ASSURED GUARANTY LTD
Form 10-Q
August 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2006

OR

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

transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**98-0429991**
(State or other jurisdiction of incorporation)	(I.R.S. employer identification no.)

30 Woodbourne Avenue
Hamilton HM 08
Bermuda
(address of principal executive office)

(441) 299-9375
(Registrants telephone number, including area code)

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 o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The number of registrant s Common Shares ($0.01 par value) outstanding as of August 1, 2006 was 73,230,687.

ASSURED GUARANTY LTD.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Assured Guaranty Ltd.
Consolidated Balance Sheets
(in thousands of U.S. dollars except per share and share amounts)
(Unaudited)

	June 30, 2006	December 31, 2005
Assets		
Fixed maturity securities, at fair value (amortized cost: $2,067,526 in 2006 and $2,082,363 in 2005)	$ 2,069,156	$ 2,133,997
Short-term investments, at cost which approximates fair value	170,731	115,826
Total investments	**2,239,887**	**2,249,823**
Cash and cash equivalents	29,197	6,190
Accrued investment income	22,653	22,676
Deferred acquisition costs	205,307	193,442
Prepaid reinsurance premiums	12,442	12,478
Reinsurance recoverable on ceded losses	11,293	12,350
Premiums receivable	42,182	33,011
Goodwill	85,417	85,417
Unrealized gains on derivative financial instruments	52,338	53,037
Current income taxes receivable	7,644	3,005
Receivables for securities sold	9,650	984
Other assets	17,428	16,710
Total assets	**$ 2,735,438**	**$ 2,689,123**
Liabilities and shareholders equity		
Liabilities		
Unearned premium reserves	$ 601,930	$ 537,149
Reserves for losses and loss adjustment expenses	114,636	121,219
Profit commissions payable	29,616	52,993
Reinsurance balances payable	1,409	3,724
Deferred income taxes	24,328	26,629
Funds held by Company under reinsurance contracts	20,339	19,186
Unrealized losses on derivative financial instruments	6,211	12,652
Long-term debt	197,359	197,344
Liability for tax basis step-up adjustment	19,756	20,129
Payables for securities purchased	12,140	813
Other liabilities	24,936	35,772
Total liabilities	**1,052,660**	**1,027,610**
Commitments and contingencies		
Shareholders equity		
Common stock ($0.01 par value, 500,000,000 shares authorized; 73,231,065 and 74,761,577 shares issued and outstanding in 2006 and 2005)	732	748
Additional paid-in capital	855,258	881,998
Unearned stock grant compensation		(14,756)
Retained earnings	821,826	747,691
Accumulated other comprehensive income	4,962	45,832
Total shareholders equity	**1,682,778**	**1,661,513**
Total liabilities and shareholders equity	**$ 2,735,438**	**$ 2,689,123**

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.
Consolidated Statements of Operations and Comprehensive Income
(in thousands of U.S. dollars except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		
	2006	**2005**	**2006**	**2005**	
Revenues					
Gross written premiums	$ 111,484	$ 40,470	$ 166,868	$ 118,567	
Ceded premiums	(1,139)	(10,314)	(5,739)	(11,942	**A HIGHER CONTINGENT COUPON OR A LOWER COUPON BARRIER OR TRIGGER PRICE FOR EACH UNDERLYING MAY REFLECT A GREATER EXPECTED VOLATILITY OF ONE OR MORE OF THE UNDERLYINGS, WHICH IS GENERALLY ASSOCIATED WITH A GREATER RISK OF LOSS** — Volatility is a PS-10

								measure of the degree of variation in the trading prices of an asset over a period of time. The greater the expected volatility at the time the terms of the securities are set, the greater the expectation is at that time that at least one Underlying may close below its Coupon Barrier on an Observation Date (resulting in a missed Contingent Coupon) or below its Trigger Price on the Final Valuation Date (resulting in a loss of a significant portion or all of your investment). In addition, the economic terms of the securities, including the Contingent Coupon, the Coupon Barriers and the Trigger Prices, are based, in part, on the expected volatility of the Underlyings at the time the terms of the securities are set on the Trade Date, where higher expected volatility will generally lead to a higher Contingent Coupon or a lower Coupon Barrier or Trigger Price for each Underlying. Accordingly, a higher Contingent Coupon as compared with the coupon on our conventional fixed income securities with a similar maturity or the coupon on our other similarly structured securities will generally indicate a greater risk of loss, while a lower Coupon Barrier or Trigger Price for each Underlying as compared with otherwise comparable securities does not necessarily indicate that the securities have a greater likelihood of paying Contingent Coupons or returning your investment at maturity. You should be willing to accept the

								downside market risk of each Underlying and the potential loss of a significant portion or all of your investment at maturity.
								THE SECURITIES ARE SUBJECT TO THE CREDIT OF DEUTSCHE BANK AG — The securities are senior unsecured obligations of Deutsche Bank AG and are not, either directly or indirectly, an obligation of any third party. Any payment(s) to be made on the securities depends on the ability of Deutsche Bank AG to satisfy its obligations as they become due. An actual or anticipated downgrade in Deutsche Bank AG's credit rating or increase in the credit spreads charged by the market for taking Deutsche Bank AG's credit risk will likely have an adverse effect on the value of the securities. As a result, the actual and perceived creditworthiness of Deutsche Bank AG will affect the value of the securities and, in the event Deutsche Bank AG were to default on its obligations or become subject to a Resolution Measure, you might not receive any amount(s) owed to you under the terms of the securities and you could lose your entire investment.
								THE SECURITIES MAY BE WRITTEN DOWN, BE CONVERTED INTO ORDINARY SHARES OR OTHER INSTRUMENTS OF OWNERSHIP OR BECOME SUBJECT TO

OTHER RESOLUTION MEASURES. YOU MAY LOSE SOME OR ALL OF YOUR INVESTMENT IF ANY SUCH MEASURE BECOMES APPLICABLE TO US — Pursuant to the SRM Regulation, the Resolution Act and other applicable rules and regulations described above under "Resolution Measures and Deemed Agreement," the securities are subject to the powers exercised by the competent resolution authority to impose Resolution Measures on us, which may include: writing down, including to zero, any claim for payment on the securities; converting the securities into ordinary shares of (i) the Issuer, (ii) any group entity or (iii) any bridge bank or other instruments of ownership of such entities qualifying as common equity tier 1 capital; or applying any other resolution measure including, but not limited to, transferring the securities to another entity, amending, modifying or varying the terms and conditions of the securities or cancelling the securities. The competent resolution authority may apply Resolution Measures individually or in any combination.

The German law on the mechanism for the resolution of banks of November 2, 2015 (*Abwicklungsmechanismusgesetz*, or the "**Resolution Mechanism Act**") provides that, in a German insolvency proceeding of the Issuer, certain specifically defined senior unsecured debt instruments would rank junior

								to, without constituting subordinated debt, all other outstanding unsecured unsubordinated obligations of the Issuer and be satisfied only if all such other senior unsecured obligations of the Issuer have been paid in full. This prioritization would also be given effect if Resolution Measures are imposed on the Issuer, so that obligations under debt instruments that rank junior in insolvency as described above would be written down or converted into common equity tier 1 instruments before any other senior unsecured obligations of the Issuer are written down or converted. A large portion of our liabilities consist of senior unsecured obligations that either fall outside the statutory definition of debt instruments that rank junior to other senior unsecured obligations according to the Resolution Mechanism Act or are expressly exempted from such definition. Among those unsecured unsubordinated obligations that are expressly exempted are money market instruments and senior unsecured debt instruments whose terms provide that (i) the repayment or the amount of the repayment depends on the occurrence or non-occurrence of an event which is uncertain at the point in time when the senior unsecured debt instruments are issued or is settled in a way other than by monetary payment, or (ii) the payment of interest or the amount of the interest payments depends on

								the occurrence or non-occurrence of an event which is uncertain at the point in time when the senior unsecured debt instruments are issued unless the payment of interest or the amount of the interest payments solely depends on a fixed or floating reference interest rate and is settled by monetary payment. This order of priority introduced by the Resolution Mechanism Act would apply in German insolvency proceedings instituted, or when Resolution Measures are imposed, on or after January 1, 2017 with effect for debt instruments of the Issuer outstanding at that time. In a German insolvency proceeding or in the event of the imposition of Resolution Measures with respect to the Issuer, the competent regulatory authority or court would determine which of our senior debt securities issued under the prospectus PS-11

										have the terms described in clauses (i) or (ii) above, referred to herein as the "**Structured Debt Securities**," and which do not, referred to herein as the "**Non-Structured Debt Securities**." We expect the securities offered herein to be classified as Structured Debt Securities, but the competent regulatory authority or court may classify the securities differently. In a German insolvency proceeding or in the event of the imposition of Resolution Measures with respect to the Issuer, the Structured Debt Securities are expected to be among the unsecured unsubordinated obligations that would bear losses after the Non-Structured Debt Securities as described above. **Nevertheless**, **you may lose some or all of your investment in the securities if a Resolution Measure becomes applicable to us**. Imposition of a Resolution Measure would likely occur if we become, or are deemed by the competent supervisory authority to have become, "non-viable" (as defined under the then applicable law) and are unable to continue our regulated banking activities without a Resolution Measure becoming applicable to us. The Bank Recovery and Resolution Directive and the Resolution Act are intended to eliminate the need for public support of troubled banks, and you should be aware that public support, if any, would only potentially be used by the competent supervisory authority as a last resort after having assessed and

									exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool.
									By acquiring the securities, you would have no claim or other right against us arising out of any Resolution Measure and we would have no obligation to make payments under the securities following the imposition of a Resolution Measure. In particular, the imposition of any Resolution Measure will not constitute a default or an event of default under the securities, under the Indenture or for the purposes of, but only to the fullest extent permitted by, the Trust Indenture Act. Furthermore, because the securities are subject to any Resolution Measure, secondary market trading in the securities may not follow the trading behavior associated with similar types of securities issued by other financial institutions which may be or have been subject to a Resolution Measure.
									In addition, by your acquisition of the securities, you waive, to the fullest extent permitted by the Trust Indenture Act and applicable law, any and all claims against the trustee and the indenture agents for, agree not to initiate a suit against the trustee or the indenture agents in respect of, and agree that the trustee and the indenture agents will not be liable for, any action that the trustee or the indenture agents take, or abstain from

								taking, in either case in accordance with the imposition of a Resolution Measure by the competent resolution authority with respect to the securities. **Accordingly**, **you may have limited or circumscribed rights to challenge any decision of the competent resolution authority to impose any Resolution Measure**.
								· **THE ISSUER'S ESTIMATED VALUE OF THE SECURITIES ON THE TRADE DATE WILL BE LESS THAN THE ISSUE PRICE OF THE SECURITIES** — The Issuer's estimated value of the securities on the Trade Date (as disclosed on the cover of this pricing supplement) is less than the Issue Price of the securities. The difference between the Issue Price and the Issuer's estimated value of the securities on the Trade Date is due to the inclusion in the Issue Price of the agent's commissions, if any, and the cost of hedging our obligations under the securities through one or more of our affiliates. Such hedging cost includes our or our affiliates' expected cost of providing such hedge, as well as the profit we or our affiliates expect to realize in consideration for assuming the risks inherent in providing such hedge. The Issuer's estimated value of the securities is determined by reference to an internal funding rate and our pricing models. The internal funding rate is typically lower than the rate we would pay when we

								issue conventional debt securities on equivalent terms. This difference in funding rate, as well as the agent’s commissions, if any, and the estimated cost of hedging our obligations under the securities, reduces the economic terms of the securities to you and is expected to adversely affect the price at which you may be able to sell the securities in any secondary market. In addition, our internal pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. If at any time a third party dealer were to quote a price to purchase your securities or otherwise value your securities, that price or value may differ materially from the estimated value of the securities determined by reference to our internal funding rate and pricing models. This difference is due to, among other things, any difference in funding rates, pricing models or assumptions used by any dealer who may purchase the securities in the secondary market.
								· **INVESTING IN THE SECURITIES IS NOT THE SAME AS INVESTING IN THE UNDERLYINGS** — The return on the securities may not reflect the return you would have realized if you had directly invested in the Underlyings. For instance, any Payment at Maturity on the securities is dependent on the performance of the Laggard Underlying, and you will not participate in any potential

increase in the prices of any Underlyings, which could be significant.

IF THE PRICES OF THE UNDERLYINGS CHANGE, THE VALUE OF YOUR SECURITIES MAY NOT CHANGE IN THE SAME MANNER — Your securities may trade quite differently from the prices of the Underlyings. Changes in the prices of the Underlyings may not result in comparable changes in the value of your securities.

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										·	**NO DIVIDEND PAYMENTS OR VOTING RIGHTS** — As a holder of the securities, you will not have any voting rights or rights to receive cash dividends or other distributions or other rights that holders of the Underlyings would have.
										·	**YOUR INVESTMENT IS EXPOSED TO A DECLINE IN THE PRICE OF EACH UNDERLYING** — Your return on the securities, if any, is not linked to a basket consisting of the Underlyings. Rather, any payment on the securities will be determined by reference to the performance of each individual Underlying. Unlike an instrument with a return linked to a basket, in which risk is mitigated and diversified among all of the basket components, you will be exposed equally to the risks related to each Underlying. Poor performance by any Underlying over the term of the securities may adversely affect your return on the securities and will not be offset or mitigated by a positive performance by any other Underlying.
										·	**BECAUSE THE SECURITIES ARE LINKED TO THE LEAST PERFORMING OF THE THREE UNDERLYINGS, YOU ARE EXPOSED TO A GREATER RISK OF RECEIVING NO CONTINGENT COUPONS OR LOSING A**

										SIGNIFICANT PORTION OR ALL OF YOUR INVESTMENT THAN IF THE SECURITIES WERE LINKED TO JUST ONE UNDERLYING — The risk that you will not receive any Contingent Coupons and/or lose a significant portion or all of your investment in the securities is greater than in substantially similar securities that are linked to the performance of just one of the Underlyings. With three Underlyings, it is more likely that the Closing Price of at least one Underlying will be less than its Coupon Barrier on each Observation Date, and that the Final Price of at least one Underlying will be less than its Trigger Price, than if the securities were linked to only one Underlying, and therefore, it is more likely that you will not receive any Contingent Coupons and will receive a Payment at Maturity that is significantly less than your investment. In addition, the performance of the Underlyings may not be correlated. If the performance of the Underlyings is not correlated, or is negatively correlated, the potential for the Closing Price of at least one Underlying to be less than its Coupon Barrier on any Observation Date, or the Final Price of at least one Underlying to be less than its Trigger Price, is even greater. Although the correlation of the Underlyings' performance may change over the term of the securities, the Contingent Coupon, Coupon Barriers and Trigger Prices are determined, in part, based on the

								correlation of the Underlyings' performance at the time when the terms of the securities are finalized. A higher Contingent Coupon or lower Coupon Barrier or Trigger Price for each Underlying is generally associated with a lower correlation of the Underlyings, which reflects a greater potential for loss on your investment at maturity.
								· **ANTI-DILUTION PROTECTION IS LIMITED AND THE CALCULATION AGENT MAY MAKE ADJUSTMENTS IN ADDITION TO, OR THAT DIFFER FROM, THOSE SET FORTH IN THE ACCOMPANYING PRODUCT SUPPLEMENT** — For each Underlying, the calculation agent will make adjustments to the relevant Stock Adjustment Factor, which will initially be set at 1.0, for certain corporate events affecting such Underlying. The calculation agent is not required, however, to make such adjustments in response to all corporate events that could affect the Underlyings, including if the issuer of an Underlying or another party makes a partial tender or partial exchange offer for such Underlying. If such an event occurs that does not require the calculation agent to make an adjustment, the value of the securities may be materially and adversely affected. In addition, you should be aware that the calculation agent may, at its sole discretion, make

adjustments to each Stock Adjustment Factor or any other terms of the securities that are in addition to, or that differ from, those described in the accompanying product supplement to reflect changes occurring in relation to the relevant Underlying or any other security received in a reorganization event in circumstances where the calculation agent determines that it is appropriate to reflect those changes to ensure an equitable result. Any alterations to the specified anti-dilution adjustments for an Underlying or any other security received in a reorganization event described in the accompanying product supplement may be materially adverse to investors in the securities. You should read "Description of Securities — Anti-Dilution Adjustments for Reference Stock" in the accompanying product supplement in order to understand the adjustments that may be made to the securities.

· **THERE IS NO AFFILIATION BETWEEN THE ISSUERS OF THE UNDERLYINGS AND US AND WE HAVE NOT PARTICIPATED IN THE PREPARATION OF, OR VERIFIED, ANY INFORMATION ABOUT THE UNDERLYINGS OR THE ISSUERS OF THE UNDERLYINGS** — We are not affiliated with the issuers of the Underlyings. However, we or our affiliates may currently, or from time to time in the future, engage in business with the issuers of the Underlyings, including extending loans to, making equity investments in, acting as underwriter in connection with future offerings of the Underlyings by, or providing advisory services (including merger and acquisition advisory services) to, such issuers. In the course of this business, we or our affiliates may acquire non-public information about the issuers of the Underlyings, and we will not disclose any such information to you. Nevertheless, neither we nor our affiliates have participated in the preparation of, or verified, any information about the Underlyings or the issuers of the Underlyings. You, as an investor in the securities, should make your own investigation into the Underlyings and the issuers of the Underlyings. The issuers of the Underlyings are not involved in this offering in any way and none of them has any obligation of any sort with

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respect to your securities. The issuers of the Underlyings do not have any obligation to take your interests into consideration for any reason, including when taking any corporate actions that would require the calculation agent to adjust the Stock Adjustment Factor for any Underlying, which may adversely affect the value of your securities.

· **THERE ARE RISKS ASSOCIATED WITH INVESTMENTS LINKED TO THE VALUE OF EQUITY SECURITIES ISSUED BY A NON-U.S. COMPANY —** Alibaba Group Holding Limited is incorporated in the Cayman Islands and its business operations are located mainly in the People's Republic of China. There are risks associated with investments linked to the value of equity securities issued by a non-U.S. company. There is generally less publicly available information about non-U.S. companies than about those U.S. companies that are subject to the reporting requirements of the Securities and Exchange Commission, and non-U.S. companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies. In addition, the price of equity securities issued by a non-U.S. company may be adversely affected by

								political, economic, financial and social factors that may be unique to the particular country in which the non-U.S. company is incorporated and/or primarily conducts its business. These factors include the possibility of recent or future changes in the non-U.S. government's economic and fiscal policies (including any direct or indirect intervention to stabilize the economy and/or securities market of the country of such non-U.S. government), the presence, and extent, of cross shareholdings in non-U.S. companies, the possible imposition of, or changes in, currency exchange laws or other non-U.S. laws or restrictions applicable to non-U.S. companies or investments in non-U.S. securities and the possibility of fluctuations in the rate of exchange between currencies. Moreover, certain aspects of a particular non-U.S. economy may differ favorably or unfavorably from the U.S. economy in important respects, such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency. · **FLUCTUATIONS IN EXCHANGE RATES MAY AFFECT YOUR INVESTMENT** — One of the Underlyings is the American depositary shares of Alibaba Group Holding Limited. There are significant risks related to an investment linked to an American depositary share ("**ADS**") (as evidenced by American depositary receipts), which is quoted and traded in

								U.S. dollars, representing an equity security issued by a company with a significant portion of its revenue and financial assets denominated in a foreign currency. In recent years, the rates of exchange between the U.S. dollar and some other currencies have been highly volatile, and this volatility may continue in the future. These risks generally depend on economic and political events over which we have no control. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur during the term of the securities. Changes in the exchange rate between the U.S. dollar and the foreign currency in which a significant portion of Alibaba Group Holding Limited's revenue and financial assets is denominated may affect the market price of the ADSs to which the securities are linked, which may consequently affect the value of the securities. · **THERE ARE IMPORTANT DIFFERENCES BETWEEN THE RIGHTS OF HOLDERS OF AMERICAN DEPOSITARY SHARES AND THE RIGHTS OF HOLDERS OF THE ORDINARY SHARES OF A FOREIGN COMPANY** — You should be aware that one of the Underlyings is the American depositary shares of Alibaba Group Holding Limited and not the equity securities represented by such ADSs, and there exist important differences between the rights

									of holders of ADSs and the rights of holders of the corresponding equity securities. Each ADS is a security evidenced by American depositary receipts that represents a certain number of equity securities of a foreign company. Generally, ADSs are issued under a deposit agreement which sets forth the rights and responsibilities of the depositary, the foreign issuer and holders of the ADSs, which may be different from the rights of holders of equity securities of the foreign issuer. For example, the foreign issuer may make distributions in respect of its equity securities that are not passed on to the holders of its ADSs. Any such differences between the rights of holders of ADSs and holders of the corresponding equity securities may be significant and may materially and adversely affect the price of the ADSs and, thus, the value of the securities. · **PAST PERFORMANCE OF THE UNDERLYINGS IS NO GUIDE TO FUTURE PERFORMANCE** — The actual performance of the Underlyings over the term of the securities may bear little relation to the historical closing prices of the Underlyings and/or the hypothetical examples set forth elsewhere in this pricing supplement. We cannot predict the future performance of the Underlyings or whether the performance of the Underlyings will result in the return of any of your

investment. The American depositary shares of Alibaba Group Holding Limited commenced trading on September 19, 2014. Therefore, the American depositary shares of Alibaba Group Holding Limited has a limited performance history.

- **ASSUMING NO CHANGES IN MARKET CONDITIONS AND OTHER RELEVANT FACTORS, THE PRICE YOU MAY RECEIVE FOR YOUR SECURITIES IN SECONDARY MARKET TRANSACTIONS WOULD GENERALLY BE LOWER THAN BOTH THE ISSUE PRICE AND THE ISSUER'S ESTIMATED VALUE OF THE SECURITIES ON THE TRADE DATE** — While the payment(s) on the securities described in this pricing supplement is based

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								on the full Face Amount of securities, the Issuer's estimated value of the securities on the Trade Date (as disclosed on the cover of this pricing supplement) is less than the Issue Price of the securities. The Issuer's estimated value of the securities on the Trade Date does not represent the price at which we or any of our affiliates would be willing to purchase your securities in the secondary market at any time. Assuming no changes in market conditions or our creditworthiness and other relevant factors, the price, if any, at which we or our affiliates would be willing to purchase the securities from you in secondary market transactions, if at all, would generally be lower than both the Issue Price and the Issuer's estimated value of the securities on the Trade Date. Our purchase price, if any, in secondary market transactions would be based on the estimated value of the securities determined by reference to (i) the then-prevailing internal funding rate (adjusted by a spread) or another appropriate measure of our cost of funds and (ii) our pricing models at that time, less a bid spread determined after taking into account the size of the repurchase, the nature of the assets underlying the securities and then-prevailing market conditions. The price we report to financial reporting services and to distributors of our securities for use on customer account statements would generally be determined on the

same basis. However, during the period of approximately three months beginning from the Trade Date, we or our affiliates may, in our sole discretion, increase the purchase price determined as described above by an amount equal to the declining differential between the Issue Price and the Issuer's estimated value of the securities on the Trade Date, prorated over such period on a straight-line basis, for transactions that are individually and in the aggregate of the expected size for ordinary secondary market repurchases.

In addition to the factors discussed above, the value of the securities and our purchase price in secondary market transactions after the Trade Date, if any, will vary based on many economic and market factors, including our creditworthiness, and cannot be predicted with accuracy. These changes may adversely affect the value of your securities, including the price you may receive in any secondary market transactions. Any sale prior to the Maturity Date could result in a substantial loss to you. The securities are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your securities to maturity.

- **THE SECURITIES WILL NOT BE LISTED AND THERE WILL LIKELY BE LIMITED LIQUIDITY** — The

											securities will not be listed on any securities exchange. There may be little or no secondary market for the securities. We or our affiliates intend to act as market makers for the securities but are not required to do so and may cease such market making activities at any time. Even if there is a secondary market, it may not provide enough liquidity to allow you to sell the securities when you wish to do so or at a price advantageous to you. Because we do not expect other dealers to make a secondary market for the securities, the price at which you may be able to sell your securities is likely to depend on the price, if any, at which we or our affiliates are willing to buy the securities. If, at any time, we or our affiliates do not act as market makers, it is likely that there would be little or no secondary market in the securities. If you have to sell your securities prior to maturity, you may not be able to do so or you may have to sell them at a substantial loss, even in cases where the prices of the Underlyings have increased since the Trade Date. · **MANY ECONOMIC AND MARKET FACTORS WILL AFFECT THE VALUE OF THE SECURITIES** — While we expect that, generally, the prices of the Underlyings will affect the value of the securities more than any other single factor, the value of the securities prior to maturity will also be affected by a number of other factors that may either offset or magnify each other,

including:

- whether the Closing Price of any Underlying on any Observation Date is less than its Coupon Barrier;
- the expected volatility of the Underlyings;
- the time remaining to the maturity of the securities;
- the dividend rates of the Underlyings;
- the real and anticipated results of operations of the issuers of the Underlyings;
- actual or anticipated corporate reorganization events, such as mergers or takeovers, which may affect any of the Underlyings;
- interest rates and yields in the markets generally;
- geopolitical conditions and economic, financial, political, regulatory or judicial events that affect any Underlying or the markets generally;
- supply and demand for the securities; and

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- our creditworthiness, including actual or anticipated downgrades in our credit ratings.

During the term of the securities, it is possible that their value may decline significantly due to the factors described above even if the prices of the Underlyings remain unchanged from their respective Initial Prices, and any sale prior to the Maturity Date could result in a substantial loss to you. You must hold the securities to maturity to receive the stated payout from the Issuer.

- **TRADING AND OTHER TRANSACTIONS BY US OR OUR AFFILIATES IN THE EQUITY AND EQUITY DERIVATIVE MARKETS MAY IMPAIR THE VALUE OF THE SECURITIES** — We or our affiliates expect to hedge our exposure from the securities by entering into equity and equity derivative transactions, such as over-the-counter options, futures or exchange-traded instruments. We or our affiliates may also engage in trading in instruments linked or related to the Underlyings on a regular basis as part of our or their general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for customers, including block transactions. Such trading and

									hedging activities may adversely affect the prices of one or more Underlyings and, therefore, make it less likely that you will receive a positive return on your investment in the securities. It is possible that we or our affiliates could receive substantial returns from these hedging and trading activities while the value of the securities declines. We or our affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to the Underlyings. To the extent that we or our affiliates serve as issuer, agent or underwriter for such securities or financial or derivative instruments, our or our affiliates' interests with respect to such products may be adverse to those of the holders of the securities. Introducing competing products into the marketplace in this manner could adversely affect the prices of one or more Underlyings and the value of the securities. Any of the foregoing activities described in this paragraph may reflect trading strategies that differ from, or are in direct opposition to, investors' trading and investment strategies related to the securities. Furthermore, because DBSI or one of its affiliates is expected to conduct trading and hedging activities for us in connection with the securities, DBSI or such affiliate may profit in connection with such trading and hedging activities and such profit, if any, will be in addition to any compensation that DBSI receives for the sale of the securities to you. You

								should be aware that the potential to earn a profit in connection with hedging activities may create a further incentive for DBSI to sell the securities to you in addition to any compensation they would receive for the sale of the securities. **WE OR OUR AFFILIATES MAY PUBLISH RESEARCH, EXPRESS OPINIONS OR PROVIDE RECOMMENDATIONS THAT ARE INCONSISTENT WITH INVESTING IN OR HOLDING THE SECURITIES. ANY SUCH RESEARCH, OPINIONS OR RECOMMENDATIONS COULD ADVERSELY AFFECT THE PRICES OF THE UNDERLYINGS AND THE VALUE OF THE SECURITIES** — We or our affiliates may publish research from time to time on financial markets and other matters that could adversely affect the prices of the Underlyings and the value of the securities, or express opinions or provide recommendations that are inconsistent with purchasing or holding the securities. Any research, opinions or recommendations expressed by us or our affiliates may not be consistent with each other and may be modified from time to time without notice. You should make your own independent investigation of the merits of investing in the securities and the Underlyings.

POTENTIAL CONFLICTS OF INTEREST — We and our affiliates play a variety of roles in connection with the issuance of the securities, including acting as calculation agent, hedging our obligations under the securities and determining the Issuer's estimated value of the securities on the Trade Date and the price, if any, at which we or our affiliates would be willing to purchase the securities from you in secondary market transactions. In performing these roles, our economic interests and those of our affiliates are potentially adverse to your interests as an investor in the securities. The calculation agent will determine, among other things, all values, prices and levels required to be determined for the purposes of the securities on any relevant date or time. The calculation agent also has some discretion about certain adjustments to the Stock Adjustment Factors and will be responsible for determining whether a market disruption event has occurred as well as, in some circumstances, the prices or levels related to the Underlyings that affect whether the Contingent Coupons are paid and whether the securities are automatically called. Any determination by the calculation agent could adversely affect the return on the securities.

· **THERE IS SUBSTANTIAL UNCERTAINTY REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE**

SECURITIES — There is no direct legal authority regarding the proper U.S. federal income tax treatment of the securities, and we do not plan to request a ruling from the IRS. Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as prepaid financial contracts that are not debt, with associated contingent coupons, as described above under "Tax Consequences." If the IRS were successful in asserting an alternative treatment for the securities, the tax consequences of ownership and disposition of the securities could be materially affected. In addition, as described above under "Tax Consequences," 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. Any Treasury regulations or other guidance promulgated after consideration of these issues could materially affect the tax consequences of an investment in the securities, possibly with retroactive effect. You should review carefully the section of the accompanying product supplement entitled "U.S. Federal Income Tax Consequences," and consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities (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.

PS-17

The Underlyings

All disclosures contained in this pricing supplement regarding the Underlyings are derived from publicly available information. Neither Deutsche Bank AG nor any of its affiliates has participated in the preparation of, or verified, such information about the Underlyings contained in this pricing supplement. You should make your own investigation into the Underlyings.

Included below is a brief description of the issuer of each Underlying. Each Underlying is registered under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). Companies with securities registered under the Exchange Act are required to file certain financial and other information specified by the SEC periodically. Information filed by the issuer of each Underlying with the SEC can be reviewed electronically through a web site maintained by the SEC. The address of the SEC's web site is.http://www.sec.gov. Information filed with the SEC by the issuers of the Underlyings under the Exchange Act can be located by reference to its SEC file number provided below.

In addition, information filed with the SEC can be inspected and copied at the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of this material can also be obtained from the Public Reference Section, at prescribed rates.

We obtained the historical closing prices of the Underlyings below from Bloomberg L.P. and we have not participated in the preparation of, or verified, such information. **The historical closing prices of the Underlyings should not be taken as an indication of future performance and no assurance can be given as to the Closing Prices of the Underlyings on any of the Observation Dates** (**including the Final Valuation Date**). **We cannot give you assurance that the performance of the Underlyings will result in the return of any of your investment**.

PS-18

NVIDIA Corporation

According to publicly available information, NVIDIA Corporation designs graphics processing units for the gaming, professional visualization, datacenter and automotive markets. Information filed by NVIDIA Corporation with the SEC under the Exchange Act can be located by reference to its SEC file number: 000-23985, or its CIK code: 0001045810. The common stock of NVIDIA Corporation is traded on the NASDAQ Stock Market under the ticker symbol "NVDA."

Historical Information

The following graph sets forth the historical performance of the common stock of NVIDIA Corporation based on its daily closing prices from January 10, 2013 through January 10, 2018. The closing price of the common stock of NVIDIA Corporation on January 10, 2018 was $223.68. The graph below also indicates by a broken line a hypothetical Coupon Barrier and Trigger Price for NVIDIA Corporation equal to 75.00% its closing price on January 10, 2018.

PS-19

Alibaba Group Holding Limited

According to publicly available information, Alibaba Group Holding Limited provides technology infrastructure and internet marketing services for merchants, brands and other businesses that provide products, services and digital content . Information filed by Alibaba Group Holding Limited with the SEC under the Exchange Act can be located by reference to its SEC file number: 001–36614, or its CIK code: 0001577552. The American depositary shares of Alibaba Group Holding Limited are traded on the New York Stock Exchange under the ticker symbol “BABA.” Each ordinary share of Alibaba Group Holding Limited, par value $0.000025 per share, is represented by one American depositary share.

Historical Information

The following graph sets forth the historical performance of the American depositary shares of Alibaba Group Holding Limited based on its daily closing prices from September 19, 2014 through January 10, 2018. The closing price of the American depositary shares of Alibaba Group Holding Limited on January 10, 2018 was $189.79. The graph below also indicates by a broken line a hypothetical Coupon Barrier and Trigger Price for Alibaba Group Holding Limited equal to 75.00% of its closing price on January 10, 2018. The American depositary shares of Alibaba Group Holding Limited commenced trading on September 19, 2014 and, therefore, has a limited performance history.

PS-20

Amazon.com, Inc.

According to publicly available information, Amazon.com, Inc. is a web-based business that serves consumers, sellers, developers, enterprises and content creators. Information filed by Amazon.com, Inc. with the SEC under the Exchange Act can be located by reference to its SEC file number: 000–22513 or its CIK code: 0001018724. The common stock of Amazon.com, Inc. is traded on the NASDAQ Stock Market under the ticker symbol "AMZN."

Historical Information

The following graph sets forth the historical performance of the common stock of Amazon.com, Inc. based on its daily closing prices from January 10, 2013 through January 10, 2018. The closing price of the common stock of Amazon.com, Inc. on January 10, 2018 was $1,254.33. The graph below also indicates by a broken line a hypothetical Coupon Barrier and Trigger Price of Amazon.com equal to 75.00% its closing price on January 10, 2018.

PS-21

Correlation of the Underlyings

The following graph sets forth the historical performances of the common stock of NVIDIA Corporation, the American depositary shares of Alibaba Group Holding Limited and the common stock of Amazon.com, Inc. from September 19, 2014 through January 10, 2018, based on the daily closing prices of the Underlyings. For comparison purposes, each Underlying has been normalized to have a closing price of 100.00 on September 19, 2014 by (1) *dividing* the closing price of that Underlying on each day by the closing price of that Underlying on September 19, 2014 and (2) *multiplying* by 100.00.

We obtained the closing prices used to determine the normalized closing levels set forth below from Bloomberg, without verification. Historical performance of the Underlyings should not be taken as an indication of future performance. Future performance of the Underlyings may differ significantly from historical performance and no assurance can be given as to the Closing Prices of the Underlyings on any of the Observation Dates (including the Final Valuation Date). We cannot give you assurance that the performances of the Underlyings will result in the

								return of any of your investment.
								The closer the relationship of the daily returns of a pair of Underlyings over a given period, the more positively correlated those Underlyings are. The graph above illustrates the historical performance of each Underlying relative to the other Underlyings over the time period shown and provides an indication of how close the relative performance of the daily returns of one Underlying has historically been to the others. For additional information, please see "Selected Risk Considerations — Because the securities are linked to the least performing of the three Underlyings, you are exposed to a greater risk of receiving no contingent coupon or losing a significant portion or all of your investment than if the securities were linked to just one underlying" in this pricing supplement.
								The lower (or more negative) the correlation between two Underlyings, the less likely it is that those Underlyings will move in the same direction and, therefore, the greater the potential that the Final Price of at least one of the Underlyings may be less than its Trigger Price. This is because the less positively correlated a pair of Underlyings are, the greater the likelihood that the price of at

least one of the Underlyings will decrease. This results in a greater potential for a loss of a significant portion or all of your investment at maturity. However, even if two Underlyings have a higher positive correlation, the Final Price of any of those Underlyings may be less than its Trigger Price as the prices of any of those Underlyings may decrease together.

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In addition, for each additional Underlying to which the securities are linked, there is a greater potential for one pair of Underlyings to have low or negative correlation. Therefore, the greater the number of Underlyings, the greater the potential for a loss of a significant portion or all of your investment at maturity. We determined the Contingent Coupon, Trigger Prices and Coupon Barriers for the securities based, in part, on the correlation among the Underlyings, calculated using internal models at the time the terms of the securities were set. As discussed above, increased risk resulting from lower correlation or from a greater number of underlyings is reflected in a higher Contingent Coupon than would be payable on, or lower Trigger Prices or Coupon Barriers for each Underlying than would be offered for, securities linked to fewer underlyings that have a higher degree of correlation.

Supplemental Plan of Distribution (Conflicts of Interest)

DBSI, acting as agent for Deutsche Bank AG, will receive a selling concession of up to 1.975% or $19.75 per $1,000 Face Amount of securities in connection with the sale of the securities. DBSI will pay custodial fees to other broker-dealers of up to 0.375%

or $3.75 per $1,000 Face Amount of securities and may pay a referral fee of 0.10% or $1.00 per $1,000 Face Amount of securities. Deutsche Bank AG will reimburse DBSI for such custodial and referral fees.

DBSI, the agent for this offering, is our affiliate. Because DBSI is both our affiliate and a member of the Financial Industry Regulatory Authority, Inc. ("**FINRA**"), the underwriting arrangement for this offering must comply with the requirements of FINRA Rule 5121 regarding a FINRA member firm's distribution of the securities of an affiliate and related conflicts of interest. In accordance with FINRA Rule 5121, DBSI may not make sales in offerings of the securities to any of its discretionary accounts without the prior written approval of the customer. See "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

Settlement

We expect to deliver the securities against payment for the securities on the Settlement Date indicated above, which is expected to be a day that is greater than two business days following the Trade Date. Under Rule 15c6–1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are

								required to settle in two business days, unless the parties to a trade expressly agree otherwise. Accordingly, if the Settlement Date is more than two business days after the Trade Date, purchasers who wish to transact in the securities more than two business days prior to the Settlement Date will be required to specify alternative settlement arrangements to prevent a failed settlement. PS-23