COMMERZBANK

Product Group

Complex Interest Rate Products

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

General characteristics and opportunities
Complex Interest Rate 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 instrument (in this case reference interest rates). The valuation of these derivatives is determined by the trend of the relevant reference interest 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 (e.g. a loan) with a derivative as an offsetting position. In this case, the purpose of the derivative is to reduce risks from an underlying transaction. Complex Interest Rate 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 Interest Rate Products involve higher risks.

If derivatives are used to bet on a specific market trend or interest 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 Interest Rate Products may comprise several linked swap, option and/or currency 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 reference interest 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.

The interest rate applicable on a particular date is determined by the individual product terms. If the customer pays a premium upon conclusion, the customer can improve the payable interest rate and/or the product terms. Conversely, the terms become less favourable if the customer receives a premium payment. In the following, we describe selected product variations of the product group.

Cross Currency Swap
In a Cross Currency Swap, payments in different currencies are exchanged.
Subject to the agreement, the customer regularly pays a fixed or variable amount in one currency and the Bank pays a fixed or variable amount in another currency. The variable amount payable at the end of each interest period is determined by the reference interest rate and the corresponding nominal amount. An interest rate Floor can be agreed for the variable payment, which would set a limit on the payment in the event of the reference interest rate turning negative.
In addition to swapping interest payments, the counterparties can agree to swap nominal principal amounts (a principal swap). In this process, the respective notional amounts in different currencies are exchanged at the beginning, during and/or at the end of the term at exchange rates agreed at the conclusion of the transaction.

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:

If the amount payable exceeds the amount receivable, the customer incurs a financial loss.

<u>Fair value risk:</u>
The fair value of a transaction is mainly influenced by the actual and expected change in the reference interest rate (volatility), the interest rate level, forward interest rates, the exchange rate 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.

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

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.

Default risk:
In the event of insolvency of Commerzbank AG as your counterparty, Commerzbank AG may default on some or all of your 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.

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 customer's 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 by the customer may have to be reassessed.

If the payments from the financial instrument and the underlying transaction differ, e.g. due to different investment horizons, the customer might experience a financial loss.

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”.