COMMERZBANK

Product Group

Structured Bonds

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the structured bonds 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 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
Compared to bonds paying a regular market interest rate, structured bonds generally offer the chance of receiving higher interest, but also entail the risk of receiving lower interest or no interest at all during the term of the bond. Structured bonds carry very specific risks depending on their design, and their price performance during the term is difficult to predict. The use of the term “structured bond” is sometimes very inconsistent. Financial market participants often use a number of different terms. For this reason, investors should perform a detailed analysis of the design before acquiring a structured bond. The following are examples of structured bonds:

So-called “interest rate structure bonds” (Zinsstrukturanleihen), also known as “interest rate phase bonds” (Zinsphasenanleihen): These structured bonds can be designed in various ways. The issuer of such a bond does not pay a steady interest rate (coupon). For example, these could be bonds with an initial fixed coupon, and a subsequent variable coupon. The variable coupon is usually based on a public reference interest rate, possibly subject to a premium or discount. Moreover, some bonds may pay a minimum interest rate ("floor") or a maximum interest rate ("cap"), or a combination of both. Other types of structured bonds are reverse floaters (interest is calculated on the basis of a fixed rate minus a variable reference interest rate), interest rate differential bonds (e.g., 10-year swap rate minus 2-year swap rate) or interest rate corridor bonds (e.g., the coupon for an interest period is determined by the number of days a reference interest rate remains within a specified range).

Inflation-indexed bonds: For this type of bond, the interest and/or redemption is linked to an inflation index.

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:
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 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.
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. Expectations that future coupon payments may be lower or cancelled entirely typically lead to a bond price decline.
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 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”.