



COMMERZBANK

Product Group

Credit-Linked Notes

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the credit-linked notes product group.

General characteristics and investment opportunities

This type of bonds is part of the category of interest-bearing securities, which are often also referred to as fixed income securities, bonds, debt obligations or debentures. The investor lends a certain amount of money to the issuer, e.g. a non-financial or a financial company, and in return receives a bond denominated in euro or a foreign currency. Bonds represent a claim to capital repayment and, typically, to fixed or variable interest payments as compensation for the provision of capital. Their yield is determined by the interest rate fixed for the individual interest periods, the issue or purchase price, the redemption price and the term of the security. The individual characteristics, such as interest rate, maturity, reference entity etc. are specified in the terms and conditions of the note. Compared to conventional bonds, credit-linked notes usually offer an interest rate premium. The investor receives this interest rate premium because the investor assumes the credit risk (default risk) of a non-financial company, a financial company, or a government (reference entities). This means that the investor relies on the financial situation (creditworthiness) of both the issuer and the reference entity for the proper payment of interest and repayment of capital. If, for example, insolvency, non-payment of material liabilities, restructuring of payment obligations (credit event) occurs at the reference entity, the credit-linked note will mature early. In addition, the investor receives a lower interest payment and a repayment of capital that is significantly below the original nominal amount. In the worst case, the redemption amount drops to zero, resulting in a total loss of capital invested.

Typical product characteristics

Credit-linked notes are offered in a variety of forms. Most credit-linked notes refer to a single reference entity and are usually eligible for purchase by retail investors. More rarely, credit-linked notes are issued linked to several reference entities. These may be credit-linked notes with linear baskets or so-called first-to-default baskets. In case of a linear basket, each reference entity is allocated a percentage share in relation to the nominal amount. In

a credit event, the nominal amount is reduced accordingly, and the remaining nominal amount remains outstanding. In principle, this form of credit-linked note may also be acquired by retail investors. While linear baskets provide risk diversification, the first-to-default variant potentiates default risks. In this variant, a credit event involving one of the reference entities triggers early redemption of the note. Retail investors are not usually eligible to purchase this type of credit-linked note.

In determining whether a credit event has occurred, the issuer is usually guided by the decision of an ISDA committee. The ISDA is a private trading organisation that represents the interests of its members in the derivatives market. The residual value for liabilities of the reference entity determined by the ISDA through an auction process is also used when calculating an early repayment amount.

Material risks of the product group

By investing in these bonds, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:

Reference borrower / credit risk - investors are exposed to the risk of not receiving an interest payment if a credit event is determined to have occurred at the reference entity. In this case, investors receive a redemption amount that is lower than the nominal amount and depends on the residual value of the reference liability. The worst case is a total loss of the capital invested. Furthermore, redemption may be delayed beyond the maturity date.

Issuer risk - also referred to as default risk - when the issuer fails to meet its obligations or can only meet them in part, for example because of insolvency. Bonds issued by banks are subject to special regulations. If the issuing bank runs into financial difficulties, a regulatory intervention may result in a bailout of the bank, partial or total loss of the investment, or a compulsory conversion into equity, such as shares. As a general rule: The worse the credit rating of an issuer, the higher the default risk, but also the risk premium and the resulting yield. Bonds are generally not covered

by deposit protection. Sustainability-related decisions relating to the environment, social aspects and corporate governance also impact on the issuer and reference entity.

Interest rate and price risk - when interest rates rise, bond prices generally fall. A downgrade in the issuer's credit rating reduces the value of a bond during its term.

Liquidity risk - during the term, investors may not be able to sell the security or may only be able to sell it at a possibly much lower price.

Foreign currency risk - Investors are exposed to currency risk when investing in a foreign currency denominated security as performance could be adversely affected by exchange rate movements.

Early redemption and reinvestment risk - investors are exposed to the risk that the issuer may exercise an ordinary or extraordinary option to call the security at a time or in a financial market environment that is unfavourable for the investor, as the investor can reinvest the redemption amount only on less favourable terms.

Further information and costs

For further details on these aspects and the product, please refer to the relevant sales prospectus and basic information sheet. In principle, inflation trends impact your investment performance. A resulting loss of purchasing power affects both the income generated and your capital invested. When acquiring, holding and eventually selling securities and derivatives, costs will impact returns. For further details, please refer to the respective cost information before entering into a securities transaction.

For further details on the characteristics and risks of the products, please refer to the brochure "Basic Information on Securities and Other Investments".