STONEMOR PARTNERS LP
Form 10-Q/A
September 13, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______.

Commission File Number: 000-50910

STONEMOR PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**80-0103159**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
311 Veterans Highway, Suite B	
Levittown, Pennsylvania	**19056**
(Address of principal executive offices)	**(Zip Code)**

(215) 826-2800

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of the registrant s outstanding common units at August 9, 2010 was 13,841,135.

Table of Contents

EXPLANATORY NOTE

StoneMor Partners L.P. (the Company) previously reported that, on September 8, 2010, management and the Audit Committee of the Board of Directors of StoneMor GP LLC, the Company s general partner, concluded that the unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2010 originally filed with the Securities and Exchange Commissions on August 9, 2010 on its Quarterly Report on Form 10 Q for the quarter ended June 30, 2010 (the Original Filing) would be restated for an error that occurred due to a misinterpretation of business combination accounting rules. This Amendment on Form 10-Q/A (the Amended Filing) amends the Original Filing to reflect such restatement.

In the second quarter of 2010, the Company completed its assessment of the fair value of net assets acquired related to two long-term operating agreements entered into by the Company during the second quarter of 2009 (the Final Assessment) which were treated by the Company as acquisitions in accordance with Accounting Standards Codification 805 (ASC 805). The resulting change of the Final Assessment was an increase in the fair value of net assets acquired in excess of the purchase price of approximately $4.6 million. Because the initial provisional value of the net assets acquired already exceeded the consideration transferred (a bargain purchase), this increase in the fair value of net assets acquired resulted in a gain of approximately $4.6 million, of which $0.4 million related to a purchase price adjustment in the prior year.

In the Original Filing, the Company recognized a $4.2 million gain on acquisition in the second quarter of 2010 related to the Final Assessment. Per ASC 805, the Company should have retrospectively adjusted the provisional amounts originally recorded in the second quarter of 2009. Accordingly, the Original Filing reflected income in the form of a gain on acquisition in the second quarter of 2010 that should have been reflected in the Original Filing in the second quarter of 2009.

Details of the restatement of the financial statements are discussed in Note 1 of Part I, Item 1 of this Amended Filing.

As a result of the restatement in Part I, Item 1 of this Amended Filing, Part I, Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operation, is revised to incorporate all the revisions made to Part I, Item 1 as stated in the previous paragraph.

In accordance with Rule 12b-15 under the Exchange Act, each item of the Original Filing that is amended by this Amended Filing is also restated in its entirety, and this Amended Filing is accompanied by currently dated certifications on Exhibits 31.1, 31.2, 32.1 and 32.2 by the Company s Chief Executive Officer and Chief Financial Officer. Except as described above, this Amended Filing does not amend, update, or change any items, financial statements, or other disclosures in the Original Filing, and does not reflect events occurring after the filing of the Original Filing, including as to any exhibits to the Original Filing affected by subsequent events. Information not affected by the changes described above is unchanged and reflects the disclosures made at the time of the Original Filing. Accordingly, this Amended Filing should be read in conjunction with the Original Filing and our other SEC filings subsequent to the filing of the Original Filing, including any amendments to those filings. Capitalized terms not defined in the Amended Filing are as defined by the Original Filing.

Table of Contents

Index Form 10-Q/A

Table of Contents

Part I Financial Information

Item 1. Financial Statements

StoneMor Partners L.P.

Condensed Consolidated Balance Sheets

(in thousands)

	June 30, 2010 (unaudited)	December 31, 2009 (As restated, see Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 13,450	$ 13,479
Accounts receivable, net of allowance	43,102	37,113
Prepaid expenses	3,477	3,531
Other current assets	9,815	4,502
Total current assets	69,844	58,625
Long-term accounts receivable net of allowance	59,685	48,015
Cemetery property	294,120	240,277
Property and equipment, net of accumulated depreciation	85,448	51,520
Merchandise trusts, restricted, at fair value	266,909	203,829
Perpetual care trusts, restricted, at fair value	215,429	196,275
Deferred financing costs net of accumulated amortization	10,697	12,020
Deferred selling and obtaining costs	55,759	49,782
Deferred tax assets	519	451
Fair value of interest rate swap	559	
Other assets	5,847	1,864
Total assets	$ 1,064,816	$ 862,659
Liabilities and partners capital		
Current liabilities		
Accounts payable and accrued liabilities	$ 24,190	$ 26,574
Accrued interest	1,546	1,829
Current portion, long-term debt	523	378
Total current liabilities	26,259	28,781
Other long-term liabilities	5,731	2,912
Fair value of interest rate swap		2,681
Long-term debt	237,186	182,821
Deferred cemetery revenues, net	313,301	258,978
Deferred tax liabilities	28,348	4,907
Merchandise liability	104,076	65,883
Perpetual care trust corpus	215,429	196,275

Total liabilities	930,330	743,238
Partners capital		
General partner	2,155	1,986
General partner incentive distribution rights	6,199	
Common partner	126,132	117,434
Total partners capital	134,486	119,420
Total liabilities and partners capital	$ 1,064,816	$ 862,659

See Accompanying Notes to the Condensed Consolidated Financial Statements.

3

Table of Contents

StoneMor Partners L.P.

Condensed Consolidated Statement of Operations

(in thousands)

(unaudited)

	Three months ended June 30, 2010 As restated, see note 1	Three months ended June 30, 2009 As restated, see note 1	Six months ended June 30, 2010 As restated, see note 1	Six months ended June 30, 2009 As restated, see note 1
enues:				
netery				
chandise	$ 24,031	$ 23,456	$ 42,826	$ 42,7
vices	10,034	9,534	18,025	18,7
estment other	8,898	9,049	16,905	16,8
eral home				
chandise	2,363	2,320	4,862	4,9
vices	3,411	3,443	6,789	7,1
al revenues	48,737	47,802	89,407	90,4
ts and enses:				
t of goods (exclusive epreciation wn arately ow):				
etual care	1,270	1,423	2,357	2,4
chandise	4,077	4,736	7,422	8,5
netery ense	12,086	10,412	21,333	19,8
ing ense	9,467	8,618	17,083	16,4
eral and inistrative ense	6,161	5,411	11,759	10,8
porate rhead luding 7 and $383 nit-based pensation he three nths ended e 30, 2010 2009 and 3 and $757 he six	5,605	5,497	10,694	10,8

nths ended e 30, 2010 June 30, 9)				
reciation ortization	1,799	1,708	3,657	3,0
eral home ense				
chandise	953	944	1,866	1,9
vices	2,247	2,296	4,335	4,7
er	1,442	1,471	2,872	2,8
uisition ted costs	1,666	542	2,656	2,1
al cost and enses	46,773	43,058	86,034	83,6
rating fit (loss)	1,964	4,744	3,373	6,7
er income expense				
n on sale of eral homes				4
n on uisition		4,583	23,312	4,5
ease in fair e of rest rate p	1,568		3,239	
rest ense	5,238	3,202	10,097	6,3
ome (loss) ore income s	(1,706)	6,125	19,827	5,4
ome taxes:				
e	27	39	55	2
eral	(381)	(136)	(909)	(1
al income s	(354)	(97)	(854)	
income s)	$ (1,352)	$ 6,222	$ 20,681	$ 5,3
eral ner s rest in net ome (loss) he period	$ (27)	$ 124	$ 286	$ 1
eral ner s IDR rest in net ome (loss) he period	$	$	$ 6,382	$

ited ners rest in net ome (loss) he period					
nmon	$ (1,325)	$ 5,011	$ 14,013	$	4,3
ordinated	$	$ 1,087	$		

The divisor for the SX5E is adjusted to maintain the continuity of the SX5E values across changes due to corporate actions. The following is a summary of the adjustments to any component stock made for corporate actions and the effect of such adjustment on the divisor, where an index divisor may decrease (Ñ) or increase (D) or keep constant (n) when corporate actions occur for a component stock. Assuming shareholders receive *"B"* new shares for every *"A"* share held for the following corporate actions:

Divisor	**Corporate Action**	**Adjustment Formula**
Ñ	Cash Dividend (applied for return index only)	*adjusted price = closing level – dividend announced by company × (1 – withholding tax)*

Autocallable Market-Linked Step Up Notes TS-12

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

Divisor	**Corporate Action**	**Adjustment Formula**
D	Special Cash Dividend (applied for price and return indices only)	*adjusted price = closing level – dividend announced by company × (1 – withholding tax)*
n	Split and Reverse Split	*adjusted price = closing level × A/B* *new number of shares = old number of shares × B/A*
D	Rights Offering	*adjusted price = (closing level × A + subscription price × B)/(A + B)* *new number of shares = old number of shares × (A + B)/A*
n	Stock Dividend	*adjusted price = closing level × A/(A + B)* *new number of shares = old number of shares × (A + B)/A*
Ñ	Stock Dividend (from treasury stock)	*Stock dividends from treasury stocks will be adjusted as cash dividends* *adjusted price = (closing level– closing level × B)/(A+ B)*
Ñ	Stock Dividend of a Different Company Security	*adjusted price = (closing level × A – price of different company security × B)/A*
Ñ		

	Return of Capital and Share Consolidation	*adjusted price = [closing level – dividend announced by company × (1 – withholding tax)] × A/B*
		new number of shares = old number of shares × B/A
		adjusted price = (closing level – dividend announced by company) × A/B
		new number of shares = old number of shares × B/A
Ñ	Repurchase Shares/Self-Tender	*adjusted price =* *(price before tender × old number of shares) –* *(tender price × number of tendered shares)* *new number of shares*
		new number of shares = old number of shares – number of tendered shares
Ñ	Spinoff	*adjusted price = (closing level × A – price of spinoff shares × B)/A*

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

Divisor	Corporate Action	Adjustment Formula

D	Combination Stock Distribution (Dividend or Split) and Rights Offering	Shareholders receive *B* new shares from the distribution and *C* new shares from the rights offering for every *A* shares held:
		
		if rights are applicable after stock distribution (one action applicable to other):
		
		adjusted price = <u>*closing level × A + subscription price × C × (1 + B/A)*</u>
		(A + B) × (1 + C/A)
		
		new number of shares = old number of shares × [(A + B) × (1 + C/A)]/A
		
		if stock distribution is applicable after rights (one action applicable to other):
		
		adjusted price = <u>*closing level × A + subscription price × C*</u>
		(A + C) × (1 + B/A)
		
		new number of shares = old number of shares × [(A + C) × (1 + B/A)]

D	Stock Distribution and Rights (not mutually applicable)	*adjusted price* = <u>*closing level × A + subscription price × C*</u>

A + B + C

new number of shares = old number of shares × (A + B + C)

The following graph shows the daily historical performance of the SX5E in the period from January 1, 2008 through May 9, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the SX5E was 3,649.08.

Historical Performance of the SX5E

This historical data on the SX5E is not necessarily indicative of the future performance of the SX5E or what the value of the notes may be. Any historical upward or downward trend in the level of the SX5E during any period set forth above is not an indication that the level of the SX5E is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the SX5E.

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Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

The FTSE® 100 Index

The FTSE® 100 Index (the “FTSE Index”) is calculated, maintained and published by its index sponsor, FTSE International Limited (“FTSE”), a company owned by the London Stock Exchange Group plc. The FTSE Index is a free-float adjusted index which measures the composite price performance of stocks of the largest 100 companies (determined on the basis of market capitalization) traded on the London Stock Exchange (the “LSE”). The FTSE Index was first calculated on January 3, 1984 with an initial base level index value of 1,000 points. Publication of the FTSE Index began in February 1984. The FTSE Index is calculated in British pound sterling.

Index Composition and Maintenance

The 100 companies included in the FTSE Index (the “FTSE Underlying Stocks“) are selected from premium listed equity shares which have been admitted for trading on the LSE, have been assigned UK nationality by FTSE and satisfy a liquidity threshold based on public float, accuracy and reliability of prices, size and number of trading days. The FTSE Underlying Stocks are selected from this group by selecting the 100 companies with the largest market value. Where there are multiple lines of equity capital in a company, all are included and priced separately; *provided* that the secondary line’s full market capitalization is greater than 25% of the full market capitalization of the company’s principal line, and the secondary line satisfies the eligibility rules and screens in its own right in all respects. A list of the issuers of the FTSE Underlying Stocks is available from FTSE.

The FTSE Index is overseen by the FTSE’s Europe, Middle East and Africa Committee (the “FTSE EMEA Committee”), which is made up of senior market practitioners who are representative of appropriate sectors of the investment community. The FTSE EMEA Committee is also responsible for the index review process. The FTSE EMEA Committee reviews the FTSE Underlying Stocks quarterly in March, June, September and December in order to maintain continuity in the level of the FTSE Index. FTSE prepares information regarding possible companies to be included in, or excluded from, the FTSE Index using the close of business figures from the Tuesday before the first Friday of each review month. The review is then presented to the FTSE EMEA Committee for approval.

Changes to the constituents of the FTSE Index can be prompted by new listings on the LSE, corporate actions (*e.g.*, mergers and acquisitions) or an increase or decrease in a market capitalization. The FTSE Underlying Stocks may be replaced, if necessary, in accordance with deletion/addition rules, which provide generally for the removal and replacement of a stock from the FTSE Index if such stock is delisted, the issuer of such stock is subject to a takeover offer that has been declared wholly unconditional or such stock has ceased, in the opinion of the FTSE EMEA Committee, to be a viable component of the FTSE Index. To maintain continuity, a stock will be added at the quarterly review if it has risen to 90th place or above and a stock will be deleted if, at the quarterly review, it has fallen to 111th place or below, in each case ranked on the basis of market capitalization.

Where a greater number of companies qualify to be inserted in the FTSE Index than those qualifying to be deleted, the lowest ranking constituents presently included in the FTSE Index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted, the securities of the highest ranking companies that are presently not included in the FTSE Index will be inserted to match the number of companies being deleted at the periodic review.

Companies that are large enough to be constituents of the FTSE Index but do not pass the liquidity test are excluded. At the next annual review the companies are re-tested against all eligibility screens.

Index Calculation

The level of the FTSE Index is calculated by *dividing* the FTSE Aggregate Market Value on such day of calculation by the FTSE Index Divisor. The "FTSE Aggregate Market Value" is equal to the sum of each constituent stock's total market capitalization, each of which is equal to, on a given day of calculation, the *product of* (i) the share price of such stock, (ii) the number of shares of such stock outstanding and (iii) such stock's free float factor (which is the proportion of shares tradeable within the market place for a given stock). The "FTSE Index Divisor" is equal to the FTSE Aggregate Market Value calculated on the starting date of the FTSE Index *divided by* 1,000 (the initial level of the FTSE Index). The FTSE Index Divisor will be adjusted for certain capital changes in the index constituents (*e.g.*, in the event of a corporate action or change in constituents) in order to prevent discontinuities. Because the FTSE Index is weighted based on its constituent stocks' free float adjusted market capitalizations, movements in share prices of companies with relatively larger market capitalization will have a greater effect on the level of the entire FTSE Index than will movements in share prices of companies with relatively smaller market capitalization.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

The following graph shows the daily historical performance of the FTSE Index in the period from January 1, 2008 through May 9, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the FTSE Index was 7,342.21.

Historical Performance of the FTSE Index

This historical data on the FTSE Index is not necessarily indicative of the future performance of the FTSE Index or what the value of the notes may be. Any historical upward or downward trend in the level of the FTSE Index during any period set forth above is not an indication that the level of the FTSE Index is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the FTSE Index.

License Agreement

The notes are not in any way sponsored, endorsed, sold or promoted by FTSE or the London Stock Exchange Group companies (“LSEG”) (together, the “Licensor Parties”) and none of the Licensor Parties make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the FTSE Index (upon which the notes are based), (ii) the figure at which the FTSE Index is said to stand at any particular time on any particular day or otherwise, or (iii) the suitability of the FTSE Index for the purpose to which it is being put in connection with the notes.

None of the Licensor Parties have provided or will provide any financial or investment advice or recommendation in relation to the FTSE Index to Deutsche Bank or to its clients. The FTSE Index is calculated by FTSE or its agent. None of the Licensor Parties shall be (a) liable (whether in negligence or otherwise) to any person for any error in the FTSE Index or (b) under any obligation to advise any person of any error therein.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

The Nikkei Stock Average Index

The Nikkei Stock Average Index (the "Nikkei Index") is calculated, maintained and published by its index sponsor, Nikkei Inc. (known as Nihon Keizai Shimbun, Inc. prior to January 1, 2007) ("Nikkei"). The Nikkei Index measures the composite price performance of selected Japanese stocks. The Nikkei Index is composed of 225 underlying stocks (the "Nikkei Underlying Stocks") trading on the Tokyo Stock Exchange ("TSE") representing a broad cross-section of Japanese industries. All 225 Nikkei Underlying Stocks are listed in the First Section of the TSE. Stocks listed in the First Section of the TSE are among the most actively traded stocks on the TSE. Nikkei rules require that the 75 most liquid issues (one-third of the component count of the Nikkei Index) be included in the Nikkei Index. Nikkei may delete, add or substitute any potential or existing Nikkei Underlying Stock. Nikkei first calculated and published the Nikkei Index in 1970. The Nikkei Index is calculated in Japanese yen.

Index Composition and Maintenance

The Nikkei Underlying Stocks are divided into six sector categories: Technology; Financials; Consumer Goods; Industrial Materials; Capital Goods/Others; and Transportation and Utilities. These six sector categories are further divided into 36 industrial classifications as follows:

§ Technology — Pharmaceuticals, Electrical Machinery, Automobiles and Auto parts, Precision Instruments, Communications;

§ Financials — Banking, Other Financial Services, Securities, Insurance;

§ Consumer Goods — Fishery, Food, Retail, Services;

§ Industrial Materials — Mining, Textiles and Apparel, Pulp and Paper, Chemicals, Petroleum, Rubber, Glass and Ceramics, Steel, Non-ferrous Metals, Trading Companies;

§ Capital Goods/Others — Construction, Machinery, Shipbuilding, Transportation Equipment, Other Manufacturing, Real Estate; and

§ Transportation and Utilities — Railroads and Buses, Land Transport, Marine Transport, Air Transport, Warehousing, Electric Power, Gas.

A Nikkei Underlying Stock may be deleted or added by Nikkei. Any stock becoming ineligible for listing in the First Section of the TSE due to any of the following reasons will be deleted from the Nikkei Underlying Stocks: (i) designated to “securities to be delisted” (*i.e.*, “Seiri Meigara”) or delisted due to bankruptcy or liquidation; (ii) delisted due to corporate restructuring such as a merger, share exchange or share transfer; (iii) designated to “securities to be delisted” or delisted due to excess debt or for other reasons; or (iv) transfer of such stock to the Second Section. In addition, a Nikkei Underlying Stock designated to “securities under supervision” (*i.e.*, “Kanri Meigara”) may be considered individually for deletion. Nikkei Underlying Stocks with relatively low liquidity, based on trading value and magnitude of price fluctuation by volume over the past five years, may be deleted by Nikkei. Upon deletion of a stock from the Nikkei Index, Nikkei will select a replacement for such stock in accordance with certain criteria.

A list of the issuers of the Nikkei Underlying Stocks is available from the Nikkei Economic Electronic Databank System and from the Stock Market Indices Data Book published by Nikkei.

Index Calculation

The Nikkei Index is a modified price-weighted index (*i.e.*, a stock’s weight in the Nikkei Index is based on its price per share rather than the total market capitalization of the issuer) where the sum of the constituent stock prices, adjusted by the presumed par value, is divided by a divisor. The Nikkei Index is calculated by: (i) converting the Nikkei Underlying Stocks that do not have a par value of 50 yen to 50 yen par value, as described below; (ii) calculating the sum of the share prices of each Nikkei Underlying Stock; and (iii) dividing such sum by a divisor. Most listed companies in Japan have a par value of 50 yen. All companies included in the Nikkei Index are given an equal weighting based on a par value of 50 yen. Stocks with irregular par values are modified to reflect a 50 yen par value. For example, a stock with a 500 yen par value will have its share price *divided by* 10 to give a 50 yen par value price. Since January 5, 2010, the level of the Nikkei Index has been calculated every 15 seconds during TSE trading hours.

In order to maintain continuity in the Nikkei Index in the event of certain changes due to non-market factors affecting the Nikkei Underlying Stocks, such as the addition or deletion of stocks, substitution of stocks, stock splits or distributions of assets to stockholders, the divisor used in calculating the Nikkei Index is adjusted in a manner designed to prevent any instantaneous change or discontinuity in the level of the Nikkei Index. Thereafter, the divisor remains at the new value until a further adjustment is necessary as the result of another change. As a result of such change affecting any Nikkei Underlying Stock, the divisor is adjusted in such a way that the *sum of* all share prices immediately after such change, multiplied by the applicable weight factor and divided by the new divisor (*i.e.*, the level of the Nikkei Index immediately after such change), will be equal to the level of the Nikkei Index immediately prior to such change.

The following graph shows the daily historical performance of the Nikkei Index in the period from January 1, 2008 through May 9, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the Nikkei Index was 19,843.00.

Historical Performance of the Nikkei Index

This historical data on the Nikkei Index is not necessarily indicative of the future performance of the Nikkei Index or what the value of the notes may be. Any historical upward or downward trend in the level of the Nikkei Index during any period set forth above is not an indication that the level of the Nikkei Index is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the Nikkei Index.

License Agreement

We have entered into an agreement with Nikkei providing us with a non-exclusive license with the right to use the Nikkei Index in exchange for a fee. The Nikkei Index is the intellectual property of Nikkei. “Nikkei,” “Nikkei Stock Average” and “Nikkei 225” are the service marks of Nikkei. Nikkei reserves all the rights, including copyright, to the Nikkei Index.

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In addition, Nikkei gives no assurance regarding any modification or change in any methodology used in calculating the Nikkei Index and is under no obligation to continue the calculation, publication and dissemination of the Nikkei Index.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

The Swiss Market Index

The Swiss Market Index (the "SMI") is calculated, maintained and published by its index sponsor, SIX Swiss Exchange Ltd. The SMI represents approximately 85% of the free-float capitalization of the Swiss equity market. The SMI comprises the 20 largest and most liquid equities of the Swiss Performance Index® (the "SPI"). The SMI was standardized on June 30, 1988 with an initial baseline index level of 1,500 points. The SMI is updated in real time after each transaction, with the shortest interval being one second. The SMI is calculated in Swiss francs.

Index Composition and Maintenance

The SMI is composed of the 20 highest-ranked stocks included in the SPI. The ranking of each security is determined by a combination of the following criteria, each of which are assigned a 50% weighting in ranking the stocks eligible for inclusion in the SMI:

- average free-float market capitalization (compared to the capitalization of the entire SPI); and
- cumulative on order book turnover (compared to the total turnover of the SPI).

The SMI is reconstituted annually after prior notice of at least two months on the third Friday in September after the close of trading. This reconstitution is based on data from the previous July 1 through June 30. Provisional interim selection (ranking) lists are also published following the end of the third, fourth and first financial quarters. In order to reduce turnover, an index constituent will not be replaced unless it is ranked below 23 or, if it is ranked 21 or 22, if another share ranks 18 or higher. If a company has primary listings on several exchanges and less than 50% of that company's total turnover is generated on the Swiss Stock Exchange, it will not be included in the SMI unless it ranks at least 18 or better on the selection list on the basis of its turnover alone (*i.e.*, without considering its free float).

The composition of the SMI is reviewed annually and, in order to ensure a high degree of continuity in the composition of the SMI, potential and existing constituent stocks of the SMI are subject to a special procedure for admission to or exclusion from, respectively, the SMI based on free-float market capitalization and liquidity. The resulting adjustments to the SMI are made regularly once a year on the third Friday in September after the close of trading. The number of securities and free-float shares are adjusted annually after the close of trading on the third Friday of March, June, September and December.

Index Calculation

The SMI is calculated according to the Laspeyres formula using the weighted arithmetic mean of a defined number of securities issues. The level of the SMI is calculated by *dividing* the market capitalizations of all constituents of the SMI by a divisor:

Where:

T	is the current day.
s	is the current time on day t.
I_s	is the current level of the SMI at time s.
D_t	is the divisor on day t.
M	is the number of issues in the SMI.
$p_{i,s}$	is the last-paid price of security i.
$x_{i,t}$	is the number of shares of security i on day t.
$f_{i,t}$	is the free float for security i on day t.
r_s	is the current CHF exchange rate at time s.

Market capitalization is calculated on the basis of freely-tradable shares and is adjusted to take account of current block ownership. The divisor is recalculated each time the market capitalization changes due to a capital event (*e.g.*, a capital increase or a change in number of shares). The new divisor is calculated on the eve of the effective date of the capital event to prevent the level of the SMI from being changed by a capital event. A dividend payment does not lead to any adjustment of the divisor. Capital repayments made in lieu of dividend payments are, as a rule, treated as normal dividend payments for purposes of calculating the SMI and do not lead to an adjustment of the divisor. However, if the amount of a capital repayment made in lieu of a dividend distribution is larger than the dividend for the previous year, the difference is regarded as a capital event and the divisor is adjusted accordingly.

Autocallable Market-Linked Step Up Notes TS-20

The following graph shows the daily historical performance of the SMI in the period from January 1, 2008 through May 9, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the SMI was 9,113.83.

Historical Performance of the SMI

This historical data on the SMI is not necessarily indicative of the future performance of the SMI or what the value of the notes may be. Any historical upward or downward trend in the level of the SMI during any period set forth above is not an indication that the level of the SMI is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the SMI.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

License Agreement

SIX Swiss Exchange AG ("SIX Swiss Exchange") and its licensors ("Licensors") have no relationship to Deutsche Bank, other than the licensing of the SMI and the related trademarks for use in connection with the notes.

SIX Swiss Exchange and its Licensors do not:

- sponsor, endorse, sell or promote the notes.
- recommend that any person invest in the notes or any other securities.
- have any responsibility or liability for or make any decisions about the timing, amount or pricing of the notes.
- have any responsibility or liability for the administration, management or marketing of the notes.
- consider the needs of the notes or the owners of the notes in determining, composing or calculating the SMI or have any obligation to do so.

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Specifically,

- SIX Swiss Exchange and its Licensors do not give any warranty, express or implied, and exclude any liability for:

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- o The accuracy, timeliness, and completeness of the SMI and its data;
- o The merchantability and the fitness for a particular purpose or use of the SMI and its data;
- o The performance of the notes generally.

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- · Under no circumstances will SIX Swiss Exchange or its Licensors be liable (whether in negligence or otherwise) for any lost profits or indirect, punitive, special or consequential damages or losses, arising as a result of such errors, omissions or interruptions in the SMI or its data or generally in relation to the notes, even in circumstances where SIX Swiss Exchange or its Licensors are aware that such loss or damage may occur.

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Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

The S&P/ASX 200 Index

The S&P/ASX 200 Index (the “S&P/ASX Index”) is calculated, maintained and published by its index sponsor, S&P Dow Jones Indices LLC (“S&P”), a majority-owned subsidiary of S&P Global. The S&P/ASX Index is designed to be the primary gauge for the Australian equity market and is recognized as an investable benchmark in Australia. Upon its introduction in April 2000, the S&P/ASX Index replaced the All Ordinaries index as the primary gauge for the Australian equity market. The S&P/ASX Index measures the performance of the 200 largest index-eligible stocks listed on the Australian Securities Exchange (the “ASX”) by float-adjusted market capitalization, and is widely considered Australia’s benchmark index. The S&P/ASX Index is float-adjusted, covering approximately 80% of Australian equity market capitalization.

The S&P/ASX Index is maintained by the S&P Australian Index Committee (the “S&P/ASX Committee”), a team of five members representing both S&P and the ASX. The S&P/ASX Index is calculated in Australian dollars (“A$”).

Index Composition and Maintenance

The S&P/ASX Index weights companies according to the Global Industry Classification Standard, which creates uniform ground rules for replicable, custom-tailored, industry-focused portfolios. It also enables meaningful comparisons of sectors and industries across regions.

The S&P/ASX Committee reviews constituents and rebalances them quarterly to ensure adequate market capitalization and liquidity. Both market capitalization and liquidity are assessed using the previous six months’ worth of data. Quarterly review changes take effect on the third Friday of March, June, September and December. The weighting of constituents in the S&P/ASX Index is determined by the free float assigned to each stock by the S&P/ASX Committee. Every index constituents’ float adjustment is reviewed as part of the September quarterly review, unless an event alters the float of a security in excess of 5%. In such cases, the change will be implemented as soon as practicable.

The criteria for inclusion in the S&P/ASX Index includes:

- *Listing* — Only securities listed in the ASX are considered for inclusion.
- *Market Capitalization* — Companies are assessed based on the average of their previous 6-month day-end float-adjusted market capitalization.
- *Eligible Securities* — All common and equity preferred stocks that are not currently under consideration for merger or acquisition are eligible for inclusion (convertible stock, bonds, warrants and preferred stock that provide a guaranteed fixed return are not eligible).
- *Liquidity* — Only securities that are actively and regularly traded are eligible for inclusion.

Companies will be removed from the S&P/ASX Index if they substantially violate one or more of the criteria for index inclusion or if they are involved in a merger, acquisition or significant restructuring such that they no longer meet the inclusion criteria.

Rebalancing

Rebalancing of the S&P/ASX Index occurs on a quarterly basis. Both market capitalization and liquidity are assessed using the previous six months' worth of data to determine eligibility for inclusion in the S&P/ASX Index. Shares and Investable Weight Factors ("IWFs") updates are also applied quarterly.

Share Updates

The share count for each constituent of the S&P/ASX Index is updated quarterly and is rounded to the nearest thousand ('001). An update to the number of issued shares for a constituent of the S&P/ASX Index will be considered if the change is either at least 5% of the float-adjusted shares of such constituent or a market capitalization of A$100 million. Intra quarter share changes are implemented at the effective date (or as soon as reliable information is available); *provided* they will only take place in the following circumstances:

- changes in a company's float-adjusted shares of 5% or more due to market-wide shares issuance;
- rights issues, bonus issues and other major corporate actions;

- dividend reinvestment plan share issuances of more than A$100 million; and

- share issues resulting from a company's merging and major off-market buybacks.

Share changes due to mergers or acquisitions are implemented when the transaction occurs, regardless of the size of the change. Notification of intra quarter changes to the number of issued shares will generally take place three business days prior to the date of implementation of such change.

Index Calculation

The S&P/ASX Index is calculated using a base-weighted aggregate methodology so that the level of the S&P/ASX Index reflects the total market value of all its component stocks relative to a particular base period. The total market value of a company is determined by *multiplying* the price of its stock by the number of shares available after float (IWF) adjustment. An indexed number is used to represent the result of this calculation in order to make the value easier to work with and track over time.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

Investable Weight Factor (*IWF*)

A stock's weight in the S&P/ASX Index is determined by the float-adjusted market capitalization of the stock. This is a function of current index shares, the latest available stock price and the IWF. The IWF represents the float-adjusted portion of a stock's equity capital. Therefore, any strategic holdings that are classified as either corporate, private or government holdings reduce the IWF, which in turn results in a reduction in the float-adjusted market capital. Shares owned by founders, directors of the company, trusts, venture capitalists and other companies are also excluded. These are also deemed strategic holders and are considered long-term holders of a stock's equity. Any strategic shareholdings that are greater than 5% of total issued shares are excluded from the relevant float.

On any given day, the level of the S&P/ASX Index represents the *quotient of* the total available market capitalization of the S&P/ASX Index's constituents and its divisor. Continuity in the level of the S&P/ASX Index is maintained by adjusting the divisor for all changes in the constituents' share capital after the base date. This includes additions and deletions to the S&P/ASX Index, rights issues, share buybacks and issuances, spin-offs and adjustments in availability. The divisor's time series is, in effect, a chronological summary of all changes affecting the base capital of the S&P/ASX Index. The divisor is adjusted such that the level of the S&P/ASX Index at an instant just prior to a change in base capital equals the level of the S&P/ASX Index at an instant immediately following such change.

Index Governance

The S&P/ASX Index is the responsibility of the S&P/ASX Committee, which monitors overall policy guidelines and methodologies as well as additions to, and deletions from, the S&P/ASX Index. S&P chairs the S&P/ASX Committee, which is composed of voting members representing both S&P and the ASX.

Decisions made by the S&P/ASX Committee include all matters relating to the construction and maintenance of the S&P/ASX Index. The S&P/ASX Committee meets regularly to review market developments and convenes as needed to address major corporate actions. It is the sole responsibility of the S&P/ASX Committee to decide on all matters relating to the S&P/ASX Index methodology, maintenance, constituent selection and index procedures. The S&P/ASX Committee makes decisions based on all publicly available information and discussions are kept confidential to avoid any unnecessary impact on market trading.

The following graph shows the daily historical performance of the S&P/ASX Index in the period from January 1, 2008 through May 9, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the S&P/ASX Index was 5,839.903.

Historical Performance of the S&P/ASX Index

This historical data on the S&P/ASX Index is not necessarily indicative of the future performance of the S&P/ASX Index or what the value of the notes may be. Any historical upward or downward trend in the level of the S&P/ASX Index during any period set forth above is not an indication that the level of the S&P/ASX Index is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the S&P/ASX Index.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

License Agreement

The S&P/ASX Index is a product of S&P or its affiliates ("SPDJI") and ASX, and has been licensed for use by Deutsche Bank. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P Financial") and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). ASX is a trademark of Australian Securities Exchange. The trademarks have been licensed to SPDJI and have been sublicensed for use for certain purposes by Deutsche Bank. The notes are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P Financial, any of their respective affiliates (collectively, "S&P Dow Jones Indices") or ASX. Neither S&P Dow Jones Indices nor ASX make any representation or warranty, express or implied, to the owners of the notes or any member of the public regarding the advisability of investing in securities generally or in the notes particularly or the ability of the S&P/ASX Index to track general market performance. S&P Dow Jones Indices and ASX only relationship to Deutsche Bank with respect to the S&P/ASX Index is the licensing of the certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its licensors. The S&P/ASX Index is determined, composed and calculated by S&P Dow Jones Indices or ASX without regard to Deutsche Bank or the notes. S&P Dow Jones Indices and ASX have no obligation to take the needs of Deutsche Bank or the owners of the notes into consideration in determining, composing or calculating the S&P/ASX Index. Neither S&P Dow Jones Indices nor ASX are responsible for and have not participated in the determination of the prices, and amount of the notes or the timing of the issuance or sale of the notes or in the determination or calculation of the equation by which the notes are to be converted into cash, surrendered or redeemed, as the case may be. S&P Dow Jones Indices and ASX have no obligation or liability in connection with the administration, marketing or trading of the notes. There is no assurance that investment products based on the S&P/ASX Index will accurately track index performance or provide positive investment returns. S&P is not an investment advisor. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

NEITHER S&P DOW JONES INDICES NOR ASX GUARANTEES THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE S&P/ASX INDEX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES AND ASX SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES AND ASX MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY DEUTSCHE BANK, OWNERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE S&P/ASX INDEX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE

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The Hang Seng Index

The Hang Seng Index (the "HSI") is calculated, maintained and published by its index sponsor, Hang Seng Indexes Company Limited (formerly HSI Services Limited) ("HSICL"), a wholly owned subsidiary of Hang Seng Bank. The HSI is a free float-adjusted market capitalization weighted index composed of selected companies that are listed on The Stock Exchange of Hong Kong Ltd. (the "HKSE"). The components of the HSI are divided into four sub-indices: commerce and industry; finance; utilities; and properties. The HSI was developed with a base level of 100 as of July 31, 1964 and is designed to be an indicator of the performance of the Hong Kong stock market. The HSI is calculated in Hong Kong dollars.

Index Composition and Maintenance

Only companies and real estate investment trusts ("REITs") that are primarily listed on the main board of the HKSE are eligible for inclusion in the HSI. Mainland China enterprises that have an H-share listing on the HKSE are eligible for inclusion in the HSI only if the company has no unlisted share capital.

To be eligible for selection, a company or REIT:

- must be among those constituting the top 90% of the total market capitalization of all eligible shares listed on the HKSE (market capitalization is expressed as an average of the past 12 months);
- must be among those constituting the top 90% of the total turnover of all eligible shares listed on the HKSE (turnover is aggregated and individually assessed for eight quarterly sub-periods over the past 24 months); and
- should normally have a listing history of at least 24 months on the HKSE or, for newly listed large-cap stocks, otherwise satisfy the following minimum listing history requirements to be considered for inclusion in the HSI:

Average Market Capitalization Ranking at Time of Review	Minimum Listing History

Top 5	3 Months
6–15	6 Months
16–20	12 Months
21–25	18 Months
Below 25	24 Months

Companies or REITs meeting all eligibility requirements will be considered for inclusion and their candidacy will be assessed in accordance with the following criteria:

- the month-end average market values for the company or REIT over the past 12 months and the turnover ranking of the company or REIT over the past 24 months;
- the representation of the sub-sectors within the HSI directly reflecting that of the market; and
- the financial performance of the company or REIT.

HSICL undertakes a regular review of the constituents of the HSI on a quarterly basis and may or may not add or delete constituents. The number of constituents in the HSI is fixed at 50.

Index Calculation

Each constituent of the HSI is subject to a 10% concentration cap. The HSI is calculated in accordance with the following formula:

Where:

P	is the current price on day ***t***.
$\boldsymbol{P_{t-1}}$	is the current price on day ***t–1***.
IS	is the number of issued shares.
FAF	is a free-float adjusted factor, which is between 0 and 1.
CF	is a capping factor, which is between 0 and 1.

The following graph shows the daily historical performance of the HSI in the period from January 1, 2008 through May 9, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the HSI was 24,889.03.

Historical Performance of the HSI

This historical data on the HSI is not necessarily indicative of the future performance of the HSI or what the value of the notes may be. Any historical upward or downward trend in the level of the HSI during any period set forth above is not an indication that the level of the HSI is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the HSI.

License Agreement

The HSI is published and compiled by HSICL pursuant to a license from Hang Seng Data Services Limited ("HSDSL"). The mark(s) and name(s) Hang Seng Index are proprietary to HSDSL. HSICL and HSDSL have agreed to the use of, and reference to, the HSI by Deutsche Bank in connection with the notes, **BUT NEITHER HSICL NOR HSDSL WARRANTS OR REPRESENTS OR GUARANTEES TO ANY BROKER OR HOLDER OF THE NOTES OR ANY OTHER PERSON (I) THE ACCURACY OR COMPLETENESS OF THE HSI AND ITS COMPUTATION OR ANY INFORMATION RELATED THERETO; OR (II) THE FITNESS OR SUITABILITY FOR ANY PURPOSE OF THE HSI OR ANY COMPONENT OR DATA COMPRISED IN IT; OR (III) THE RESULTS WHICH MAY BE OBTAINED BY ANY PERSON FROM THE USE OF THE HSI OR ANY COMPONENT OR DATA COMPRISED IN IT FOR ANY PURPOSE, AND NO WARRANTY OR REPRESENTATION OR GUARANTEE OF ANY KIND WHATSOEVER RELATING TO THE HSI IS GIVEN OR MAY BE IMPLIED.** The process and basis of computation and compilation of the HSI and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by HSICL without notice. **TO THE EXTENT PERMITTED BY APPLICABLE LAW, NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY HSICL OR HSDSL (I) IN RESPECT OF THE USE OF AND/OR REFERENCE TO THE HSI BY DEUTSCHE BANK IN CONNECTION WITH THE NOTES; OR (II) FOR ANY INACCURACIES, OMISSIONS, MISTAKES OR ERRORS OF HSICL IN THE COMPUTATION OF THE HSI; OR (III) FOR ANY INACCURACIES, OMISSIONS, MISTAKES, ERRORS OR INCOMPLETENESS OF ANY INFORMATION USED IN CONNECTION WITH THE COMPUTATION OF THE HSI WHICH IS SUPPLIED BY ANY OTHER PERSON; OR (IV) FOR ANY ECONOMIC OR OTHER LOSS WHICH MAY BE DIRECTLY OR INDIRECTLY SUSTAINED BY ANY BROKER OR HOLDER OF THE NOTES OR ANY OTHER PERSON DEALING WITH THE NOTES AS A RESULT OF ANY OF THE AFORESAID, AND NO CLAIMS, ACTIONS OR LEGAL PROCEEDINGS MAY BE BROUGHT AGAINST HSICL AND/OR HSDSL** in connection with the notes in any manner whatsoever by any broker, holder or other person dealing with the notes. Any broker, holder or other person dealing with the notes does so therefore in full knowledge of this disclaimer and can place no reliance whatsoever on HSICL and HSDSL. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any broker, holder or other person and HSICL and/or HSDSL and must not be construed to have created such relationship.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

Supplement to the Plan of Distribution

Under our distribution agreement with MLPF&S, MLPF&S will purchase the notes from us as principal at the public offering price indicated on the cover of this term sheet, less the indicated underwriting discount.

We will deliver the notes against payment therefor in New York, New York on a date that is greater than three business days following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes more than three business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes will not be listed on any securities exchange. In the original offering of the notes, the notes will be sold in minimum investment amounts of 100 units. If you place an order to purchase the notes, you are consenting to MLPF&S acting as a principal in effecting the transaction for your account.

MLPF&S has advised us that they or their affiliates may repurchase and resell the notes, with repurchases and resales being made at prices related to then-prevailing market prices or at negotiated prices, and these prices will include MLPF&S's trading commissions and mark-ups. MLPF&S may act as principal or agent in these market-making transactions; however, it is not obligated to engage in any such transactions. At MLPF&S's discretion, for a short, undetermined initial period after the issuance of the notes, MLPF&S may offer to buy the notes in the secondary market at a price that may exceed the estimated value of the notes at the time of repurchase. Any price offered by MLPF&S for the notes will be based on then-prevailing market conditions and other considerations, including the performance of the Basket, the remaining term of the notes, and our creditworthiness. However, none of us, MLPF&S, or any of our respective affiliates is obligated to purchase your notes at any price or at any time, and we cannot assure you that we, MLPF&S, or any of our respective affiliates will purchase your notes at a price that equals or exceeds the estimated value of the notes at the time of repurchase.

MLPF&S has also advised us that, if you hold your notes in a MLPF&S account, the value of the notes shown on your account statement will be based on MLPF&S's estimate of the value of the notes if MLPF&S or another of its affiliates were to make a market in the notes, which it is not obligated to do. That estimate will be based upon the price that MLPF&S

may pay for the notes in light of then-prevailing market conditions and other considerations, as mentioned above, and will include transaction costs. This price may be higher than or lower than the initial estimated value of the notes.

The distribution of the Note Prospectus in connection with these offers or sales will be solely for the purpose of providing investors with the description of the terms of the notes that was made available to investors in connection with their initial offering. Secondary market investors should not, and will not be authorized to, rely on the Note Prospectus for information regarding Deutsche Bank or for any purpose other than that described in the immediately preceding sentence.

Structuring the Notes

The notes are our debt securities, the return on which is linked to the performance of the Basket. As is the case for all of our debt securities, including our market-linked notes, the economic terms of the notes reflect our actual or perceived creditworthiness at the time of pricing. The internal funding rate we use in pricing the market-linked note is typically lower than the rate we would pay when we issue conventional debt securities of comparable maturity. This generally relatively lower internal funding rate, which is reflected in the economic terms of the notes, along with the fees and charges associated with market-linked notes, resulted in the initial estimated value of the notes on the pricing date being less than their public offering price.

Payments on the notes, including the amount you receive at maturity or upon an automatic call, will be calculated based on the $10 principal amount per unit and will depend on the performance of the Basket. In order to meet these payment obligations, at the time we issue the notes, we expect to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of its affiliates. The terms of these hedging arrangements are determined by seeking bids from market participants, which may include us, MLPF&S and one of our respective affiliates, and take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Basket Components, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements.

MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately $0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging arrangements may be realized by us, MLPF&S or any other hedge providers.

For further information, see "Risk Factors—General Risks Relating to the Notes" beginning on page PS-7 and "Use of Proceeds and Hedging" on page PS-18 of product supplement EQUITY INDICES SUN-1.

Autocallable Market-Linked Step Up Notes
Linked to an International Equity Index Basket, due May 22, 2020

Summary Tax Consequences

In the opinion of our special tax counsel, Davis Polk & Wardwell LLP, which is based on prevailing market conditions, it is more likely than not that the notes will be treated for U.S. federal income tax purposes as prepaid financial contracts that are not debt. Generally, if this treatment is respected, (i) you should not recognize taxable income or loss prior to the maturity or other taxable disposition of your notes (including pursuant to a call) and (ii) the gain or loss on your notes should be capital gain or loss and should be long-term capital gain or loss if you have held the notes for more than one year. The Internal Revenue Service (the “IRS”) or a court might not agree with this treatment, however, in which case the timing and character of income or loss on your notes could be materially and adversely affected.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether beneficial owners of these instruments should be required to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; the relevance of factors such as the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. persons should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose a notional interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect.

Withholding under legislation commonly referred to as “FATCA” might (if the notes were recharacterized as debt instruments) apply to amounts treated as interest paid with respect to the notes, as well as to payments of gross proceeds of a taxable disposition, including upon an automatic call or at maturity, of a note. However, under a recent IRS notice, this regime will not apply to payments of gross proceeds (other than any amount treated as interest) with respect to dispositions occurring before January 1, 2019. You should consult your tax advisor regarding the potential application of FATCA to the notes.

Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% withholding tax (unless an income tax treaty applies) on dividend equivalents paid or deemed paid to non-U.S. holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities. Section

871(m) provides certain exceptions to this withholding regime, including for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations (such an index, a “Qualified Index”). Additionally, the applicable regulations exclude from the scope of Section 871(m) instruments issued in 2017 that do not have a delta of one with respect to underlying securities that could pay U.S.-source dividends for U.S. federal income tax purposes (each, an “Underlying Security”). Based on certain determinations made by us, our special tax counsel is of the opinion that Section 871(m) should not apply to the notes with regard to non-U.S. holders. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. You should consult your tax advisor regarding the potential application of Section 871(m) to the notes.

You should review carefully the section of the accompanying product supplement entitled “U.S. Federal Income Tax Consequences.” The preceding discussion, when read in combination with that section, constitutes the full opinion of our special tax counsel regarding the material U.S. federal income tax consequences of owning and disposing of the notes.

Under current law, the United Kingdom will not impose withholding tax on payments made with respect to the notes.

For a discussion of certain German tax considerations relating to the notes, you should refer to the section in the accompanying prospectus supplement entitled “Taxation by Germany of Non-Resident Holders.”

You should consult your tax advisor regarding the U.S. federal tax consequences of an investment in the notes (including possible alternative treatments and the issues presented by the 2007 notice), as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Validity of the Notes

In the opinion of Davis Polk & Wardwell LLP, as special United States products counsel to the Issuer, when the notes offered by this term sheet have been executed and issued by the Issuer and authenticated by the authenticating agent, acting on behalf of the trustee pursuant to the senior indenture, and delivered against payment as contemplated herein, such notes will be valid and binding obligations of the Issuer, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith) and possible judicial or regulatory actions giving effect to governmental actions or foreign laws affecting creditors' rights, provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the laws of the State of New York. Insofar as this opinion involves matters governed by German law, Davis Polk & Wardwell LLP has relied, without independent investigation, on the opinion of Group Legal Services of Deutsche Bank AG, dated as of January 1, 2016, filed as an exhibit to the opinion of Davis Polk & Wardwell LLP, and this opinion is subject to the same assumptions, qualifications and limitations with respect to such matters as are contained in such opinion of Group Legal Services of Deutsche Bank AG. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the senior indenture and the authentication of the notes by the authenticating agent and the validity, binding nature and enforceability of the senior indenture with respect to the trustee, all as stated in the opinion of Davis Polk & Wardwell LLP dated as of January 1, 2016, which has been filed by the Issuer on Form 6-K dated January 4, 2016.

Where You Can Find More Information

We have filed a registration statement (including a product supplement, a prospectus supplement and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents that we have filed with the SEC, for more complete information about us and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

MLPF&S has advised us that it classifies certain market-linked investments (the "Market-Linked Investments") into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance.

Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.