

ANNEX N° 1
TO
THE GENERAL TERMS AND CONDITIONS APPLICABLE TO AGREEMENTS WITH CLIENTS OF
INVESTMENT INTERMEDIARY "BALKAN ADVISORY COMPANY - IP" EAD (HEREINAFTER
"THE GENERAL TERMS")

A) GENERAL INFORMATION ABOUT INVESTMENT INTERMEDIARY "BALKAN ADVISORY COMPANY - IP" EAD ("II")

Information requested pursuant to Art.47, par. 1, letters a) – f) and letter h) of Commission Delegated Regulation (EU) 2017/565¹ and Art.71, Par.2, item 1 of the Markets in Financial Instruments Act (MFIA)

I. Name and address of the II and contract information needed for the II clients to keep correspondence with IP

"Balkan Advisory Company - IP" EAD is a sole owner joint stock company entered into the Companies registry with UIC 131112767 and with principle office and registered address: Sofia 1606, Krasno Selo region, 20 Damyan Gruev St., fl. 2, apt. 4.

II has no other offices, therefore the clients may exchange correspondence with it at the specified above registered address of IP. Furthermore the II clients may also use its following contact information:

Phone number: +359 2 9813559

Fax: +359 2 9803954

E-mail address: alex@bac.bg; p.krastev@bac.bg

II. Information about the languages, in which the clients may correspond with II and receive documents and other information from it

The languages, in which the clients may communicate and keep correspondence with the IP, as well as receive documents and other information from it are Bulgarian and English.

The language for correspondence in each particular case of performing investment services and activities by II shall be upon the discretion of the respective client.

III. Information about the manner of communication between II and its clients, including ways of communication for sending and receiving financial instrument transaction orders

II communicates with its clients in writing, including by e-mail, by phone or through another remote method of communication.

In the performance of the requirements of the applicable legislation II shall conclude written agreements for the provision of investment and ancillary services with its clients by accepting orders for signing financial instruments transactions to II while observing the requirements of the current normative regulations, verifying the identity of the respective client, or its representative, and requesting the submission of the necessary declarations from it and the provision of other documents and information required under the applicable legislation.

¹ Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 for supplementing Directive 2014/65/EU of the European Parliament and of the Council with respect to the organizational requirements and the terms for performing activity by the investment intermediaries and for providing definitions for the purposes of the said Directive.

IV. Information about IP's license and about the competent authority that has issued the license

II holds a license to perform activity as investment intermediary with № RG-03-0206 of 03.06.2003, issued under Decision № 90-II of 28.05.2003 of the Financial Supervision Commission ("FSC"), where IP's license was amended and supplemented by Decision № 562-II of 22.12.2003, Decision № 169-ИП of 08.03.2006 and Decision № 1597-II of 17.12.2008 of FSC.

IP's license was issued by the Financial Supervision Commission with contact address: Sofia, 1000, 16 Budapest St.

V. Tied agent

II does not provide services and does not perform any activities through a tied agent.

VI. Information about the investment and ancillary services provided by IP

II provides the following investment services in compliance with Art.6, Par.2, items 1,2,4,5 and 7 of the MFIA:

- accepting and submitting orders in connection with one or more financial instruments, including mediation in concluding financial instruments transactions;
- execution of orders on the account of clients;
- portfolio management;
- providing investment advice to clients;
- offering of financial instruments for initial sale without the unconditional and irrevocable obligation to acquire the financial instruments on own account (placing financial instruments);

II also provides the following ancillary services in compliance with Art. 6, Par. 3, items 1,2,3,4,5 and 7 of MFIA, as follows:

- keeping and administration of financial instruments on account of clients, including trust activity (holding clients' financial instruments and money in a depository institution) and the services related to it, such as administration of the deposited money/collateral provided, with the exception of the centralized maintaining of securities accounts pursuant to Section A, item 2 of the Annex to Regulation (EU) № 909/2014²;
- providing loans to investors for the performance of transactions by them with one or more financial instruments, provided that II participates in the transaction;
- advice to enterprises regarding the capital structure, the industrial strategies and related issues, as well as advice and services related to the transformation and acquisition of enterprises;
- providing services related to foreign means for payment, as long as they are related to the investment services provided;

² Regulation (EU) № 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories, and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) № 236/2012

- investment due diligence and financial analyses or other forms of general recommendations related to transactions in financial instruments;
- investment services and activities pursuant to Art. 5, Par. 2 and Art. 5, Par. 3, items 1 – 6 of MFIA, in connection with the basic instruments of derivative financial instruments under Art. 4, items 5, 6, 7 and 10 of MFIA when they are related to the provision of investment and ancillary services.

II does not perform activities and does not conclude financial instruments transactions on its own account.

VII. Periodic accountancy

The nature of, frequency and regularity of the reports that II will provide to its clients in connection with the services provided by it are specified in the General Terms.

VIII. Description of the II Policy for treatment of conflicts of interests

1. Conflict of interests according to the II Policy on the treatment of conflict of interests

In line with the II Policy on the treatment of conflicts of interests, a conflict of interests is a situation, which has occurred ex ante, or in the course of, providing investment and/or ancillary services by IP, that could compromise the interests of an II client while benefiting IP's interests or the interests of another of its clients.

Conflict of interests may occur between:

- IP, including the persons managing it, the persons employed under an employment contract therein, the tied agents and any other person who is directly or indirectly related to II through relations of control, on the one hand, and IP's clients, on the other;
- the II individual clients.

When determining whether there is a conflict of interests, the existence of which may be detrimental to the interests of a client, II must establish whether it or a relevant person³, directly or indirectly related to it through control, falls within the scope of one of the following situations regardless of whether it has occurred as the result of providing investment or ancillary services, or a combination between them, or otherwise:

- II or that person may generate financial gain or avoid financial loss at the expense of a client;
- II or this person have interest in the outcome of the services provided to the client or in the transaction performed at the client's expense, which is other than the interest of the client from this outcome;
- II or this person have a financial or another incentive to prefer the interest of another client or a group of clients before the interests of the client;
- II or this person perform the same business activity as the client;

³ "Relevant person" pursuant to IIs Policy on the treatment of conflicts of interests is a relevant person within its meaning defined in Art. 2, 1) of Commission Delegated Regulation (EU) 2017/565

- II or this person receive or will receive from a person other than the client, an inducement in connection with the service provided to the client in the form of cash or non-cash benefits or services.

2. Circumstances, which represent or may give rise to conflicts of interests

- Circumstances related to services related to the execution of client orders or on accepting client orders and their submission for execution by another investment intermediary:
 - When two or more II clients have submitted consecutive orders for signing deals for the purchase, respectively the sale or another disposal, in financial instruments from one and the same issue, at the same or comparable price;
 - When two or more II clients have concurrently submitted orders for signing deals in financial instruments from one and the same issue, but in the opposite direction (i.e. one of the orders is for the purchase of the relevant financial instruments, while the other is for the sale of financial instruments from the same issue).
- Circumstances linked to services related to portfolio management or providing investment advice:
 - II considers the degree, to which the investment advice provided by it corresponds to the requirements for independent investment advice set forth in the applicable legislation, or for investment advice that is independent, as well as the degree, to which the investment advice provided by it refer to financial instruments issued by II or by another company, with who II has close business relations that could influence the independent nature of the investment advice provided by it;
 - Upon the provision of advice by IP, which is not independent, the latter shall inform the clients about this circumstance, as well as about whether the relevant investment advice refers to financial instruments issued by II or by another person, with who the latter has close business relations, which affect the independent nature of the investment advice;
 - The investment intermediary shall provide a functional division of the units providing investment advice, respectively take investment decisions in connection with the client portfolio management for its clients, from the units performing client orders for financial instrument transactions so as to avoid cases where the same II employees, or employees from one and the same II unit, both consult clients on the undertaking of a particular investment strategy and execute the orders submitted by the clients for financial instrument transactions, and respectively II envisions special measures in the cases when II was hired to perform consulting and sale of a new issue of financial instruments, and the II unit providing client portfolio management services wants to invest part of the assets of the II investment clients held in trust in the new issue.
- When II provides investment banking services, it follows a separate Policy on the allocation of the financial instruments offered and the performance of other II investment banking services adopted by it, which establishes special rules regarding the activity on selling financial instrument issues, including the setting of a target group of investors and rules for allocation of the financial instruments under the issue being sold among the investors who have wished to subscribe financial instruments from it. Special procedures and mechanisms have been introduced to this Policy, which to ensure the fair treatment of investors wishing to subscribe financial instruments from the relevant financial instrument issue, so that to avoid giving priority to the interests of certain investors because of received previous mandates for providing investment banking services, or against committing to a future engagement, or in order to solicit certain corporate issuers to provide a mandate for the provision of investment banking services to II in the future. In addition II has introduced rules that must be observed in case that II places financial instruments issued by it or by another entity among its investment clients. Furthermore, the Policy on the distribution of offered financial instruments and on the performance of other investment

banking services by II envisions also other measures applied by II in order to avoid or adequately address existing conflicts of interest as the result of the provision of investment banking services.

3. Measures for avoiding conflict of interests and for adequately addressing any existing conflicts of interests

Pursuant to II's Policy on addressing conflicts of interests, the latter has introduced the following non-exhaustively listed measures for avoiding conflict of interests and for adequately addressing any existing conflicts of interests:

- Measures for elimination or control over the exchange of information between the relevant persons participating in activities involving risk of conflict of interests when the volume of such information may impair the interests of one or more clients including, but not limited to, allocating individual staff for each client whose interests contradict the ones of another client or of II, and building the so called "Chinese" or "information " walls;
- Measures for individual supervision by the Regulatory Compliance Department of II of the relevant persons whose main functions are related to performing activities on behalf of clients or to providing services to clients whose interests may be in conflict, or who otherwise represent various interests, which may be in conflict, including the ones of II;
- Removing any kind of direct relationship between the compensation of interested parties taking part chiefly in the performance of a given activity, and the compensation of other interested parties, taking part mainly in the performance of another activity, or the revenues generated by them when a conflict of interests may arise in connection with such activities;
- Measures to eliminate or limit the exercising by any person of improper influence on the manner, in which a certain person performs investment and ancillary services or activities;
- Measures to eliminate or control the simultaneous or subsequent participation of a relevant person in individual investment or ancillary services or activities when such participation may affect the proper management of the conflict of interests;
- Restraining from action on the part of II upon the occurrence of conflict of interests in the cases when the principles for the effective management of this conflict introduced by II cannot be observed;

4. Disclosing conflict of interests

When a conflict of interests is identified, which cannot be managed in a way to eliminate the risks for the interests of the clients, the client shall be notified immediately, while this notification must take place at the time when:

- the client is signing a contract with II; or
- the client is providing orders to be executed by II; or
- II provides investment advice to the client; or
- II takes an investment decision to perform a deal on the account of the clients whose portfolio it manages; or
- at any time afterwards as soon as possible after the conflict of interests has been identified.

The notification shall take place by providing information to the client on a durable media regarding the conflict of interests, including on the general nature and/or the sources of conflict of interests and the measures undertaken to reduce the risk since its origination. The information must be sufficient in line with the characteristics and the ability of the client to make an informed decision on the investment or ancillary service, in relation to which the conflict arose, i.e. whether to order II to perform the service despite the conflict. If the client orders II to perform the service, II must provide this service while observing the measures for adequate management of existing conflicts of interests, specified in the Policy on addressing conflicts of interests in II.

In the case that, despite the notification and the informed consent of the client, it can be reasonably assumed that the risks to the interests of the latter remain excessive, II shall refuse the performance of the service.

5. Receiving and providing incentives

While observing the requirements of the applicable legislation II has introduced special rules regarding the receiving and providing of incentives when II performs its services. In fulfillment of these rules II receives and provides incentives only in the case that such incentives:

- are such as to make possible, or are necessary for, the provision of the relevant investment services;
- are paid or received in connection with the provision of an investment service or ancillary service to or by the relevant client or a person, acting on behalf of the client; or
- aim at improving the quality of the respective service for the client and do not impede II from observing its obligation of acting honestly, faithfully and professionally in the best interest possible of its clients. For this purpose II maintains the necessary accountability of the incentives received from third parties, other than the client, as well as how the requirements towards increasing the quality of the services provided following the provision or receipt of incentives by II are performed. Furthermore, II has introduced special rules on disclosing the received incentives before the clients in compliance with the requirements of the applicable normative regulations.

Nevertheless, II has introduced special rules, which to ensure that it will not receive incentives in connection with providing portfolio management services or investment advice, except for eligible insignificant incentives in kind, which comply with the requirements of the applicable legislation.

In addition, II has introduced the necessary organizational measures to ensure that it will not receive due diligence pursuant to the applicable legislation, as well as that all such due diligence, which II has received, regardless of the organizational measures undertaken by it, shall be returned immediately to their sender and the latter shall be informed that II does not wish to receive due diligence from it in the future.

6. Additional information about the II Policy on addressing conflict of interests

II notifies its clients that they are entitled to request additional information about the II Policy on addressing conflict of interests. In such case II will provide the requested information on a durable media or through the II internet site in the cases, in which it is permissible pursuant to the requirements of the applicable legislation.

B) INFORMATION ABOUT THE II POLICY FOR EXECUTION OF CLIENT ORDERS

Information required pursuant to MFIA and Art. 65, Paras. 5 and 6, Art. 66, Paras. 3-9 of Delegated Regulation (EU) 2017/565

I. Preamble. Objective of the II Policy for execution of client orders

The II Policy for execution of client orders (the "Policy") was adopted in compliance with the obligations of II pursuant to MFIA and Commission Delegated Regulation (EU) 2017/565.

The purpose of the Policy is to establish requirements for the II employees, which to be observed in order to ensure the undertaking of all adequate measures by II necessary for the systematic achievement of the result for the clients in the execution of their orders for financial instrument transactions, or the so called "best performance". The obligation of II to act in the best interests of its clients and for achieving "best performance" encompasses the provision of investment services to non-professional and professional clients, within which IP:

- Performs orders on the account of clients;
- Accepts and submits orders in connection with one or more financial instruments, including it mediates for the signing of financial instruments transactions on the account of clients;
- Places (i.e. submits to another investment intermediary) orders for the performance of transactions on the account of clients in connection with a client portfolio managed by II.

The II clients must bear in mind that the obligation to undertake adequate steps to provide "best performance", is not an obligation of II to receive the best result for the client in each individual case. II shall perform the specified obligation by establishing and maintaining efficient rules for performance in the Policy so that to ensure the obtaining of the best results for its clients on a regular basis. II also introduces internal mechanisms for exercising regular control on the rules established in the Policy and bringing the outcome of the control to the knowledge of the II Board of Directors in order to undertake all necessary corrective actions in case that omissions in the observation of the Policy requirements are discovered within the control.

With the signing of an individual contract for provision of investment and/or ancillary services and activities by IP, related to the provision of services on orders, the client simultaneously further agrees with the Policy.

II. Relative significance of the factors and criteria for determining "the best performance" and the ways they will be accounted as part of all adequate steps for obtaining the best result possible for the client

1. Factors to determine the best performance and their relative significance

II shall achieve best performance for its clients on the basis of assessing the following factors arranged according to their significance for the execution of client orders in general:

- **Price:** The price of the financial instruments is an important factor, which II examines when executing client orders;
- **Expenses:** The expenses related to the execution of client orders is the second most significant factor related to the execution of client orders that II takes into account during the execution of client orders. The expenses related to the execution include all expenses directly related to the execution of the order, including fees for the execution venue, the fees for clearing and settlement, as well as other fees and remuneration paid to third parties bound to execute the order.
- **Volume/number of financial instruments:** The volume or number of financial instruments, subject to client orders, have direct relevance to the price of the financial instruments and the expenses for the transaction. Depending on the volume of the order various places for the client order execution may be selected out of the ones offering the best price per one financial instrument, but have lower liquidity;
- **Speed of execution:** The price of the financial instruments depends on the speed of execution of the client orders. II takes this factor into account when choosing the places for execution of the client orders, where it may allot it greater significance than the price, for example for the transactions with professional clients aiming at the acquisition or disposal with qualified participation in a given financial instruments issuer;

- **Possibility for execution and settlement:** II estimates the possibility for each particular case for the client order to be performed and chooses place for order execution on its basis. This factor is of special importance for large volume orders;
- **Type and nature of the order:** II estimates what would be the best result for the client and estimates all factors listed according to their nature and type of order of the client: sale, purchase, replacement, financing securities transactions, etc., the relevant limited order, market order, etc.;
- **Characteristics of the execution venue:** The characteristics of the execution venues where a client order may be executed may also be of importance for the best performance. Such would be the case, for example, with securities financed transactions („SFTs”) with professional clients. Due to their special – financing - purpose they may not be signed in one and the same execution venue as with other deals. Therefore the characteristics of the execution venue is of special significance for them;
- **Characteristics of the financial instrument:** II may apply various measures to achieve the best result and in line with the different nature of the various financial instruments – for example the equity financial instruments may require a different approach from the debt instruments;
- Any kinds of other factors relevant to the performance of the client order and the achievement of the best result.

When executing clients' orders II takes into account the relative significance of the factors for execution, specified above, according to the following criteria:

- The characteristics of the client, including whether it was deemed non-professional or professional client (retail client);
- The characteristics of the order of the client, including when the order is related to SFT with a professional client, for example repo deal;
- The characteristics of the financial instruments subject of the order;
- The characteristics of the execution venues (if there is more than one), to which the order may be directed for execution;
- The purpose and expected result from the order.

The main criteria II will take into account when determining the relative significance of the factors for best performance according to the category of the client, are:

- Non-professional clients – when performing an order submitted by a non-professional client, the best performance of the order is generally determined by the overall value of the deal, which includes the price of the financial instruments and the expenses related to the execution;
- Professional clients – when executing an order submitted by a professional client in most cases the price and expenses for the deal will also be decisive for the achievement of the best result for the client. Nevertheless II will estimate the significance of the factors for each individual case (for example for a hedge fund the speed of performance and settlement may be much more important than the remaining factors, etc.).

When providing services on accepting and handing over orders II seeks guarantees among the selected other investment intermediaries in order to ensure the implementation of the policy on order execution, which provides for the application of execution mechanisms that may ensure the taking into account of the above factors.

2. Best performance upon execution outside the place of trading

The clients must bear in mind that in certain cases II has the ability to execute their orders outside the trading venue⁴. More particularly such will be the case when executing client orders related to shares and bonds according to the requirements of the applicable legislation.

In any case, when executing orders or making a decision for trading in financial instruments outside the trading venue („Over – the – counter“ or „OTC“ deals), II shall exert all necessary, reasonable and proportional efforts to check the exactness (fairness) of the price offered to the client by collecting market data used for the estimate of the price of this financial instrument, and if possible, to compare it with reference prices for (a) similar or comparable financial instrument(s). II uses a methodology to carry this out adopted according to its internal rules. This methodology guarantees that the price offered by II at the execution of every order is based on analysis of the external market data available at the moment of execution from own or publicly accessible sources or from independent data suppliers (for ex. Bloomberg or Reuters).

Upon OTC trading with debt instruments (for example corporate bonds) II exercises control on the price of the product pursuant to the adopted methodology by comparing with publicly available or such available to it reference prices for such type of debt instrument according to the characteristics of the relevant client order (including the amount of the order). In certain cases this may lead to significant deviation of the determined price of the product from the reference price if reasonable grounds thereof are present.

Upon OTC trading with equity instruments II will observe the obligations for trading with shares permitted to trading on a regular market or traded on the place of trading pursuant to Art. 23 of Regulation (EU) 600/2014⁵ („MiFIR“) on regulated markets, MTFs, by systematic participants or on equivalent markets in countries, which are not part of the European Economic Area (“EEA”), unless the deals are non-systematic, based on ad hoc principle, irregular and rare, or performed between eligible counterparties and/or professional clients, and do not contribute to the process of price determination.

III. Information regarding execution venues⁶, on which II relies to a great extent for the execution of orders for non-professional and professional clients, as well as for professional clients in SFTs

1. Execution venues, on which II relies to a great extent for the execution of orders of non-professional and professional clients

When providing services for execution of orders on behalf of non-professional and professional clients II relies to a great extent on the following execution venues according to the class of traded financial instrument:

1.1. Capital (equity) instruments — shares and depository notes:

- “Bulgarian Stock Exchange - – Sofia“ AD (“BSE“) – for shares accepted for trading on this market;
- the Bucharest Stock Exchange, Romania – for shares accepted for trading on this market;

1.2. Debt instruments:

- BSE – for corporate bonds accepted for trading on this market;
- the Bucharest Stock Exchange, Romania – for corporate bonds accepted for trading on this market;

1.3. Other instruments:

⁴ “Trading Venue“ means a regulated market, a multilateral trading facility („MTF“) or an organized trading facility („OTF“).

⁵ Regulation (EU) N^o 600/2014 of the European Parliament and of the Council of 15 May 2014 regarding the financial instruments markets and for amending Regulation (EU) N^o 648/2012.

⁶ “Execution venues“ of client orders are regulated market, MTF, OTF, systematic trader (“ST“), market – maker, other liquidity supplier or a subject, performing in a country, which is not part of EEA, a function similar to the functions performed by some of these subjects.

- BSE – for compensatory instruments and other financial instruments accepted for trading on this market;
- BSE – for shares of equity (for example of collective investment schemes or of other collective investment enterprises) accepted for trading on this market;
- the Bucharest Stock Exchange, Romania – for shares of equity or other financial instruments accepted for trading on this market.

The list above is non-exhaustive. II may use also other execution venues, which it deems appropriate according to the requirements of the Policy. II will assess and regularly analyze the possible new execution venues and will update the list with execution venues while observing the requirements for Policy review and update.

2. Execution venues, on which II relies seriously when concluding SFTs

Currently II does not conclude any securities financed transactions with professional clients. If it begins to provide this service, II will amend the current annex and the Policy in a timely manner.

3. Execution venues, on which II seriously relies for the execution of orders when providing services on portfolio management

Currently II does not actively provide any services on portfolio management on an ongoing basis. If it begins to provide such services on an ongoing basis, II will promptly amend the current Annex and Policy.

IV. Information regarding the factors used for selection and review of the execution venues and the relative importance of each factor

When choosing execution venues II is lead by the interest of its clients for an economically feasible, secure and reliable execution. For this purpose II takes into account the factors for quality performance described above, as well as additional characteristics of the execution venues, which are of importance for the consistent achievement of best result upon the execution of orders. More specifically it looks for the following factors arranged according to their importance:

- Expenses that would be assumed by the client and which are directly related to the performance where upon making the estimate the own fees and commissions of the Investment Intermediary are not taken into account;
- The probability of execution of the order and the settlement (liquidity);
- Speed of execution of the order and the settlement;
- Access to a clearing scheme;
- The presence of mechanisms for temporary discontinuing or restricting the trade („circuit breakers“) at the place of trading;
- The presence of other systems for guaranteeing continuity of the trade and securing the performance of the concluded deals, as well as any other circumstance relevant to the execution of the order.

II monitors on an ongoing basis whether the execution venues and the investment intermediaries, included in the Policy, provide the possibly best result for its clients and whether it is necessary to make changes to the measures for performance by taking into account more specifically the information about the quality of performance published according to Delegated Regulation (EU)

2017/576⁷ and Delegated Regulation (EU) 2017/575⁸, and when such is not present, and any other publicly accessible information or such available to it.

V. Information about the investment intermediaries, on who II relies to a great extent when submitting orders of professional and non-professional clients for execution or realization, as well as such of professional clients with SFTs.

1. Investment intermediaries, who II relies on to a great extent when submitting orders of non-professional and professional clients for execution

II hands over client orders for execution for trading in financial instruments of the classes "Capital (equity) instruments", "Debt instruments" and "Other instruments" to the following investment intermediaries who allow II to consistently achieve the best results for its clients according to the requirements set forth in the Policy:

- M&V Investments; Alpha Bank Serbia; Raiffeisen Bank Serbia; and Senzal – for handing over orders to the Belgrade Stock Exchange, Serbia;
- Perspektiva D.D. – for handing over orders to the Stock Exchange in Slovenia;
- Monte Adria Broker Dealer; Holdner Broker – for handing over orders to the Stock Exchange in Montenegro.

2. Investment intermediaries who II relies on to a great extent when submitting orders of professional clients for execution of SFTs

Currently II does not perform any services on accepting and submitting professional client orders for execution under securities financed transactions. Should it begin providing such services II will promptly amend the current Annex and the Policy.

3. Investment intermediaries, on who II relies to a great extent when realizing orders of non-professional and professional clients within the provision of portfolio management services

Currently II does not actively provide services on portfolio management. If it begins to actively provide such services, II will promptly amend the current Annex and Policy.

VI. Description of the measures to guarantee consistent achievement of the best result when accepting client orders and handing them over for execution by another investment intermediary.

When providing services on the acceptance and submission of orders II seeks guarantees from the selected other investment intermediaries, for example by signing various agreements with them in order to ensure the application of a policy on the execution of orders, which offers a similar or higher degree of security for the clients than the current Policy.

II oversees on an ongoing basis the standards for performance of the local investment intermediaries based on the publicly available data and the ones available to it, including the data published in compliance with Commission Delegated Regulation (EU) 2017/575 and Commission Delegated Regulation (EU) 2017/576. When it establishes that another investment intermediaries is capable of offering better quality performance in the long term, II will assess the possibility of including it into the Policy pursuant to the review and update procedure set forth in the Policy.

VII. Information regarding the performance of orders outside the trading venue

⁷ Commission Delegated Regulation (EU) 2017/576 of 8 June 2016 for supplementing Directive 2014/65/EU of the European Parliament and of the Council with respect to the regulatory technical standards on the annual publication by the investment intermediaries of identification data of the places for execution, as well as information regarding the quality of performance.

⁸ Commission Delegated Regulation (EU) 2017/575 of 8 June 2016 for supplementing Directive 2014/65/EU of the European Parliament and of the Council regarding the Markets in financial instruments with respect to the regulatory technical standards for the data published from the execution venues.

II performs client orders outside the trading venues for transactions with shares and bonds according to the requirements of the applicable legislation.

With these kinds of deals the purchase and sale of financial instruments takes place outside the organized places for trading (regulated market, multilateral trading facility and organized trading facility). The OTC deals are related to specifics, for example the relatively weaker regulation on the OTC market as compared to the places for trading, especially with respect to guaranteeing a fair price for trading (so far as such price is not formed on a trading venue), as well as the lack of regulatory measures guaranteeing in all cases the settlement (for example clearing schemes), which expose the client to a greater risk related to the counterparty.

In order to address these drawbacks for its clients, II adopts a methodology towards its internal rules to determine and control the price of the financial instruments, for which deals are signed outside a trading venue (see section I, item 2 of the current section).

Upon request by the client II shall provide additional information regarding the consequences from the execution of client orders outside the trading venue.

VIII. Warning with respect to the provision of special instructions by clients

When a client provides specific instructions with respect to the entire order or a certain aspect of the order, including a requirement for execution of the order at a certain execution venue, II shall execute the order regarding all aspects covered by them only according to such instructions whereupon it shall be deemed that as regards to these aspects II has performed its obligation to achieve "best performance". For the aspects, which are not covered by the specific instructions of the client, II shall perform the client order while observing the requirements of the Policy.

The II clients must bear in mind that any specific instructions of theirs may impede II from undertaking the measures provided in the Policy for achieving the best results possible in the execution of these orders.

The clients must carefully consider whether to give special instructions to II or to leave II to undertake measures according to the Policy.

With the signing of an individual contract for the provision by II, on the one hand, of investment and/or ancillary services and activities related to the provision of services on orders, the client declares that it is aware of the consequences from providing specific instructions by it.

IX. Summary of the processes of selection of execution venues, control and re-examination of the execution process

1. Summary of the process of selection of execution venues, control and re-examining the Policy

When selecting execution venues, II is lead by the interest of its clients in the consistent achievement of the most beneficial performance of the submitted orders. In order to achieve economically feasible, secure and reliable performance, II takes into account both the market (for example the execution venues of the traded instrument, the expenses for the transactions and the liquidity), and quality characteristics of the execution venue (for example the access to schemes for clearing and other systems for arranging the trade and performance).

Regulatory Compliance Department of II regularly monitors the efficiency of the Policy and the quality of performance of the orders. For this purpose the Regulatory Compliance Department regularly monitors and assesses, at least once a year, whether the execution venues included in the Policy provide the best possible result for II's clients and whether it is necessary to make changes to the measures for performance, while more specifically it takes into consideration the information about the quality of performance published according to Commission Delegated Regulation (EU) 2017/576 and Commission Delegated Regulation (EU) 2017/575, and when no such is available, any other information publicly available or available to it.

II performs a review of the Policy and upon any significant change, which affects its ability to continue consistently achieving the best possible results when executing the orders of its clients, by using the execution venues included in the Policy, to which it submits client orders for execution. II

accepts that a significant change has taken place when an important event has occurred, which may affect the best performance parameters, like expenses, price, speed, possibility for performance and settlement, amount, nature and any other consideration having importance for the execution of the order.

2. Summary of the process of selection of investment intermediaries, control and re-examining when submitting client orders for execution

When selecting an investment intermediary whom to submit client orders for execution, II makes a careful assessment of the intermediary in question, of the market conditions, in which it performs its activity, as well as it oversees whether the intermediary applies a policy for execution of the orders, which to ensure the achievement of best performance for the clients.

Along with the choice of execution venues II re-examines also the choice of investment intermediaries under the procedures described in item 1 of this section, while upon establishing omissions in the Policy, which impede II from achieving the best results for its clients on a regular basis, measures are undertaken so that the established weaknesses to be eliminated.

X. Information in connection with applying various fees depending on the execution venues

II offers a standard approach when determining the amount of fees and commissions under each separate type financial instruments, for which it provides services for admission, submission and execution of orders. These fees and commissions involve the fees and commissions owed to the places for execution specified in the Policy and in Section III, item 1 of the present section on concluding the relevant deals, the fees and commissions owed the depository institutions on the performance of settlement for the signed deals, as well as II's expenses for performance activity in connection with the relevant execution venue, reasonable amount of compensation for the services performed by II and – when applicable – the relevant commissions of investment intermediaries, to whom II submits orders for execution related to the signing of deals at different execution venues. In this respect it may become evident that for the different execution venues II is applying a different amount of fees for the services provided by it. These different amounts of fees will affect the various expenses due for concluding deals with financial instruments and performing their settlement at the relevant execution venues, as well as the different amounts of expenses that II must incur in connection with the performance of activity regarding those different execution venues.

XI. Information when offering a choice between more than one execution venue

When there is more than one competing execution venue of an order for financial instrument, II takes into account its own commissions and expenses for executing the order at each one of the execution venues of orders in order to assess and compare the results that could be achieved for the client upon the execution of the order at each of the competing execution venues.

If II offers the client to select an execution venue, it shall provide a clear, correct and non-misleading information so as to disallow the client to prefer one place for execution over another only due to the more favorable pricing policy, which it offers. More specifically, II provides the client, apart from information about the expenses related to performance or submission of an order for execution to competing execution venues, also information about the liquidity, speed and security of the settlement of the competing venues, as well as other information of importance for choosing a specific execution venues by the client.

XII. Information about the incentives II receives and makes payable

II does not receive incentives (benefits) from the execution venues, which it uses, and furthermore it does not charge fees of counterparties participating in the relevant signed transaction in financial instruments, nor any receivables of participants in a concluded transaction in financial instruments.

XIII. Information about the time limit, within which II will provide data to clients regarding its policies and rules related to the services provided by II

If an II client sends it a reasonable and proportional written request for provision of information by II regarding its policies and rules related to the provision of II services on the execution of client orders, respectively services on accepting client orders and submitting them for execution by another investment intermediary, and the procedures for reviewing them, II will provide the client with clear and exact information within a reasonable time limit considering the volume and specifics of the request.

XIV. Additional information for non-professional clients

The non-professional II clients must bear in mind that except for specific cases when the interest of the relevant non-professional clients requires otherwise, II will perform their orders for transactions in financial instruments, and respectively shall submit their orders for execution by another investment intermediary, acting in their best interest, in the first place by taking into account the total price, which the respective non-professional client must pay as the result of the transactions in financial instruments signed on its account. When accounting for the total price payable for the relevant transaction in financial instruments signed on the account of the relevant non-performance clients, II shall take into account the total amount of expenses owed in connection with the signing and the settlement of the relevant transaction in financial instruments, including the fees of the respective place for execution for signing transactions in financial instruments, the settlement fees, as well as the fees and commissions due to II for the services provided by it. The non-professional clients must bear in mind that the fees and commissions above must be paid by them where in certain cases II may include all due expenses for signing transactions in financial instruments of the relevant places for execution in its own commission for the relevant service.

The clients may find the latest information about the quality of performance published in compliance with Delegated Regulation (EU) 2017/575, for each place for execution specified in the Policy, on the II internet site, section "BROKERAGE", by using the following link: <http://www.bac.bg/bac/home.nsf/0/9CA0BDEB6A442547C22573C60035DCC7?OpenDocument>.

C) INFORMATION REGARDING THE PROTECTION OF THE FINANCIAL INSTRUMENTS AND MONEY OF THE CLIENTS

Information required pursuant to MFIA and Art. 47, paragraph 1(g) and Art. 49 of Commission Delegated Regulation (EU) 2017/565

I. Manner of custody of the financial instruments and money of clients

When II keeps client assets in connection with the provision and performance of investment and/or ancillary services and activities, the same shall deposit the money of its clients in:

- central bank;
- credit institution licensed according to the legislation of a country part of EEA;
- credit institution licensed in a country, which is not part of EEA; or
- qualified fund on the money market after II has informed the client in writing that its cash will not be kept in compliance with the requirement for the protection of cash of clients pursuant to MFIA and the acts on its application, and has received written consent by the client to deposit its cash in a qualified fund on the money market.

II will keep financial instruments of its clients, as follows:

- unmaterialized (registered) financial instruments – in sub/account of the client opened to the account (registry) of II for non-present (electronic) financial instruments at "Central Depository" AD;
- unmaterialized government securities ("GS"), issued by the Ministry of Finance – they are kept in the registries of Bulgarian National Bank, respectively under registry of subdepository of GS while

observing the normative requirements regarding the issuing, acquisition, payment and trade with non-present GS.

- materialized registered financial instruments – at “Central Depository” AD, in the cases when they were immobilized pursuant to Art. 141, Par. 2 of the Public Offering of Securities Act (“POSA”);
- foreign financial instruments – in sub/account of the client opened at the relevant depository institution abroad, or in common client sub/account (omnibus account), opened in the name of II, but on the account of its clients in the relevant trust abroad.

The client must bear in mind that depending on the country, in which financial instruments kept by II are registered, it is possible for the accounts containing these financial instruments to be subject to the legislation of a jurisdiction other than the one of the Republic of Bulgaria or the one of another country, part of EEA. Therefore the rights of the client in connection with these instruments may differ from the ones provided by the Bulgarian legislation or by the legislation of another country, part of EEA.

The II clients must bear in mind also that the keeping of financial instruments on omnibus accounts entails certain downsides. In addition to the downsides described in item 1 of the following section it may, for example, impede the differentiation of the financial instruments of a given client from the ones of other II clients. This may lead to risk from the performance of obligations of one client with financial instruments towards another. The keeping of financial instruments of clients on a common II account may also complicate the exercising of rights in connection with corporate events arising from such instruments by a given client.

II. Criteria for selecting a place for keeping client financial instruments and cash

1. Criteria for selecting a place for keeping client financial instruments

When keeping financial instruments of clients in trustee II undertakes the necessary measures to ensure that the relevant trustee will safe-keep the financial instruments of II clients in sub/accounts with a different name than the ones, on which financial instruments of II are kept (as far as the license of II allows for investments in financial instruments on its own account).

When selecting a trustee for the financial instruments of its clients and determining the contractual terms with it II exerts the necessary care and observes the requirements of the applicable legislation and the good market practices. When signing a contract for the custody of financial instruments of clients with a trustee, including a foreign trustee, II takes into account the legislative framework and the established market practices in the jurisdiction, in which the relevant trustee practices its activity, which concern the safe-keeping of assets and could unfavorably affect the rights of the clients (i.e. establishing pledges and other liens on client assets, vulnerability of the II client assets upon bankruptcy of the trustee). II does not keep financial instruments of its clients at trustees who require the establishment of collateral rights with respect to financial instruments, as well as lien or offsetting client assets, which to allow this trustee to dispose with the client assets in order to collect debts not related to the client or the provision of services to the client, unless when this is required by the applicable legislation at the jurisdiction of the trustee, where II keeps client financial instruments, in which case II shall inform the affected clients thereof and of the risk related to such safe-keeping.

II also monitors the market reputation of the relevant trustee (foreign or local) in order to minimize the risk of loss or reduction of the assets of its clients as the result of factors not related to the applicable law for the activity of this trustee, like fraud, bad management, improper keeping and preservation of accounting, and other.

When the contract with the relevant trustee envisions for the latter to be able to keep financial instruments of II clients with other trustees specified by the latter, II shall monitor the factors described above also within the jurisdiction of the relevant other trustees, as far as possible.

When keeping financial instruments of its clients on omnibus accounts II maintains analytical accounting, which allows it to distinguish between the financial instruments of a given client and other at any time. In addition II adopts and applies measures corresponding to the applicable legislation, the good market practices and the requirements for exerting the due care, which to protect the

financial instruments of a given client from withholding or sale in order to perform the liabilities of another of its clients.

II controls the conditions for safe-keeping of financial instruments of its clients at the trustees selected for this purpose on an ongoing basis, while if necessary it undertakes measures to protect them, including renegotiating the terms of keeping or it moves the financial instruments to another trustee as far as this is practically possible. Even though II offers the due care for the security of the financial instruments of its clients, which it keeps on client sub/accounts and client omnibus accounts, the possibility of eventual bankruptcy of a selected trustee can never be excluded. In such case the II clients must bear in mind that due to the applicable legislation in the jurisdiction of the relevant trustee, it is possible their financial instruments, kept at that trustee on behalf of II, not to be separated from the ones of other II clients and/or the estate of the bankruptcy, and therefore not to be subject to special protection. The keeping of client financial instruments on client omnibus accounts of II may also impede their access to an investor's compensation system corresponding to the one described in section IV of this Annex.

2. Criteria for selection of a place for keeping client money

When depositing cash of its clients in a credit institution pursuant to section I of this Chapter, II respectively applies the approach described in item 1 of this section towards the choice and subsequent control over the selected credit institution and the terms of safe-keeping offered by it.

When it intends to invest cash of its clients into a qualified fund on the money market pursuant to section I of this Chapter, II assesses the quality of the relevant instrument on the money market based on external ratings and other indicators of the quality of this instrument by performing such assessment also on an ongoing basis after investing the cash of its clients in it, as well as ad hoc upon the occurrence of an event material for the credit assessment of the relevant instrument.

When it deposits the cash of its clients in credit institutions or in a qualified fund on the money market, II examines the need of diversification of these funds. When due to the large volume of the kept cash, and bearing in mind the development of the specific market situation, this is feasible, II deposits the cash in more than one credit institution or a qualified fund on the money market.

III. Responsibility and secured rights on assets

The II clients must bear in mind that when their financial instruments are kept by a third party on behalf of IP, the latter is responsible for the actions or omissions to act of the relevant trustee – third party pursuant to the statutory regulations of the applicable legislation. II, though, bears no responsibility for the actions or omissions to act of the relevant central depository of financial instruments of its clients.

II shall arrange any eventual security interests of II with respect to the client assets kept in the individual agreements with them. The trustees, at which client assets are kept, do not establish any collateral interests with respect to assets.

IV. Information about the investor's compensation scheme applied towards the activity of II

With respect to performing its activity while observing the requirements of the applicable legislation II makes contributions to the Investor's Compensation Fund in Bulgaria and in Romania.

The Investor's Compensation Fund provides for the payment of compensation to the II clients in the cases when II is not in the state to fulfill its obligations to the clients due to reasons directly related to its financial status, included in the cases of open bankruptcy proceedings or a revoked license for performing activity as an investment intermediary.

The fund pays compensation to each client amounting to 90 per cent of the value of the receivable, but no more than BGN 40 000, and up to EUR 20 000 in Romania.

No compensation shall be paid to:

- the members of the managing or controlling body, procurators, registered auditor, the persons holding direct or indirectly 5 or more than 5 per cent of the votes in the general assembly of IP, which may control it, or who belong to the same group, nor to the spouses, relatives by direct ascent without limitation, by collateral line up to the second degree inclusive and by marriage to the second degree inclusive, of the following persons;
- the investment intermediaries;
- the credit institutions;
- the insurers;
- the pension and social security funds;
- the collective investment schemes, the national investment funds, the alternative investment funds managed by persons managing alternative investment funds, and the companies with special investment purposes;
- the state, municipalities, the governmental institutions, the Investor's Compensation Fund, the Fund for guaranteeing the bank deposits and the Guarantee Fund under Art. 518 of the Insurance Code;
- The investors who have taken advantage of circumstances related to II and which have led to the deterioration of its financial status, as well as the investors who have contributed to this status;
- other professional clients pursuant to par. 1, item 10 of the MFIA Additional Decrees.

No compensation shall be paid also for receivables, which have arisen from and/or are related to deals or actions, consisting of "money laundering" pursuant to Art. 2 of the Measures Against Money Laundering Act if the perpetrator was convicted with an entered into force sentence.

D) INFORMATION REGARDING THE FINANCIAL INSTRUMENTS AND THE RISKS RELATED TO THE INVESTMENT IN THEM

Information required pursuant to Art. 48 of Delegated Regulation (EU) 2017/565 and Art. 71, Par. 2, item 2 and Par. 4 of MFIA

I. Preamble

Before any investment in financial instruments, II's clients must carefully consider the legal consequences and economic risks related to it. The clients must also take into account the tax and accounting consequences from a given deal. In any case the II clients must avoid concluding deals if they do not understand the nature of the transaction and the relevant financial product, or the degree of investment risk and the possibility of potential losses they are undertaking.

The current Annex aims to inform the clients of II about the nature of the financial instruments, with which they may conclude deals with the mediation of II, as well as about some of the risks, which may lead to potential losses for the client. II's clients, though, must not limit their information about the investment in financial instruments to this, since it is not suited to provide comprehensive and complete picture of all possibilities and risks arising from the signing of deals on the capital markets.

The Annex includes information about the risks related to deals with shares; rights upon the capital increase of issuers and similar instruments; shares/interest in enterprises for collective investment in transferable securities; shares/interest in funds traded on the stock exchange; bonds, including convertible bonds; and instruments on the money market.

II. General risks when investing in financial instruments

The investment in financial instruments is accompanied by categories of risk inherent to all kinds of financial instruments. They include, but are not limited to:

- **Currency risk:** if the investment is denominated in a currency other than the one, in which the initial client's investment was made, the return may be reduced, or to incur losses due to currency fluctuations;
- **Legal risk:** in case of change to the normative regulations arranging the conditions for a given investment, and more specifically additional expenses may be incurred due to the conditions, at which the investment is held and traded, and in extreme cases also loss of the investment made;
- **Legal risk in other jurisdictions:** investments in financial instruments registered or held on other jurisdictions, may be subject to a different or lower protection than the one offered by the Bulgarian legislation;
- **Tax risk:** change to the tax legislation (for ex. the introduction of new or increasing the amount of the existing taxes) may also lead to realizing losses for the client;
- **Risk related to the counterparty:** the insolvency of any person acting as counterparty under a financial instruments transaction (or participating in any other way in the provision or performance of investment and/or ancillary services and activities), may lead to a loss for the client. In the case of insolvency of II or such of brokers or other persons participating in a deal with the client, this may lead to liquidation or closing of positions without the consent of the client
- **Risk related to a third party:** with some types of deals with financial instruments the interaction with a third party may be necessary (i.e. depository institution, trustee or a market operator). In case of default or insolvency of this third party the client may be exposed to risk of delay or ruling out the signing of the deal, as well as of loss of its investment, including its financial instruments and/or cash on safe-keeping;
- **Risk related to the use of leverage:** the use of leverage or financing of a deal by borrowing capital from a third party is a practice, which may be used for deals with all kinds of financial instruments and which aims to increase the potential return for the investor upon success of the relevant investment. The use of borrowed capital allows the investment of more funds into the investment, which potentially promises especially high returns. In the case of obtaining these returns, the investor (borrower) will be capable to repay the taken loan, generating a profit from the difference between the interest due on the loan and the achieved return on the successful investment.

This practice, though, gives rise to significant risks. If the investment does not generated the promised returns, or even generates full loss to the investor, the latter will lose not only its invested own capital, but it shall have to pay also the amounts under the loan taken, including the interest on it, which will put it in more unfavorable position even from an investor who has financed the investment fully with own funds.

Therefore leveraged investments **are not suitable** for non-professional, professional and institutional investors who aim at achieving regular returns by assuming a moderate investment risk and/or do not have the professional training and experience, or the necessary ability to bear the potential losses related to this investment strategy.

II does not recommend the use of leverage when investing in financial instruments to such investors.

- **Risk of fraud:** when investing in some financial instruments, more specifically new and innovative financial instruments, there is a danger of fraud, which may lead to partial or full loss of the investment.

III. Risks related to the investment in specific financial instruments

The investment in various financial instruments is related to various risks. In addition to the factors indicated in section II above, II's clients must bear in mind the following peculiarities of the financial instruments, with which they may trade through the mediation of II.

1. Shares

Shares are equity instruments, i.e. the holder of shares has a corresponding share in the capital of the relevant company, which has issued the shares (issuer). There are various classes of shares, which may grant various rights to their holder. The most frequently encountered shares – the common shares – grant voting right into the General Assembly of Shareholder, the right to a dividend and the right to a liquidation share upon winding up the company. There are also preferred shares, which usually give the right to a guaranteed dividend, but according to the Bulgarian legislation, and often also according to the legislation of countries other than the Republic of Bulgaria, they do not grant to their holder voting right at the General Assembly of Shareholders. All holders of shares of one and the same class have equal rights proportional to the number of shares held. The shares may be materialized or unmaterialized. When they are unmaterialized, they exist as an electronic record in the registry of the depository institution.

In addition to the risks specified in Section II above, equity trading may be linked to risks, which include, but are not limited to:

- **Risk of the issuer:** the buyer of shares does not extend cash to the company, but becomes owner of part of its equity. Thus it participates in its development and shares the opportunities for profits and losses. This hampers the forecasting of profitability from such an investment. In extreme cases the issuer may become bankrupt, which would possibly lead to losing the investment made by the shareholder;
- **Price risk:** the prices of shares may be subject to unforeseeable fluctuations, which leads to a risk of loss. The rise and fall of prices in the short-, mid- and long-term is unpredictable, therefore it is hard to determine the duration of the occurred rise or fall. The prices of shares are affected both by the general market risk and the specific risk, related to the issuer;
- **Dividend risk:** the dividend or the earnings per share (EPS) depends chiefly on the revenues of the issues and on its policy related to the distribution of dividends. In the cases of low profits or losses, the value of the dividends distributed may be reduced or there may be no dividends to distribute at all;
- **Market risk:** the price of a given share and the liquidity risk may be affected by factors related with the general market conditions, both in a positive and in a negative way. The general market conditions affect each issuer or sector in a different way depending on the nature and size of the issuer and its activity and the general market conjuncture. Therefore the course of an investment in shares may not be isolated from the general development of the market;
- **Liquidity risk:** the sale or in any other manner disposing with shares held by a client may be affected by the liquidity of that specific share, which, if on the negative side, may lead to a sale at a price, which does not correspond to the expectations or wishes of the client (for ex. the shares may appear to be non-liquid or hard to sell due to the limited trade with such shares on the place of trading, or the availability of only one trading venue);
- **Risk of dilution of the interest:** when carrying out an increase in the company capital the issuer may issue new shares which, in its turn may decrease the proportional share of the equity of the incumbent shareholders in the equity of the issuer, and also lead to reducing the amount of dividend from the shares held;
- **Termination of the registration:** even if the shares are traded on a trading venue, the issuer may not be obliged to maintain this registration. Upon certain conditions according to the requirements of a given legislation and the rules of the relevant trading venue the share registration may be terminated, which will generally reduce the liquidity and decrease their value.

The investment in equity is suitable both for non-professional and for professional clients and eligible counterparties. The investment in equity is unsuitable for investors who seek capital security for their

investment, who are not ready to assume any kind of investment risk and wish to receive guaranteed periodic returns from it.

2. Rights upon increasing the capital of the issuers

The rights upon increasing the capital of issuers are financial instruments limited in time, which give right to subscribing a certain number of shares in connection with an adopted decision for increasing the capital of a public company. They guarantee the equality of the shareholders upon capital increase of the issuer, and aim at protecting the existing shareholders from diluting their interest in the issuer. The profitability of these rights depend on the expected returns on the shares, to which they refer. Generally speaking, the trading with such rights takes place on the trading venue, on which the shares of the relevant issuer are traded. Similar characteristics have also other term financial instruments like the warrants. Since the value of the rights upon capital increase depend on the evolution of the shares, which may be acquired while exercising the rights, they are exposed to the risks specified in item 1 of this section. In addition to them, the rights are accompanied also by the following:

- **Risk of loss of the investment:** the right to subscribe is irrevocably limited in time. If it is not exercised by its holder within the time line determined in the conditions for the increase, the right is forfeited, while the client loses the investment made, and may bear additional expenses like commissions or other fees on the acquisition of rights.

The investment in rights upon capital increase of issuers, warrants and other similar instruments is suitable, respectively unsuitable for the different types of investors, indicated in item 1 above for the investment in shares.

3. Stock/shares in undertakings for collective investment in transferrable securities ("UCITS")

UCITS are organized as shareholding companies or contracted funds and represent collective investment schemes of an "open type". They are subject to legally established investment limitations, by being able to invest only in certain assets (i.e. transferrable securities, instruments on the money markets, interest in other UCITS, certain derivative instruments). UCITS are obliged to issue (publish) stock/shares and to buy back the stock/shares issued by them under certain terms and under strictly calculated and regularly announced prices, thus providing liquidity for the financial instruments issued by them and creating favorable conditions for investment or ceasing the investment in UCITS.

In addition to the risks described in section II above, the investment in stock/shares in UCITS is related to the following risks:

- **Market risk:** the value of the interest in UCITS depends on the value of the assets owned by it. If the general market conditions deteriorate, this will lead to deterioration in the value of the investment made;
- **Liquidity risk:** UCITS may not be in the condition to liquidate its assets and to return funds to the investors within a stock/share buyback in the case of low liquidity on the market as a whole or in the particular sector, in which UCITS invests. The current cost of servicing these investments may lead to increasing the losses and reducing the profit for the investors in the fund;
- **Risk, related to countries, in which UCITS invests:** the value of the foreign investment may decrease due to political changes or instability in the country, in which the investment was made;
- **Currency risk:** if the investments in the fund are denominated in a currency other than the one, in which the initial investment of the investor was made, the return may be reduced (or losses suffered) due to currency fluctuations;
- **Risk of the counter or third party:** the insolvency of any party providing services to UCITS, like asset storage, or entering as counterparty to UCITS in a deal with derivatives or other instruments, may expose UCITS to a financial loss;

- **Risk related to investing in derivatives:** UCITS may use derivative instruments like futures, options, forward contracts and swaps in order to improve the return on the investments for the investors. Even though this may potentially lead to increasing the assets of UCITS, it may also lead to significant losses;
- **Operational risk:** the investment in UCITS may include operational risks originating from a wide range of possible operational errors, including fault in the systems, human errors or external events, as well as errors caused by service providers like the managing company, which to affect negatively the value of the UCITS assets and/or its ability to buy back within its operational program;
- **Risk of limited diversification:** since UCITS may invest only in certain assets, they are strongly exposed to the market conditions affecting such investments;
- **Restrictions on subscription and disposal:** depending on the terms of UCITS the subscription of or disposal with shares/interest in the respective UCITS may be subject to restrictions, or the conditions, under which they are performed, may change (like for ex. introducing or changing a notification period, introducing a minimum or maximum amount, imposing or changing a back end load);
- **Risk upon compulsory buyback:** Upon the occurrence of certain conditions (for ex. revoking the license of the managing company for organizing and managing UCITS) a compulsory buyback may take place of the share/interest of UCITS, respectively until UCITS is liquidated, which to lead to incurring losses to the investors;
- **Risk related to the UCITS performance:** it cannot guarantee that every analytical model or investment strategy used by UCITS will turn out to be correct, or that the estimate of the short- or long-term perspectives of its portfolio will appear exact;
- **Changes to the portfolio:** the composition of the investment portfolio of UCITS may change periodically. Such changes may also affect its performance.

The investment in shares/interest in UCITS is suitable both for non-professional and for professional clients and eligible counterparties. The investment in stock/shares in UCITS is unsuitable for investors who desire capital security of its investment, are not ready to assume at least a moderate investment risk and wish to receive a guaranteed regular returns from it.

4. „Exchange traded funds“ or „ETFs“

ETFs comprise funds, which combine the characteristics of open end funds like UCITS, on the one hand, and on the other the characteristics of the closed end funds, where the possibility to subscribe and dispose with stock/shares is extremely limited. Similarly to UCITS, ETFs issue and buy back stock/shares and respectively have variable capital, but unlike them, the issuing and buyback take place in large packages, and respectively it is accessible mainly to institutional investors who, on their part, may offer the stock/shares retail on regulated market, on which they are allowed for trading. Usually some of these institutional investors are also market makers of the stock/shares of ETFs. This practice at a first glance compensates the reduced liquidity of the stock/shares of ETFs as compared to the ones of UCITS.

Typically, ETFs follow the so called “passive strategy of management”, i.e. they invest the accumulated funds under rules and criteria set forth in advance in their prospectuses, and not according to subjective investment decisions of the fund managers. Usually ETFs are constructed in a way to follow the movement of the market price of a certain basic asset, which may be a stock index, exchange traded commodity (petrol, metals, grain, etc.), currency and basket of such assets, as well as the movement of shares of companies from a certain economic sector. This enables the investors to indirectly achieve wide diversification, expanding to countries and regions from the entire world, as well as to different classes of assets.

Another characteristic of ETFs is that the net value of the assets of one share of stock/one share of equity of the relevant ETF is published at the respective trading venue in real time at small intervals.

Thus the investors receive reliable information about the market price of these shares/shares of interest.

The risks related to investing in ETFs overlap to a large extent the ones related to investing in ECITS (see item 4 above). In addition to them the client must bear in mind the following:

- **Operational risk:** specific operational risk from the management of ETF, arises from its passive investment strategy. If the managing company of a certain ETF fails to monitor closely enough its basic asset, this may lead to weaker performance on the stock exchange as compared to the relevant basic asset. Such inaccuracy may originate both from an error by the relevant manager and by normative, investment or factual restrictions;
- **Liquidity risk:** bearing in mind the fact that often only institutional investors may make subscriptions and disposals with stock/shares of a given ETF on the primary market, there is a risk of lower liquidity for the remaining investors if a liquid trading with the stock/shares of this ETF is not established on the trading venue, on which they were allowed for trading.

The investment in stock/shares of ETFs is suitable both for non-professional and professional clients and eligible counterparties. The stock investment is unsuitable for investors desiring capital security of their investments, are not ready to assume at least a moderate investment risk and wish to receive guaranteed regular returns from it.

5. Debt instruments

The debt financial instruments differ from equity instruments like shares of stock in the fact that the investor does not acquire interest in their issuer. In fact, the investor grants a loan to the issuer and thus becomes its creditor. This way the investors receive comparative protection for the invested capital, while being exposed mainly to the risk of insolvency of the issuer. II will inform its clients in the cases when a given debt instrument includes a capital guarantee or a capital umbrella, including into the cases when they were provided by a third person, by furnishing appropriate information about the scope and nature of this capital guarantee or capital protection. The debt instruments are related to assuming lesser risk as compared to the equity instruments.

The investment in debt instruments issued by banks and investment intermediaries, established in the European Union, is related also to additional risk. More specifically the issuer may be subject to curative measures pursuant to the Law on the recovery and restructuring of credit institutions and investment intermediaries or another analogous legislation of another EU member-state, in order to avoid its bankruptcy. In this case the competent restructuring body (for ex. the Bulgarian National Bank for banks in the Republic of Bulgaria) may request the narrowing of the investors in given debt instruments completely or partially, that they be transformed into own equity of the issuer, the terms of the issue to be changed (for ex. the date of maturity or payable interest rates) or to cease the payments on them.

5.1. Bonds

Bonds are transferrable debt instruments issued most commonly by a company (corporate bonds) or state or municipal body (i.e. government securities and municipal bonds). They are subscribed by investors against depositing a cash amount, being the value set forth in the terms of the issue, and entitle them to cash payments in the form of principal (par value) and interest (coupon). The interest payments under bonds may be: (i) fixed for the entire duration of the issue, including discount bonds or (ii) variable and often related to referent interest rates (for example EURIBOR or LIBOR).

In addition to the risks indicated in section II above, the investments in bonds may also involve other risks, which include, but are not limited to:

- **Risk from the issuer:** the issuer may temporarily or lastingly appear incapable of making payments on the interest due or to pay its obligations at the maturity of the issue. The solvency of a given issuer may change due to various factors, including those related to the issuing company, the economic segment, in which it practices its activity, as well as the political and economic situation of the country, in which it is established. The deterioration of the solvency or the credit

rating of the issuer will negatively affect the price of the bonds issued by it on the trading venue, on which they are traded;

- **Interest risk:** The lack of security with respect to the movement of the interest rates means that the investors in bonds with a fixed coupon will forego the opportunity to generate profit upon the rise in the referent interest rates. Respectively, the value of these bonds on the trading venue, on which they are traded, will drop. The longer is the maturity of an issue and the lower its fixed interest rate, the greater is the sensitivity of the bonds with fixed coupon to the increase of the interest rates on the market. And vice-versa, the investors in bonds with floating interest rate risk to make losses from the dropping of the relevant referent interest rates as compared to investors in bonds with fixed interest rates;
- **Risk of early repayment:** the bond issuer may include a clause in the terms of the issue allowing for the early repayment of the bonds upon the occurrence of certain circumstances or upon the discretion of the issuer (the so called "call option"). Such early repayment may lead to change in the expected income and duration of the investment;
- **Liquidity risk:** The bonds are exposed to a similar liquidity risk like the shares (see item 1 above). In addition, if the bonds are not traded on a trading venue or there is no market for such an instrument, the client will encounter difficulty or won't be able at all to leave this investment before its maturity;
- **Terminating the registration:** The bonds are exposed to a similar risk of terminating the registration like the shares (see item 1 above).

Depending on the specific conditions of the relevant issue, more precisely the amount of principle per bond and the structure of the interest, the investment in bonds may be suitable both for non-professional and for professional clients and eligible counterparties. It is not suitable for investors with a high risk appetite and such seeking much above the average profitability.

5.2. Government securities („GS“)

Government securities are bonds issued by a state body (in the Republic of Bulgaria it is the Ministry of Finance). In most jurisdictions the State Securities fall within the scope of a special normative regulation and are subject to special regimes of issuance and trade as compared to other types of bonds, for example the corporate bonds.

In comparison with the latter the Government Securities possess another characteristic. Due to the fact that this kind of bonds is guaranteed by the relevant country- issuer, the GS have a significantly lower Risk from the issuer. In the general case and upon lack of exceptional circumstances in the respective country - issuer, the investment in GS may be regarded as deprived of such risk.

Nevertheless the investment in GS is not fully deprived of risks. The risks inherent to all types of bonds, and particularly the ones related to trade with the relevant instrument (see item 5.1. above), may influence the result of the investment in GS.

Depending on the specific conditions of the relevant issue, more particularly the amount of principal per GS and the structure of the interest, the investment in GS may be suitable both for non-professional and professional clients and eligible counterparties. It is not suitable for investors with a high appetite for risk and the ones seeking profitability much above the average.

5.3. Mortgage bonds

The mortgage bonds are financial instruments issued by banks and secured by a portfolio of mortgage loans, which are generally provided by an issuer bank. Due to the presence of collateral for the repayment of the amounts due under the issue by the issuer bank, the mortgage bonds are related to a lower Risk from the issuer as compared to the common, unsecured bonds (see item 5.1. above).

Nevertheless the remaining risks, indicated for the bonds in item 5.1. above, are also inherent for the investment in mortgage bonds. In addition to them the client must bear in mind also the following risks:

- **Risk, related to securitization:** the securing of the liabilities under a mortgage bond issue with a portfolio of mortgage loans bears a risk related to the preparation and structuring of this portfolio. Due to the large number of mortgage loans, „tied“ together in the relevant portfolio, it may be difficult for the client to judge to what extent the credit rating of the relevant portfolio corresponds to the quality (liquidity) of the receivables under the loans, respectively the mortgages properties participating in the portfolio;
- **Risk, related to enforcing the collateral:** the enforcement of the collateral if the issuer is unable to perform its obligations under the issue of mortgaged bonds may be related to risks if the receivables under loans, respectively the mortgaged properties participating in the portfolio, have a bad credit rating and therefore are not in a position to cover these obligations;
- **Risk of limited diversification:** the risk related to enforcing the collateral under mortgaged bond issues, specified in the previous item, may additionally increase amidst a crisis on the real estate market, in which case the value of the collateral may drastically fall.

Depending on the specific conditions of the relevant issue, more particularly the amount of principal per bond, the structure of the interest, as well as the structure of the securing mortgage portfolio, the investment in mortgaged bonds may be suitable both for non-professional and professional clients and suitable counterparties, where in each case these clients must dispose with the necessary knowledge and/or experience, in order to assess the quality of the offered security. It is not suitable for investors with high risk appetite and such, seeking high above the average profitability.

5.4. Convertible bonds

These instruments are bonds, which may be converted into shares of their issuer upon the choice of the bond holder or issuer, and are related to a higher risk than the standard bonds. In addition to the risk described in item 3.1. above, the investments in convertible bonds may be exposed to the following risks:

- **Risk, related to their convertible feature:** since these bonds include the possibility to be converted into equity instrument, the client must examine the effect from eventual conversion on the profitability of the investment considering the dividend risk related to the shares (see item 1 above);
- **Equity risks:** when exercising the right to convert, the holders of these instruments are exposed also to the other risks related to the investment in shares (see item 1 above);
- **Risk, related to the manner of performance of the conversion:** according to the terms of the issue the conversion of the bonds into shares may be possible only during certain periods of time, and the conversion may be subject to certain other conditions. This may mean that the holder will not be in a position to exercise its rights to convert in the most favorable time, which may lead to reduced profits or increasing the losses.

Investing in convertible bonds is suitable both for non-professional and professional clients and suitable counterparties. They, though, are not suitable for investors who do not have the risk appetite for investing in shares.

5.5. Instruments on the money market

The instrument on the money market represents a short-term loan of cash funds for a period usually no longer than one year. Examples of instruments on the money market include certificates of deposit (CDs), treasury bonds and other instruments, which: (i) have value, which may be determined at any time; (ii) are not derivatives; and (iii) have a maturity at issue of one year or less.

Similarly to other debt instruments, the instruments of the money market may be exposed to the main types of risk, like for example risk from the issuer or the counterparty and interest rate risk. They are also exposed to currency risk, as far as the assets of the investor are denominated in currency other than the one, in which the investment is made.

The instruments on the money market may be exposed also to market risk. When the capital and debt markets are especially unstable, the investment in money market instruments usually brings lower risk for the investors due to their shorter maturity. And vice-versa, upon normal market conditions the investor may be kept from achieving its investment goals for the period, for which its funds were invested in a money market instrument, and not in financial instruments with higher profitability.

The investment in money market instruments is suitable both for non-professional and for professional clients and eligible counterparties. This investment is not suitable for investors who have a longer investment horizon from the short-term, are seeking average or higher profitability and have a moderate to higher risk appetite.

IV. Additional information

When offering mediation for concluding transactions with a financial instrument, which is subject to continuous public offering, in connection with which a prospectus was published in compliance with Directive 2003/71/EC, II will promptly inform its non-professional clients or potential clients as to where this prospectus is provided to the public, before providing investment or ancillary services to these clients.

Upon request by a client, II will provide it also with additional information on the possibilities and risks related to investing in a given financial instrument.