



Report of the Management Board to the Annual General Meeting regarding the proposed authorisation of the Management Board under agenda item 6 to issue profit-participation certificates and other hybrid debt securities with or 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 with conversion rights or obligations, and on the creation of a Conditional Capital 2019. 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. Therefore, a resolution is now to be passed on a new authorisation relating to the issue of profit-participation certificates and other hybrid debt securities with conversion rights. In addition, the authorisation to issue such instruments without conversion rights/obligations is proposed in agenda item 7. Within this context, the existing Conditional Capital 2014 is to be cancelled and replaced by a Conditional Capital 2019.

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 (with conversion rights) 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 and a maximum subscription of 23,942,888 no-par-value bearer shares in the Company. 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 proposed authorisation to attach conversion rights to the profit-participation certificates and other hybrid debt securities, and also to establish conversion obligations, expands the scope available for structuring this financial instrument. These profit-participation certificates and other hybrid debt securities featuring conversion rights and/or conversion obligations shall



be referred to in the proposed authorisation and in this report as “**convertible debt securities**”. In particular, the authorisation allows the Company to select the various structuring options provided by the Capital Requirements Regulations (CRR) for Additional Tier 1 capital instruments depending on the market conditions prevailing at the time of issue. For instance, a conversion obligation may be provided for in the event that the Bank falls short of certain capital ratios or other financial performance indicators defined in the terms of convertible debt securities, if conversion is required, in the opinion of the Company's Management Board and Supervisory Board, to safeguard the Company's continued existence; or if conversion is instructed by a supervisory authority within the scope of its powers. In this respect, the authorisation amount and the conditional capital designed to cover this amount must be set in such a way that sufficient funds are available for the Company's recapitalisation even in such cases.

In these cases of an ad-hoc conversion obligation, the lower limit for the applicable conversion price shall be 50 per cent of the Company's average share price in the closing auction of Xetra trading (or a system replacing the Xetra electronic trading system) on the ten trading days of the Frankfurt Stock Exchange preceding occurrence of the ad-hoc conversion obligation. In this way, the dilutive effect of an obligatory ad-hoc conversion – which may be implemented only if capital ratios or other financial performance indicators fall below certain levels, if required to safeguard the Company's continued existence or if ordered by a supervisory authority within the scope of its powers – is appropriately restricted. Thus, even in this case, there is no undue dilution of the shareholders' shares. Otherwise, the conversion price to be determined in each case must – even in the case of a variable conversion ratio or a variable conversion price – be equivalent to either at least 80 per cent of the Company's average share price in the closing auction of Xetra trading (or a system replacing the Xetra electronic trading system) on the ten trading days of the Frankfurt Stock Exchange preceding the Management Board's resolution to issue the convertible debt security or at least 80 per cent of the Company's average share price in the closing auction of Xetra trading (or a system replacing the Xetra electronic trading system) on those trading days of the Frankfurt Stock Exchange on which the subscription rights to the convertible bond are traded (with the exception of the last two days of subscription rights trading).

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 total shares to be issued to service conversion or option rights/conversion obligations in connection with profit-participation certificates/hybrid debt securities that can be issued in accordance with this authorisation must not exceed a registered share capital amount of €71,828,664.00 (corresponding to approximately 40 per cent of the current registered share capital); shares issued under another obligation during the term of this authorisation (in particular using the Authorised Capital 2017) shall count towards this limit. The Authorised Capital 2017 is still available in an amount of €89,785,830.00, which corresponds to 50 per cent of the current registered share capital.



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.

Further, the Management Board is to be given the option, subject to approval by the Supervisory Board, of excluding the pre-emptive subscription rights of shareholders in order to grant the holders of earlier-issue profit-participation certificates or debt securities carrying option or conversion rights or conversion obligations, subscription rights to the extent to which they would be entitled following exercise of their conversion or option rights or after fulfilment of their conversion obligations. The option and conversion conditions generally contain clauses serving to protect the holders or creditors of option or conversion rights against the effects of dilution, thus facilitating the placement of these instruments in the market. A pre-emptive subscription right for the holders of existing option or conversion rights makes it possible, in the event the authorisation is exercised, to prevent the option or conversion price for holders of existing conversion or option rights from being reduced in accordance with the terms and conditions of the option or conversion or the Company from having, where applicable, to grant some other form of protection against dilution. This permits a higher issue price for the no-par value bearer shares to be issued upon conversion or option exercise. Since the exclusion of



shareholder's pre-emptive subscription rights facilitates placement of the issue, it serves the shareholders' interest in achieving an optimum corporate financial structure.

Furthermore, the Management Board is to be authorised to exclude, subject to approval by the Supervisory Board, shareholders' pre-emptive subscription rights in the event that convertible debt securities are issued if the issue price is not significantly lower than the theoretical market value of the convertible debt securities as determined in accordance with recognised financial calculation methods. In analogous application of section 186 (3) sentence 4 of the AktG, however, the exclusion of pre-emptive subscription rights is possible only insofar as the value of the shares issued upon exercise of the conversion rights or fulfilment of the conversion obligations does not exceed ten per cent of the Company's registered share capital. This threshold also includes any shares that were issued or sold during the term, and prior to the exercise, of this authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, by virtue of other authorisations granted to the Management Board for the issue or sale of shares, or on the basis of resolutions passed by an Annual General Meeting. Said ten-per cent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares that are issued, during the validity of this authorisation, pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued. These inclusions ensure that no convertible debt securities are issued if this would result in the exclusion – without objective grounds – of shareholders' pre-emptive subscription rights in direct or analogous application of section 186 (3) sentence 4 of the AktG for an amount exceeding ten per cent of the registered share capital. This additional restriction is in the interest of shareholders, who wish to retain, to the greatest extent possible, their existing stakes when capital measures are implemented. On the other hand, the possibility of excluding shareholders' pre-emptive subscription rights grants the Company the flexibility to respond quickly to favourable situations in the capital markets. In the event that pre-emptive subscription rights are excluded in this way, the analogous application of section 186 (3) sentence 4 of the AktG results in the requirement that the issue price of the convertible debt securities should not be significantly below market value. In order to fulfil this requirement, the issue price must not be significantly lower than the theoretical market value of the convertible debt securities as determined in accordance with recognised financial calculation methods. In this way, it is ensured that the shareholders are protected against dilution of their shareholdings and suffer no economic disadvantage from the exclusion of their pre-emptive subscription rights. After all, the fact that the authorisation states that the issue price of the convertible debt securities must not be significantly lower than the theoretical market value means the value of the pre-emptive subscription rights is virtually zero. Shareholders wishing to maintain the level of their stake in the Company's registered share capital or to acquire convertible debt securities matching that stake can achieve their objectives through purchases in the open market. Furthermore, subject to approval by the Supervisory Board, the Management Board shall be authorised to exclude fractional amounts from the subscription right. Any such fractional amounts may result from the relevant issue volume and the need for a practicable subscription ratio. In these cases, the exclusion of pre-emptive subscription rights makes the capital measure easier to handle.

In order to limit any possible dilution of shareholders' stakes, the Management Board will, when utilising the proposed authorisation to issue convertible debt securities, restrict the exclusion of pre-emptive subscription rights to a total of 10 per cent of the registered share capital.



Accordingly, the aggregate exclusion of shareholders' pre-emptive subscription rights upon exercise of this authorisation must not exceed 10 per cent of the registered share capital at the time said authorisation comes into effect or – if the amount of share capital is then lower – when it is exercised. The Management Board further undertakes to count towards this figure of ten per cent of the registered share capital any shares that were issued or sold during the term, and prior to exercise, of this authorisation, in direct or analogous application of section 186 (3) of the AktG (excluding shareholders' pre-emptive subscription rights) by virtue of other authorisations granted to the Management Board for the issue or sale of shares, or on the basis of resolutions passed by an Annual General Meeting (namely using the Authorised Capital 2017). Said ten-per-cent threshold shall also include shares the issuance of which is required under the terms of convertible debt securities issued, during the validity of this authorisation, pursuant to section 186 (3) of the AktG (excluding shareholders' subscription rights), which were (or may be) issued.

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

Conditional Capital

The purpose of the proposed Conditional Capital 2019 (in the amount of €71,828,664.00, corresponding to 40 per cent of the current registered share capital) is to service the conversion rights associated with the convertible debt securities – or to fulfil the conversion obligations – for shares in the Company, except insofar as treasury shares are utilised or cash compensation granted on the basis of a separate authorisation by the Annual General Meeting. The Conditional Capital 2019 is also intended to finance the issue of shares to the extent that the Company makes use of alternative performance.
