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INFORMATION ON BANK RESOLUTION AND CREDITOR PARTICIPATION (BAIL-IN)

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FOR CUSTOMERS OF BANK JULIUS BÄR DEUTSCHLAND AG

Responding to the experiences brought on by the 2008 financial crisis, many countries have adopted rules determining how banks at risk can be resolved in an orderly manner without involving taxpayers. As a result, shareholders and creditors of a bank at risk may be required to participate in bearing the bank's losses. The objective is to make it possible to resolve a bank without using public funds.

To this effect, the European Union has passed the following legislation:

- the Bank Recovery and Resolution Directive (**BRRD**) and
- the Regulation establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a "single resolution mechanism" and a "single resolution fund" (**SRM regulation**).

One requirement under the BRRD is that each EU member state must establish a national resolution authority that has certain rights for the resolution and recovery of credit institutions. The measures taken by such authority may have adverse consequences on bank shareholders and creditors.

The precise nature of the measures that the resolution authorities can take at the national level may vary from one member state to another. The following describes the possible resolution measures based on the example of Germany. The resolution procedures of other countries, in particular non-European countries, may also be different and even more severe.

HOW MIGHT I BE AFFECTED?

You could be affected if you, as a shareholder or creditor of a bank, hold financial instruments issued by the bank (e.g. shares, bonds or certificates) or if, as a contract partner of the bank, you have claims against the bank (e.g. certain deposits or individual transactions under a master agreement for financial derivative transactions).

Securities which you, as a custodial customer of the bank, hold in a securities account and that are not issued by the bank would not be affected by resolution measures taken against the custodian bank.

Should the custodian bank be resolved, your ownership rights to the financial instruments in your account will remain unaffected.

WHO IS THE RESOLUTION AUTHORITY?

Resolution authorities have been set up to ensure that resolutions can be carried out in an orderly manner in the event of a crisis. Under certain conditions, the resolution authority responsible for a bank in distress has the power to order the implementation of resolution measures.

The resolution authorities responsible for German financial institutions are the Single Resolution Board (**SRB**) and Germany's Federal Financial Supervisory Authority (**BaFin**). For simplification purposes, there is no distinction made between the SRB and BaFin in the following.

WHEN WOULD A BANK RESOLUTION/ BAIL-IN OCCUR?

The resolution authority can impose certain resolution measures if all of the following conditions are met:

- The bank as a going concern is at risk. This is assessed based on statutory provisions. The condition is deemed fulfilled, for example, if as a result of its losses a bank is no longer able to meet the statutory requirements for retaining its admission as a credit institution.
- There is no prospect of averting the failure of the bank by alternative measures on the part of the private sector or other measures of the supervisory authorities.
- The measure is necessary in the public interest, i.e. it is necessary and proportionate, and a regular liquidation process to resolve the bank is not an equivalent alternative.

WHAT MEASURES CAN BE TAKEN BY THE RESOLUTION AUTHORITY?

If all the above resolution conditions are met, the resolution authority can take extensive resolution measures, even before the bank is officially insolvent. These measures may have negative implications for shareholders and creditors of the bank:

- The **bail-in tool** (also referred to as **creditor participation**): The resolution authority may write down some or all of the financial instruments issued by the bank and claims against the bank or convert them into equity (shares or other company interests) and thus stabilise the bank.
- The **sale of business tool**: Some or all of the shares, assets, rights and/or liabilities of the bank being

resolved are sold to a specific buyer. To the extent shareholders and creditors are affected by the sale of business tool, they will have to deal with a different, existing institution acting as the debtor.

- The **bridge institution tool**: The resolution authority may transfer shares in the bank or some or all of the bank's assets, including its liabilities, to a "bridge institution". This measure may adversely affect the bank's ability to meet its payment and delivery obligations to its creditors and may reduce the value of the shares in the bank.
- The **transfer to an asset management company**: This tool is used to transfer assets, rights and liabilities to an asset management company. The purpose of this measure is to manage the assets with the aim of maximising their value until they are subsequently sold or liquidated. Similar to the case of the sale of business tool, a creditor must deal with a new debtor after the transfer.

The resolution authority may, by administrative order, adjust the terms of the financial instruments issued by the bank and creditors' claims against the bank, e.g. the due date or the interest rate may be changed to the detriment of the creditor. In addition, payment and delivery obligations may be modified; for example, they may be temporarily suspended. Creditors' termination rights and other contractual rights of creditors in connection with their financial instruments or claims may also be temporarily suspended.

WHEN COULD I AS A CREDITOR BE AFFECTED BY A BAIL-IN?

The question of whether you as a creditor will be affected by a resolution bail-in measure depends on the scope of the measure imposed and on how the financial instruments you hold or your claim against the bank would be classified. As part of a bail-in, financial instruments and claims are allocated to different categories; the order in which they can be used for the purposes of the resolution measure is defined by law (the "liability cascade").

The following principles are applied to determine the impact on shareholders and creditors: A higher category of liabilities must first be used in an attempt to offset losses adequately and thus stabilise the bank. Only when such liabilities have been exhausted and the bank is still not sufficiently stabilised can the next lower category of liabilities in the cascade be accessed for write-downs or conversion into equity.

Certain types of financial instruments and claims are excluded from the bail-in tool by law. This applies, for example, to deposits up to an amount of EUR 100,000 that are protected by the statutory deposit guarantee scheme as well as to asset-backed liabilities, such as German mortgage-backed bonds [Pfandbriefe].

The liability cascade for banks based in Germany categorises liabilities as follows:

(1) First, resolution measures are applied to **common equity Tier 1 capital**, which affects the bank's shareholders.

(2) Next, creditors of **additional Tier 1 capital** are affected (i.e. owners of unsecured perpetual subordinated bonds and silent participations with a conversion or write-down clause, which are subordinated to Tier 2 capital).

(3) The next category is **Tier 2 capital**. This is held by creditors of subordinated liabilities (e.g. holders of subordinated loans).

(4) Next in the liability cascade are the **unsecured subordinated financial instruments and claims** that do not meet the requirements for additional Tier 1 capital and Tier 2 capital.

(5) These are followed by certain unsecured non-subordinated, not structured debt instruments[1]. This category includes only those debt instruments which
   - were issued prior to 21 July 2018 and constitute neither money market instruments nor structured products or
   - have been issued since 21 July 2018, have a contractual maturity of at least one year, are not structured products; the contractual terms and conditions (and the prospectus, if required to be published) expressly indicate that the liabilities rank lower than category (6) below.

   The liabilities in this category are sometimes referred-to as "**senior non-preferred**".

[1] Debt instruments include bearer bonds, negotiable registered bonds and comparable rights which, by nature, are tradable on the capital market, as well as registered bonds and promissory notes, provided they do not qualify as preferred deposits under category (6) or are excluded from write-down and conversion as covered deposits.

(6) The next category of the cascade comprises the following unsecured liabilities:
- Debt instruments that do not fall into category (5), such as debt instruments that have been issued since 21 July 2018 that do not expressly indicate a lower ranking, as would be necessary for category (5).
- Structured, unsecured financial instruments and claims (such as equity index certificates, claims from derivatives). In these cases, the amount of the repayment or interest payment depends on an uncertain future event or the transaction is settled on a basis other than cash.
- In addition, deposits by companies exceeding EUR 100,000 are included in this category, unless they fall into category (7).

In contrast to category (5), the liabilities in this category are also referred to as "**senior preferred**".

(7) Finally, deposits by individuals, micro-businesses and small and medium-sized enterprises can be affected to the extent they exceed the general statutory deposit protection limit of EUR 100,000 ("**other preferred deposits**").

This means that the simplified liability cascade presented on the last page applies in the order of the arrow, starting with the common equity Tier 1 capital. Any lower-ranking category cannot be used to cover losses unless all prior categories prove to be insufficient (see figure on the last page). The resolution authority may deviate from this principle in individual cases.

HOW MIGHT THE RESOLUTION MEASURES AFFECT ME AS A CREDITOR?

In the event a resolution measure is imposed or taken by the resolution authority according to these rules, creditors are not permitted to terminate their financial instruments or claims or exercise other contractual rights solely in response to that measure, as long as the bank continues to fulfil its primary contractual obligations under the terms and conditions of the relevant financial instruments and claims. This includes payment and service performance obligations.

If resolution measures are implemented by the resolution authority, the total loss of the capital invested by shareholders and creditors may result. Shareholders and creditors of financial instruments and claims may thus completely lose the purchase price paid for the financial instruments and claims plus any other costs associated with the purchase.

Even the mere possibility that resolution measures might be imposed could make it more difficult to sell a financial instrument or claim in the secondary market. As a result, the shareholder or creditor may only be able to sell the financial instrument or claim at a substantial discount. Even if the issuing bank is subject to a repurchase obligation, shareholders or creditors may be compelled to offer significant discounts in order to sell such financial instruments.

It is not acceptable that the resolution of a bank should leave shareholders and creditors in a position that is less favourable than under normal insolvency proceedings. Nevertheless, if the resolution measure should place a shareholder or creditor in a worse position than what would have been under normal insolvency proceedings, the shareholder or creditor is entitled to receive compensation from the fund established for resolution purposes (restructuring fund called the "Single Resolution Fund", or **SRF**). If an entitlement to compensation from the SRF arises, there is a risk that the resulting payments will be effected significantly later than if the bank had properly complied with its contractual obligations.

Information pursuant to Article 41(4) of the Delegated Regulation (EU) 2017/565 of 25 April 2016

Certain financial instruments issued by credit institutions and investment firms are used to ensure compliance with regulatory capital requirements pursuant to Regulation (EU) 575/2013, Directive 2013/36/EU and Directive 2014/59/EU.

In particular, these include common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital assigned to categories (1) to (3), the subordinated financial instruments and claims described in category (4) and the non-preferred debt instruments described in category (5).

These instruments typically yield a higher return than bank deposits, but they are subject to greater default risk in the event of insolvency proceedings or the implementation of resolution measures, as they rank lower in the liability cascade and usually are not covered by deposit protection. Unlike bank deposits, these instruments are generally tradable in the secondary market, but it may be difficult to find a buyer or seller in the secondary market (liquidity risk) and the market price may change to the detriment of the investor (market price risk).

Please refer to the product documentation specific to your financial instrument for details on opportunities and risks.

WHERE CAN I FIND MORE INFORMATION?

The German Federal Financial Supervisory Authority (**BaFin**) has published information on the resolution of banks and how customers may bear the loss:

https://www.bafin.de/DE/Aufsicht/BankenFinanzdienstleister/Massnahmen/SanierungAbwicklung/sanierung_abwicklung_node.html

https://www.bafin.de/DE/Verbraucher/BaFinVerbraucherschutz/Schieflage/sicherungseinrichtungen_node.html

The present translation is furnished for the client’s convenience only. The original German text of the Terms and Conditions is binding in all respects.
In the event of any divergence between the English and the German texts, constructions, meanings or interpretations, the German text, construction, meaning or interpretation shall govern exclusively.

Liability cascade (simplified)

(1) Common equity Tier 1 capital
E.g. stocks, shares in a limited liability company (GmbH) or limited partnership (KG)

(2) Additional Tier 1 capital (AT1)
E.g. unsecured perpetual subordinated bonds and silent participations with conversion or write-down provision

(3) Tier 2 capital (T2)
E.g. subordinated loans, subordinated bearer bonds

(4) Unsecured subordinated financial instruments/claims
E.g. subordinated loans, subordinated bearer bonds that do not meet the AT1 or T2 capital requirements

(5) Other unsecured non-subordinated and non-structured debt instruments
E.g. bearer bonds, order bonds, other similar rights tradable on the capital market, registered bonds and promissory note loans, provided such do not qualify as preferred deposits under category (6) or are excluded from write-down and conversion as covered deposits

(6) Unsecured liabilities
E.g. structured, unsecured financial instruments and claims (equity index certificates or claims from derivatives), deposits exceeding EUR 100,000 by companies that do not qualify as category (7), debt instruments issued since 21 July 2018 that do not indicate a lower ranking, as would be necessary for category (5)

(7) Other preferred deposits
Generally includes deposits exceeding EUR 100,000 held by individuals, micro-businesses, small and medium-sized enterprises.

Excluded from bail-in
(not a final list)

Deposits in accordance with the statutory deposit protection scheme, generally up to EUR 100,000

Liabilities secured by assets
e.g. German mortgage-backed bonds [Pfandbriefe]

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