COMMERZBANK

Product Group

Complex Currency Products

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the Complex Currency Products product group.

General characteristics and opportunities
Complex Currency Products are contractual agreements between Commerzbank AG and customer. They are referred to as OTC derivatives because they are derived from a so-called underlying (in this case exchange rates). The valuation of these derivatives is determined by the trend of the relevant exchange rate. OTC (**O**ver-**T**he-**C**ounter) relates to over-the-counter derivatives that are individually tailored to customer needs.

The motivation for using these instruments can vary widely. Users may want to hedge an existing position with a derivative as an offsetting position. In this case, the purpose of the derivative is to reduce risks from an underlying transaction. Complex Currency Products generally meet this requirement only under certain conditions. Otherwise, in addition to losses from the underlying transactions, the customer might incur losses from the product, which may be of unlimited amount. Thus, Complex Currency Products involve higher risks.

If derivatives are used to bet on a specific market trend or exchange rate change without reference to an underlying transaction, this constitutes a speculative transaction. In this case, investors cannot offset losses incurred against gains in an underlying transaction. Commerzbank AG only offers derivatives transactions to customers relating to underlying transactions.

Complex currency products comprise several linked option components. The products in this product group provide conditional hedging on one or more dates, as well as the opportunity to benefit from a favourable trend in the exchange rate. In the event of unfavourable trends, the hedge may, e.g., be terminated early or an increased nominal amount be exchanged, resulting in a significant financial loss.

If and at what exchange rate currencies are exchanged on a particular date is determined by the individual product terms.

If the customer pays a premium upon conclusion, it can improve the hedging rate and/or the product terms. Conversely, the terms become less favourable if the customer receives a premium payment.

The hedging rate can also be improved by using leverage. If the customer can exchange currency at a more favourable rate than the hedging rate on the determination date, the customer must still exchange the amount multiplied by the leverage factor at the agreed unfavourable rate.

Other components, such as so-called knock-in or knock-out components, can significantly alter the product characteristics. When exercised, these components may, for example, result in increased amounts having to be exchanged at less favourable exchange rates. However, they can also have beneficial characteristics, such as the elimination of the obligation to exchange currencies.

On the respective settlement date (usually two banking days after the respective determination date), the currencies may be physically exchanged (physical delivery) and/or a corresponding cash settlement may be paid.

The following descriptions present selected products from the product group, whereby to simplify matters, the cash settlement procedure is not included again.

Callable Forward
In the case of a Callable Forward, payments in different currencies are exchanged at agreed exchange rates and dates. The Bank has a unilateral call right. If it exercises this right, one final currency exchange will take place on the call date. The product may include leverage or other components.

Target products
In this product family, payments in different currencies are exchanged at agreed exchange rates and dates, with the maximum amount of possible gains for the customer from exchange rate changes being limited (target). The target amount is agreed upon conclusion of the transaction.

If the customer can exchange at the better rate agreed in the Target Forward on a valuation date compared to the spot exchange rate, this rate advantage is added up. The product contract ends early as soon as the sum of these amounts reaches or exceeds the target. The contract parties can agree on varying terms for the final determination date. They can agree on a final complete exchange of currencies, an exchange limited to the remaining target amount, or no currency exchange at all.

One product variation is the so-called Counting Target Forward, in which the contract parties agree on a maximum number of dates on which currencies can be exchanged at a more favourable exchange rate.

Target products may include leverage, knock-in and/or knock-out components.

Collecting Forward
With Collecting Forward, the amount to be exchanged at expiry depends on the development of the underlying exchange rate. On each determination date, a single nominal amount is collected if the exchange rate trades within a specified range. The customer collects a multiple (depending on the agreed leverage) of the nominal amount to be exchanged if the exchange rate trades at or outside the side of the range that would have offered a better exchange rate than the spot rate. Otherwise, no collection of nominal amount takes place. The collected nominal amounts accrued by the final determination date are exchanged as a total amount at the collecting forward rate on the expiry date.

Material risks of the product group:
By entering these products, investors benefit from return opportunities but are also exposed to additional material risks. These include the following:

Fair value risk:
The fair value of a transaction is mainly influenced by the actual and expected change in the exchange rate (volatility), the interest rate level and the remaining term. If the transaction is terminated early, the customer will have to recognise a loss on termination in case the fair value is negative.

Liquidity and trading risk:
In special market situations, it may not be possible to liquidate a financial instrument at all or at a fair market price.

Transfer risk:
Government policies may impose restrictions on movement of capital, making it difficult or impossible to transfer or convert currencies.

Default risk:
In the event of insolvency of Commerzbank AG as a counterparty, Commerzbank AG may default on some or all existing claims. Moreover, if Commerzbank's going concern as a financial institution is jeopardised due to bank supervisory regulations, customers are exposed to a default risk in the form of a bail-in even before insolvency, i.e. in the event of a resolution procedure, the relevant resolution authority may order the transaction to be terminated early. If the termination results in a right to payment for the counterparty, the resolution authority might order this to be partially or fully written down or converted into equity (shares or other partnership interests). If Commerzbank AG does not fulfil its obligations under the financial instrument, does not pay or is unable to pay, the customer loses part of the investment or suffers an unlimited financial loss.

If the customer does not hold the currency to be delivered on the expiration date, the currency must be obtained at current market rates.

The financial instrument and the underlying transaction are legally separate transactions and can be entered into or terminated separately. The financial instrument can only be terminated early by mutual agreement. The financial instrument may have a negative fair value at the time of the transaction due to structured costs and differing buying and selling prices (bid/ask spread). The cancellation or non-fulfilment of the underlying transaction does not result in automatic termination of the financial instrument. In such case, the economic objective pursued at the time of the transaction may have to be reassessed.

Further information and costs:
For further details on these aspects and the products, please refer to the relevant key information document. When acquiring, holding and eventually selling derivatives, costs will impact their fair value. For further details, please refer to the respective cost information sheet before entering into a derivatives transaction.

For further details on the characteristics and risks of the products, please refer to the brochure “Basic Information on Financial Derivatives”.