General Risk Summary

Broad description of certain risks – For a detailed, specific description see the product brochures and term sheets.

1. The financial products that you may take out carry certain significant risks. These risks differ from product to product. We are providing you with information on these risks in our product brochures. In addition, below you will find a non-exhaustive description of certain fundamental risks related to interest rate derivatives and foreign currency financial products. We refer to these two types of products as treasury products. Before you take out such a product we shall provide you with a term sheet in which we shall also address certain risks more specifically also by illustrative hypothetical scenarios.

2. Base risk: the risk that the treasury product does not match the asset or liability intended to be hedged. Base risk materialises in the form of an over hedge or under hedge. If it results in an over hedge, the treasury product is a speculative product. This means it does more than hedging. You may incur liabilities that you did not expect. Moreover, you may not be able to financially bear such liabilities. If it results in an under hedge, the treasury product may not provide the hedge you seek. This may leave you exposed to the interest rate or currency risk of the asset or liability you intend to hedge. Base risk is caused by mismatches. These are differences between the treasury product and the asset or liability you seek to hedge. They arise by differences in notional/principal amounts, tenor/duration and interest rates or currencies:
   i. notional mismatch: the notional amount of the treasury product on the one hand differs from the notional or principal amount of the asset or liability you intend to hedge on the other hand. It is an over hedge if the duration of the treasury product exceeds that of the asset or liability and the opposite is an under hedge;
   ii. tenor mismatch: the duration of the treasury product on the one hand differs from the duration of the asset or liability you intend to hedge on the other hand. It is an over hedge of the duration of the treasury product exceeds that of the asset or liability and the opposite is an under hedge;
   iii. interest rate or currency mismatch: the risk that the relevant interest rate or the relevant currency of the treasury product on the one hand differs from the interest rate or the currency of the asset or liability you intend to hedge on the other hand. A certain difference may result in an under hedge or over hedge depending on the development of the relevant rate or currency.

3. The risk that future actual market developments differ from your expectations. The market value of the treasury product you take out may become materially negative. For instance if the interest rate or currency exchange rate moves above or below the level referenced in the treasury product you may be required to make more payments to us than you receive from us. The net present value or marked-to-market value of those payments may be significantly negative for you. In that case you assume financial commitments, including contingent liabilities, additional to the cost of acquiring the treasury product. We may require you to provide collateral (margin requirement) in respect of your exposure to us. In particular for treasury products that have a long term or a large notional amount, market risk may expose you to material liabilities. If we require you to provide collateral that may result in a liquidity shortage for you and may cause your insolvency. The negative value of a treasury product in itself may also affect your creditworthiness. As a result, third parties may be less willing to provide credit to you or only at a higher cost. In addition the negative value may result in your equity capital being severely adversely affected, as liabilities in relation to treasury products as a result of market movements may need to be accounted for in your financial accounts by impairing your equity.

4. The risk of early termination or close-out risk. Normally if a treasury product is terminated early, i.e. prior to its stated maturity or termination date, the parties to the product will settle the marked-to-market value of the product. If the value is negative for one party, that party will need to compensate the other party. As a result, if you wish to terminate a treasury product early and its value is negative for you, you may need to pay compensation to Deutsche Bank AG. Here too, in particular for treasury products that have a long term or a large notional amount, this may expose you to material liabilities.

5. The limitations of the hedge provided by a treasury product. A treasury product can only provide limited protection. For example, an interest rate derivative may swap the EURIBOR component of a loan but not the credit surcharge. As a result, if the credit surcharge increases, the derivative will not afford a hedge against that and you will, despite the derivative, still be exposed to the risk of increasing credit surcharge.

January 2018