



Report of the Management Board to the Annual General Meeting regarding the proposed authorisation of the Management Board under agenda item 7 to issue profit-participation certificates and other hybrid debt securities without conversion rights and to exclude pre-emptive subscription rights in accordance with sections 221 (4) sentence 2 and 186 (4) sentence 2 of the AktG

The Management Board and Supervisory Board propose that the Annual General Meeting pass a resolution on an authorisation for the issue of profit-participation certificates and other hybrid debt securities, in each case without conversion rights or obligations. The authorisation passed by the Annual General Meeting held on 21 May 2014 on the issue of profit-participation rights with or without conversion rights and on the exclusion of pre-emptive subscription rights expires on 20 May 2019. This is why, in addition to the authorisation in agenda item 7, which relates to the issue of corresponding instruments with conversion rights/obligations, a resolution is now to be passed on a further new authorisation allowing such instruments to be issued without conversion rights/obligations.

Regarding the authorisation

Adequate equity or capital is a key prerequisite for the successful development of the Company's business in future. In addition to the traditional options for raising capital, the issue of profit-participation certificates and other hybrid debt securities without conversion rights/obligations offers the possibility of utilising attractive financing alternatives on the capital market in the given market situation and of covering any future requirements the Company may have as regards regulatory capital. In order to be able to meet this objective set by the Company of strengthening the Company's regulatory capital base by issuing profit-participation certificates and other hybrid debt securities, the profit-participation certificates/other hybrid debt securities have to be structured in such a way that they are eligible as regulatory capital in accordance with the legal provisions that apply at the time they are issued.

Even though the Company's own funds are currently adequate, it is important that it has the necessary freedom to obtain further funds at any time in response to the market situation, also in order to meet any additional capital adequacy requirements imposed by regulators. The present authorisation will put the Management Board in a position to respond flexibly for the good of the Company. At the same time, the issue of profit-participation certificates and other hybrid debt securities will be appropriately limited from the start, with a maximum total nominal amount of €900,000,000.00. The nominal amounts of convertible bonds, profit-participation certificates and other hybrid debt securities issued under other authorisations in accordance with section 221 of the AktG, during the validity of this authorisation, shall count towards the upper threshold of €900,000,000.00. The profit-participation certificates and other hybrid debt securities may also be issued for contributions in kind.

In particular, the authorisation allows the Company to make use of the option, provided by the CRR, of issuing additional Tier 1 capital instruments depending on the market conditions prevailing at the time of issue. The terms and conditions of issue for the profit-participation right/hybrid debt securities can include the option of writing down the capital amount, for example in the event that the Bank falls short of certain capital ratios or other financial indicators defined in the terms and conditions of issue, if the write-down is required, in the opinion of the Company's Management Board and Supervisory Board, to safeguard the Company's continued existence; or if a write-down is ordered by a supervisory authority within



the scope of its powers. In this respect, the authorisation amount must be set in such a way that sufficient funds are available for the Company's recapitalisation even in such cases.

The authorisation also grants the Company the necessary flexibility to respond to the market situation and to place the profit-participation certificates and other hybrid debt securities either in Germany or internationally, and either in its own right or through companies in which it either directly or indirectly has a majority interest. The profit-participation certificates and other hybrid debt securities may be issued in euros or in any other legal currency of an OECD member state, and may have a limited or unlimited term.

The proposed term of the authorisation until 21 May 2024 is in accordance with the limitations prescribed by applicable law.

Re pre-emptive subscription rights, exclusion of pre-emptive subscription rights

As a general rule, shareholders must be granted pre-emptive subscription rights to the profit-participation certificates and other hybrid debt securities. In compliance with customary placement practices, the profit-participation certificates and other hybrid debt securities may also be subscribed by one or more banks or other companies within the meaning of section 186 (5) sentence 1 of the AktG, subject to the obligation that they are offered to the shareholders for subscription, thus granting the latter an indirect subscription right in such cases.

In the case of indirect issues of profit-participation certificates and other hybrid debt securities by companies in which the Company either directly or indirectly has a majority interest (hereinafter "**subsidiaries**"), the Company must ensure that the profit-participation certificates and other hybrid debt securities issued by the subsidiaries are offered to the Company's shareholders for subscription. The only case in which this does not apply is when the shareholders' statutory pre-emptive subscription rights are excluded by means of this authorisation. This enables the Company to organise the indirect issue of profit-participation certificates and other hybrid debt securities in an efficient manner, preserving the interests both of the Company and its shareholders, without unduly restricting the pre-emptive subscription rights of the latter. In this context, the shareholders' (direct) subscription rights against the Company are either replaced by comparable rights or excluded in compliance with legal provisions by means of the exclusion options described below.

In addition, the Management Board may, subject to approval by the Supervisory Board, exclude the pre-emptive subscription rights of its shareholders in the following ways:

The exclusion of subscription rights for fractional shares enables the requested authorisation to be utilised for rounded amounts and simplifies management of the capital measure. The fractional shares excluded from the shareholders' subscription rights will either be sold in the market, traded on the stock exchange or otherwise disposed of in the best interests of the Company.

In addition, it shall be possible to exclude subscription rights altogether in cases where profit-participation certificates/hybrid debt securities are issued insofar as (1) the profit-participation certificates/hybrid debt securities are only structured in the same way as bonds and (2) the interest and issue price of the profit-participation certificates/hybrid debt securities correspond to the market terms and conditions for comparable types of fund-raising at the time of issue. This means that shareholders retain their subscription rights in the case of profit-participation certificates/hybrid debt securities that are not structured in the same way as bonds. Profit-participation certificates/hybrid debt securities are considered to be structured in the same way as bonds if they



- (i) do not establish any rights of membership or subscription or conversion rights for shares;
- (ii) do not grant any participation in the liquidation proceeds; and
- (iii) do not grant any profit-oriented interest.

Moreover, participation in the proceeds of liquidation (within the meaning of letter (ii) above) is not deemed to exist if the profit-participation certificates/hybrid debt securities have no fixed term and repayment is permissible only with the approval of the relevant regulatory authorities. Nor is interest deemed to be profit-oriented within the meaning of letter (iii) above if its payment depends on the absence of an annual net loss or a net retained loss or that no such loss arises through payment of the interest or that the interest may be paid using only distributable items within the meaning of Article 4(1) no.128 of the CRR or any successor provision. By excluding pre-emptive subscription rights, the Company achieves the degree of flexibility it needs to respond quickly to favourable opportunities arising in the capital markets. Otherwise, a corresponding interest rate risk would arise between the date on which the terms and conditions are determined at the start of the subscription period and the expiry date of that period. If the market interest rates were to rise during the subscription period, the subscription rights would be exercised only to a small degree, or not at all. Given that the terms and conditions are not market-oriented, it would not be possible to guarantee subsequent placement of the unsubscribed profit-participation certificates/hybrid debt securities. By the same token, if market interest rates were to fall, the terms and conditions for raising funds would no longer be in line with the market at the time of issue. It would be necessary to pay an above-market-level interest rate for the entire issue. What is more, if pre-emptive subscription rights are excluded in this way, the return on the profit-participation certificates/hybrid debt securities has to match the current market terms and conditions for comparable types of fund-raising. Consequently, the subscription rights have no intrinsic value, which is why the shareholders suffer no economic disadvantage from having their pre-emptive subscription rights excluded. Therefore, in these cases, the exclusion of pre-emptive subscription rights does not infringe on the shareholders' rights to any relevant degree.

In addition, the Management Board is to be authorised, subject to the approval by the Supervisory Board, to exclude pre-emptive subscription rights in the event that profit-participation certificates/hybrid debt securities are issued so as to be able to issue bond-like profit-participation certificates/hybrid debt securities against contributions in kind. By virtue of this authorisation, the Management Board can, subject to approval by the Supervisory Board, directly or indirectly acquire companies, parts of companies or shareholdings in companies or other economic assets against the issue of profit-participation certificates/hybrid debt securities. This makes it possible to respond quickly to favourable offers or opportunities in the domestic and international markets and flexibly utilise the acquisition options that present themselves. The issue of profit-participation certificates/hybrid debt securities is frequently in the direct interests of the Company as it represents a form of financing that conserves liquidity. The Management Board is further entitled, subject to approval by the Supervisory Board, to issue, in full or in part and in lieu of cash payment, profit-participation certificates/hybrid debt securities to holders of securitised and non-securitised money claims against the Company or its subsidiaries. This offers the Company even greater flexibility, allowing it to place profit-participation certificates/hybrid debt securities in the capital markets and, at the same time, to (re)acquire securities or comparable instruments that have already been issued. For instance, it could be opportune in the event of a new placement of profit-participation certificates/hybrid debt securities to also (or only) address groups of investors with whom corresponding securities or comparable instruments have already been placed. This may be the case, for example, if the new profit-participation certificates/hybrid debt securities to be issued are more advantageous for the Company's capital situation than the instruments already placed. What is more, an approach of this kind may also facilitate placement of the new profit-participation certificates/hybrid debt securities. In these cases, allowance is made for the interests of



shareholders by the fact that, when issuing profit-participation certificates/hybrid debt securities against contributions in kind, the Company must preserve an appropriate relationship between the value of the contribution in kind and the profit-participation certificate/hybrid debt security. The date of the resolution to issue profit-participation certificates/hybrid debt securities is decisive in this context. The Management Board will carefully examine in each individual case whether to exercise this authorisation to issue profit-participation certificates/hybrid debt securities against contributions in kind, excluding shareholders' subscription rights. It will only use this authorisation where this is in the best interest of the Company.

In the event that these authorisations are exercised, the Management Board will report on this at the next Annual General Meeting.
