INVESTMENT INTERMEDIARY “MK Brokers” AD

RISK NOTIFICATION

The currency market trading involves significant risks and is not suitable for all investors. You need to carefully consider whether this type of activity is appropriate for you, given your investment experience, goals, financial capabilities, and constraints, how much you can risk and all other circumstances. You yourself and solely bear the risk of a possible change in the market value of your funds and the resulting losses. Trading on the Financial Markets is not suitable for investors seeking a secure income since the income from such activity is not regular and uncertain.

Margin requirements allow customers to open significantly larger positions than the amounts paid. As a result, the deposited funds representing a guarantee on open positions may be completely exhausted. This “leverage” is favourable for the investor when it is in the direction of the market but is a double-edged sword and works against the investor when its position is losing.

As the use of this “leverage” mechanism multiplies both the profit and loss, and relatively small market movements will have a large effect on you. That is why “MK Brokers” AD recommends that you use this “leverage” only to the extent that you feel comfortable and most importantly - do not invest money that you cannot afford to lose.

Also, when trading, be guided by the principle of reasonableness. Ordering “Stop-Loss” orders (loss-limiting orders) and careful monitoring of all open positions in the market are mandatory if you want your decisions to be well-founded. It is good to have a plan and to follow it in a very disciplined way, constantly monitoring the market and placing “Stop-loss” orders, this is a necessary condition to be a good and reasonable actor.

The trade with currency is a speculative activity. That is why the funds provided for it should be for you - venture capital. Currencies are with a highly volatile character. Their rates are influenced by many and varied factors including: changes in the ratio of demand and supply; world trade; the tax, monetary, regulatory and international policies of the counties; important economic and political news; changes in interest rate levels; operations of central banks and big players; devaluation of currencies; premonitions and expectations, as well as many other factors. However, none of these circumstances can be controlled by any analyst, and many of them cannot be foreseen.

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Financial markets are highly volatile. The prices of the traded instruments are influenced by many and various factors, among which: changes in the ratio of demand and supply; world trade; the tax, monetary, regulatory and international policies of the countries; important economic and political news; changes in interest rate levels; operations of central banks and major players; devaluation of the currencies themselves; premonitions and expectations, as well as many other factors.

Regulated securities markets may impose price limitations regarding the traded securities, as well a given issue may be suspended. “MK Brokers” AD warns its customers that in certain cases the investor may have to bear financial and other additional liabilities because of transactions with financial instruments, including unforeseen obligations, in addition to the costs for the purchase of the instruments.

DESCRIPTION OF THE FINANCIAL INSTRUMENTS AND THE GENERAL RISKS RELATED TO THEM

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

Currency	R5
Cross currency	R5
Currency option – buy	R4
Currency option – sell	R5
Contracts for differences based on shares	R5
Contracts for differences based on indices	R5
Contracts for differences based on a commodity futures	R5
Futures	R5
Bulgarian treasuries	R2
Foreign securities with rating A-AAA	R2
Local and foreign corporate bonds with a rating not lower than BBB-	R3
Bulgarian corporate bonds without rating	R4
Foreign bonds with a rating lower than BBB-	R4
Shares of companies with a rating higher than BBB-	R3
Local shares traded on an official market	R4
Shares, that are not traded on an official market	R5
Foreign bonds with a rating lower than B	R5
Foreign bonds with a rating of B to BBB-	R4
Bulgarian Funds	
Money market funds, governed by Management companies with major shareholder, companies licensed under the Credit institutions Act	R2
Bond Funds, governed by Management companies with major shareholder, companies licensed under the Credit institutions Act	R3
Bond funds governed by Management companies with a major shareholder, unlicensed companies under the Credit Institutions Act	R4
Share funds and high - risk funds	R5
Shares of local joint stock companies with special investment purpose	R4
Shares of foreign joint stock companies with special investment purpose	R4

In addition to the specific risks for each financial instrument mentioned above, there are general risks that affect each financial instrument and each investment.

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

Interest rate risk – This is the risk of changes in the market interest rates having an unfavourable effect on the profit or the value of the instrument. The changes in the interest rate levels may endanger the financial instrument owners with the risk of capital loss. The significance of the risk is differing for the respective financial instruments.

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

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

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

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

Volatility risk – This is the risk related to the price movements of a given financial instrument. The volatility is high, if the financial instrument is subject to large price fluctuations in certain period. The risk of volatility is calculated as the difference between the lowest and highest prices of financial instruments for the given period.

Credit risk – It can be defined as the probability that the counterparty may not fulfil willingly or may not be able to fulfil the contractual commitments. Investors need to assess the quality of the issuers of financial instruments, as well as their capability to repay their liabilities.

Risk of the location of the order – This risk relates to the location of the market of the respective asset. When the market is not located in the investor's country of residence, he/she undertakes a currency risk.

<u>External Markets</u>: Every investment that contains a foreign element is subject to the risks of that market. These risks may be different from those of the market where the financial instrument is issued, or where the investor operates.

<u>Emerging markets</u>: They carry risks which are not always relevant to the developed markets. These risks also exist where a large part of the issuer's business is carried out on those markets. The investments in emerging markets have frequently a speculative nature. The investments in such markets require careful consideration and assessment of the various risks existing in the above markets.

Settlement risk – This is the risk of not performing a settlement in a payment system due to the inability of a participant in the payment system to fulfil its obligations. This risk is equal to the difference between the price of a given asset and the theoretical date of execution and the asset' price on the date of execution. This is the difference between the settlement price approved for the financial instrument and the current market price at the time of settlement when the difference may lead to loss. In certain circumstances the settlement procedure may be influenced by the number of trades and in this way their execution may be prevented. The impossibility to realise the settlement due to similar problems may prevent investors from advantageous investment opportunities and may lead to losses. The settlement risk may occur either as credit or liquidity risk.

Custody risk – Investments in certain markets, especially in emerging markets, on which the rules and regulations concerning the system of custodian services may be less developed in the field of investor protection compared to those markets which have strict custodian rules. The assets on these markets entrusted to custodians, where such are necessary, may be subject to risks related to the impossibility of the custodian to perform its obligations. This risk is magnified when there is no system for investors compensation on the respective market, or, if such system exists, but such investor is not covered by the protection offered by the system.

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

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