



COMMERZBANK

Product Group

Interest Rate Swaps

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

General characteristics and opportunities

Interest Rate Swaps 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. OTC (over the counter) 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 off-setting position (hedging). The derivative mirrors the payment structure of the so-called underlying transaction and has the purpose of minimising risk.

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.

Interest Rate Swaps

In an Interest Rate Swap, the counterparties exchange fixed and variable interest payments over a defined period of time, for example on a quarterly basis. The amount of the variable payment depends on the development of a reference interest rate. Generally, we differentiate as to whether the customer in the Interest Rate Swap pays a fixed interest rate (payer swap) or a floating interest rate (receiver swap). An Interest Rate Swap allows customers to manage interest rate risks if it is used to hedge an underlying transaction (e.g. loan or investment). Customers do not have to provide extra liquidity for entering into this transaction.

How it works: Payment obligations of the counterparties are determined for each interest period. For the party paying the fixed interest rate, the amount is calculated by multiplying the fixed interest rate defined in the transaction by the notional amount. The

payment obligation of the party paying the floating interest rate results from the floating reference interest rate for the current interest period multiplied by the notional amount. In an Interest Rate Swap, only the difference is usually settled (netting).

Depending on the development of the reference interest rate, the Interest Rate Swap results in a positive or negative difference between the fixed and floating interest payment for both counterparties, which can result in a financial advantage or disadvantage.

An Interest Rate Swap based on an underlying transaction allows for predictability of interest rate positions and hedging against interest rate fluctuations. It provides a reliable basis for calculation at the time of entering into the transaction. Customers do not need to provide extra liquidity, e.g. for a premium. However, customers do not participate in a positive performance.

An Overnight Index Swap is another type of swap. This swap is based on reference interest rates with a one-day term (e.g. for euro €STR and for USD SOFR). Settlement payments are not made daily, but at regular intervals, such as quarterly.

Material risks of the product group:

By entering these products, customers 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. The loss is greater the more the reference interest rate deviates from the agreed fixed interest rate. If the reference interest rate drops to zero, the fixed interest rate alone is paid, and the floating interest payment is omitted. If the reference interest rate drops into negative territory, the floating interest payment must be made in addition to the fixed interest payment. This payment obligation may not be matched by a corresponding income stream from the underlying transaction.

Fair value risk: The fair value of a transaction is mainly influenced by the change in the market interest rate, its volatility 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.

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 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 suffer a financial loss.

Further information and costs:

For further details on these aspects and the products, please refer to the relevant basic or product information sheet. 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".