

RISK CLASSIFICATION OF INVESTMENT PRODUCTS

According to the requirements of MiFID II EU (Directive (EU) 2014/65, Delegated regulation (EU) 2017/565), the national MiFID Act - 2018 and Ordinance №38-2016 of the Financial Supervision Commission regulating the requirements towards the activities of the investment intermediaries, UniCredit Bulbank AD classifies the risk volatility of the offered investment services (products) according to the below listed nomenclature

Table 1 (Five stage risk classification)

Risk class	Definition
R1	No fluctuations in capital value, e.g. deposits, saving accounts, building society saving contracts
R2	Slight fluctuations in capital value (currently up to 10 % p.a., but higher fluctuations are possible), e.g. blue chips bonds in LCY, domestic fixed income funds
R3	Medium-level fluctuation in capital value (more than 10 % p.a., in exceptional cases a complete loss is possible), e.g. equity funds, mixed funds, bonds in BGN
R4	Speculative investments which may involve the complete loss of the invested capital to take advantage of very high earning potential, e.g. junk bonds, stocks, compensatory instruments, warrants
R5	Extremely risky investments which may involve, beyond the complete loss of the invested capital, the necessity to invest additional funds, e.g. written options, forward transactions

In conformity to the presented in Table 1 criterion, UniCredit Bulbank AD classifies the investment products that fall into the scope of its investment intermediation services as follows:

Table .2 (complex investment instruments)

Product	Risk class
Foreign currency forward	R5
Foreign currency swaps	R5
Foreign currency option- buy	R4
Foreign currency option- sell)	R5
Cross currency swaps	R5
Interest rate option- buy	R4
Interest rate option- sell	R5
Interest rate swaps- buy	R5
Interest rate swaps- sell	R5
Swaption	R5
Forward Rate Agreements- buy (Each deal is a subject to an individual approval by the Bank)	R5
Forward Rate Agreements- sell (Each deal is a subject to an individual approval by the Bank)	R5
Equity options- buy (Each deal is a subject to an individual approval by the Bank)	R4
Equity options- sell (Each deal is a subject to an individual approval by the Bank)	R5
Futures (Each deal is a subject to an individual approval by the Bank)	R5
Commodity option – purchased	R4
Commodity option – sold	R5
Commodity swap	R5
Exotic option - purchased	R4
Exotic option - sold	R5
Emissions trading (Each deal is a subject to an individual approval by the Bank)	R5

Table 3 (Non complex investment products)

Remark: The direction of transactions (buy/ sell) refer to the clients

Product	Risk class
Bonds	
Bulgarian government bonds	R2
Foreign bonds with rating A to AAA	
Bulgarian and foreign corporate bonds with rating better than BBB - (S&P)	R3
Bulgarian corporate bonds without rating	R4
Foreign bonds with rating better than BBB- (S&P)	
Equities	
Equities of companies with rating better than BBB- (S&P)	R3
Foreign equities with rating B to BBB- (S&P)	R4
Bulgarian equities traded on a regulated market, compensatory instruments	
Foreign equities with rating better than B (S&P)	R5
Equities, not traded on a regulated market	
Bulgarian funds	
Bulgarian Money market funds managed by companies controlled by entities licensed by the national Law for Banks	R2
Bulgarian bond funds managed by companies controlled by entities licensed by the national Law for Banks	R3
Bulgarian bond funds controlled by entities not licensed by the national Law for Banks	R4
Bulgarian equity funds and high risk funds	R5
Foreign funds	
Money market funds	R2
Foreign currency funds with optimal rating BBB	
Other asset funds	R3
Mixed funds	
Mutual funds	
Growth funds	R4
Hedge funds	
Venture funds	
Equitie of companies with special investment purposes	
Equitie of Bulgarian joint stock ompanies with special investment purposes	R4
Equitie of foreign joint stock companies with special investment purposes	
Others	
Structured products with 100 % guaranteed capital	R3
Structured products without capital guarantee	R4
Warrants	
Unit linked life insurance	
Funds based life insurance	R2

Remark: The direction of transactions (buy/ sell) refer to the clients