GENERAL DESCRIPTION OF FINANCIAL INSTRUMENTS AND RISKS RELATED

Dear clients,

ELANA Trading has prepared this document in conjunction with Art. 10 of Ordinance № 38 of the Financial Supervision Commission on the requirements to the investment intermediaries. Its purpose is to acquaint you with the general description of the financial instruments and risks associated with them.

Financial instruments within the meaning of the Law on Markets of Financial Instruments (LMFI) are:
1. Securities - transferable rights, registered on accounts with the Central Depository and for government securities - registered on accounts with the Bulgarian National Bank or sub-depository of government securities or in foreign institutions, performing such operations (cashless securities) or documents materializing transferable rights (securities), that can be traded on the capital market, with the exception of payment instruments as:
a) shares in companies and other securities equivalent to shares in companies, partnerships and other entities, and depositary receipts for shares;
b) bonds and other debt securities, including depository receipts for such securities;
c) other securities giving the right to acquisition or sale of such securities or which lead to a cash settlement determined by securities, exchange rates, interest rates or profitability, commodities or other indices or indicators.
2. instruments other than securities:
a) money market instruments - instruments which are normally traded on the money market, as short-term government securities (treasury bills), certificates of deposit and commercial paper, with the exception of payment instruments;
b) shares in collective investment undertakings;
c) options, futures, swaps, forward contracts with a fixed interest rate and other derivative contracts relating to securities, currencies, interest rates, income or other derivative instruments, indices or financial indicators, obligations under which may be settled by delivery or by cash payment;
d) options, futures, swaps, forward contracts with a fixed interest rate and other derivative contracts relating to commodities that must be settled in cash or obligations under which may be settled in cash at the request of one of the parties (beyond the events of default or other grounds for termination of the contract);
e) options, futures, swaps and other derivative contracts relating to commodities which can be settled, provided that they are traded on a regulated market and/or on multilateral trading facility;
f) options, futures, swaps, forward contracts and other derivative contracts on commodities other than those specified under letter "e" obligations under which might be settled by delivery, that are not trade securities and which according to Art. 38, paragraph 1 of Regulation (EC) No 1287/2006 of the Commission have the characteristics of other derivative financial instruments depending on whether they are subject to clearing and settlement, including through recognized clearing houses or used as collateral in case of margin purchases or short sales;
g) derivative financial instruments for transfer of credit risk;
h) contracts for differences;
i) options, futures, swaps, forward contracts with a fixed interest rate and any other derivative contracts relating to climatic variables, freight rates, allowances for emissions trading, inflation rates or other official economic statistics, obligations under which must be settled in cash or obligations under which may be settled in cash at the request of one of the parties (outside of a default or other grounds for termination), as well as any other derivative contracts relating to assets, rights, obligations, indices and indicators outside the mentioned in this article that have the characteristics of the other derivative financial instruments depending

on whether they are traded on a regulated market subject to clearing and settlement, including through recognized clearing houses or used as collateral in case of margin purchases or short sales as well as derivative contracts pursuant to Art. 38, paragraph 3 of the Regulation (EC) No 1287/2006 of the Commission.

1. **Futures contracts**

A futures contract is a contractual agreement for delivery of a specific commodity or asset on some future date at a current agreed price. Trading in such instruments should be made only on organized markets - stockexchanges. All futures contracts are standardized contracts for the purchase or sale of assets or goods on a future date at a current agreed price. In terms of the contract are defined amount and type of the asset that has to be delivered at a certain place within a certain period. The exact terms at each contract are set by the exchange, which organizes trade on this type of contracts. With the approach of the supply, contract prices and prices of the underlying assets are equalized as by the occurrence of supply prices are equal or very close to each other. ELANA Trading offers trading futures contracts on margin. The amount that must be deposited to the time when the contract takes effect, is called initial margin. At the end of each trading day marginal account is reviewed to reflect the profit or loss of the investor. The investor has the right to withdraw marginal surplus on account, which is over the originally deposited funds. Maintenance margin is determined also, which is the minimum that must have an investor in his account at any time. If the amount in the account falls below this minimum, the investor receives notice (margin call) and should immediately restore the minimum. Otherwise, the entire position or part of it can be closed automatically.
When trading futures investor is exposed to **various types of risks**:

- price risk - this is the main risk in this type of trade and is expressed by the possibility of adverse price movements of futures contracts. If an investor is long in a particular asset (meaning that he had bought), then he is exposed to a risk the price to decline and vice versa - if he is short (meaning that he had sold) he will lose if the price rise. Neither the organized market or clearing house, neither investment intermediary nor the Financial Supervision Commission or any other institution can guarantee / protect investors of possible losses. It is possible to lose the entire investment.
- Liquidity risk - although this risk is not typical for futures trading it is possible under certain contracts to occur. A typical example of such a risk when the current price satisfy investor and he wants to make a deal at it, but counter orders are not enough on the number of contracts that he has. So his order will be executed partially.
- Stock Exchange risk - the possibility that trade on the stock exchange to be suspended by decision of the Stock Exchange itself. This will lead to temporary inability to exit the position or entry into a new position.
- Currency risk - it is expressed in the cases when investments are made in foreign currency and their value depends on the currency rate.
- technological risk - when a collapse in communication systems which may temporarily or for a longer period prevent your access to dealing office of ELANA Trading, which may result in inability to enter into a particular transaction

Volatility of the price of the futures contracts can be substantial as very often on the futures markets there are no market restrictions on daily price changes. All this can result in large losses within a very small period of time, including minutes. Investor can take financial and other additional obligations as a result of transactions in financial instruments, including unforeseen obligations, additional to the cost of acquiring the instruments.
As already mentioned, trade in futures contracts takes place on the margin principle. This leads to the phenomenon of "leverage" or called leverage effect. It consists in the possibility of trade in volumes

significantly exceeding available funds of investor. This leads to multiplication of possible negative results - to a substantial loss.

2. Shares

Share represents title of ownership certifying that its owner or bearer participate in the share capital of the company and is entitled to a part of its earnings. Shares give entitlement to vote in the General Meeting and dividends in proportion to their nominal value. Dividends are not guaranteed and a company may decide not to pay dividends or to repay a small amount of previous periods.
In trading with shares an investor is exposed to various **types of risks**:

- price risk - this is the main risk in this trade and is the possibility of adverse movement of share prices. If an investor is long in a certain share (meaning that he had bought), he is at risk its price to drop and vice versa - if he is short (meaning that he had sold) he will lose if the price rise. Neither the organized market or clearing house, neither Investment intermediary nor the Financial Supervision Commission or any other institution can guarantee / protect investors from possible losses. It is possible to lose the entire investment.
- liquidity risk - risk that is deeply inherent in shares trading, especially on Bulgarian stock market. Even the current price satisfies the investor, it is possible that he could not make a deal for his desired volume due to insufficient counter interest. The risk is very high if an investor trades in low liquid shares and he can not get out of position for a long period of time. It is possible that a particular share may not be traded for a period of several days.
- stock exchange risk - the possibility that trade on the stock exchange to be suspended by decision of the Exchange itself. This will lead to temporary inability to exit the position or entry into a new position.
- currency risk - it is expressed in cases when investments are made in foreign currency and their value depends on the currency rate.
- technological risk - when a collapse in communication systems may temporarily or for a longer period prevent your access to dealing office of ELANA Trading, which may result in inability to enter into a particular transaction.

Share prices are also very volatile and it is possible within minutes to change with tens of percentages. Normally stock exchanges define a daily price range from which they can not go out. On Bulgarian Stock Exchange - Sofia, it is between 15 and 30% compared to the price of the previous day.
Investor can take financial and other additional obligations as a result of transactions in financial instruments, including unforeseen obligations, additional to the cost of acquiring the instruments.
Trades in shares can also be carried out on the margin - this means that you may buy shares of greater value than the amount available. This again results in multiplying the effect of marketing, respectively losses and profits.

3. Margin Currency Trading

The essence of margin trading in currency is the fact that customers of ELANA Trading may enter into deals worth many times exceeding the value of its investment. For major currency pairs this ratio can reach 100 times, which means that at the margin 1% an investor may open a position of 10,000 dollars with invested only 100 dollars. The object of trade is always a currency pair, which means that the goal of the investor is to predict the movement of one currency against another. The exchange rate is namely the value of one

currency against another currency. If the exchange rate rises this means that the base currency gets expensive relative to the second currency. Conversely, if the rate moves down, it means that the second currency gets expensive relative to the base currency. If at 24.00 investor has an open position, it is subject to rollover. The reason for this are the differences in interest rates on both countries. Usually if the investor has bought currency, in whose country the base interest rate is higher than the interest of the country of the currency sold by him, he will earn interest on it. Otherwise he will pay interest.
Risks of margin trading in currency are the following:

- price risk - as with the other main financial instruments this risk is expessed in the possibility the exchange rate to change in the direction opposite to that expected by the investor. If a trader is long in a currency pair (this means that, he had bought) and its currency exchange rate falls below the level of purchase, he will realize a loss. Conversely, in short position unfavorable to the investor would be if the rate rises.
- leverage risk - in margin trading in currencies the full use of the possibility to trade with greater resource than the available resource by itself it may represent a significant risk, especially for the retail investor. When occupied unreasonably large positions it is possible within seconds to lose the total investment. This happens especially often upon the announcement of important economic news of the countries where volatility is extremely high. Because of all this ELANA Trading does not recommend its clients to use the all possible margin to be able to withstand greater price fluctuations.
- Currency risk - this risk does not include the risk of adverse movement of the exchange rate of the currency pair traded. ELANA Trading offers its customers the opportunity to open accounts for margin trading in currency in euros and dollars. When selecting an account in dollars, the investor is exposed to additional risk the dollar to depreciate against the Levs, which will reduce its profits from currency trading expressed in Bulgarian Levs.
- technological risk - when a collapse in communication systems may temporarily or for a longer period prevent your access to dealing office of ELANA Trading, which may result in inability to enter into a particular transaction.

Exchange rates can register significant fluctuations within a very short period of time, including seconds. Due to the particularities of the foreign exchange market, that it is called OTC (over-the-counter), i.e. unregulated market there are no limitations on allowable daily fluctuations. Currency markets operate 24 hours a days from midnight Sunday to Monday until midnight Friday to Saturday, Bulgarian local time.

Investor can take financial and other additional obligations as a result of transactions in financial instruments, including unforeseen obligations, additional to the cost of acquiring the instruments.

4. Trading in currency options

- Currency option transaction is an agreement whereby the buyer acquires the right but not the obligation, to buy or sell a certain amount of currency at agreed in advance exchange rate on or before the expiry date of the contract.

There are two types of options depending on the rights acquired by the purchaser:

1. Call option: the right to buy a certain amount of currency at a fixed rate on or before a certain date. This option allows the holder to profit from rising market (spot) rate above the agreed (strike) rate.
2. Put option: the right to sell a certain amount of currency at a fixed rate on or before a certain date. Here the possibility of profit is associated with a drop in market quotations. Currency option is term deal. It offers two options for implementation of option rights, i.e. defines two types of contracts:

European option - an option that can be exercised only on the maturity date, but not before;

American option - an option that may be exercised at any time up to maturity. ELANA Trading offers trading with European options. Among all tools of financial engineering currency options offer the unique opportunity the holder to retain only the profit from market developments. This uniqueness is achieved by dividing the rights and obligations under the transaction. Buyer receives only the right but not the obligation, to exercise the option. Upon realization of his expectations he will require from his counterparty fulfillment of its obligation, while in unfavorable market development is permissible the option to repay but not be realized right on it, i.e. the symmetry between the rights of the buyer and the seller is violated. Therefore the buyer can acquire these rights only after paying their price.
In options trading, there are the following **risks:**

- price risk - whether the investor is a buyer or seller of the option contract he is exposed at risk of exchange rate to change in the opposite direction predicted by him
- leverage risk - it is expressed primarily in the sale of options when an investor is required between 2 and 3% of the amount. Each investor in the sale of options is at risk of unlimited loss.
- technological risk - when a collapse in communication systems may temporarily or for a longer period prevent your access to dealing office of ELANA Trading, which may result in inability to enter into a particular transaction.

Because foreign exchange options are derivatives on the underlying currency pair, about their prices there are not any restrictions on daily movements.
Investor can take over financial and other additional obligations as a result of transactions in financial instruments, including unforeseen obligations, additional to the cost of acquiring the instruments.

5. Bond Trading

Bond is a type of security whereby the issuer is obliged to pay to the holder certain periodic payments in the form of interest, and at maturity to pay and the nominal value of the paper. Issuers of bonds may be states, municipalities, banks and other companies. Interest on obligation is paid in the form of coupon payments that are made on pre-announced dates. In most bonds interest is paid once or twice a year. The coupon interest differs from bond yields, as the cost of purchase by an end customer is different of the nominal value. If the price is higher, it means that the yield will be less than the annual interest rate, and vice versa. The face value is the number of units for which when buying or selling the bond is paid a certain price. The cost of the nominal value is determined by the issuer. It can be 100, 1000 or 10,000 in the particular currency in which it is issued as its price will refer to the specified nominal value. Holders of bonds, unlike holders of shares do not participate in capital of the company and appeared only as lenders. If issuers of bonds do not pay on the relevant maturity dates interest and principal, bond holders have the right in the courts to request bankruptcy of the public company and recovering funds of their assets. The funds raised through the issuance of bonds are called bond loan.
Risks at buying and trading in of bonds are the following:

- market risk - generally this risk is the unfavorable movement of bond prices. If the investor bought a given bond, he is at risk its price to drop and vice versa - if he had sold he will lose if the price increase.
- credit risk - this is the risk of non-repayment of commitments undertaken by the issuer. This risk is particularly characteristic for companies with low credit ratings. On such a risk are exposed the investors in unsecured bond emissions.
- position risk (general and specific) - risk of change of the price of the bond due to factors related to the issuer. For example, in lowering the credit rating of the issuer of the bond loan, the price of the bond will fall.

- Liquidity risk - associated with the inability investor to be able to sell a given bond in the absence of price "buy".
- Currency risk - this is the risk of a change in the exchange rate of the currency in which is issued a particular bond.
- interest rate risk - represent risk of change and fluctuations in interest rates. Bonds are one of the most sensitive financial instruments to changes of term interest rates. Upon raising of basic interest rates the bond prices fall, while the lowering of the interest rates increases their prices.
- stock exchange risk - the possibility that trade on the stock exchange to be suspended by decision of the stock exchange itself. This will lead to temporary inability to close a deal with a given bond, if the latter is traded on the stock exchange.