COMMERZBANK

Product Group

Hybrid Bonds (all relevant capital classes)

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the hybrid bonds product group (all relevant capital classes).

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 nominal interest rate, the issue or purchase price, the redemption price and the term of the security. The individual characteristics, such as the interest rate, maturity or ranking in the event of insolvency or liquidation of the issuer, are specified in the terms and conditions of the bond issue.

Typical product characteristics
Hybrid bonds typically have a very long to infinite term. While a bond put provision is always excluded, the terms and conditions of a bond often provide the issuer with a right to call the bond after 7 to 10 years. Hybrid bonds rank lower in insolvency proceedings than other subordinated bonds and non-subordinated debt such as senior bonds. Generally, a lower ranked debt security pays a higher interest rate for the same maturity and the same issuer in the respective currency.

They are usually issued with a fixed interest rate, which is later replaced by a variable interest rate. These terms and conditions will be specified in the issuing prospectus. Unlike other types of bonds, payments of interest are often linked to the issuer's corporate performance. The terms and conditions of the bond may, for example, specify that an interest payment is only made in the years in which a dividend is paid to shareholders. With hybrid bonds being more closely linked to an issuer's business performance, corporate news and reports will affect the price of a hybrid bond more evidently, similar to the effect on equities. If provided for in the terms and conditions of the bonds, a cancelled interest payment may be subsequently carried out under certain conditions.

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:
<u>Issuer risk</u> - also referred to as default risk - when the issuer fails to meet its obligations or can only meet them in part, for example as a result 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. Generally: 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 insurance. Sustainability-related decisions relating to the environment, social aspects and corporate governance also impact on the issuer.
<u>Interest rate and price risk</u> - 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. Due to their very long - often infinite - maturity, hybrid bonds carry a significantly higher price risk than traditional bonds.
<u>Liquidity risk</u> - 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.
<u>Foreign currency risk</u> - Investors are exposed to currency risk when investing in a foreign currency denominated security as performance could be adversely affected by exchange rate movements.
<u>Early redemption and reinvestment risk</u> - investors are exposed to the risk that the issuer may exercise an ordinary or extraordinary option to call the fixed income 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.

Some bonds of foreign issuers have features that are not typically applied in Germany, which are specified in the terms and conditions of the fixed income security. This may result in additional risks.

Further information and costs
For further details on these aspects and the product, please refer to the relevant sales prospectus and any basic or product 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”.