1	0.3
Total	552.5	141.7	8.8	703.0	0.0	12.7	2.7

Derivatives are always measured by reference to their current market price. The prices on the last trading day in 2017 were used for derivatives traded on a stock exchange. If no current market price is immediately available, the measurement is based on standard financial valuation methods. In the case of interest swaps for instance, the present value is determined based on the current yield curve. In currency futures, the forward rate is used. The fair values of currency options are determined based on the current spot exchange rate, yield curves as well as implied volatilities (binomial model). The fair values of interest rate options are determined using yield curves and implicit levels of volatility (shifted Black model).

Haspa issues structured securities that are matched by swaps combined into micro hedges such that the interest rate risks and other price risks are hedged in full.

The majority of Haspa's interest-related transactions mentioned above were carried out to limit interest rate risks; they were included in the loss-free valuation of interest rate-related transactions of the banking book (interest rate portfolio). Haspa's maturities transformation is managed as part of its asset and liabilities management by means of the interest rate swaps. Interest rate derivatives admitted to a stock exchange for trading mainly concern trades for customers and interest rate hedges.

A large portion of the currency-related transactions concerns transactions with customers and own special funds that are hedged through foreign exchange contracts and, to a lesser extent, own portfolio trading and own securities hedging. The currency-related derivative transactions constitute an almost closed position in conjunction with Haspa's foreign currency holdings.

Transactions involving other price risks solely comprise trades for customers and structured swaps with fully hedged price risks.

The amount, timing and probability of occurrence of future cash flows from the derivative financial instruments held for trading are mainly influenced by the interest rate environment, trends on the bond markets and developments in credit spreads.

Hedges

Both liabilities with a carrying amount of € 3,468.7 million and executory contracts with a nominal value of € 198.9 million were classified as underlying transactions and subject to hedge accounting pursuant to section 254 sentence 1 German Commercial Code. These are so-called micro hedges. All underlying transactions are hedged against interest, currency and other price risks using derivative financial instruments.

At the reporting date, transactions with a positive fair value of € 250.1 million were in place to hedge interest rate risks; transactions with a negative fair value of € 6.4 million to hedge currency risks; as well as transactions with a positive fair value of € 6.1 million to hedge other price risks.

Statement of cover assets pursuant to section 35 (1) no. 7 RechKredV

Cover for debentures issued

Cover for debentures issued, 2017	2017 € million	2016 € million
Receivables from banks	0.0	0.0
Receivables from customers	6,980.8	6,760.4
Debentures and other fixed interest securities	200.0	200.0

II) Composition of ordinary cover assets		2017	2016
		€ million	€ million
Section 28 (2) no. 1 German Pfandbrief Act			
a) Total amount of nominal value cover assets used, by size class ¹			
Credit coverage			
up to € 300 thousand		3,004.4	3,178.0
more than € 300 thousand up to € 1 million		1,294.1	1,145.3
more than € 1 million up to € 10 million		2,177.0	1,990.6
more than € 10 million		505.3	446.6
b) and c) Total amount of receivables used for cover, by type of use ^{1,2}			
	Land used for residential purposes	Land used for commercial purposes	
	2017	2016	2017
	€ million	€ million	€ million
Commonhold/leasehold properties	788.8	807.3	0.0
Single- and two-family homes	2,151.7	2,115.7	0.0
Multi-family homes	2,140.6	2,156.6	0.0
Office buildings	0.0	0.0	881.6
Commercial buildings	0.0	0.0	417.8
Industrial buildings	0.0	0.0	55.6
Other commercially used buildings	0.0	0.0	544.8
Unfinished building and new buildings not yet earning income	0.0	0.0	0.0
Building plots	0.0	0.0	0.0
Section 28 (1) no. 7 German Pfandbrief Act			
Total amount of receivables exceeding the limits pursuant to section 13 (1)		0.0	0.0
Section 28 (1) no. 11 German Pfandbrief Act			
Volume-weighted average age of receivables		6.2	6.1
Section 28 (2) no. 3 German Pfandbrief Act			
Average weighted loan-to-value ratio		52.0	52.0
III) Composition of additional cover assets		2017	2016
		€ million	€ million
Section 28 (1) no. 8 German Pfandbrief Act			
Total amount of receivables exceeding the limits of section 19 (1) no. 2		0.0	0.0
Total amount of receivables exceeding the limits of section 19 (1) no. 3		0.0	0.0
Section 28 (1) no. 4, 5 and 6 German Pfandbrief Act			
Equalisation claims as defined in section 19 (1) no. 1		0.0	0.0
Receivables as defined in section 19 (1) no. 2		0.0	0.0
of which covered bonds as defined in article 129 of Regulation (EU) No. 575/2013		0.0	0.0
Receivables as defined in section 19 (1) no. 3		200.0	200.0

¹ Only regular cover is taken into consideration

² No liens on property outside Germany

IV) Overview of past due payments	2017 € million	2016 € million
Section 28 (2) no. 2 German Pfandbrief Act		
Total amount of payments on receivables past due at least 90 days	0.0	0.0
Total amount of these receivables if payment of at least 5% of the receivable is past due	0.0	0.0

V) Further information on the annual financial statements

	Land used for residential purposes		Land used for commercial purposes	
	2017 Number	2016 Number	2017 Number	2016 Number
Number of foreclosures and receiverships pending at the closing date	0	0	0	0
Number of foreclosures executed during the financial year	0	0	0	0
Number of plots taken over during the financial year to prevent losses	0	0	0	0

	Land used for residential purposes		Land used for commercial purposes	
	2017 € million	2016 € million	2017 € million	2016 € million
Total interest in arrears	0.0	0.0	0.0	0.0

Trustees

Dr. Adam Freiherr von Kottwitz – retired notary public (since 1 October 2017)

Uwe Rollert – corporate consultant (until 30 September 2017)

Dr. Adam Freiherr von Kottwitz, deputy – retired notary public (until 30 September 2017)

Joachim Pradel – deputy, retired judge

Claus Wilhelm Möller – deputy, retired department head at Deutscher Ring (since 1 October 2017)

Employees

	Annual average		
	male	female	total
Full-time employees	2,038	1,107	3,145
Part-time employees	115	887	1,002
	2,153	1,994	4,147
Trainees	154	156	310
	2,307	2,150	4,457

Part-time employees are included on a prorated basis as full-time employees according to their contractual working hours.

An annual average of 1,595 part-time staff were employed in 2017.

Disclosures in accordance with section 340a (4) German Commercial Code

Members of the Board of Management and employees who hold positions on statutory monitoring bodies of large corporations (section 267 (3) German Commercial Code):

Members of the Board of Management

Dr. Harald Vogelsang (Spokesman of the Board of Management)

Supervisory Board

Landesbank Berlin AG, Berlin

Member

Landesbank Berlin Holding AG, Berlin

Member

Frank Brockmann (Deputy Spokesman of the Board of Management)

Supervisory Board

Sparkasse zu Lübeck AG, Lübeck

Deputy Chairman

Axel Kodlin (member of the Board of Management)

Supervisory Board

Bordesholmer Sparkasse AG, Bordesholm

Member

Sparkasse Mittelholstein AG, Rendsburg

Chairman

Jürgen Marquardt (member of the Board of Management)

Supervisory Board

LBS Bausparkasse Schleswig-Holstein-Hamburg AG, Kiel/Hamburg

Deputy Chairman

neue leben Lebensversicherung AG, Hamburg

Deputy Chairman

neue leben Pensionskasse AG, Hamburg

Chairman

neue leben Unfallversicherung AG, Hamburg

Deputy Chairman

Bettina Poullain (member of the Board of Management)

Board of Directors

Hamburgische Investitions- und Förderbank, Hamburg

Member

Directors

Thorsten Giele

Supervisory Board

LBS Bausparkasse Schleswig-Holstein-Hamburg AG, Kiel/Hamburg

Member

Olav Melbye

Supervisory Board

Sparkasse Mittelholstein AG, Rendsburg

Member

Sparkasse zu Lübeck, Lübeck

Member

Supervisory Board

Dipl.-Kfm. Günter Elste

Chairman

Chairman of the Supervisory Board of HASPA Finanzholding

Claus Krohn

Deputy Chairman

Chairman of the Works Council of Hamburger Sparkasse AG

Peter Becker

Additional Deputy Chairman
(until 12 April 2017)

Master Baker

Former President of the Zentralverband des Deutschen Bäckerhandwerks e.V.

Ulrich Wachholtz

Additional Deputy Chairman
(since 12 April 2017)

Managing Director of Karl Wachholtz Verlag GmbH & Co. KG

Yvonne Bargstädt

(since 1 July 2017)

Employee of Hamburger Sparkasse AG

Michael Börzel

Union secretary of the ver.di trade union

Stefan Forgé

Deputy Chairman of the Works Council of Hamburger Sparkasse AG

Karin Gronau

(until 30 June 2017)

Member of the Works Council of Hamburger Sparkasse AG

Uwe Grund

Former Chairman of the German Trade Unions Association Hamburg

Josef Katzer	President of the Hamburg Chamber of Trade Managing Director of Katzer GmbH
Dirk Lender	Department Head of Hamburger Sparkasse AG
Dr.-Ing. Georg Mecke	Vice President Site Management Hamburg and External Affairs Airbus Operations GmbH Hamburg
Olav Melbye	General Legal Representative Hamburger Sparkasse AG
Thomas Sahling	Deputy Chairman of the Works Council of Hamburger Sparkasse AG
Prof. Dr. Burkhard Schwenker	Chairman of the Advisory Council Roland Berger GmbH
Gabriele Voltz	Lawyer
Dr. Martin Willich (until 12 April 2017)	Businessman, legal professional
Dr. Jost Wiechmann (since 12 April 2017)	German Public Auditor, Lawyer, Tax Consultant, Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
Cord Wöhlke	Managing Director Iwan Budnikowsky GmbH & Co. KG

MANAGEMENT

MANAGEMENT REPORT

ANNUAL FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

Haspa is included in the consolidated financial statements of HASPA Finanzholding, Hamburg, Germany, as the latter's wholly-owned subsidiary. The consolidated financial statements of HASPA Finanzholding are published in the electronic Federal Gazette. Haspa has entered into a control and profit transfer agreement with HASPA Finanzholding pursuant to section 291 (1) German Stock Corporation Act. Whilst Haspa in turn has equity interests in subsidiaries as well, pursuant to section 296 German Commercial Code it may dispense with preparation of (partial) consolidated financial statements.

Section 296 (1) no. 1 German Commercial Code applies to one subsidiary due to a voting right limitation under German corporate law. Haspa's five other subsidiaries are individually and jointly subject to section 296 (2) German Commercial Code. Relative to Haspa's separate financial statements, these subsidiaries, individually and jointly, due to their single-digit ratios would have an insignificant effect on Haspa AG's net assets, financial position and results of operations shown in consolidated financial statements of Haspa AG if Haspa prepared (sub)group accounts.

Board of Management

Dr. Harald Vogelsang
Spokesman

Frank Brockmann
Deputy Spokesman

Axel Kodlin
Regular Member

Jürgen Marquardt
Regular Member

Bettina Poullain
Regular Member

Hamburg, 13 February 2018

The Board of Management



Dr. Harald Vogelsang



Frank Brockmann



Axel Kodlin



Jürgen Marquardt



Bettina Poullain

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Hamburger Sparkasse, and the management report includes a fair review of the development and performance of the business and the position of the Hamburger Sparkasse AG, together with a description of the material opportunities associated with the expected development of Hamburger Sparkasse.

Hamburg, 13 February 2018

The Board of Management



Dr. Harald Vogelsang



Frank Brockmann



Axel Kodlin



Jürgen Marquardt



Bettina Poullain

Independent auditors' report

To Hamburger Sparkasse AG, Hamburg

Report on the audit of the annual financial statements and of the management report

Audit opinions

We audited the annual financial statements of Hamburger Sparkasse AG, comprising the balance sheet as at 31 December 2017 and the income statement for the financial year from 1 January to 31 December 2017, as well as the notes including the presentation of accounting policies, the cash flow statement and the statement of changes in equity. We also audited the management report of Hamburger Sparkasse AG for the financial year from 1 January to 31 December 2017. In accordance with German legal requirements, we did not audit the content of those parts of the management report specified in the appendix.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying annual financial statements comply, in all material respects, with the provisions of German commercial law as applicable to credit institutions and in compliance with the German proper accounting principles give a true and fair view of the assets, liabilities and financial position of the Sparkasse as at 31 December 2017, and of its results of operations for the financial year from 1 January to 31 December 2017, and
- the accompanying management report as a whole provides a suitable view of the Sparkasse's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not extend to the content of those parts of the management report specified in the appendix.

Pursuant to section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Sparkasse in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation in conjunction with section 340k (3) sentence 2 HGB, we declare that all persons employed by us who can influence the result of the audit have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Hereinafter we present the key audit matters from our perspective.

Our presentation of these key audit matters has been structured as follows:

- a) Matter and issue
- b) Audit approach and findings
- c) Reference to further information

1. Accounting for provisions for pensions and similar obligations

- a) The annual financial statements of Hamburger Sparkasse AG, Hamburg, include provisions for pensions and similar obligations totalling € 856.8 million. In the 2017 financial year, allocations to this item affecting the income statement totalled € 57.3 million. In our view, this issue was particularly significant as the recognition and measurement of this provision with a significant amount is largely based on the estimates and assumptions of the company's legal representatives and is therefore classified as highly complex.
- b) As part of our audit of this matter, we assessed the presentation of the matter in accordance with the requirements of the German Commercial Code based on the contractual framework and using the available opinion of an external expert. Among other things, we also reviewed whether:
- the assessment of the legal representatives based on commercial law complies with statutory provisions and generally accepted accounting principles,
 - the key assumptions underlying the estimated figures are plausible according to internal and external expectations and are thus sound,
 - the notes to the annual financial statements for the 2017 financial year are complete and correct.

On the basis of our audit procedures, we were satisfied that the estimates and assumptions made by the company's legal representatives are generally comprehensible, and that the accounting for provisions for pensions and similar obligations has thus been carried out in an appropriate manner.

- c) The information provided by the Sparkasse for accounting for provisions for pensions and similar obligations is included in the accounting policies and notes to the balance sheet (equity and liabilities) sections of the notes.

Other information

The Board of Management is also responsible for the other information.

The other information comprises other parts of the annual report of Hamburger Sparkasse AG for the year ended 31 December 2017 that are not relevant for the audit.

Our audit opinions on the annual financial statements and on the management report do not extend to the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibility of the Board of Management and the Supervisory Board for the annual financial statements and the management report

The Board of Management is responsible for the preparation of the annual financial statements, which in all material respects comply with the provisions of German commercial law as applicable to credit institutions, and it is responsible that the annual financial statements in compliance with the German proper accounting principles give a true and fair view of the assets, liabilities, financial position and results of operations of the Sparkasse. In addition the Board of Management is responsible for such internal control as they have determined necessary in accordance with the German principles of proper accounting to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Board of Management is responsible for assessing the Sparkasse's ability to continue as a going concern. Furthermore, it has the responsibility to disclose matters related to going concern, as applicable. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

In addition, the Board of Management is responsible for the preparation of the management report, which as a whole provides a suitable view of the Sparkasse's situation, is consistent with the annual financial statements in all material respects, complies with the German legal regulations and suitably presents the opportunities and risks of future development. Furthermore, the Board of Management is responsible for such arrangements and measures (systems) which it has deemed necessary in order to enable the preparation of a management report in accordance with the German legal regulations to be applied and to furnish sufficient and appropriate evidence for the statements in the management report.

The Supervisory Board is responsible for overseeing the Sparkasse's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Sparkasse's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

As part of an audit, we exercise professional judgement and maintain professional scepticism. We also

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control system relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.

- form conclusions on the appropriateness of the Board of Management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sparkasse's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sparkasse to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements in compliance with the German proper accounting principles give a true and fair view of the assets, liabilities, financial position and results of operations of the company.
- evaluate the consistency of the management report with the annual financial statements, its legal consistency, and the view of the Sparkasse's position it provides.
- perform audit procedures on the forward-looking information presented by the Board of Management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Board of Management as a basis for the forward-looking information, and evaluate the proper derivation of the forward-looking information from these assumptions. We do not express a separate audit opinion on the forward-looking information and on the underlying assumptions. There is a significant, unavoidable risk that future events will differ materially from the forward-looking information.

We discuss with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters discussed with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report, unless law or regulation precludes public disclosure of the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

In accordance with section 340k (3) HGB in conjunction with the Articles of Association of Hamburger Sparkasse AG, Hamburg, and the HSGV as well as the audit office of the HSGV, we are the Sparkasse's statutory auditor. On 25 April 2017, the General Meeting of the Sparkasse adopted a resolution to appoint us as auditor for the 2017 financial year.

We declare that the audit opinions expressed in this auditors' report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Responsible auditor

The German Public Auditor responsible for the engagement is Ms Claudia Guiddir, Wirtschaftsprüferin.

Hamburg, 20 March 2018

Auditing division of the
HANSEATISCHER SPARKASSEN- UND GIROVERBAND
(HANSEATIC SAVINGS BANKS ASSOCIATION)



Claudia Guiddir
Wirtschaftsprüferin

Appendix to the auditors' report

Non-audited parts of the management report

We did not audit the content of the following parts of the management report:

- the non-financial declaration contained in section 7 of the management report, and
- the corporate governance declaration contained in section 8 of the management report.

Furthermore, we did not audit the content of the remuneration report presented in the appendix to the management report pursuant to section 25 (2) and (3) in conjunction with section 22 (4) EntGTranspG.

Report of the Supervisory Board

During the reporting year, the Supervisory Board and the Board of Management regularly, without delay and comprehensively discussed all fundamental matters related to the strategic alignment of Hamburger Sparkasse AG, its corporate policies, its company planning, the development of its operating business, its financial condition, its exposure to risk and the business and risk strategy, and the Supervisory Board made all decisions that were incumbent on it. All issues key to the company were discussed in depth with the Board of Management in four plenary sessions. Matters of major importance as well as topics specified in particular in the German Banking Act were discussed and fleshed out ahead of time at the meetings of the appropriate committees (Steering Committee, Risk Committee and Audit Committee, Nomination Committee, Personnel and Compensation Control Committee). In the context of performance and risk reporting, the Supervisory Board discussed the financial situation of Hamburger Sparkasse AG at length and debated on possible effects. Other issues of importance were the market and competitive environment of Hamburger Sparkasse AG, including the challenges of digitalisation, the requirements of the CSR Directive Implementation Act, regular reporting on the upcoming migration of IT systems (“AMANDUS”) and changes to the rules of procedure for the Supervisory Board to implement the recommendations of the ECB’s on-site audit.

Furthermore, the Supervisory Board discussed the supervision by the European Central Bank. This discussion focused on the on-site audit of the FINREP reporting system and compliance with remuneration requirements. Following a lengthy debate and based on a list of different criteria, the Supervisory Board then assessed its structure, size, composition and performance as well as the knowledge, skills and experience of both Supervisory Board members and the Supervisory Board as a whole and determined these to be adequate and in line with regulatory requirements.

The Supervisory Board was involved in all material decisions of Hamburger Sparkasse AG requiring its consent by law or the company’s articles of association. The Spokesman of the Board of Management and the Chairman of the Supervisory Board also regularly engaged in discussions at which the former informed the latter of current operational matters and addressed strategic considerations ahead of time. The Supervisory Board satisfied itself of the Board of Management’s due and proper conduct of business and made all decisions that are incumbent upon it by its authority – especially under the requirements of applicable laws and the articles of association – at its meetings. A training event was held for new Supervisory Board members as well as a continued professional development seminar for all Supervisory Board members. The training event focused on the commercial, corporate and supervisory basis for the Supervisory Board’s activities, while the continued professional development seminar addressed the effects of digitalisation, refurbishment and implementation planning as well as the latest supervisory developments.

After many years of close, trust-based cooperation, the Deputy Chairman of the Supervisory Board, Mr Peter Becker, and Dr. Martin Willich in April ended their activities on the Supervisory Board on reaching the age limit stipulated in the Articles of Association, while in June Ms Karin Gronau retired and thus stepped down from the Supervisory Board. The Supervisory Board thanks its former members for their many years of commitment to Hamburger Sparkasse AG. On 12 April, the General Meeting elected Mr Ulrich Wachholz and Dr. Jost Wiechmann to the Supervisory Board. On 1 July 2017, Ms Yvonne Bargstädt joined the Supervisory Board as the new employee representative.

The auditing division of the Hanseatischer Sparkassen- und Giroverband (Hanseatic Savings Banks Association), which the General Meeting had elected to serve as the auditors, audited the bank's annual financial statements as at 31 December 2017 – comprising the balance sheet, income statement, notes as well as the cash flow statement and the statement of changes in equity – including the bookkeeping system as well as the management report and issued an unqualified auditors' report.

The auditors' report was presented to the members of the Audit Committee tasked with conducting a preliminary review. The auditors attended the financials meetings of the Audit Committee and the Supervisory Board and reported on the material findings of their audit. The Supervisory Board discussed the auditors' report in detail and duly noted its findings. The Supervisory Board's own review fully concurs with the results of the audit by the auditing division of the Hanseatic Savings Banks Association. The Supervisory Board sees no reason to raise any objections against the management and the financial statements that were presented. The Supervisory Board approved the annual financial statements as prepared by the Board of Management at today's meeting. The annual financial statements have thus been adopted pursuant to section 172 German Stock Corporation Act. Under the control and profit transfer agreement, the net income for the 2017 financial year before profit transfer, as reported in the annual financial statements, is transferred in full to HASPA Finanzholding without requiring a resolution of the General Meeting as to the appropriation of net retained profits.

The Supervisory Board also reviewed the non-financial report (Sustainability Report). In doing so, it took into account the findings of the review of the report conducted by the Compliance division. The audit did not lead to any reservations.

The Supervisory Board expresses its gratitude and appreciation to the Board of Management and to all employees of Hamburger Sparkasse AG for their great personal dedication and successful work in the financial year just ended. The Supervisory Board also thanks the works council for the good and constructive collaboration.

Hamburg, 11 April 2018

The Supervisory Board



Günter Elste
Chairman of the Supervisory Board

Regional divisions and regions

Haspa's personal customer support and consulting services are always easily accessible in the Hamburg Metropolitan Region. With four regional divisions and 28 regions, we are deeply entrenched in the local market sectors of the Hamburg Metropolitan Region. In our branches and centres we provide comprehensive customer support and consulting services in five areas of competency: financial consulting, asset accumulation and asset optimisation consulting, property financing and corporate customer advisory.

An advisory board was set up in each of these regions to forge close ties with the local people and companies, associations and institutions. There is also an advisory board for the Real Estate Customers, Private Banking and Corporate Customers divisions.

Central regional division

Regional division manager Private Customers
Joachim Ewald

Regional division manager Corporate Customers
Arent Bolte
Helge Steinmetz

Regions

Altona-Ottensen
Jan Richert

Barmbek
Metta Schade

Eimsbüttel
Peter Engelhorn

Eppendorf-Rotherbaum
Michael Schilling

City Centre
Stefan Nickel

St. Georg-Hohenfelde
Andreas Stockdreher

St. Pauli
Detlef Rüter

Uhlenhorst-Winterhude
Frank Ennen

North-East regional division

Regional division manager Private Customers
Niels-Helge Pirck

Regional division manager Corporate Customers
Ralf Günther

Regions

Alstertal
Claus Schmieder

Bramfeld-Steilshoop
Jens Kruse

Jenfeld-Farmsen
Stefan Sagau

Rahlstedt-Berne
Marco Röder

Stormarn
Martin Englert

Wandsbek
Thomas Brümmerstedt

Walddörfer
Marcel Sluppke

North-West regional division

Regional division manager Private Customers
Thomas Hinsch

Regional division manager Corporate Customers
Ralf Günther

Regions

Bahrenfeld-Othmarschen
Nico Damm

Blankenese-Rissen
Jan-Erik Schuldt

Eidelstedt-Pinneberg
Jürgen Ropers

Niendorf
Daan Scheffer

Norderstedt-Langenhorn
Nicole Weber

South-East regional division

Regional division manager Private Customers
Holger Knappe

Regional division manager Corporate Customers
Arent Bolte
Helge Steinmetz

Regions

Altes Land
Kai Köster

Bergedorf
Petra Wittenhagen

Billstedt
Tobias Foerster

Harburg
Andreas Römer

Horn-Hamm
Olaf Namat

Nordheide
Reinhard Lackner

Sachsenwald
Kai Arnold

Veddel-Wilhelmsburg
Susanne Topf

Corporate divisions

Compliance
Christian Albers

Digital Sales
Tobias Lücke

Purchasing, Facility Management and Logistics
Volker Widdra

Corporate Customers 1
Arent Bolte
Helge Steinmetz

Corporate Customers 2
Ralf Günther

Comprehensive Bank Controlling
Dr. Olaf Oesterhelweg

Real Estate Customers
Wilfried Jastremski

Information Technology and Organisation
Dr. Rudolf Hoyer

Credit and Legal
Olav Melbye, Generalbevollmächtigter

SME Customers
Michael Maaß

Human Resources
Dr. Elisabeth Keßböhrer

Private Banking
Jörg Ludewig, Generalbevollmächtigter

Private Customers Central
Joachim Ewald

Private Customers North-East
Niels-Helge Pirck

Private Customers North-West
Thomas Hinsch

Private Customers South-East
Holger Knappe

Audit
Thorsten Pegelow

Treasury
Henrik Bustorf

Corporate Communication
Stefanie von Carlsburg

Enterprise Customers
Andreas Mansfeld, Generalbevollmächtigter

Corporate Customers Sales Management
Alexandra Hasse

Private Customers Sales Management
Thorsten Giele

Board Staff
Arne Nowak

Securities and Transaction Service
Dr. Christian Tonnesen

Works Council

Chairman of the Works Council
Claus Krohn

Business development 2013 to 2017

of Hamburger Sparkasse AG

Balance sheet figures	2013	2014	2015	2016	2017
ASSETS	€ million	€ million	€ million	€ million	€ million
Cash reserve	302	612	391	883	690
Receivables from banks	3,029	3,727	2,819	3,102	3,828
Receivables from customers	29,897	29,492	30,192	30,763	30,901
Business loans	6,291	6,055	5,773	5,710	5,913
Personal loans	2,092	1,886	1,695	1,531	1,460
Commercial real estate financing	12,405	13,073	14,124	15,095	15,151
Private real estate financing	8,595	8,134	8,032	8,058	8,109
Public-sector loans	514	344	568	369	268
Securities	6,950	7,782	8,978	8,498	7,976
Trading portfolio	162	181	119	106	71
Equity investments, shares in affiliated companies	72	65	61	60	119
Tangible and intangible fixed assets	80	65	55	46	42
Other assets	29	23	24	30	44
EQUITY AND LIABILITIES					
Liabilities to banks	5,020	5,005	4,619	3,778	3,782
Liabilities to customers	28,638	30,472	31,627	33,020	32,662
Savings deposits	6,487	7,252	7,826	8,438	8,708
RentaPlan	53	63	54	45	34
Savings certificates	1,177	1,228	1,335	1,233	1,220
Time deposits	662	791	1,003	385	451
Promissory note loan	1,934	1,371	449	288	229
Registered Pfandbrief securities	2,790	3,011	3,357	3,680	3,732
Deposits payable on demand	15,535	16,756	17,602	18,952	18,287
Securitised liabilities (excluding Pfandbrief securities)	2,801	1,705	1,522	1,337	1,332
Pfandbrief securities	418	533	503	876	1,293
Trading portfolio	48	57	43	37	28
Provisions	805	858	939	1,018	1,067
Subordinated liabilities	0	0	0	0	0
Equity and fund for general banking risks	2,663	3,163	3,218	3,273	3,353
Other equity and liabilities	128	154	169	149	153
Total equity and liabilities	40,521	41,947	42,639	43,488	43,670

Figures from the income statement	2013	2014	2015	2016	2017
	€ million	€ million	€ million	€ million	€ million
Net interest income	687	677	745	709	725
Interest income	1,314	1,224	1,189	1,064	1,001
Interest expense	627	547	444	355	277
Net commission income	254	263	278	280	299
Administrative expenses	653	671	687	675	738
Net income from financing activities	1	2	-4	-2	-2
Other operating income / expenses (net)	-90	-52	-92	-89	-40
Operating result before loan loss provisions	199	219	240	223	243
Taxes on income	55	84	101	104	90
Earnings after taxes	75	80	80	80	80
Cost / income ratio (according to DSGV) ¹ in %	72.5	72.2	70.2	69.3	68.0
Return on equity before tax in %	4.9	6.0	5.7	5.7	5.1

¹ Following the definition by the German Savings Banks Association (DSGV)

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