

## RISK CLASSIFICATION OF INVESTMENT PRODUCTS

According to the requirements of MiFID EC (2004-39I-EC), (2006-73-EC), the national Law for markets in financial instruments (published in National Gazette №52 from 29<sup>th</sup> June 2007, officially coming into force as of 1<sup>st</sup> November 2007) and Regulation №38 of the Commission for Financial Supervision regulating the requirements towards the activities of the investment intermediaries (published in national Gazette № 67 from 17<sup>th</sup> August 2007, officially coming into force as of 1<sup>st</sup> November 2007), 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
<b>R1</b>	No fluctuations in capital value, e.g. deposits, saving accounts, building society saving contracts
<b>R2</b>	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
<b>R3</b>	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
<b>R4</b>	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
<b>R5</b>	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	<b>R5</b>
Foreign currency swaps	<b>R5</b>
Foreign currency option- buy	<b>R4</b>
Foreign currency option- sell)	<b>R5</b>
Cross currency swaps	<b>R5</b>
Interest rate option- buy	<b>R4</b>
Interest rate option- sell	<b>R5</b>
Interest rate swaps- buy	<b>R5</b>
Interest rate swaps- sell	<b>R5</b>
Forward Rate Agreements- buy (Each deal is a subject to an individual approval by the Bank)	<b>R5</b>
Forward Rate Agreements- sell (Each deal is a subject to an individual approval by the Bank)	<b>R5</b>
Equity options- buy (Each deal is a subject to an individual approval by the Bank)	<b>R4</b>
Equity options- sell (Each deal is a subject to an individual approval by the Bank)	<b>R5</b>
Futures (Each deal is a subject to an individual approval by the Bank)	<b>R5</b>
Commodity swaps (Each deal is a subject to an individual approval by the Bank)	<b>R5</b>
KIKO- Knock-In/ Knock-Out options (Each deal is a subject to an individual approval by the Bank)	<b>R5</b>
Emissions trading (Each deal is a subject to an individual approval by the Bank)	<b>R5</b>

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

**Table 3 (Non complex investment products)**

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

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