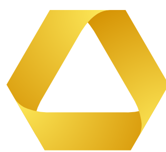

Product Group

Structured Commodity Products

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

General characteristics and opportunities
Structured commodity hedges 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 commodities and their reference price). The valuation of these derivatives is determined by the trend of the relevant commodity reference price. 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 (hedging). In this case, the purpose of the derivative is to reduce risks from an underlying transaction.

If derivatives are used to bet on a specific market trend or price 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.

Structured Commodity Products, for example, comprise several linked option components. The commodity hedges in this product group provide a hedging price, allowing for reliable calculations and better planning of commodity positions. Furthermore, they offer the opportunity to participate to a limited extent in favourable price trends for buyers or sellers of commodities. In these cases, however, the hedging price is less favourable than that of a comparable conventional commodity hedging transaction.

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

If the date for commodity receipt/delivery is already known, then, depending on the respective commodity, fixed price hedging (European style) is used, while average price hedging (Asian style), which is based on an average of all reference prices in an agreed period, is used for regular commodity purchases and sales.

Commodity Collar
A Commodity Collar is a combination of a Cap (maximum price) and a Floor (minimum price) transaction. The contract parties make payments if the reference price (variable price) of an agreed commodity (underlying) exceeds an upper price barrier (Cap) or falls below a lower price barrier (Floor). Neither contract party makes a payment if the variable price is determined to be between the price cap and the price floor.

The calculation of a compensation payment is generally based on the agreed reference quantity of a commodity at the time of contract conclusion. The reference quantity is not actually delivered by either party but serves only as a basis for determining the payments to be made under this contract.

The simultaneous buy and sell of two opposing options (call option (Cap) / put option (Floor)) with different strike prices is often used to reduce hedging costs. The premium income from the sale of the option reduces the premium payment for the purchased option.

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.

Hedging through the financial instrument does not fully protect against all fair value risks. Pricing dynamics between the underlying transaction and the financial instrument may vary because of fluctuating transport costs, taxes and duties, supplier margins or unevenly spread purchases/sales over the term.

<u>Fair value risk:</u>
The underlying commodity may be especially affected by political risks, economic trends, weather risks, production capacities and inventories, as is true for the whole commodity asset class. The fair value of a transaction is mainly influenced by the actual and expected change in the price of the underlying (volatility),

commodity forward rates 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.

Currency risk:
If the reference price is denominated in a currency other than the contract currency, it is converted into the contract currency. The customer might be exposed to higher payment obligations or lower payment streams from the financial instrument if the exchange rate changes unfavourably.

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 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.

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. 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”.