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Description of the financial instruments Intercapital Markets AD offers its customers, and the risks, associated with them

I. General description of the risks associated with the financial instruments

1.1. Trading with financial instruments involves substantial risks and is not suitable for every investor. Trading on the financial markets is not suitable for investors seeking a steady income, since income from such activity are volatile and uncertain. With the financial instruments there is rarely a guarantee that the initial amount invested will not be lost and there is almost never a guarantee that the promised or expected income (e.g. dividend on preference shares or interest payments on corporate bonds) will be realized.
1.2 Financial markets are highly volatile in nature, i.e. there is a volatility in the prices and the quotes of the financial instruments. The prices of the traded financial instruments are affected by many different factors, including: changes in the balance of supply and demand; international trade; the fiscal, monetary, regulatory and the external policies of the countries; important economic and political news; changes in interest rates; activities of the central banks and the major players; devaluation of currencies; actual performance of businesses in their respective segment; forecasts and expectations of market participants, as well as many other factors.
1.3. Regulated markets may impose price limitations regarding the traded financial instruments and to suspend trade with separate issues. Intercapital Markets AD warns its clients that in some cases the investor may assume financial and other additional obligations as a result of transactions in financial instruments, including contingent liabilities, additional to the cost of acquiring the instruments.
1.4. Margin trading - using "leverage" mechanism (leverage) multiplies both profits and losses and relatively small market movements may have a greater effect on client positions. As a result, the paid in means, that represent a guaranty to the open positions, can be fully exhausted. As far as the provision of certain services or trade in certain financial instruments and other assets (e.g. currency) from or through Intercapital Markets AD implies or allows investments with leverage - in compliance with the regulatory requirements and market practices - Intercapital Markets AD requires its customers to guarantee to cover potential losses - margin.

II. Risks specific to the individual financial instruments

2.1. ***Shares - characteristics*** – registered, dematerialized securities, giving the right of ownership of a certain share of a joint-stock company to their holder, a right to receive dividends, the right to participate in the General Meeting of Shareholders, entitled to a liquidation share.

Risks – risks, arising from share investments, are mainly related to the possibility of their depreciation and the realization of loss of the invested funds. The reasons for depreciation of shares can be varied:

- Price risk and volatility risk - the market price of the shares can vary greatly, as can, at times, be less than the net value of the assets owned or the nominal value of the shares themselves. The dynamics of prices could be significant in the direction of an increase or a decrease, as such fluctuations can sometimes be fast, large and unpredictable. In

many cases, the appearance of such fluctuations is not connected or does not correspond to the performance of the Company and cannot be predicted.

- Business risk - associated with the company's results. Share prices depend directly on the results of the company on which they are issued. Therefore, deterioration of the results of the company may negatively affect its share price.
- Risks, associated with the specifics of the shares. This is the risk associated exclusively for a particularly examined company, determined by its specific features, markets, products, competitors, etc.
- Risk, associated with liquidity of the shares - Intercapital Markets AD may fail to fulfill customer orders if the current state of the market and quotes of a company do not allow the transactions with the desired by the customer volume and price.
- Systematic risk - associated with the state of economy as a whole and the specific sector, in which the company operates. Deterioration in the economic conditions or the conditions in the particular sector may negatively affect share prices.
- Inflation risk - high inflation in the country could alienate investors. Low inflation may also have a negative effect as investors transfer their funds from equities to another type of financial instrument - e.g. bonds. The withdrawal of funds by investor from shares could adversely affect their price.
- Political risk - political instability could alienate investors. The withdrawal of funds by investor from shares could adversely affect their price.
- Tax risk – taxes, paid by commercial entities, include withholding taxes, local (municipal) taxes, corporate profit tax, value added tax, excise duties, import and export duties and property taxes.

  Investors should take note that the value of an investment in shares may be adversely affected by changes in the tax laws, including its interpretation and application.
- Risks associated with the counterparty and risk associated with the settlement. Although the principle of the transactions executed on regulated markets is most often a "delivery versus payment" - DVP, i.e. the buyer receives the shares after paying for them and vice versa, there is a risk, though unlikely, for the counterparty to fail to perform or to delay the implementation of its obligation under the deal.
- Currency risk. It occurs when investments are made in foreign currency and their value depends on the exchange rate.
- Risk of the issuer and lack of guarantee for the payment of dividends – the shares give no guaranteed return and if the commercial activity of the issuer experiences failure, their value may be reduced and the payment of dividends may be impossible. Dividends are not guaranteed and a company can decide not to pay dividend on margin trading purchases and/or short sales - risk of early closure of positions or occurrence of chargeability of granted margin loan and/or lent securities in the event that the securities serving as collateral no longer meet the requirements of Art. 8 of Decree № 16 (with margin trading in shares of Bulgarian public companies);
- Risk of not exercising the right of a vote on securities, recorded in the accounts as collateral for margin purchases and/or short sales;
- Risk of further obligations to funders, exceeding in value the amount of the security serving as collateral for the margin purchases and/or short sales ;
- Risk of non-participation in the capital increase of emissions, serving as a collateral for the conducting of margin purchases and/or short sales;
- Risk of unfavorable tax treatment of income and compensations received as a result of realized margin purchases and/or short sales;

- Risks associated with the occurrence of a need to provide additional collateral due to adverse price movement of shares, serving as collateral for margin purchases and/or short sales;
- Risks associated with the official selling of the pledged collateral (in part or in full) in case of reaching the winding level.

2.2. ***Depository receipts – characteristics:*** securities issued based on the securities of issuers incorporated in another country, and entitle their holders to exercise their rights related to the underlying securities.
The main risks experienced by investors in depositary receipts are risks, inherent in the shares, on the basis of which the receipts were issued, risks, associated with the market, on which they were issued and are traded, the currency risk.

2.3. ***Bonds - characteristics:*** security, certifying that its holder has credited the issuer. The bond has a nominal value and coupons (usually a percentage of the nominal value), which are the interest payments on the debt. Coupon payments are made on pre-announced maturities. Holders of bonds, unlike holders of shares, do not participate in the capital of the company and appear only as lenders.
Risks – risks, stemming from bonds, are mainly related to the possibility of their depreciation and realization of loss of the invested funds.
The risks of investing in bonds can be:

- Business risk - associated with the company's results. Bond prices depend directly on the results of the company on which they are issued. Therefore, deterioration of the results of the company may negatively affect its share price.
- Risks associated with the specifics of bonds - the risk may be associated with the appreciation of the bond immediately before the payment of periodic interest due and, accordingly, the depreciation of the bonds after payment of the interest.
- Risk, associated with liquidity of the bonds - Intercapital Markets AD may fail to fulfill customer orders if the current state of the market and quotes of a company do not allow the transactions with the desired by the customer volume and price.
- Systematic risk - associated with the state of economy as a whole and the specific sector, in which the company operates. Deterioration in the economic conditions or the conditions in the particular sector may negatively affect bond prices.
- Inflation risk - rising inflation could adversely affect the price of bonds. Rising inflation reduces bond yields, which could alienate investors from this financial instrument.
- Political risk - political instability could alienate investors. The withdrawal of funds by investor from bonds could adversely affect their price.
- Tax risk – taxes, paid by commercial entities, include withholding taxes, local (municipal) taxes, corporate profit tax, value added tax, excise duties, import and export duties and property taxes.
  Investors should take note that the value of an investment in bonds may be adversely affected by changes in the tax laws, including its interpretation and application.
- Risks associated with the counterparty and risk associated with the settlement. Although the principle of the transactions executed on regulated markets is most often a "delivery versus payment" - DVP, i.e. the buyer receives the bonds after paying for them and vice versa, there is a risk, though unlikely, for the counterparty to fail to perform or to delay the implementation of its obligation under the deal.

- Currency risk. It occurs when investments are made in foreign currency and their value depends on the exchange rate.
- Issuer risk - due to differences in the financial stability of individual issuers, the risk of non-return of loan is different. Because of the assumption that the bankruptcy of countries are rather exceptions, their debts are considered to be at low risk. The next in this line are the debts of the municipalities. Although not guaranteed by the state, such bonds are considered safer than corporate bonds. The last carry the highest risk level, which of course is reflected in the higher yield that investors can receive.
- Market risk - risk associated with possible changes in market interest rates after the time of issuance of bonds with a fixed interest rate. If the level of interest on the debt markets rise, then there is a drop in the price of bonds issued and vice versa – if there is a drop in the level of interest on the debt markets, there is a rise in the price of the bonds.

2.4. ***Government securities - characteristics:*** Debt securities issued and guaranteed by the state. Characterized mainly by the risk of the issuing country.

- Political risk - This is the risk resulting from the political processes in the country - risk of political instability, changes in government principles, legislation, economic policy and tax system. The political risk is directly dependent on the likelihood of a change in an unfavorable direction of the government led; long-term policy; as result there is a risk of adverse changes in the business climate.
- Macroeconomic risk - This is the risk of macroeconomic shocks, which are measured with the realized economic growth, the increase/decrease in the productivity and income of the population, etc.
- Inflation risk - This is the risk of a decrease in purchasing power and the depreciation of the currency in which the securities are issued. The risk of rising inflation leads to depreciation of investments or the value of the savings in time.
- Currency risk - This risk is associated with the possible decrease in value of the currency of the bond issue. For Bulgaria, this is the risk of premature withdrawal of the currency board at a fixed rate of the national currency BGN 1.95583 for EUR 1.
- Tax risk – taxes, paid by commercial entities, include withholding taxes, local (municipal) taxes, corporate profit tax, value added tax, excise duties, import and export duties and property taxes.

  Investors should take note that the value of an investment in government securities may be adversely affected by changes in the tax laws, including its interpretation and application.

2.5. ***Collective investment schemes - characteristics:*** investment companies, mutual funds or unit trusts that invest in securities and money market instruments, raised by offering shares

- The specific risk for the collective investment schemes is limited to the risks of the individual assets in their portfolios.
- Liquidity risk - This is the risk that under certain conditions it may be difficult or impossible for the management company to sell certain securities owned by the collective investment scheme at a reasonable price. In particular, this risk is greatest for the securities not accepted for trading on a regulated market. Liquidity of the shares may be limited in cases where the management company temporarily suspends buybacks of shares of the investment scheme.
- Market risk - This risk is determined by the overall political and economic development and the development of the country and of the sector, in which the issuer operates, its

financial stability and prospects for growth and development. An essential role for market risk also play investors' expectations for the future development of the country/industry/company.

- Price risk – It is related to the possibility of the market value of each security to increase or decrease, sometimes rapidly and unpredictably. These "price volatility" can lead to the security costing at a certain moment much less than in a previous moment. This price dynamic is particularly characteristic of the market of ordinary shares, which stock prices may be subject to sharp fluctuations in response to publicized information about the financial results of the company, changes in legislation or other significant events.
- Information risk – The information risk is manifested in the lack of equal access to information about the issuer of a security and, accordingly, changes in its characteristics. The delay in information disclosure or its partial/incorrect presentation would lead to wrong investment decisions, as well as the negative effect on the value of the investment.
- Price risk of the shares of the collective investment scheme - Price risk is the risk of adverse change in the prices of shares of collective investment schemes as a result of changes in the valuation of net assets. The price can either increase or decrease. There are no guarantees that investors will realize positive income from holdings of collective investment schemes, and that they will keep the value of the initial investment. The value of the assets of the collective investment schemes is dependent on the decisions of the portfolio managers of management companies.

  This is the risk of a change in the price of shares as a result of changes in the prices of assets in the investment portfolio of collective investment schemes. The price risk of shares of collective investment schemes caused by the change in the prices of individual assets is significantly limited because of the legal requirements for the structure of its investment portfolio, the additional restrictions laid down in its rules and legal constraints of expenses.
- Risk of using derivatives - In addition to market, credit and liquidity risk, derivatives also carry specific risks. Derivatives are highly specialized instruments whose use requires an understanding of both the underlying asset and the mechanism of action of the derivative itself. The complexity of derivatives requires adequate resources for monitoring transactions, analysis of specific risks and ability to predict prices.

  Adverse change in the price of the underlying asset, rate or index can result in loss of an amount greater than was invested in the derivative. Certain derivatives have the potential for an unlimited loss. There is also the risk of wrong valuation of the derivative. Very often the evaluation of derivatives is subjective. Consequently, a loss might be suffered when buying overpriced derivatives.
- Foreign exchange risk - Foreign exchange risk, which bear the shares of the collective investment schemes is linked mostly to the currency risks related to the investment instruments in their portfolios.

  When investing in securities, equities and debt securities denominated in other than BGN and EUR currencies standard techniques will be applied for insurance (hedging) of currency risk: the purchase of currency options, forward contracts, purchase or sale of foreign currency through spot transactions, purchase or sale of futures contracts.
- Operational risk – The Operational risk is associated mainly with the management of the assets of the collective investment schemes and the process of making investment decisions. The possibility of leakage of information about the operations of the collective investment schemes to outsiders and their potential misuse of the same information is an important part of operational risk. Operational risk is associated with the normal operation of

the collective investment schemes in investing and asset management in order to implement the investment policy, subject to the restrictions.
With the view of achieving the investment objectives, management companies can take the strategy of active trading of assets and increasing the turnover of the assets held. Higher turnover of securities in the portfolios of collective investment schemes is linked to paying more fees and commissions for brokerage operations of the investment intermediaries with which the management company has signed contracts for brokerage services.

- Company Risk – Associated with the nature of the collective investment schemes and affects the probability of realizing different in magnitude effectiveness of this activity. For each company it is important the return on invested funds and resources to match the risk associated with this investment. The probability of that return can be read by the variance and the standard deviation. Through them you can examine the variance of the return from the estimated weighted average and you can give specific evaluation of the quantitative aspects of risk.

2.6. ***Derivative instruments - characteristics***: financial instruments whose value is derived from the value of an asset. Rather than being traded with the asset itself, market participants agree to exchange money, assets or other value in the future. Besides market, credit and liquidity risk, derivatives also carry specific risks. Derivatives are highly specialized instruments whose use requires understanding both the underlying asset and the mechanism of action of the derivative itself. The complexity of derivatives requires adequate resources for monitoring transactions, analysis of specific risks and ability to predict prices. Adverse change in the price of the underlying asset, rate or index can result in loss of an amount greater than the one invested in the derivative. Certain derivatives have the potential for an unlimited loss. There is also the risk of wrong valuation of the derivative. Very often the evaluation of derivatives is subjective. Consequently, a loss might be suffered when buying overpriced derivatives. Types of derivatives are options, futures, forwards, swaps, contracts for difference:

2.6.1. Risks of investing in options

Options - Features: derivative financial instrument which expresses the right to buy or sell a certain number of securities or other financial instruments at a fixed price until a certain time or on a certain date

The main risk in investing in options is the ***price risk***. In this case the price of the underlying asset is important. For the buyer of the option the maximum loss is equal to the premium paid for the acquisition of the option and for the issuer the maximum loss is unlimited.

2.6.2. *Risks of investing in futures*

Futures - characteristics: a derivative financial instrument (standardized), which expresses the right and obligation to buy or sell a specified number of securities or other financial instruments at a fixed price on a specified date

The main risk for the investor in futures contracts is the risk of adverse change in the market price of the underlying asset. Another factor that is important is the daily recalculation and completing the price differences.

Futures can be traded on margin and with physical delivery. Risks associated with the margin trading are explained below.

2.6.3. *Risks of investing in forward contracts*

Forward contracts - characteristics: a derivative financial instrument (non-standardized) which expresses the right and obligation to buy or sell a specified number of securities or other financial

instruments at a fixed price on a certain date. Most of the relationships in this type of contracts are settled through direct delivery.
An important risk for the investor in forward contracts is the risk of adverse change in the market price of the underlying asset. Each contracting party shall also bear the risk that the other party can not fulfill agreed conditions. Of importance is also the fact that forward contracts are less liquid and have no secondary market.

2.6.4 ***Risks of investing in CFDs***
Contracts for differences - characteristics: a derivative instrument which expresses the right to receive, respectively, obligation to pay the difference between the market value of a number of securities or other financial instruments and predetermined fixed contract price
The risks of investing in CFDs are similar to the risks inherent in their underlying assets, but the contracts for difference entitle smaller rights to the investors, e.g. when buying a contract for difference on shares, the investor has no right to vote at the General Meeting of the company and is not entitled to a liquidation quota.

2.7. ***Risks for margin purchases and short sales***
Margin purchases - characteristics: purchases of securities by loaning capital. It allows opening a larger long or short position by financing it with a loan rather than using only equity.
The main risk in conducting margin transactions is the decreasing or increasing the market value of the asset. In this case, the investor could lose all the money in the margin account and even a sum greater than the one invested.

Short sales - characteristics: sales of securities, which the investor does not possess. In short selling there is again a crediting operation in obtaining a loan. The peculiarity is that the loan is of securities, and its value is not fixed and varies with changes in the price of these securities.
The short sale instrument used by investors who expect prices of a certain securities to fall. To profit from this expectation investors should sell at the current price securities that are borrowed and when the price falls to buy them back and return them to the lender of the securities.
The risk for the investor when conducting short selling is for the market value of the asset to increase, in which case the investor realizes a loss. The maximum loss on short selling is unlimited.

When conducting the margin purchases and short sales there are also other risks:

- risk of further obligations to funders, exceeding in value the amount of the collateral provided for the implementation of margin purchases and/or short sales ;
- Risk of unfavorable tax treatment of income and compensation received as a result of realized margin purchases and/or short sales ;
- Risks associated with the occurrence of a need to provide additional collateral due to adverse price movement of financial instruments used as collateral for margin purchases and/or short sales;
- Risks associated with the official selling of the provided collateral (in part or in full) in case of reaching the winding level;

2.8. **Risks of investing in foreign currency**
The most important risk of investments in foreign currency is the risk of adverse change in the relevant exchange rate. The exchange rate is subject to the political stability, macroeconomic policy and performance of the country, the rate of inflation, interest rates, realized import and export, etc.