INFORMATION

ON THE DIFFERENT TYPES OF FINANCIAL INSTRUMENTS

AND THE RELATED RISKS

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I. PURPOSE AND SCOPE OF THE INFORMATION ON THE TYPES OF FINANCIAL INSTRUMENTS (FI) AND THE RELATED RISKS

In relation to their obligation under Article 10, paragraph 1 and 2 of Ordinance № 38, investment intermediary "Up Trend" OOD ("the Investment intermediary") presents a general description of the FI by types and a description of the risks that apply to each type of FI, including explanation of the leverage and its consequences, the risk of losing the whole investment, the variability of the prices of FI and all market limitations that apply to those FE, a warning that the investor might undertake financial and other additional liabilities as a result of trading in FI, including unforeseen liabilities, additional to those for acquiring the instruments, margin requirements and other similar liabilities, pertaining to the FI of the respective type.

The investment intermediary will also provide additional detailed description when a client or a potential client gives their orders or is interested in a particular FI, pursuant to the requirements of Article 10 of Ordinance № 38, which will supplement the current general description.

In cases when the risks related to a FI which consists of two or more different FI or services, are likely to be higher than the risks related to either of the components, the investment intermediary shall provide an additional adequate description of the FI components and the way in which their interaction increases the risk.

In cases when FI include guarantees from a third party, the investment intermediary shall provide the non-professional client and the potential such client with enough information about the guarantor and the guarantee, which allows him to assess the guarantee objectively.

II. GENERAL DESCRIPTION OF THE FINANCIAL INSTRUMENTS, PURSUANT TO THE MARKETS IN FINANCIAL INSTRUMENTS ACT

1. securities - transferable rights registered on accounts with the Central Depository and for the government securities – registered on accounts with the Bulgarian National Bank or in a sub-depository of government securities, or in foreign institutions, pursuing such business (dematerialized securities) or documents materializing transferable rights (materialized securities) which may be dealt in on the capital market, with the exception of instruments of payment, such as:

1.1. shares in companies and other securities equivalent to shares in equity companies, partnerships or other entities, and depository receipts for shares;

1.2. bonds or other forms of securitized debt, including depository receipts in respect of such securities

1.3. any other securities giving the right to acquire or sell any such securities or giving rise to a cash settlement by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or indicators

2. Instruments other than securities

2.1. Money-market instruments - instruments which are normally dealt on the money market, such as short-term government securities (treasury bills), certificates of deposit and commercial securities, excluding instruments of payment;

2.2. units in undertakings for collective investment;

2.3. options, futures, swaps, forward rate agreements and other derivative contracts on securities, currencies, interest rates, yields, or other derivative instruments, indexes or financial indicators, which may be settled physically or in cash;

2.4. options, futures, swaps, forward rate agreements and other derivative contracts on commodities, that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);

2.5. options, futures, swaps and other derivative contracts on commodities, that can be physically settled, provided that they are traded on a regulated market and/or a Multilateral Trading Facility (MTF);

2.6. options, futures, swaps, forwards and other derivative contracts on commodities, other than those indicated in letter "e", which may be settled physically, and not being for commercial purposes, and which according Article 38 paragraph 1 of Regulation (EC) No. 1287/2006 of the Commission have the characteristics of other derivative financial instruments, having regard to whether they are subject to clearing and settlement, including through recognized clearing houses or are used as collateral with margin purchases or short sales;

2.7. derivative financial instruments for credit risk transfer;

2.8. contracts for difference;

2.9. options, futures, swaps, forward rate agreements, and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistic indices, that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as all other derivative contracts related to assets, rights, liabilities, indices and indicators, other than those indicated under this article, which have the characteristics of the other derivative financial instruments, having regard to whether they are traded on a regulated market, are subject to clearing and settlement including through recognized clearing houses or are used as a collateral with margin purchases or short sales, as well as the derivative contracts according Article 38 paragraph 3 of Commission Regulation (EC) No. 1287/2006.

III. FINANCIAL INSTRUMENTS WITH WHICH THE INVESTMENT INTERMEDIARY PERFORMS INVESTMENT SERVICES AND ACTIVITIES, AND THE PARTICULAR RISKS ASSOCIATED WITH THEM UNDER ARTICLE 10 OF ORDINANCE № 38

1. Shares

The investment intermediary performs investment services and activities associated with trading in domestic and foreign shares.

Shares are securities, manifesting the right of ownership of their holder on the respective portion of the assets of a company (joint-stock company). The capital with which such company is established is allocated into a certain number of shares with precisely determined par value. The par value of shares theoretically might be any, as long as the number of the issued shares multiplied by their par value equals the capital, subscribed by the shareholders. The par value of one share is the limit of the eventual claims by the shareholders towards the assets of the company upon the latter's liquidation.

Holders of shares of a given company are entitled to participate in its management and receive a pro rata share of the profit in the form of annual dividend, in case the company decides on the payment of such. Dividends are not guaranteed, and a company may decide not to pay dividends or to pay a smaller amount, compared to previous periods.

When investing in shares, investors may generate profit through the sale of these shares. However the return on the investment is not guaranteed, because the price of one share depends both on the performance of the respective company, as well as on the market valuation of its performance, the economic environment, the respective industry and the company-specific risk.

Due to the stated reasons the risk of investing in shares is related not only to non-payment of dividend, but also to the probability of capital loss. Admission of shares for trading on a regulated market does not guarantee their liquidity.

The main risks associated with investment in shares are the following:

- *Market risk* The market prices of shares can vary due to the development of capital markets, which is affected by changes in the economical and market environment.
- *Issuer risk* Shares do not have any guaranteed yield and if the issuer's business fails, their value can decrease and paying dividends can become impossible.
- *Counterparty risk and settlement risk* Even though the principle of making transactions on regulated markets is most often "delivery versus payment" - DVP, i.e. the buyer receives the shares after paying for them and vice versa, there is a minimal risk that the counterparty will default on or delay the fulfillment of their obligation under the transaction.
- *Liquidity risk* This is as risk for the shareholder, who wants to sell but cannot find buyers willing to buy at the offered price or cannot find buyers at all.
- *Currency risk* Appears in cases when the investments are denominated in foreign currency and their value depends on the exchange rate of the respective currency, For example, if you trade shares on the BSE with base currency BGN, the risk for an investor buying in EUR is smaller, because there is a currency board in Bulgaria fixing the BGN/EUR exchange rate. If the base currency of the investor is for example in GBP, then the value of the investment depends of the fluctuation of the exchange rates.
- *Political risk* It appears in cases of unfavorable internal political turmoil and changes in the economical legislation.

Investments in shares may both be on a very high profit, as well as on a very high loss. These are one of the riskiest securities out of the so-called traditional instruments. Any decision for purchase or sale of shares should be preceded by an assessment of the potential gains and losses.

The investment intermediary recommends that their clients and potential clients should invest only those funds the loss of which loss will not put them in financial difficulties, and that they should follow the market reaction upon any news relating to the securities they have invested in.

The investment intermediary shall inform their clients and potential clients about opportunities to receive additional information about the respective issues of shares, drafted and provided in prospect of the issue of shares at the point of their emission.

2. Issue rights to participate in the capital increase of share issuers

These rights are securities giving the right of subscribing a certain number of shares, in relation to a resolution for capital increase of a public company. These are temporary derivative financial instruments, whose yield depends on the expected yield of the category of shares they relate to. They are traded on regulated markets, they are dematerialized securities. They are set forth in detail in the Public Offering of Securities Act.

Possible particular risks - Except the risks, characteristic of investment in shares (described above), investors should consider the additional risk of investment in rights, namely - full loss of the invested amount in the short duration of existence of these rights.

3. Bonds

Bonds are securitized debt, manifesting the right of payment of a principal and a variable or fixed interest rate. These are a type of credit relations or a form of a loan. They manifest the liability of their issuer towards their holder for payment of their nominal amount plus a certain interest on a particular future date, or over a precisely determined period. .

The profit from bonds may have two sources– interest and exchange rate differences in the price. Cash flows are also of two types– from interest and principal payments. The interest may be paid in bullet form at maturity, at certain intervals or to be calculated in the issuing price (zero-coupon bonds). The principal may also be paid in bullet form at maturity or at certain intervals. In Bulgaria most popular are coupon bonds, i.e. such, which interest is paid at a certain periodicity, as at maturity the last interest is paid together with the principal. Bonds are dematerialized securities. Issuers of bonds may be governments, municipalities, companies.

Bonds are considered lower-risk assets, compared to shares.

In most cases bonds are secured with assets /property, securities, receivables, etc./,which are encashed upon impossibility to repay the loan. In contrast to shares, bonds /in the cases when the issuer is a company/ are not a form of participation in the company, and, consequently their holders are entitled to neither representation at the General Meeting of Shareholders, nor to participation in the management. They are not entitled to dividend either. On the other hand, upon announcing the company in liquidation, bondholders rank in the first group of creditors, which are remedied with preference. For comparison, shareholders are among the last with entitlement to compensation for the made investment.

Bonds have maturity (period of existence) and fixed payments during this period. In contrast, shares have no maturity, and dividends are not guaranteed. The stock exchange price of shares may theoretically vary in much wider range than prices of bonds.

3.1. Complex Bonds

Complex bonds enable investors to access other financial instruments, and in particular, shares, through initial investment in bonds.

The most frequently used bonds are **Convertible bonds.** These bonds may be exchanged upon the bondholders' will. The maturity and the conversion date are stated in the respective issuing document. The documentation, specifying the characteristics of securities, determines the conversion terms and may include a possibility for the issuer to prepay its debt. Bondholders' rights are also described in detail in the documentation. Upon the conversion of bonds into shares, bondholders become shareholders and forfeit their previous rights. In case bondholders do not avail themselves of their right to convert their bonds into shares they will retain their status as issuer's creditors. The issuer is also entitled to request conversion of the bonds into shares. In this case bond holders are exposed to the same risks, as in case of investment in shares.

Particular risks, associated with investment in bonds:

- *Market risk* - the risk, associated with possible changes in the market interest rates after the issue of bonds with a fixed interest rate. If the interest rate at the debt markets increases, then the price of the issued bonds decreases, and vice versa - when the interest rate at the debt markets decreases, the price of bonds increases.
- *Issuer risk* - Due to the difference in the financial stability of the different issuers, the risk of default on the debt varies. Due to the fact that bankruptcy of a country is mostly an exception, state debts are considered to have the lowest risk. The next in order are the debts of municipalities. Even though they are not guarantees by the respective state, such bonds are considered more secure than corporate bonds. The latter bear the highest level of risk, which of

course reflects to the higher yield the investors might receive. Except the risk of default on the debt, inherent to every issuer, there are various methods of assessing the financial stability; on this basis is determined also the so-called credit rating of the issuer. These assessments are performed by specialized auditing companies. In order for the credit rating to be considered, it must be determined by recognized auditors.

The currency risk and Political risk applicable to shares apply similarly to bonds.

4. Shares and units in collective investment schemes

II BTB trades in shares and units from open-ended collective investment schemes (mutual funds), which comply with the requirements of Directive 85/611/EEC of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Shares and units in collective investment schemes are financial instruments, which give the right of repurchase from the open-ended investment scheme itself, as well as periodic yield.

Depending on the direction of investment - mainly in shares (or other unit securities), mainly in bonds (or other securitized debt), or balanced, the risks from investment in shares and units in collective investment schemes resemble those associated with investment in shares, or with investment in bonds, or have mixed characteristics.

The clients - investors can invest funds in short- or medium-term plan, to take on low to moderate investment risk, for the purpose of realizing higher yield and having secure and fast liquidity, without interfering with the yield from the investment, they want to diversify the risk in their own portfolio and their money to be managed by financial market professionals.

The risks associated with investment in shares and units in collective investment schemes are as follows:

- *Market risk* The market prices of investment can vary due to changes in the economic and market environment, and the value of the shares and bonds in the collective investment scheme could decrease for certain periods.
- *Currency risk* Appears in cases when the investments are denominated in foreign currency and their value depends on the exchange rate of the respective currency,
- *Liquidity risk* This is the possibility that the issues could default on the debt due to inability to receive adequate financing or liquid assets.
- *Other specific risks - concentration risk* It appears when a collective investment scheme invests mainly on one market (country, geographic region) or in one economic sector (e.g. energy).

The investment intermediary shall inform their clients and potential clients about opportunities to receive additional information about the respective issues of units and shares of collective investment schemes, drafted and provided in prospect of the issue.

5. Compensatory instruments

The investment intermediary offers investment services and activities associated with compensatory instruments. These are financial instruments issued under special laws with the purpose of compensating persons who have rights of restitution; these instruments can be redeemed as a special form of payment, accepted by the government in specific cases - for example for privatization transactions or purchasing government land, etc.

Compensatory instruments are dematerialized securities, which must be registered in Central Depository AD and can be traded on BSE AD.

Investment in compensatory instruments is associated with the following risks:

- *Market risk* The market prices of compensatory instruments depend on the possibility and degree to which they can be used in general or for a particular transaction as a means of payment, accepted by the government. Generally they are a subject of investment in the context of such opportunities and projects.

Their specifics and functions require careful assessment of the different risks associated with their acquisition, for each particular case.