*Translation from Bulgarian*





**TRANSACTIONS AND OPERATIONS IN FINANCIAL INSTRUMENTS**

**Information for the clients**

Dear clients,

The adoption of MiFID II, Directive 2014/65/EU and Regulation No. 600/2014 of the European Parliament and of the Council on markets in financial instruments and the delegated regulations implementing them set new requirements for the activities of investment firms and the trading in financial instruments introduced into the Bulgarian legislation with the amendments to the Markets in Financial Instruments Act and Ordinance No. 38 on the requirements for the operations of investment firms in force as from 1 November 2007.

The objective European Union's Markets in Financial Instruments Directive pursues two main goals: (i) strong competition between companies offering investment services; and (ii) protection of the rights and interests of investors. The European Union strives to achieve these goals by increasing market transparency and cautiously harmonizing the rules regulating the provision of investment services across Europe.

With the entry into force of new changes in the procedure of submitting orders for execution of transactions in financial instruments on behalf of a client, investment firms must identify to the operators of trading venues the client on whose behalf the order is initiated, using individual identification codes. For the purposes of identification, business clients are required to hold a legal entity identification code issued under ISO 17442, the so-called “LEI-Code”. The acquisition of the LEI Code is the responsibility of the client and the costs associated with the issuance are fully borne by it.

This paper has been created to give you an idea of our Bank and the investment services we offer. It contains everything you need to know about us as an Investment Firm, the services we offer, the policy we apply to avoid potential conflicts of interest, our client order execution policy, the criteria for categorization and degree of protection of clients, with respect to investment services and activities offered by I**NVESTBANK JSC**, the general terms and conditions for transactions in financial instruments and the current tariff for the investment services and activities offered by us.

We shall consider that you have accepted the terms and conditions under which we perform transactions in financial instruments, unless you send us a written objection within 1 month from the publication of the amendments and supplements on the official website of **INVESTBANK JSC** [www.ibank.bg.](http://www.ibank.bg/) If you are a new client, we shall consider the signing of a contract for transactions in financial instruments to be your approval and agreement with the terms and conditions we offer.

All amendments to the above documents shall be published on the Bank's website  [www.ibank.bg](http://www.ibank.bg/)  **in the Financial Markets, Information for Clients tab** and shall be available for review in the banking rooms of the Financial Centers where we operate as an Investment Firm.

Current information about the Financial Centers, addresses and contact persons in the venues where the Bank operates as an Investment Firm is available on our website  [www.ibank.bg](http://www.ibank.bg/) , Financial Markets / Information for Clients.

**Information about our investment services in compliance with the requirements of Art. 8(2) of Ordinance No. 38**

**General information under Art. 9 (1) of Ordinance No. 38**

**About the Bank and its services**

**A. Information about the Bank**

**1. Name, address and contact information**

INVESTBANK JSC

Seat and registered office: 85 BULGARIA Blvd., Sofia, Bulgaria, registered with the Commercial Register under UIC 831663282

**Contacts:**

INVESTBANK JSC – Head Office

Client Department, Liquidity and Investment Banking Division

phone: +359 (2) 8186 191, 8186 129, fax +359 (2) 81 86 199

e-mail: [dealinq@ibank.bq](mailto:dealing@ibank.bg)

At the addresses and telephone numbers of the Financial Centers, it operates as an investment firm.

**2. Banking license, supervisory body:**

INVESTBANK JSC holds a banking license issued by Decision No. 364 of 1 December 1994 by the Bulgarian National Bank (BNB), updated in compliance with the Credit Institutions Act (CIA) by Order No. RD-22-2261 of 16 November 2009 of BNB, whereby the Bank is entitled to perform the activities referred to in Art. 2 (1) and (2) CIA. The Bank is a licensed investment firm, registered with in the Financial Supervision Commission (FSC) under No. RG-030127/20.08.1997.

**3. Communication and correspondence languages**

The languages in which the clients can communicate and correspond with the Bank, as well as receive documents and other information from the Bank shall be Bulgarian and English.

**4. Methods of communication**

You can contact us in person at the Head Office at the above address, telephone numbers, e-mail addresses and fax number specified in clause 1. Client orders for transactions in financial instruments may be submitted **in person** at the Central Office of the Bank at the address referred to in clause 1 or in the Financial Centers (see the **List of Financial Centers and Contact Persons**), by telephone or other remote means of communication (e-mail, fax) at the addresses of the Client Department, specified in clause 1, or by using the Internet-based system for electronic submission of orders COBOS (Client Order-Book Online System) on the Bulgarian Stock Exchange.

Please note that an additional agreement to the **Framework Agreement for Intermediation for Transactions in Financial Instruments** is required to be signed for the use of COBOS.

**5. Notification of completed transactions**

We will provide you with a confirmation in the manner specified by you in the relevant order (fax, e-mail, in person at the Bank’s desks) for each completed transaction which deviates from the individual portfolio management agreement by the end of the first business day following the conclusion of the transaction. If the settlement is not executed on the specified date or another change occurs in the information contained in the confirmation, we shall notify you in an appropriate manner by the end of the business day on which we have become aware of the change.

* Upon your request, we will provide you with information about the status of your order and the progress of its implementation.
* You will also receive an annual report with data on the financial instruments you hold in accounts with us as at the end of the period, information related to dividends received during the year or other payments.

**6. Measures we take to secure your financial instruments and money**

6.1. Once we have concluded with you a **Framework Agreement for Transactions in Financial Instruments**, we shall open analytical accounts with us for each financial instrument acquired/held by you.

6.1.1. At the Central Depository or any other depository institution of which we are a member, your financial instruments are reported in your sub-account to our financial instruments account there.

6.1.2. Your financial instruments held in our joint account (for clients) with a third party are reported by your individual accounts with us.

6.2. Cash deposited with the Bank is kept in individual bank accounts opened with us in your name.

6.3. In the event that your financial instruments need to be held with a third party, we shall take the necessary actions to ensure that the safe-keeping is carried out in a way ensuring that your financial instruments are identified separately from those held by us or the third party by keeping segregated accounts by that third party or by applying other measures providing the same level of protection.

6.3.1. In the event that the law applicable to the activities of the third party does not allow compliance with the requirements under clause 6.3., we shall take appropriate measures to guarantee your rights in relation to the financial instruments held by the third party, including by opening separate accounts from our account for financial instruments of clients that the third party holds on our behalf but for someone else's account.

**6.4. Investor compensation and deposit guarantee schemes in which we participate**

To protect the rights and interests of depositors in banks and investors in financial instruments, Bulgarian Deposit Insurance Fund (BDIF) and Investor Compensation Fund (ICF) have been established and operated in Bulgaria.

In the event of bankruptcy or insolvency, your investments and cash with us are guaranteed by these funds as follows:

* BDIF shall guarantee the full payment of the amounts of the deposit of a single person with one bank, irrespective of their number and amount, up to BGN 196,000, in case of bankruptcy of the Bank. The guaranteed coverage refers to deposits in all banks licensed by the Bulgarian National Bank (BNB), including Bulgarian banks and branches of foreign banks in whose countries no deposit guarantee is provided, deposits in the bank's branch abroad are not guaranteed or lower coverage than that of BDIF is provided. The deposits in branches of Bulgarian banks in other countries are also guaranteed. The coverage of the guarantee includes the deposits of both Bulgarian and foreign citizens and companies.

More information about the deposit guarantees, as well as about the deposits not covered by the Fund and any other information on the subject can be found on the BDIF website  [www.dif.bg.](http://www.dif.bg/)

* The ICF provides compensation to investors in financial instruments in cases where the investment firm is unable to meet its obligations to clients due to reasons directly related to its financial situation.

The Fund shall pay compensation in cases where:

1. by decision of the respective district court, insolvency proceedings have been opened for the Investment Firm, including where the insolvency proceedings have been terminated on the grounds of Art.632 of the Commerce Act;

2. the license has been revoked, in the cases under Art. 36 (2) of the Credit Institutions Act.

The Fund shall pay **compensation** to each client of an investment firm in the amount of 90 percent of the value of the **receivable** arising from the inability of the investment firm to pay back the client's assets in compliance with the legal and contractual terms, but not more than BGN 40,000, whereby until reaching this limit, the compensation shall be determined as follows: - from 1 January 2008 to 31 December 2009 - BGN 30,000; - from 1 January 2010 - BGN 40,000.

Clients' assets subject to compensation shall be financial instruments and other assets of the investment firm's clients held, administered or managed by the investment firm on the clients' behalf in connection with the services provided by the investment firm under Art.5(2) and (3) of the Markets in Financial Instruments Act, including interest, dividends and other similar payments. The client assets shall be exclusive of the deposits within the context of §1 (1) of the Supplementary Provisions of the Bank Deposit Guarantee Act.

For further information on investment guarantees, visit the website of ICF  [www.sfund-bg.com.](http://www.sfund-bg.com/)

**B. Conflicts of interest**

Conflicts of interest related to financing or consulting may arise in a bank that provides various investment services to its clients. The guiding principles of our relations with clients are the protection of clients’ interests, carrying out our operations in compliance with the law and taking due care, impartiality, professionalism and compliance with market standards. We have taken precautionary measures to prevent potential conflicts of interest that adversely affect the clients’ interests and place them at a disadvantage.

For more information, see “**Conflict of Interest Policy Applied by INVESTBANK JSC in the Provision of Investment Services When Acting as an Investment Firm**.”

**C. Services provided**

As an investment firm, INVESTBANK JSC performs the following investment services and activities:

1. Receiving and transmitting orders relating to one or more financial instruments, including intermediation for transacting in financial instruments;
2. Executing orders for the account of clients;
3. Transactions in financial instruments for own account;
4. Safe-keeping financial instruments for the account of clients;
5. Registration agency services.

We plan to expand our investment services in the near future and we shall further inform you thereof.

**D. Execution of client’s orders**

INVESTBANK JSC, as an investment firm, is required to execute the client's orders for transactions in financial instruments in accordance with a written procedure aimed at achieving the best possible result for the client.

For more information, see “**Client Order Execution Policy under MFIA**”.

**E. Categorization of clients according to investment services and activities offered by the Bank**

Pursuant to the Markets in Financial Instruments Act (MFIA), INVESTBANK JSC classifies its clients in one of the following categories – **retail and professional clients or eligible counterparties**, depending on their knowledge, experience and skills for making independent investment decisions and assessing the risks of investments in financial instruments.

If you are categorized as **a professional client or an eligible counterparty**, you are entitled to request the Bank to provide you with a higher level of protection if you consider that you are unable to properly assess and manage the risks associated with investing in financial instruments. For this purpose, you must submit an application to the Bank which explicitly states the specific services, activities, transactions, financial instruments or other financial products in relation to which you want the Bank to provide you with a higher level of protection.

If you are categorized by the Bank as a **retail client**, but consider that you have knowledge and experience in the field of financial instruments, investment services and activities and meet at least two of the criteria laid down in Appendix 1, you are entitled to request that INVESTBANK JSC categorize you as a “**professional client**” **in general** or **in connection with certain investment services or transactions or with a certain type of transactions or investment product.**

For more information, see “**Information on criteria for categorization and degree of protection of clients with respect to investment services and activities offered by INVESTBANK JSC**”.

**General information under Art. 10 (1) of Ordinance No. 38**

This information is intended to acquaint you with the nature and characteristics of some major types of financial instruments, to warn you of the risks associated with various investment products and services and does not constitute investment advice or recommendation.

INVESTBANK JSC hopes to provide you with sufficient information about the potential dangers contained in the investment products and thus enable you to make reasonable and adequate investment decisions.

INVESTBANK JSC considers that it is not desirable for you to make transactions in investment products if you do not understand them, if there is ambiguity regarding the nature of the contract you have to conclude for the provision of investment services, or some aspects of the contractual relations.

We would like to draw your attention to the level of risk posed by the implementation of investment actions (implementing a investment strategy in relation to marketable instruments) to which you are exposed when carrying out investment actions or the implementation of investment strategies in relation to marketable instruments, respectively. Before making any investment decisions, you should make sure that the chosen product or service is right for you.

All financial products carry some degree of risk, including the investment strategies that can generally be defined as low-risk ones. The types of risk to which potential investments are exposed depend on how the instrument is designed or developed. Different instruments involve different levels of risk exposure and when deciding to invest/trade in a particular financial product, it is necessary to take into account their specifics.

There is a correlation between the expected profit and the risk, and the rule is that taking a low risk implies a low level of profit and, accordingly, a high level of risk in good circumstances could lead to a high rate of return.

To reduce the risk, it is advisable to allocate investments in different types of financial instruments and not to concentrate investments in one company.

The reasonable behaviour is to form an investment portfolio.

**I. FINANCIAL INSTRUMENTS AND RISKS ASSOCIATED WITH THEM**

According to their nature, financial instruments are volatile, i.e. their prices change in a certain direction, often unexpectedly, and to a large extent do not match the individual investor's logic and expectations. This may be due to the behaviour of the market participants which determines supply and demand, as well as the contradictory influence of the factors that determine them.

At present, the Bank, as an investment firm, mainly offers brokerage services for intermediation in access to regulated and unregulated capital markets, where non-complex (simple) investment products are traded. They are related to the intermediation of BSE-Sofia AD, the international market XETRA, the national OTC market, as well as repo transactions in which the Bank can be both an intermediary and a contracting party.

**Financial instruments pursuant to MFIA are:**

**1. Securities** – transferable rights registered with accounts with the Central Depository and for government securities – registered in accounts with the Bulgarian National Bank or with a subdepository of government securities or foreign institutions performing such activities (dematerialized securities) or documents materializing transferable rights (materialized securities) that can be traded on the capital market except for payment instruments such as:

1. Shares in companies and other securities equivalent to shares in capital companies, partnerships and other legal entities, as well as depository receipts for shares;
2. Bonds and other debt securities, including depository receipts for such securities;
3. Emission allowances consisting of any units recognized as complying with the requirements of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (Emissions Trading Scheme) (Directive 2003/87/EC).
4. Other securities entitling their holders to acquire or sell such securities or which result in a cash payment determined by means of securities, exchange rates, interest rates or yields, commodities or other indices or indicators.

**2. Instruments other than securities**

1. Money market instruments – instruments that are commonly traded on the money market as short-term government securities (treasury bills), deposit certificates and commercial securities, excluding payment instruments;
2. Shares in collective investment undertakings;
3. Options, futures, swaps, forward fixed-rate agreements and any other derivative contracts **relating to securities, currencies, interest rates, yields or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;**
4. Options, futures, swaps, forward rate agreements and any other derivative contracts **relating to commodities** that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of default or other termination event);
5. Options, futures, swaps, and any other derivative contract **relating to commodities** that can be physically settled provided that they are traded on a regulated market and/or a multilateral trading facility;
6. Options, futures, swaps, forward contracts and other derivative contracts relating to commodities that can be physically settled not otherwise mentioned in para (e) and not being for commercial purposes, which, according to Art. 38(1) of Commission Regulation (EC) 1287/2006, have the characteristics of other derivative financial instruments having regard to whether they are subject to clearing or settlement, including through recognized clearing houses, or are used as collateral for margin purchases or short sales;
7. Derivative instruments for the transfer of credit risk;
8. Financial contracts for differences;
9. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances, inflation rates and other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Article, which have the characteristics of other derivative financial instruments, having regard to whether they are traded on a regulated market, subject to clearing and settlement, including through recognized clearing houses, or are used as collateral for margin purchases or short sales, as well as derivative contracts under Art. 38(3) of Commission Regulation (EC) 1287/2006.

Dematerialized securities that can only be traded on regulated markets are transferred electronically by registering the relevant subscriptions on securities accounts with the depository institution with which they are registered.

**In view of the above legal definitions, we would like to give you further clarification regarding the main types of financial instruments.**

**1. Shares or other equity instruments**

**Equity instruments certify the title over the issuer's equity**

The shares have no term and the issuer pays a dividend, which however is not guaranteed. The main risk with these instruments is related to a change in the price in the opposite direction to the position assumed. A decrease in the share price could lead to a permanent inability of the issuing company to increase its capital and market value and as a consequence to generate profit. The shares are exposed to all types of risk listed below. Specific for these instruments is the risk associated with industry affiliation – in case of problems, difficulties in the industry in which the company operates.

If you have invested in shares of a company that is not public or traded on the stock exchange, but its shares are rarely traded, there is a clear liquidity risk which may lead to inability to dispose of the investment or it may become difficult to possibly sell these instruments, with high probability that, when concluding a deal, it may be concluded at an unfavourable price for you.

For these reasons, the risk of investing in shares is associated not only with non-payment of dividends, but also with the probability of capital loss. The admission of certain shares to a regulated market does not guarantee their liquidity.

Investing in stocks can be both very profitable and very losing. They are among the riskiest types of securities of the so-called traditional instruments. Any decision to buy or sell shares must be preceded by an assessment and planning of potential profits and losses. **Shares should only be bought with that money, the loss of which will not put you in financial difficulties.** The clients should monitor the reaction of the market to any news concerning the securities in which they have invested.

**2. Rights on shares**

Rights are securities that are issued when the capital of a company increases and entitle shareholders to purchase new shares issued by the same company at a certain price (usually lower than the market price) in a certain proportion to the shares held. The rights are issued (valid) only for a certain short period of time, after which they cease to exist. During this period, the rights can usually be traded and their price is determined by the terms of the issue and the market price of the shares.

**3. Bonds or other debt instruments**

Debt instruments are financial instruments the holder of which lends money to their issuer and the issuer undertakes to repay the funds received and to pay interest to the lender for the funds used under certain terms and conditions specified in the prospectus of the issue or contract. Debt instruments include bonds, policies, certificates, mortgages, leases and other forms of agreements between a borrower and a lender.

Debt instruments are also exposed to the main types of risk referred to herein, but the strongest impact is that of the **credit, market and interest rate risk**. These instruments are exposed to the risk of the issuer's inability to meet principal and interest payments. They are also exposed to price volatility due to factors such as sensitivity to market interest rates, market expectations for the issuer's creditworthiness and overall market liquidity. As market interest rates rise, the value of debt instruments falls, especially those with fixed yields. Fixed-yield debt securities with longer maturities are generally more sensitive to interest rate movements than short-term ones.

Among debt instruments, bonds are the most widespread. Bonds are characterised with maturity and interest payments within that maturity on fixed dates.

The stock market price of the shares can theoretically vary much wider than bond prices.

Due to the differences in the financial stability of the individual issuers, the risk of non-repayment of the loan is different. The order of the types of bonds depending on the degree of risk of non-payment is as follows:

**Government bonds** – issued by state governments

Due to the presumption that the bankruptcies of countries are rather exceptions, their debts are considered the lowest risk.

**Municipal bonds** – issued by municipalities

Although more often they are not guaranteed by the respective country, such bonds are considered more secure than corporate bonds.

**Corporate bonds** – issued by large companies, most often manufacturing companies and banks

They are carriers of the highest level of risk, which is naturally reflected in the higher profitability that the issuer is willing to pay, respectively, investors can receive.

In addition to the risk of defaulting on each loan inherent to each issuer, there are various methods for assessing financial stability, on the basis of which the so-called issuer’s credit rating is determined. These assessments are performed by specialized rating agencies. In order to be taken into account, the credit rating must be determined by recognized auditors.

The profit from bonds can have two sources – interest and exchange rate differences in price. Cash flows are also of two types – interest and principal. The interest can be paid at once at maturity, in certain periods or be calculated in the issue price (discount bonds). The terms and conditions of each issue are set out in a prospectus or other document. Most often, interest payments are to be made every 3, 6 months or once a year. The interest rate of the issue can be fixed or floating. Floating interest rates are most often formed as a market index (LIBOR, EURIBOR, SOFIBOR) + margin. The principal can also be paid at once at maturity and in certain periods. In Bulgaria the most common instruments are the interest-bearing bonds, i.e. those in which the interest is paid in a certain period and the last interest payment is made at maturity together with the principal.

**4. Money market instruments** – these are instruments for short-term financing – up to 1 year.

These instruments are traded on local or international money markets. The holders of these financial instruments are exposed to most of the main risks described in the second part of this document and in particular interest rate risk and liquidity risk.

One of the most popular money market instruments related to financial instruments are **repo transactions**

* + **Repo** (sell-buy) – a transaction in which the Bank sells a security to the client with the stipulation for its repurchase at the maturity of the repo transaction at a predetermined price.
  + **Reverse repo** (buy-sell) is a transaction in which the Bank buys a security from the client and fixes the price at which it will sell the same security to the same client on a future date. The nature of this type of repo transaction is secured lending, as the bank provides a resource to the client against collateral consisting of securities.

In reverse repo transactions, the market risk is particularly pronounced and is expressed in a reduction in the price of the collateral, i.e. the value of the securities, and in case of a significant drop in the price, the collateral is required to be replenished.

Governments also issue short-term instruments to fund targeted programs – treasury bills. They are more often with a zero coupon and are bought at a discount from the face value. The market risk associated with them is minimized, as the investors have a guaranteed income at maturity.

**5. Units of collective investment schemes**

There are various forms of collective investment schemes (CIS). The collective investment scheme is expressed in aggregating the assets of a large number of investors provided for professional management by a Management Company / Manager. The investments usually include various instruments – government bonds, corporate bonds and shares, but depending on the type of scheme, they could include derivatives, real estate and other assets. Investing in such instruments can reduce the risk by allocating the investments to more assets. Risk reduction is achieved by the fact that the wide range of investments in the collective investment scheme reduces the effect that a single investment would have on the entire portfolio. Although perceived as a way to diversify the portfolio, the price of CIU units may rise or fall depending on the management decisions taken, i.e. the collective investment scheme is exposed to various risks.

**6.** **Derivatives**

A derivative is a financial instrument that is derived from the value of an underlying asset. In most cases, trading in derivatives does not mean trading in or exchanging the asset itself, but rather constitutes the conclusion of an agreement to exchange cash, assets or other value at a future date based on the underlying asset. The most common derivatives include forward contracts, options, futures, swaps. Investing in derivatives often involves a high level of risk and should therefore be exercised with caution, especially by small and inexperienced investors.

In short selling of options and futures, when the seller does not own the asset at the time of the transaction, there is a risk of incurring large losses in the event that the price of the derivative rises significantly.

If the derivative transaction is large or the relevant market is illiquid, it may not be possible to conclude a transaction or liquidate an advantageous position.

Derivatives traded on an exchange are also exposed to the general risks of exchange trading.

OTC derivative contracts are also exposed to credit risk and the specific terms and conditions of the contract must be taken into account.

Derivatives can be used for speculative purposes or as hedging instruments for investment risk management. In all cases, it is necessary to assess whether the transaction is appropriate for the particular investor. The clients should investigate the terms and conditions of the specific derivatives and the related obligations (e.g. delivery of an underlying asset under a futures contract, expiration date of an option, restrictions on the term of exercise of an option, etc.)

All derivatives are potentially exposed to the main types of risk, especially market risk, credit risk and sectoral risk associated with the underlying asset.

**6.1. Forward contracts** – contracts in which the delivery of the traded asset is carried out on a future date at a pre-agreed price and amount. Most forward contracts are not standardized and are not traded on regulated markets / exchanges.

Currency forward is an agreement between the Bank and the client, in which currencies are bought and sold at prices agreed now, but with delivery on a future agreed date at the so-called forward rate, without the need to transfer funds before the agreed future date.

Forward Rate Agreement (FRA) – an agreement that determines the interest rate or exchange rate for hedging an upcoming obligation to pay or receive amounts in a future period of time.

Fixed-rate forward contract allows for hedging the interest rate risk of a deposit or loan that will be concluded (or withdrawn) at a future point in time for a fixed period of time if its interest rate is related to the short-term money market levels.

**6.2. Swap** – Swap is a contract in which the parties thereto exchange interest payments or currency. Depending on this, they are divided into two main types:

* + **Currency swap** – Agreement for the exchange of an amount in one type of currency with another one, with an agreement for their reverse exchange on a certain future date and at a pre-agreed exchange rate, which allows for optimal management of the current liquidity in the currency needed by the client. The main risk associated with this type of swap is the risk of changes in the exchange rate of both types of currencies or only of one of them, liquidity risk and risk of default of the counterparty.
  + **Interest rate swap** – Agreement between the Bank and the client to exchange interest payments on a pre-agreed principal, whereby most often one of the interest payments is based on a fixed interest rate and the other one on the basis of a floating interest rate linked to the value of a specific interest rate. The main risk in this type of swap is the risk of interest rate changes and the risk of default of the counterparty.

**6.3. Option** – The buyer of the option pays a premium for the right to conclude a certain transaction in the future, which, on the one hand, can bring profit if the market conditions are favourable for the investor, but on the other hand, when the price changes adversely, a loss may be incurred in the amount of the premium paid.

**II. MAIN TYPES OF RISK**

**1. Liquidity risk**

Liquidity risk is the risk of inability to meet current and potential liabilities without incurring unacceptable losses.

Liabilities can be both monetary and in the form of financial instruments.

The liquidity of financial instruments is directly affected by the volumes of market demand and supply of the respective instrument, by the freely tradable volumes of the respective issues and other factors. Under certain trading conditions, it may be difficult or impossible for a position to be liquidated – i.e. financial instruments previously purchased to be sold or financial instruments subject to a short-sale transaction to be purchased. This occurs when there is insufficient supply or demand for a particular instrument to match the volume of the investor's position or when the conclusion of a transaction would result in a loss.

**2. Credit risk**

Credit risk covers all risks arising from the inability of a counterparty, debtor, issuer or borrower, respectively, to duly implement its current, possible or contingent liabilities in a timely manner in accordance with the initially agreed terms and conditions, due to changes in their own financial and economic condition or due to other specific circumstances.

In the case of debt financial instruments, credit risk is the risk of loss caused by the inability of borrowers, debtors on the payment of principal and interest under issued bonds or other counterparties to default on their liabilities, or the risk of deterioration of their creditworthiness.

**3. Market risk**

Market risk is the risk of losses arising from movements in the market prices of equity and debt instruments.

This is the risk of falling or rising investment prices depending on market supply and demand, investors’ attitudes and prices of underlying or related investments, as well as sectoral and economic factors.

Investments in instruments traded on a market carry the risks of the relevant market and the economy of the respective country. Investments in instruments issued by foreign issuers are exposed to the risks of the respective foreign market where they are traded. In some cases, these risks may be greater than the risks in the local market.

**4. Currency risk**

Risk where the investments in instruments denominated in foreign currencies may be adversely affected by a decrease in the exchange rate of that currency to the national currency. An increase or decrease in exchange rates may cause a loss or gain for the financial instruments in the currency in which they are issued and traded.

This is the risk of depreciation of the currency of financial instruments included in the client's portfolio investments against the local currency or against the currency of the client's portfolio.

The possibility of profit or loss from transactions in foreign markets or foreign currency-denominated instruments is affected by the fluctuations in the exchange rates.

**5. Interest rate risk**

Interest rate risk is the uncertainty arising from changes in market interest rates which may have a significant impact on the return on investment in the relevant risk-bearing financial instruments.

The significance of the risk varies in the different types of financial instruments. Interest rate risk is the risk of rising market interest rates which leads to a fall in the market price of certain financial instruments, especially bonds.

**6. Volatility risk**

This is the risk associated with movements of the price of a specific financial instrument. Volatility is high if the financial instrument is subject to large movements over a period of time. The volatility risk is calculated as the difference between the lowest and the highest prices of the financial instrument for the given period of time.

This risk is characteristic of periods of market instability caused by political and economic factors and its presence is an indication of confusion of market participants and the lack of a clear vision and consensus among them to determine the current equilibrium price.

It is manifested mainly in financial instruments traded on international financial markets.

**7. Regulatory risk**

This is the risk of changes in the legal framework in the country, regulating or related to investing in financial instruments.

Changes in the regulatory requirements directly related to financial services may lead to a change in the profit potential of an investment. Legislative changes can make illegal some investments that have been allowed in the past. It is also possible that there may be changes in the country's fiscal policy, which will have a significant impact on the return on the investment. This risk may depend on many political, economic and other factors.

**8. Settlement risk**

Settlement risk covers all risks arising from delays in making payments on transactions in financial instruments or transferring financial instruments on the due date.

This may be the risk that settlement in the payment system may not take place due to the inability of a participant in the payment system to implement its obligations. Additionally, settlement of a transaction may be delayed due to the lack of the seller of financial instruments. The risk of delay or non-payment is the difference between the transaction price of the financial instrument and the current market price for the settlement delay time, which difference may result in a loss.

In some situations, settlement procedures may be affected by the number of transactions and thus impede their execution. In other cases, a delay in providing financial instruments under a transaction may arise from a delay in a counter-transaction for the purchase of the same financial instruments, this occurs in intra-day trading – purchase and sale of the same financial instruments on the same day. The inability to settle due to such issues may prevent investors from profitable investment opportunities and lead to a loss. Settlement risk can arise as both credit and liquidity risk.

**9. Operational risk**

The risk of direct or indirect losses arising from inadequate or malfunctioning internal processes, people and systems, or from external events, including legal risk, i.e. internal control, human actions / inactions, organization or external event.

Operational risk is associated with failures and problems in the operation of essential systems, especially IT systems, which may affect the timely execution of transactions in financial instruments, execution of client’s orders, safe-keeping of financial instruments, etc. The scope of the operational risk also includes personal and organizational changes, management deficiencies, incompetent decision-making.

**10. Custody risk**

Investments in certain markets, especially in emerging markets, where the rules and regulations relating to the custodian services system may be less developed in terms of investor protection than those markets that have strict custodian rules. Assets in these markets entrusted to custodians, where needed, may be exposed to risks related to the inability of the custodian to implement its obligations. This risk is increased when there is no investor compensation system in the relevant market, or if such a system exists, but the investor is not covered by the protection offered by the system.

**11. Legal risk**

The risk of uncertainty as a result of legal action or uncertainty regarding the applicability of contracts, laws and regulations, such as the legality of the contract, the legal capacity of the party to conclude a contract.

**12. Political risk**

The risk that the government may impose new taxes, regulatory or legal obligations or restrictions on financial instruments that an investor already holds. As an example, the government may decide to ban the repatriation of assets from the country.

**13. Risk arising from the market in which the financial instruments are traded**

This risk is related to the trading market of the respective financial instrument. When the market is not the local for the investor, it assumes currency risk.

Foreign markets: Each investment is subject to the risks to which the market in which they are traded is subject. These risks may be different from those in the market where the financial instrument has been issued or where the investor is located.

Emerging markets: Investing in emerging markets carries risks that are not usually typical of developed markets. These risks also exist when a large part of the issuer's business is carried out in these markets.

Investments in emerging markets are often speculative due to their risky nature and potentially higher earnings expectations. Investments need to be carefully considered and the various risks inherent in these markets assessed.

**Information on criteria for categorization and degree of protection of clients with respect to investment services and activities offered by INVESTBANK JSC**

According to the provisions of the Markets in Financial Instruments Act (MFIA) and Ordinance No. 38, which introduce into the Bulgarian legislation the European requirements regarding the activity of investment firms and trading in financial instruments pursuant to Directive 2004/39/EU (MiFID), INVESTBANK JSC is required to classify each of its clients as belonging to one of the following categories:

* + Retail client
  + Professional client
  + Eligible counterparty

**ELIGIBLE COUNTERPARTY**

**Concept of eligible counterparty**

**I.** (1) An eligible counterparty is a person from a Member State who is:

1. investment firm;
2. credit institution;
3. insurance company;
4. collective investment scheme;
5. management company;
6. pension fund;
7. pension insurance company;
8. other financial institution;
9. entity whose main activity is trading for its own account in commodities and/or derivative financial instruments on commodities;
10. legal entity which provides investment services or carries out investment activities related only to trading for its own account on the markets of financial futures or options or other derivative financial instruments on the money market only for the purpose to hedge positions on the derivative financial instruments markets, or which trades on behalf of other participants in these markets, or determines prices on their behalf, and which are guaranteed by clearing members of the same markets, where the responsibility for the execution of the contracts signed by such an entity is assumed by the clearing members of the same markets.
11. government of a state;
12. state body that manages state debt;
13. central bank;
14. international institution.

(2) An eligible counterparty shall also be a person referred to in para.1 (1)-(14) from a third country who has explicitly requested to be treated as an eligible counterparty.

(3) The clients under para. 1 and 2 shall be categorized as eligible counterparties in view of the following services and activities performed by the Bank with such clients:

1. receiving and transmitting orders of such clients relating to financial instruments, including intermediation for transacting in financial instruments for such clients;
2. executing orders for the account of such clients;
3. concluding transactions for the bank's own account with such clients;
4. providing additional services directly related to a service or activity referred to in para. 1-3 performed for such clients.

(4) The clients referred to in para. 1 and 2 may not be treated as eligible counterparties with regard to services and activities under para. 3, when they are re-categorized.

(5) For services and activities other than those referred to in para 3, the clients determined as eligible counterparties in view of the services and activities under para. 3 shall be considered professional clients, except in the cases of re-categorization.

(6) With regard to the obligations of the Bank in performing services and activities referred to in para. 3 for clients categorized as eligible counterparties for which no exception is provided according to **II**, these clients shall be considered as professional clients.

**Degree of protection**

**II.** (1) When providing services under **I** (3) to clients which in respect of these services are determined as eligible counterparties, the Bank shall not be required to observe the following requirements:

* + 1. the requirements regarding the sufficiency of the information for the provided service;
    2. the requirements for the provision of information by the clients about their knowledge and experience relating to the services provided by the Bank, as well as the obligation of the Bank to assess whether the provided services are suitable for the client;
    3. the requirements for the execution of orders in the best interest of the client in compliance with the order execution policy applied by the Bank; and
    4. the related obligations for notification of the applied policy, proof of its compliance, etc.;
    5. the requirements for immediate, appropriate and accurate execution of the orders of the clients in compliance with the timing of the receipt of identical orders;

(2) The exceptions under the preceding paragraph shall not apply in the cases of re-categorization of the clients under **I** (1) and (2) with regard to the transactions, activities, services and financial instruments covered by such re-categorization.

**PROFESSIONAL CLIENTS**

**Concept of professional client**

**III.** (1) **Professional client is a client who possesses the experience, knowledge and skills to make its own investment decisions and properly assess the risks associated with investing and who meets the criteria referred to in the Appendix.**

(2) Professional clients shall be:

1. Entities which are required to obtain a permit to perform activities in the financial markets or the activities of which in these markets are otherwise governed by the national legislation of the Member State, irrespective of whether this legislation is consistent with Directive 2004/39/EU of the European Parliament and of the Council, as well as entities which have obtained a permit to carry out these activities or are otherwise governed by the legislation of a third state, as follows:

1. credit institutions;
2. investment firms;
3. other institutions subject to licensing or otherwise regulated;
4. insurance companies;
5. collective investment undertakings and their management companies;
6. pension funds and pension insurance companies;
7. entities with main activity being trading for their own account in commodities or derivative financial instruments on commodities;
8. legal entities which provide investment services or carry out investment activities related only to trading for their own account on the markets of financial futures or options or other derivative financial instruments on the money market only for the purpose to hedge positions on the derivative financial instruments markets, or which trade on behalf of other participants in these markets, or determine prices on their behalf, and which are guaranteed by clearing members of the same markets, where the responsibility for the execution of the contracts signed by such entities is assumed by the clearing members of the same markets;
9. other institutional investors.

2. Large undertakings which meet at least two of the following requirements:

1. balance sheet total – the equivalent in BGN of at least EUR 20,000,000;
2. net turnover – the equivalent in BGN of at least EUR 40,000,000;
3. own funds – the equivalent in BGN of at least EUR 2,000,000.

3. National or regional public authorities, governmental bodies involved in the sovereign debt management, central banks, international or supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations.

4. Other institutional investors which main activity is investing in financial instruments, including entities which deal with securitisation of assets or other financial transactions.

(3) The clients under para. 2 shall be considered professional in respect of all transactions, investment services, investment activities and financial instruments, except in the cases of changes in their categorization.

(4) The clients under **I** (1) and (2) shall be considered professional clients with regard to the services under **I** (3) when they are re-categorized as such.

(5) The Bank shall also consider as professional clients the clients who are re-categorized as such.

**Degree of protection**

**IV.** (1) When providing services to professional clients, the Bank shall provide a lower degree of protection compared to that applied to retail clients, including:

* 1. the professional client is provided with a limited amount of information in connection with the conclusion of the contract;
  2. the professional client is provided with a limited amount of information in connection with the provided services, including regarding the order execution policy, the expenses and the commissions and the procedure of keeping clients’ assets;
  3. when assessing whether an investment service other than investment advice and portfolio management is appropriate for the client, the Bank may assume that the client possesses the necessary experience and knowledge to understand the risks associated with the particular investment service, transaction or product for which that client is classified as a **professional client**.
  4. when making an assessment of an appropriate service in terms of investment advice or portfolio management for a professional client, the Bank may assume that in respect of the products, transactions and services for which it has been designated as a professional client, it has the necessary experience and knowledge;
  5. when making an assessment of an appropriate service in terms of investment advice for a professional client under **III** (2), the Bank may assume that this client has the financial ability to bear all related investment risks compatible with its investment objectives;
  6. the implementation of the obligation for the best execution with respect to a professional client, the factor of the total value of the transaction is not determining;
  7. the Bank shall not be bound to notify the professional client of the objective difficulties that have arisen, preventing the correct execution of the orders;
  8. upon the execution of an order of a professional client, the Bank shall be bound to only provide the client with the essential information about the transaction;
  9. the Bank shall provide periodic reports for portfolio management in every 6 months;
  10. the Bank shall not be bound to notify the professional client for whose account it manages a portfolio when there are uncovered open positions under contingent transactions, as well as in case of losses in excess of a certain amount in transactions or transfers depending on future contingent events;
  11. the professional client shall not be subject to compensation by the Investor Compensation Fund;

(2) The exceptions under the preceding paragraph shall not apply in the cases of re-categorization of the clients under **III** with regard to the transactions, activities, services and financial instruments for which this re-categorization has been performed.

**RETAIL CLIENTS**

**Concept of retail client**

**V.** Retail client is a client who does not qualify as a professional client.

**Degree of protection**

**VI.** (1) When providing services to retail clients, the Bank shall provide them with the highest degree of protection.

(2) The exceptions under the preceding paragraph shall only apply in the cases of re-categorization of the clients under **V** with regard to the transactions, activities, services and financial instruments for which this re-categorization has been performed.

We hope you find the information provided useful. The team of INVESTBANK JSC has structured in detail and clearly the main points in trading in financial instruments in order to achieve optimal awareness. We remain available if additional clarifications on the topic are needed.

###### *I, the undersigned Svetlana Velikova Milenkova certify the true translation from Bulgarian into English of the document attached. The translation consists of 18 pages.*

###### *Translator: ……………………..… Svetlana Velikova Milenkova*