

MOHAWK INDUSTRIES INC
Form 11-K
June 20, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

[Mark One]

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from ____ to ____
Commission File Number 01-13697

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II
(Full title of the Plan)

MOHAWK INDUSTRIES, INC.

(Name of the issuer of the securities held pursuant to the Plan)

160 S. Industrial Blvd.

Calhoun, Georgia 30701

(Address of principal executive offices)

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II
Index to Financial Statements, Supplemental Schedule and Exhibit

Item:

Report of Independent Registered Public Accounting Firm

Statements of Net Assets Available for Plan Benefits as of December 31, 2013 and 2012

Statements of Changes in Net Assets Available for Plan Benefits for the Years ended December 31, 2013 and 2012

Notes to Financial Statements

Schedule H, Line 4a – Schedule of Delinquent Participant Contributions – December 31, 2013

Schedule H, Line 4i – Schedule of Assets (Held at End of Year) – December 31, 2013

Signatures

Exhibits

Report of Independent Registered Public Accounting Firm
The Plan Administrator
Mohawk Carpet, LLC
Retirement Savings Plan II:

We have audited the accompanying statements of net assets available for plan benefits of the Mohawk Carpet, LLC Retirement Savings Plan II (the Plan) as of December 31, 2013 and 2012, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2013 and 2012, and the changes in net assets available for plan benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of delinquent participant contributions and schedule of assets (held at end of year), as of December 31, 2013, are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP
Atlanta, Georgia
June 20, 2014

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II
 Statements of Net Assets Available for Plan Benefits
 December 31, 2013 and 2012

	2013	2012
Assets:		
Investments, at fair value		
Plan's interest in Master Trust, at fair value (notes 1, 5 and 6)	\$538,547,970	441,192,456
Receivables		
Notes receivable from participants (note 2)	14,495,577	12,955,557
Contributions receivable from employer	67,526	55,226
Contributions receivable from participants	238,816	193,021
Total receivables	14,801,919	13,203,804
Net assets available for plan benefits before adjustment	553,349,889	454,396,260
Adjustment from fair value to contract value for Plan's interest in Master Trust related to fully benefit-responsive investment contracts	(1,432,502) (2,797,121
Net assets available for plan benefits	\$551,917,387	451,599,139
See accompanying notes to financial statements.		

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II
 Statements of Changes in Net Assets Available for Plan Benefits
 Years Ended December 31, 2013 and 2012

	2013	2012
Additions:		
Investment income:		
Interest income on notes receivable from participants	\$582,359	567,121
Plan's interest in income of Master Trust (notes 1, 5 and 6)	92,933,548	51,565,149
Net investment income	93,515,907	52,132,270
Contributions from employer	10,703,452	10,067,437
Contributions from participants	28,455,393	26,893,974
Total additions	132,674,752	89,093,681
Deductions:		
Distributions to participants	54,388,974	40,891,208
Administrative expenses	238,378	192,930
Total deductions	54,627,352	41,084,138
Net increase in net assets available for plan benefits before transfers to/from other Mohawk Carpet, LLC Plans	78,047,400	48,009,543
Transfers:		
Transfer of assets from the Pergo Plan (note 2)	6,679,314	—
Transfer of assets from the Marazzi Plans (note 2)	14,569,442	—
Net transfers between affiliated plans (note 9)	1,022,092	529,466
Net increase in net assets available for plan benefits	100,318,248	48,539,009
Net assets available for plan benefits at beginning of year	451,599,139	403,060,130
Net assets available for plan benefits at end of year	\$551,917,387	451,599,139
See accompanying notes to financial statements.		

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II

Notes to Financial Statements

December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Mohawk Carpet, LLC Retirement Savings Plan II (the Plan) in preparing its financial statements.

(a) Basis of Presentation

The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting and present the net assets available for plan benefits and changes in those net assets.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(b) Investments

The Mohawk Carpet, LLC Retirement Savings Plan and Mohawk Carpet, LLC Retirement Savings Plan II Master Trust (Master Trust) was established on January 1, 2007. As of December 31, 2013 and 2012, the Plan's investment consist of its interest in the net assets of the Master Trust. The Master Trust is an arrangement by which investments of the Plan and one other Mohawk Carpet, LLC defined-contribution plan share a trust (see note 6). The Plan's investment in the Master Trust is based on its equity share of the Master Trust's net assets.

The Master Trust's investments in registered investment companies and common stock are stated at fair value. Fair value is based on the quoted market or redemption values on the last business day of the Plan year. Securities traded on a national securities exchange are valued at the closing market price on the last business day of the Plan year. Common collective funds contain investments in guaranteed investment contracts, which are stated at contract value. The Plan's interest in a common collective fund is valued based on information reported by the Plan's trustee using financial statements of the common collective fund at year end. These investments are maintained in the Stable Value Fund of the Master Trust as of December 31, 2013 and 2012. The statements of net assets available for plan benefits present the fair value of the Plan's interest in the common collective fund as well as the related adjustment of the fully benefit-responsive investment contracts from fair value to contract value. Securities transactions are accounted for on a trade-date basis.

The Plan presents in the statements of changes in net assets available for plan benefits the Plan's interest in income of the Master Trust, which consists primarily of the realized gains or losses on the fair value of the Master Trust investments and the unrealized appreciation on those investments.

The Plan provides for investing in numerous funds, which invest in various types of investment securities and in various companies in various markets. Investment securities, generally, are exposed to several risks, such as interest rate, market, and credit risks. Due to the level of risk associated with the funds, it is reasonably possible that changes in the values of the funds will occur in the near term and such changes could materially affect the amounts reported in the financial statements and supplemental schedule of assets (held at end of year).

(2) Description of the Plan

The following description of the Plan provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan and covers substantially all salaried, sales, and nonexempt employees, of Mohawk Carpet, LLC (the Company), a wholly owned subsidiary of Mohawk Industries, Inc., and all employees, including hourly, nonexempt and salaried, of the Karastan Bigelow Group and the Lauren Park Mill Group. The Plan provides for retirement savings to qualified active participants through both participant and employer contributions

and is subject to certain provisions of the Employee Retirement Income Security Act of 1974 as ammended (ERISA). Full-time employees are eligible to participate in the Plan at the beginning of the calendar month after the

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II

Notes to Financial Statements

December 31, 2013 and 2012

completion of 90 days of service. Part-time employees are eligible to participate in the Plan after one year of service. Newly eligible employees are automatically enrolled in the Plan at a contribution rate of 3% of pay unless the employees elect otherwise. Employees may opt out or discontinue contributing to the Plan at any time. The Plan is administered by an Administrative Committee (Committee) appointed by the Company. The Committee is responsible for the control, management, and administration of the Plan and the assets. Fidelity Management Trust Company (Fidelity) was the Trustee of the Plan as of and for the years ended December 31, 2013 and 2012.

(b) Contributions

Contributions to the Plan are made by both participants and the Company. Participants may contribute a maximum of 50% of their gross compensation, subject to certain limitations. Participants may allocate their contributions in multiples of 1% to various investment funds of the Plan. Participants who are considered a Highly Compensated Employee by the IRS definition are limited to a 6% annual deferred maximum, subject to certain limitations. For all participants, the Company provides 50% matching contributions up to the first 6% of each participant's gross compensation contributed to the Plan.

The terms of the Plan also provide for discretionary employer profit sharing contributions to plan participants employed on the last day of the plan year or terminated during the plan year on account of death, disability, or retirement. During 2013 and 2012, there were no discretionary employer profit sharing contributions relating to 2013 and 2012.

(c) Participant Accounts

Each participant's account is credited with the participant's contributions for the period as well as the employer's matching contribution and an allocation of any discretionary employer profit sharing contribution. Investment income, realized gains/losses, and the change in unrealized appreciation or depreciation on plan investments are credited to participants' accounts daily based on the proportion of each participant's account balance to the total account balance within each investment fund at the beginning of the month.

Participant accounts may be invested in one or more of the investment funds available under the Plan at the direction of the participant. The Plan provides for daily valuation of accounts.

(d) Distributions to Participants

A participant's account shall be distributed in a lump sum payment in cash. If any portion of the account is invested in Company stock, the participant may elect to receive the Company stock in whole shares with cash paid for fractional shares. Unless another election is made by the participant, an account balance less than \$1,000 will be paid out in cash. Unless another election is made by the participant, an account balance between \$1,000 and \$5,000 will be rolled into a Fidelity IRA established for the participant's benefit and the account balance will be invested in an investment product designed to preserve principal and provide a reasonable rate of return.

Under the terms of the Plan, participants may make hardship withdrawals from their accounts upon furnishing proof of hardship as specified in the plan agreement. Participants may also borrow the lesser of \$50,000 or 50% of the value of their accounts subject to limitations provided by the Plan. Loans must be paid back to the Plan generally within four years of the loan date, with the exception of home equity loans.

Benefits are recorded when paid.

(e) Vesting

Participants are immediately vested in their contributions and any income earned on such contributions. Participants are vested in the Company's matching and discretionary contributions after one year of service.

Amounts forfeited by participants who terminate from the Plan prior to being 100% vested are applied to reduce subsequent Company contributions to the Plan and/or administrative expenses. In 2013 and 2012, employer

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II

Notes to Financial Statements

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contributions were not reduced by forfeitures. In 2013 and 2012, \$74,132 and \$25,555 of forfeited funds were used to pay administrative expenses, respectively.

(f) Administrative Expenses

Certain administrative expenses of the Plan are paid by the Company. These costs include legal, accounting, and certain administrative fees. All other Plan related expenses are paid by the Plan.

(g) Notes Receivable from Participants

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loans are measured at their unpaid balance plus any accrued but unpaid interest. Delinquent loans from participants are reclassified as distributions based upon the terms of the Plan document in compliance with IRS guidelines. Loan payments are made through payroll deductions with interest based on the prime interest rate as listed in the Wall Street Journal on the first day of the calendar quarter in which the loan is made plus 1.0%. Generally, loans must be repaid over a period not to exceed four years.

(h) Transfer of Assets from the Pfleiderer North American 401K Plan (the Pergo Plan)

The Plan was amended on April 7, 2013 to provide for the merger of the Pergo Plan into the Plan. On May 31, 2013, the Pergo Plan assets (including loans receivable) were transferred into and merged with the Plan. Assets in the amount of \$6,679,314 were transferred into the Plan. The participants of the Pergo Plan are now participants of the Plan and are subject to full rights and privileges thereof, as provided in the Plan document.

(i) Transfer of Assets from the Marazzi USA, Inc. Employee Savings Plan and the Monarch Ceramic Tile, Inc. Plan (the Marazzi Plans)

The Plan was amended on June 30, 2013 to provide for the merger of the Marazzi Plans into the Plan. On July 3, 2013, the Marazzi Plans assets (including loans receivable) were transferred into and merged with the Plan. Assets in the amount of \$14,569,442 were transferred into the Plan. The participants of the Marazzi Plans are now participants of the Plan and are subject to full rights and privileges thereof, as provided in the Plan document.

(3) Stable Value Fund

The Stable Value Fund consists of the Managed Income Portfolio II (the Fund), which is a common collective trust fund sponsored by Fidelity and is considered to be a stable value fund with underlying investments in investment contracts that carry a "benefit responsiveness" feature. This guarantees that participant-initiated withdrawals from the fund will be covered at contract value. The Fund is valued at fair value and then adjusted by the issuer to contract value. Fair value is equal to the sum of the market value of all the fund's investments, and contract value is equal to the sum of all of the benefits owed to participants in that fund. The Fund is classified within Level 2 of the valuation hierarchy as participants may ordinarily direct the withdrawal or transfer all of, or a portion of, their investment at contract value (see note 5).

The Fund is a commingled pool of the Fidelity Trust for Employee Benefit Plans. The Fund may invest in fixed interest insurance investment contracts, money market funds, corporate and government bonds, mortgage-backed securities, bond funds, and other fixed income securities. The beneficial interest of each participant is represented by units. Units are issued and redeemed daily at the Fund's constant net asset value (NAV) of \$1 per unit. Distribution to

the Fund's unit holders are declared daily from the net investment income and automatically reinvested in the Fund on a monthly basis, when paid. It is the policy of the Fund to use its best efforts to maintain a stable net asset value of \$1 per unit, although there is no guarantee that the Fund will be able to maintain this value.

Participants ordinarily may direct the withdrawal or transfer of all or a portion of their investment at contract value. Contract value represents contributions made to the Fund, plus earnings, less participant withdrawals and administrative expenses. The Fund imposes certain restrictions on the Plan, and the Fund itself may be subject to

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circumstances that impact its ability to transact at contract value, as described in the following paragraphs. Plan management believes that the occurrence of events that would cause the Fund to transact at less than contract value is not probable.

Limitations on the Ability of the Fund to Transact at Contract Value:

Restrictions on the Plan — Participant-initiated transactions are those transactions allowed by the Plan, including withdrawals for benefits, loans, or transfers to noncompeting funds within a plan, but excluding withdrawals that are deemed to be caused by the actions of the Plan sponsor. The following employer initiated events may limit the ability of the Fund to transact at contract value:

- A failure of the Plan or its trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA
- Any communication given to Plan participants designed to influence a participant not to invest in the Fund or to transfer assets out of the Fund
- Any transfer of assets from the Fund directly into a competing investment option
- The establishment of a defined contribution plan that competes with the Plan for employee contributions
- Complete or partial termination of the Plan or its merger with another plan

Circumstances That Impact the Fund — The Fund invests in assets, typically fixed income securities or bond funds, and enters into “wrap” contracts issued by third parties. A wrap contract is an agreement by another party, such as a bank or insurance company to make payments to the Fund in certain circumstances. Wrap contracts are designed to allow a stable value portfolio to maintain a constant NAV and protect a portfolio in extreme circumstances. In a typical wrap contract, the wrap issuer agrees to pay a portfolio the difference between the contract value and the market value of the underlying assets once the market value has been totally exhausted.

The wrap contracts generally contain provisions that limit the ability of the Fund to transact at contract value upon the occurrence of certain events. These events include:

- Any substantive modification of the Fund or the administration of the Fund that is not consented to by the wrap issuer
- Any change in law, regulation, or administrative ruling applicable to a plan that could have a material adverse effect on the Fund’s cash flow
- Employer-initiated transactions by participating plans as described above

In the event that wrap contracts fail to perform as intended, the Fund’s NAV may decline if the market value of its assets declines. The Fund’s ability to receive amounts due pursuant to these wrap contracts is dependent on the third-party issuer’s ability to meet their financial obligations. The wrap issuer’s ability to meet its contractual obligations under the wrap contracts may be affected by future economic and regulatory developments.

The Fund is unlikely to maintain a stable NAV if, for any reason, it cannot obtain or maintain wrap contracts covering all of its underlying assets. This could result from the Fund’s inability to promptly find a replacement wrap contract following termination of a wrap contract. Wrap contracts are not transferable and have no trading market. There are a limited number of wrap issuers. The Fund may lose the benefit of wrap contracts on any portion of its assets in default in excess of a certain percentage of portfolio assets.

The overall effective yield of the Fund for the years ended December 31, 2013 and 2012 was approximately 1.5% and 1.7%, respectively. The crediting interest rate earned by the Fund for the years ended December 31, 2013 and 2012 was approximately 0.9% and 1.0%, respectively.

(4) Transactions with Parties in Interest

As of December 31, 2013 and 2012, the Master Trust held investments in Mohawk Industries, Inc. common stock, registered investment companies and a common collective fund that are sponsored by the Trustee.

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(5) Fair Value Measurement

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Financial Accounting Standards Board Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

MOHAWK CARPET, LLC RETIREMENT SAVINGS PLAN II
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December 31, 2013 and 2012

The following table presents the Plan's fair value hierarchy for those assets measured at fair value as of December 31, 2013 and 2012:

	December 31, 2013			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Short-term investments	\$6,073,339	6,073,339	—	—
Mohawk Industries, Inc. common stock				
	<ul style="list-style-type: none"> o interest rates and yields in the market generally; o a variety of economic, financial, political, regulatory or judicial events; o the likelihood, or expectation, that the notes will be redeemed by us, based on prevailing market interest rates or otherwise; and o our creditworthiness, including actual or anticipated downgrades in our credit ratings, financial condition or results of operations. 			
	<p>§ Trading and other transactions by us or our affiliates, or by a dealer or its affiliates, may impair the value of the notes — We or our affiliates and/or a dealer or its affiliates expect to hedge our exposure from the notes. Although it is not expected to, such hedging activity by us or other hedging parties may adversely affect the Interest Rates and, therefore, the value of the notes. In addition, we or the other hedging parties expect to make a profit on such hedge. Because hedging our obligations entails risk and may be influenced by market forces beyond our or the other hedging parties' control, such hedging may result in a profit that is more or less than expected, or it may result in a loss. It is possible that we or the other hedging parties</p>			

could receive substantial returns from these hedging activities while the value of the notes decline. We or the other hedging parties may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to the CMS rates.

Introducing competing products into the marketplace in this manner could adversely affect the value of the notes. 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 notes. Furthermore, if you purchase the notes from a dealer or its affiliates and such dealer or its affiliates conduct trading and hedging activities for us in connection with the notes, such dealer or its affiliates may profit in connection with such trading and hedging activities and such profit, if any, will be in addition to the compensation that such dealer or its affiliates receive for the sale of the notes to you. You should be aware that the potential to earn a profit in connection with hedging activities may create a further incentive for such dealer or its affiliates to sell the notes to you in addition to the compensation it would receive for the sale of the notes.

§ We, our affiliates or our agents may publish research, express opinions or provide recommendations that are inconsistent with investing in or holding the notes. Any such research, opinions or recommendations could adversely affect the CMS rates, the Spread and the value of the notes — We, our affiliates or our agents may publish research from time to time on movements in interest rates and other matters that could adversely

affect the value of the notes, or express opinions or provide recommendations that are inconsistent with purchasing or holding the notes. Any research, opinions or recommendations expressed by us, our affiliates or our agents 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 notes and the Interest Rates to which the notes are linked.

§ Potential conflicts of interest — We and our affiliates play a variety of roles in connection with the issuance of the notes, including acting as Calculation Agent, hedging our obligations under the notes and determining the Issuer's estimated value of the notes on the Trade Date and the price, if any, at which we or our affiliates would be willing to purchase the notes 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 notes. The Calculation Agent will determine, among other things, all values and levels required to be determined for the purposes of the notes on any relevant date or time. Any determination by the Calculation Agent could adversely affect the return on the notes.

[Callable Leveraged Steepener Notes
due October 31, 2034](#)

Based on the Spread between the
30-Year CMS Rate and the 2-Year
CMS Rate

[Historical Information](#)

The first graph below shows the historical performance of the 30-Year CMS Rate and the 2-Year CMS Rate from October 28, 2004 through October 28, 2014. As of October 28, 2014, the 30-Year CMS Rate was 3.02% and the 2-Year CMS Rate was 0.64%. The second graph shows the historical Spread between the 30-Year CMS Rate and the 2-Year CMS Rate from October 28, 2004 through October 28, 2014. As of October 28, 2014, the Spread was 2.39%.

We obtained the various historical rates for the 30-Year CMS Rate and the 2-Year CMS Rate from Bloomberg, and we have not participated in the preparation of, or verified, such information. The historical rates of the 30-Year CMS Rate and the 2-Year CMS Rate should not be taken as an indication of future performance, and no assurance can be given as to the future movements of the 30-Year CMS Rate and the 2-Year CMS Rate during the term of the notes. In order for you to earn any interest after the first year, the Spread must be greater than the Fixed Percentage Amount of 0.25%. The Spread has been less than the Fixed Percentage Amount for an extended period of time in the past 10 years. We cannot give you assurance that the Spread will be greater than the Fixed Percentage Amount on any Interest Determination Date during the 15-year term of your notes. If the Spread is less than or equal to the

Fixed Percentage Amount on all
Interest Determination Dates, you
will not receive any interest payments
after the first year.

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Callable Leveraged Steepener Notes
due October 31, 2034

Based on the Spread between the
30-Year CMS Rate and the 2-Year
CMS Rate

The CMS Rates

The “30-Year CMS Rate” for any U.S. Government Securities Business Day is the mid-market semi-annual swap rate expressed as a percentage for a U.S. dollar interest rate swap transaction with a term equal to 30 years, published on Reuters page ISDAFIX3 at 11:00 a.m., New York time. If the 30-Year CMS Rate does not appear on Reuters page ISDAFIX3 on such day, the 30-Year CMS Rate for such day shall be determined on the basis of the mid-market semi-annual swap rate quotations provided by five banking institutions selected by the Calculation Agent at approximately 11:00 a.m., New York time, on such day. For purposes of this definition, “semi-annual swap rate” means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a 30-year maturity commencing on that date and in an amount that is representative for a single transaction in the relevant manner at the relevant time with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an actual/360 day count basis, is equivalent to USD-LIBOR-BBA with a designated maturity of three months. In such an event, the 30-Year CMS Rate for such day will be the arithmetic mean of the quotations, eliminating the highest quotation (or,

in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If fewer than three quotations are provided as requested, the rate will be determined by the Calculation Agent in good faith and in a commercially reasonable manner. The 30-Year CMS Rate for any day which is not an U.S. Government Securities Business Day will be the 30-Year CMS Rate as in effect on the immediately preceding U.S. Government Securities Business Day.

The “2-Year CMS Rate”: for any U.S. Government Securities Business Day is the mid-market semi-annual swap rate expressed as a percentage for a U.S. dollar interest rate swap transaction with a term equal to 2 years, published on Reuters page ISDAFIX3 at 11:00 a.m., New York time. If the 2-Year CMS Rate does not appear on Reuters page ISDAFIX3 on such day, the 2-Year CMS Rate for such day shall be determined on the basis of the mid-market semi-annual swap rate quotations provided by five banking institutions selected by the Calculation Agent at approximately 11:00 a.m., New York time, on such day. For purposes of this definition, “semi-annual swap rate” means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a 2-year maturity commencing on that date and in an amount that is representative for a single transaction in the relevant manner at the relevant time with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an actual/360 day count basis, is equivalent to USD-LIBOR-BBA with a designated maturity of three months. In such an event, the 2-Year

CMS Rate for such day will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If fewer than three quotations are provided as requested, the rate will be determined by the Calculation Agent in good faith and in a commercially reasonable manner. The 2-Year CMS Rate for any day which is not an U.S. Government Securities Business Day will be the 2-Year CMS Rate as in effect on the immediately preceding U.S. Government Securities Business Day.

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**Callable Leveraged Steepener Notes
due October 31, 2034**

Based on the Spread between the
30-Year CMS Rate and the 2-Year
CMS Rate

Additional Information about the
Notes

**Additional
Provisions:**

General: The notes are our Series A global notes referred to in the accompanying prospectus supplement and prospectus. The notes will be issued by Deutsche Bank AG, London Branch under an indenture among us, the Trustee, and Deutsche Bank Trust Company Americas, as issuing agent, paying agent and registrar. In addition, the Trustee has appointed Deutsche Bank Trust Company Americas as its authenticating agent with respect to our Series A global notes.

The notes are not bank

deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or by any other governmental agency.

The notes are our senior unsecured obligations and will rank pari passu with all of our other senior unsecured obligations, except for obligations to be preferred by law.

The notes will be issued in registered form and represented by one or more permanent global notes registered in the name of DTC or its nominee, as described under “Description of Notes — Form, Legal Ownership and Denomination of Notes” in the accompanying prospectus supplement and “Forms of Securities — Legal Ownership — Global Securities” in the

accompanying prospectus.

Trustee: Law Debenture Trust Company of New York

Denominations: Minimum denominations of \$1,000 and integral multiples thereof

Minimum Ticketing Size: \$1,000 per \$1,000 Principal Amount of notes

Payments on the Notes: We will irrevocably deposit with DTC no later than the opening of business on the applicable Interest Payment Date and the Maturity Date (or the applicable Redemption Date) funds sufficient to make payments of the amount payable with respect to the notes on such date. We will give DTC irrevocable instructions and authority to pay such amount to the holders of the notes entitled thereto.

Subject to the foregoing and to applicable law

(including, without limitation, United States federal laws), we or our affiliates may, at any time and from time to time, purchase outstanding notes by tender, in open market transactions or by private agreement.

Tax Considerations:

In the opinion of our special tax counsel, Davis Polk & Wardwell LLP, which is based on current market conditions, the notes should be treated for U.S. federal income tax purposes as “contingent payment debt instruments,” with the tax consequences described under “—CPDI Notes,” on page PS-40 of the accompanying prospectus supplement. Under this treatment, regardless of your method of tax accounting, you will be required to accrue interest in each year on

a constant yield to maturity basis at the “comparable yield,” as determined by us (with certain adjustments to reflect the difference, if any, between the actual and projected amounts of the contingent payments on the notes (as set forth in a “projected payment schedule” to be determined by us, which you may obtain as described below), and certain additional adjustments if the notes are purchased for an amount that differs from the issue price). Any income recognized upon a taxable disposition of the notes generally will be treated as interest income for U.S. federal income tax purposes.

You may obtain the comparable yield and the projected

payment
schedule by
contacting
Deutsche Bank
Structured
Notes at
212-250-6064.
Neither the
comparable
yield nor the
projected
payment
schedule
constitutes a
representation
by us regarding
the actual
amount that we
will pay on a
note.

It is possible
that the Internal
Revenue
Service could
determine that
the notes are
“variable rate
debt instruments”
for U.S. federal
income tax
purposes, which
could have
adverse U.S.
federal income
tax
consequences
for you. In that
case, you would
be required to
include
payments of
stated interest in
income when
they are
received or
accrued, in
accordance with
your method of
accounting for

U.S. federal
income tax
purposes, as
described under
“—VRDI Notes,” on
page PS-40 of
the
accompanying
prospectus
supplement.
You should
consult your tax
adviser
regarding the
U.S. federal
income tax
consequences to
you if the notes
are properly
treated as
variable rate
debt
instruments.

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You should review carefully the section of the accompanying prospectus supplement entitled “United States Federal Income Taxation.” 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 adviser concerning the application of U.S. federal income tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. jurisdictions.

Calculation
Agent:

Deutsche Bank AG, London Branch. The Calculation Agent will determine, among other things, the amount of interest payable in respect of your notes on each Interest Payment Date. All determinations made by the Calculation Agent will be at the sole discretion of the Calculation Agent and will, in the absence of manifest error, be conclusive for all purposes and binding on you, the Trustee and us. We may appoint a different Calculation Agent from time to time after the date of this pricing supplement without your consent and without notifying you.

The Calculation Agent will provide written notice to the

Trustee at its New York office, on which notice the Trustee may conclusively rely, of the amount to be paid on each Interest Payment Date and at maturity (or upon early redemption) on or prior to 11:00 a.m. on the Business Day preceding each Interest Payment Date and the Maturity Date (or the applicable Redemption Date).

All calculations with respect to the amount of interest payable on the notes will be rounded to the nearest one hundred-thousandth, with five one-millionths rounded upward (e.g., 0.876545 would be rounded to 0.87655); all dollar amounts related to determination of the payment per \$1,000 Principal Amount of notes at maturity or upon earlier redemption will be rounded to the nearest ten-thousandth, with five one hundred-thousandths rounded upward (e.g., 0.76545 would be rounded up to 0.7655); and all dollar amounts paid on the aggregate

Principal Amount of notes per holder will be rounded to the nearest cent, with one-half cent rounded upward.

Events of Default:

Under the heading “Description of Debt Securities — Events of Default” in the accompanying prospectus is a description of events of default relating to debt securities including the notes.

Payment upon an Event of Default:

If an event of default (as defined in the accompanying prospectus supplement) occurs, and the maturity of your notes is accelerated, we will pay a default amount for each \$1,000 Principal Amount of notes equal to \$1,000 plus any accrued but unpaid interest to (but excluding) the date of acceleration.

If the maturity of the notes is accelerated because of an event of default as described above, we will, or will cause the Calculation Agent to, provide written notice to the Trustee at its New York office, on which notice the Trustee may conclusively rely, and to DTC of the cash amount due with respect to the

notes as promptly as possible and in no event later than two Business Days after the date of acceleration.

Modification: Under the heading “Description of Debt Securities — Modification of an Indenture” in the accompanying prospectus is a description of when the consent of each affected holder of debt securities is required to modify the indenture.

Defeasance: The provisions described in the accompanying prospectus under the heading “Description of Debt Securities — Discharge and Defeasance” are not applicable to the notes.

Book-Entry Only Issuance — The Depository Trust Company: DTC will act as securities depository for the notes. The notes will be issued only as fully-registered securities registered in the name of Cede & Co. (DTC’s nominee). One or more fully-registered global notes certificates, representing the total aggregate Principal Amount of the notes, will be issued and will be deposited with DTC. See the descriptions

contained in the accompanying prospectus supplement under the headings “Description of Notes — Form, Legal Ownership and Denomination of Notes.” The notes are offered on a global basis. Investors may elect to hold interests in the registered global notes held by DTC through Clearstream, Luxembourg or the Euroclear

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operator if they are participants in those systems, or indirectly through organizations that are participants in those systems. See “Series A Notes Offered on a Global Basis—Book Entry, Delivery and Form” in the accompanying prospectus supplement.

Governing
Law:

The notes will be governed by and interpreted in accordance with the laws of the State of New York.

Use of
Proceeds;
Hedging:

The net proceeds we receive from the sale of the notes will be used for general corporate purposes and, in part, by us or by one or more of our affiliates in connection with hedging our obligations under the notes, as more particularly described in “Use of Proceeds” in the accompanying prospectus.

We or our affiliates may acquire a long or short position in securities similar to the notes from time to time and may, in our or their sole discretion, hold or resell those securities.

Although we have no reason to believe that any of these activities will have a material impact on the value of the notes, we cannot assure you that these activities will not have such an effect. We have no obligation to engage in any manner of hedging activity and will do so solely at our discretion and for our own account. No note holder shall have any rights or interest in our hedging activity or any positions we may take in connection with our hedging activity.

Supplemental Plan of Distribution (Conflicts Of Interest):

Under the terms and subject to the conditions contained in the Distribution Agreement entered into between Deutsche Bank AG and DBSI, as agent, DBSI has agreed to purchase,

and we have agreed to sell, the Principal Amount of notes set forth on the cover page.

Notes sold by DBSI and other dealers, including MS & Co., to the public will initially be offered at the Issue Price set forth on the cover of this pricing supplement. If all of the notes are not sold at the Issue Price, DBSI and other dealers, including MS & Co., may change the offering price and the other selling terms.

DBSI will not receive a discount or commission, but will allow as a concession or reallowance to other dealers, including MS & Co., discounts and commissions of 3.50% or \$35.00 per \$1,000 Principal Amount of notes. DBSI will sell all of the notes that it purchases from us to such dealers, including MS & Co., at 96.50% or \$965.00 per \$1,000 Principal Amount of notes.

We own, directly or indirectly, all of the outstanding equity securities of DBSI. The net proceeds received from the sale of the notes will be used, in part, by DBSI or one of its affiliates in connection with hedging our obligations under the notes. Because DBSI is both our affiliate and a member of FINRA, the underwriting arrangements 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 notes to any of its discretionary accounts without the prior written approval of the customer.

DBSI may act as principal or agent in connection with offers and sales of the notes in the secondary market. Secondary market

offers and sales will be made at prices related to market prices at the time of such offer or sale; accordingly, DBSI or a dealer may change the public offering price, concession and discount after the offering has been completed.

In order to facilitate the offering of the notes, DBSI may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, DBSI may sell more notes than it is obligated to purchase in connection with the offering, creating a naked short position in the notes for its own account. DBSI must close out any naked short position by purchasing the notes in the open market. A naked short position is more likely to be created if DBSI is concerned that there may be downward pressure on the price of the notes in the open market after

pricing that could adversely affect investors who purchase in the offering. As an additional means of facilitating the offering, DBSI may bid for, and purchase, notes in the open market to stabilize the price of the notes. Any of these activities may raise or maintain the market price of the notes above independent market levels or prevent or retard a decline in the market price of the notes. DBSI is not required to engage in these activities, and may end any of these activities at any time.

No action has been or will be taken by us, DBSI or any dealer that would permit a public

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offering of the notes or possession or distribution of this pricing supplement, the accompanying prospectus supplement or prospectus other than in the United States, where action for that purpose is required. No offers, sales or deliveries of the notes, or distribution of this pricing supplement, the accompanying prospectus supplement or prospectus or any other offering material relating to the notes, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on us, DBSI or any dealer.

DBSI has represented and agreed, and any other Agent through which we may offer the notes will represent

and agree, that it (i) will comply with all applicable laws and regulations in force in each non-U.S. jurisdiction in which it purchases, offers, sells or delivers the notes or possesses or distributes this pricing supplement and the accompanying prospectus supplement and prospectus and (ii) will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the notes under the laws and regulations in force in each non-U.S. jurisdiction to which it is subject or in which it makes purchases, offers or sales of the notes. We shall not have responsibility for DBSI's compliance with the applicable laws and regulations or obtaining any required consent, approval or permission.

Settlement: We expect to deliver the notes against payment for the notes on the Settlement Date indicated above, which is the third business day 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 three business days, unless the parties to a trade expressly agree otherwise.

Accordingly, if the Settlement Date is more than three business days after the Trade Date, purchasers who wish to transact in the notes more than three business days prior to the Settlement Date will be required to specify alternative settlement arrangements to prevent a failed settlement.

ERISA: See “Benefit Plan Investor Considerations” starting on page PS-46 in the accompanying prospectus supplement.

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 pricing supplement 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), 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
September 28, 2012,
filed as an exhibit to
the letter 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
letter of Davis Polk
& Wardwell LLP
dated September 28,
2012, which has been
filed as an exhibit to
the registration
statement referred to
above.

