GENERAL DESCRIPTION

OF THE FINANCIAL INSTRUMENTS

AND THE RISKS INVOLVED

I. GENERAL DESCRIPTION OF THE FINANCIAL INSTRUMENTS

1.1. DELTASTOCK executes orders with respect to, among others, the following financial instruments:

(i) Contracts for differences based on currencies, precious metals, securities, indices, futures and others;

(ii) Shares, rights to participate in share capital increase, warrants, bonds and other securities listed on the Bulgarian Stock Exchange – Sofia (the "BSE");

(iii) Government and municipal bonds;

(iv) Securities of issuer companies listed on regulated markets around the world;

(v) Compensatory instruments; etc.

1.2. A general description of the financial instruments listed in item 1.1 is given below. Where appropriate, DELTASTOCK Website contains additional information on the particular financial instrument. Furthermore, upon request by clients, DELTASTOCK employees will explain the features of particular financial instruments.

1.3. "Contracts for differences based on currencies, precious metals, securities, indices, futures" are financial instrument contracts for which the profit or loss is the difference between the opening and closing price of the contract. The price of a CFD is determined by reference to the price of another financial instrument, such as, but not limited to, shares, indices, currencies, commodities, futures.

1.4. „Shares listed on the BSE" are transferable equity securities issued by public companies that constitute participation in the capital of such companies. Depending on the share class, these securities may carry different rights. Thus, common shares carry the right to vote, the right to receive dividends and the right to liquidation proceeds upon liquidation of the issuer company. All shares belonging to the same class carry the same rights. The shares listed on the BSE are, furthermore, dematerialized, i.e. exist as electronic book entries in the registers of the Central Depository AD – an institution specifically created to keep the registers of dematerialized securities in Bulgaria.

1.5. "Rights to participate in share capital increase listed on the BSE" are securities which carry the right to subscribe to a certain number of shares in the context of a public company's resolution to increase its share capital. These are term derivative financial instruments which are issued initially only in favor of existing shareholders but are then listed for trading on the BSE. The share capital increase rights are also dematerialized securities (in that respect what was said above about shares is also relevant here).

1.6. „Bonds listed on the BSE" are debt securities entitling their holder to the repayment of the principal of the bond loan, upon the expiration of a certain period of time, and to the payment of interest (which may be calculated as fixed or as floating interest rate), and possibly as well as to other rights. If traded on the BSE, these bonds are dematerialized (and thus, what was said above about dematerialized securities is relevant about bonds too).

1.7. "Securities" are shares, bonds and other securities traded on regulated markets. Their basic features are the same as described above in items 1.4, 1.5 and 1.6, except for the trading venue.

1.8. "Government and municipal bonds" are securities which are often, but not always traded on regulated markets. These are issued by sovereign issuers, including international organizations (such as the Republic of Bulgaria, the Municipality of Sofia, the Federal Republic of Germany, the European Investment bank). These securities are issued following the established national and international practices. For example, in Bulgaria the Bulgarian government bonds are issued, placed, serviced, and redeemed primarily through the banking system.

1.9. "Compensatory instruments" stand for a series of different instruments issued by virtue of several Acts of the Parliament of Bulgaria (e.g. acts pursuing equitable restitution of nationalized assets during the communist era). These instruments can be used as means of payment for specific purposes, e.g. in privatization or when purchasing real estate rights sold by the State, as well as in certain other cases. These instruments are issued as dematerialized securities, registered with the Central Depository, and are traded on the BSE.

1.10. "Money market instruments" are instruments customarily traded on the money markets. This category includes short-term government bonds (treasury bills), certificates of deposit, and commercial paper, but they exclude the payment instruments.

1.11. "Options" are derivative financial instruments which incorporate the right, but not the obligation, to purchase or sell a certain number of securities, other financial instruments, or currencies, at a pre-agreed fixed price, until the expiration of a fixed term, or on a fixed date.

1.12. "Futures" are derivative financial instruments, which incorporate the right and the obligation to purchase or sell a certain number of securities or other financial instruments, at a pre-agreed fixed price, on a given future date. Futures are standardized agreements which are traded on regulated markets.

1.13. "Forwards" are derivative financial instruments which carry the right and the obligation to purchase or sell a given number of securities or other financial instruments, at a pre-agreed fixed price, on a given future date. Forwards are not standardized and are traded Over-The-Counter (OTC).

1.14. "Currency", or the money in its commonly accepted form including banknotes and coins, is the means of payment issued by the government of a given country and circulated in the economy. Currencies serve as the basis of trading since they facilitate the exchange of goods and services. Quoting and specifying the payment structures of those currencies which are traded on the currencies markets is done by comparing the value of one currency to that of another. The first currency in a currency pair is the base currency, and the second currency is the quoted currency. The currency pair shows what quantity of the quoted currency is necessary to purchase one unit of the base currency. Trading in currencies includes the simultaneous purchase of one currency and sale of the other currency in the trading pair. The currency pair may be also looked at as a stand-alone unit, an instrument which can be purchased or sold. Buying this instrument is the simultaneous purchase of the base currency and sale of the quoted currency. The purchase price (bid) shows how many units of the quoted currency are necessary to purchase one unit of the base currency. Conversely, when selling the currency pair, the base currency is sold while the quoted currency is simultaneously purchased. The sale price (ask) shows how much unites of the quoted currency will be received upon the sale of one unit of the base currency.

1.15. "Currency cross" is a currency pair traded on the currency markets which does not include the US dollar.

II. GENERAL DESCRIPTION OF THE RISKS RELATED TO THE FINANCIAL INSTRUMENTS

2.1. Trading in financial instruments involves significant risks and is not suitable for all investors. In particular, trading on the financial markets is not suitable for investors whose primary aim is to receive a secure income, since any such income is not regular and it is also uncertain. There is no warranty that the amount invested in financial instruments will not be lost, and that the promised or expected income (e.g. dividends on preferred shares or interest payments on corporate bonds) will be realized.

2.2. Financial markets are strongly volatile, i.e. the prices and quotes of financial instruments may vary significantly over time. The prices of the traded instruments are influenced by many and diverse factors, such as, among others: changes in the ratio of demand and supply; world trade; tax, monetary, regulatory and international policy of the countries; important economic and political news; changes in the interest rate levels; central bank interventions and operations by big market players; devaluation of currencies; the performance of enterprises in their respective economic sectors; beliefs and expectations of the market participants, as well as many other factors.

2.3. Regulated markets may impose price limitations regarding the traded financial instruments, as well as a given issue of instruments may be suspended from trading. DELTASTOCK warns its clients that in certain cases the investor may have to bear financial and other additional responsibilities as a result of trades with financial instruments, including unpredicted obligations, in addition to the transaction costs for the purchase of the instruments.

2.4. Margin trading, i.e. the use of "leverage", multiplies both the profit and loss and relatively small market movements may have a large effect on client positions. As a result, the funds deposited to secure open positions may be fully exhausted.
To the extent that the provision of services by or through DELTASTOCK for trading of certain financial instruments or other assets (e.g. currencies) involves leverage investing, the respective laws and regulations, as well as market practices shall apply. In such circumstances, DELTASTOCK will require from its clients to provide collateral to cover possible losses, i.e. margin deposit will be required. The size of this security deposit or margin, expressed in percentage, for the different types of financial instruments and other assets is published on DELTASTOCK Website.

2.5. Risk class - definition:

***Note**: the following classes of risk are indicative. In any given case the investment's value fluctuation may be higher than that indicated below.*

R1 There are no fluctuations in the value of the investment, except the usual risk
R2 Slight fluctuations in the value of the investment (up to 10% annually, but higher fluctuations are possible)
R3 Moderate level of fluctuations in the value of the investment (over 10% annually, where in some cases the complete loss of the invested capital is possible)
R4 Speculative investment, which may lead to the complete loss of the invested capital, because the client strives to take advantage of the high profit potential;
R5 Extremely risky investment, which may involve further financial claims against the investor, in addition to the complete loss of the invested capital.

- Currency — R5
- Currency cross (currency pair) — R5
- Currency option – buy — R4
- Currency option – sell — R5
- CFDs based on shares — R5
- CFDs based on indices — R5
- CFDs based on futures — R5
- Futures and forwards — R5
- Government bonds — R2

- ➢ Securities with a rating A-AAA[1] R2
- ➢ Corporate bonds with a rating BBB- or higher R3
- ➢ Corporate bonds with a rating lower than BBB- or without a rating R4
- ➢ Shares of companies with a rating higher than BBB- R3
- ➢ Shares traded on an official regulated market R4
- ➢ Shares not traded on an official regulated market R5
- ➢ Shares with a rating lower than B R5
- ➢ Shares with a rating of B to BBB- R4

2.6. Description of the various types of risks

The following description of the various risks in investing is not exhaustive – it covers the most common types of risk and describes their basic features. Other risks, as well as different features of the risks below, may exist even though they are not addressed below. Unless otherwise indicated, the risks set out below are common for all financial instruments referred to in item 2.5. above. Beside those risks, the particular financial instrument may involve specific risks.

(i) **Market risk**

The market risk is the risk of loss in the value of the investment due to the movements of the market factors - prices of financial instruments, interest rates, currency exchange rates and others. Market prices of investments may vary due to changes in the economic and market environment, the monetary policy of the central banks, the business activity of the issuer companies, the demand and supply on the market of the respective instrument.

(ii) **Interest rate risk**

This is the risk of changes in the market interest rates having an unfavorable effect on the profit or the value of the instrument. The changes in the interest rate levels may endanger the financial instrument owners with the risk of capital loss. The impact of the risk is different for the different financial instruments. This risk is relevant even for shares, since changes in interest rates affects the return on investment in shares compared to the returns on investment in other financial instruments, which directly depend on interest rate levels (as is the case with bonds).

(iii) **Currency risk**

Investments in instruments denominated in a foreign currency may be unfavorably affected by the lowering of the exchange rate of this currency against another. The increase or decrease in the currency exchange rates may cause losses or profits for the financial instruments in the currency in which they are denominated.

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[1] The credit rating classification of Standard & Poor's is used, according to which:

AAA	Extremely strong capacity to meet financial commitments. Significant financial stability. Outstanding development prospects. Very low credit risk.
AA	Very strong capacity to timely meet financial commitments. Significant financial stability. Very low credit risk.
A	Strong capacity to timely meet financial commitments. Low susceptibility to adverse changes in the business or economic environment. Financial stability. Low credit risk.
BBB	Good capacity to timely meet financial commitments. Good financial condition. Susceptibility to adverse changes in the business or economic environment. Moderate credit risk.
BB	Meeting financial commitments is impacted, to a great degree, by adverse changes in the business or economic environment. The financial condition is of average quality. The development trends are unstable. A credit risk exists.
B	High degree of uncertainty as to the financial condition and the capacity to meet financial commitments. Strongly susceptible to adverse changes in the business or economic environment. High credit risk.
CCC	Adverse changes in the business or economic environment could significantly worsen the condition of the company and to bring about inability to meet financial commitments. Weak financial condition. Significant credit risk
CC	A high risk of insolvency and inability to pay debts exits. Low capacity to meet financial commitments. Significant problems with the financial condition.
C	Very high risk of becoming insolvent. High likeliness of inability to meet financial commitments. Very week financial condition.
D	The company is insolvent or in liquidation and has no capacity to meet its financial commitments.

Note: The ratings AA to CCC may be modified by adding the **plus** (+) or **minus** (-) symbols in order to indicate the relative position in comparison with the basic rating categories.

Additional information is available at:
http://www.standardandpoors.com/ratings/definitions-and-faqs/en/us

(iv) **Assimilation risk (relevant for bonds)**

This is the risk for investors in a given bond not to be able to find the same investment market conditions, if a given investment has been terminated - in the event that the issuer of the bonds repays its obligation before the maturity date.

(v) **Operational risk (relevant mostly in respect of securities)**

This is the risk from direct or indirect losses as a result of inadequate internal control, a human action, organization or external event. This risk covers human errors, willful misconduct by employees, crash of the information systems, problems connected to human resources management, company litigations, as well as external events such as accidents, fires, floods and others.

(vi) **Liquidity risk**

The liquidity risk arises in cases where a party interested in selling a given asset is unable to do so because no one on the market is willing to trade this asset. There is demand but no supply, or vice versa.

This risk does not practically exist when DELTASTOCK is acting as a principal (counterparty) in trades with contracts for differences; there is no actual delivery of the underlying asset in such trades. Furthermore, this risk is not typical in the case of currency trading, currency cross trading, as well as in certain derivative instruments based on the above.

(vii) **Volatility risk**

This is the risk connected with the price movements of a given financial instrument. The volatility is high, if the financial instrument is subject to large price fluctuations in a given period of time. The risk of volatility is calculated as the difference between the lowest and highest prices of financial instruments for the given period of time. The risk is represented differently depending on the different classes of financial instruments.

(viii) **Credit risk (relevant mostly in respect of securities)**

This is the possibility that the counterparty may not fulfill willingly (willful default), or may not be able to fulfill the contractual commitments. Investors need to assess the quality of the issuers of financial instruments, as well as their capability to repay their liabilities.

(ix) **Risk of the location of the order**

This risk is connected with the location of the market of the respective asset. When the market is not located in the investor's country of residence, he/she undertakes a currency risk.

External Markets: every investment effected on a foreign market is subject to the risks of that market. These risks may be different from those of the market where the financial instrument is issued, or where the investor operates.

Emerging markets: they carry risks which are not always relevant to the developed markets. These risks also exist where a large part of the issuer's business is carried out on those markets. Investing in emerging markets is frequently speculative in nature. Such investments require careful consideration and assessment of the various risks relevant to such markets.

This risk does not practically exist when DELTASTOCK is acting as a principal (counterparty) in trades with contracts for differences; there is no actual delivery of the underlying asset in such trades.

(x) **Settlement risk**

This is the risk of not performing a settlement in a payment system due to the inability of a participant in the payment system to fulfill its obligations. This risk is equal to the difference between the price of a given asset on the theoretical date of execution and the price of the asset on the date of execution. This is the difference between the settlement price approved for the financial instrument and the current market price at the time of settlement when the difference may lead to loss.

In certain circumstances the settlement procedure may be influenced by the number of trades and in this way their execution may be prevented. The impossibility to effect the settlement due to similar problems may prevent investors from advantageous investment opportunities and may lead to losses.

The settlement risk may arise either as credit or liquidity risk.

(xi) **Custody risk**

This risk relates to investments in a given market, mostly in emerging markets, on which the rules and regulations concerning the system of custody services may be less developed in the area of investor protection compared to those markets which have strict custody rules. The assets on these markets entrusted to custodians, where such are necessary, may be subject to risks related to the impossibility of custodians to perform their obligations. This risk is magnified when there is no system for investor compensation on the respective market, or, if such system exists, but a given investor is not covered by the protection offered by the system.

This risk does not practically exist when DELTASTOCK is acting as a principal (counterparty) in trades with contracts for differences; there is no actual delivery of the underlying asset in such trades.

(xii) **Legal risk**

This is the risk of insecurity as a result of legal actions or insecurity regarding the enforceability of contracts, statutes or statutory instruments (for instance concerning the lawfulness of the contract, the legal capacity of the party to enter into contract, etc.)

(xiii) **Political risk**

This is the risk of the government imposing new taxes, statutory or legal obligations, or restriction on financial instruments which a given investor already holds. For example, the government may decide to prohibit asset repatriation from the country.

If clarification of other aspects of the general or particular features of the instruments listed in the description above is necessary, please do not hesitate to contact DELTASTOCK.

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