



BULGARIAN DEPOSIT
INSURANCE FUND

Questions and Answers about Deposit Insurance

2009

The Bulgarian Deposit Insurance Fund (BDIF) was established in January 1999 to insure deposits with banks thus strengthening the confidence in the banking system and contributing to economic growth and overall stability in Bulgaria.

This brochure describes in popular language the Bulgarian deposit insurance scheme. We hope it would be helpful in understanding the mechanism for protecting depositors' interests which will help maintain a sound and stable banking system.

We would like to thank you in advance for your comments and recommendations for the improvement of the brochure.



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I. GENERAL QUESTIONS RELATED TO DEPOSIT INSURANCE

1. Whose deposits does the BDIF insure?

The BDIF insures bank deposits of physical persons and legal entities of Bulgarian or foreign origin.

2. Does the BDIF insure deposits in all banks?

The BDIF insures deposits with all banks authorized by the Bulgarian National Bank (BNB) to accept deposits as well as deposits with branches of Bulgarian banks abroad.

Deposits with branches of foreign, non EU-member states, banks are also covered by the BDIF, provided that the home country of such a bank does not have a deposit insurance scheme, the scheme does not apply to foreign banks' branches or it provides a level or scope of coverage, which is less than that insured by the BDIF. In the latter case the BDIF provides only for supplementary cover to the level and/or scope of coverage.

Deposits with branches of EU-member states' banks are guaranteed by the respective deposit guarantee scheme of the home country, and are thus not covered by the BDIF.

3. What does the BDIF insurance cover?

In case the BNB revokes a bank's license, the BDIF insurance will cover both deposits in levs and in foreign currency. Deposits are repaid in national currency only. The guarantee covers deposits of Bulgarian and foreign citizens as well as of Bulgarian and foreign companies.

4. Are there any exceptions, which the deposit insurance scheme does not apply to?

By virtue of the law, deposits of the following entities are excluded from the guarantee: banks and financial institutions; insurers; pension and social security funds, except for the supplementary compulsory pension insurance funds; investment intermediaries and companies; guarantee funds, including the BDIF; government and government institutions; municipalities.

Excluded are also deposits of the bank's shareholders owning over 5 per cent of the bank's equity, members of the bank's managing and supervisory boards, bank's auditors, as well as their spouses and relatives of direct and lateral lineage up to the second degree inclusive.

Deposit insurance is also inapplicable to preferential deposits, i.e. deposits with individually agreed more advantageous terms and conditions than those publicly offered and applied to a bank's customers.

Deposits connected to *money laundering* are also excluded from guarantee, provided the deposit holder has been convicted and the sentence is effective.

5. What types of deposits are insured?

Deposit insurance applies to all funds on a bank account opened in the name of one or more persons. Deposit insurance is applicable also to credit balances, which the bank shall repay to its customers under the terms provided by law or a contract signed.

6. Are banks obliged to provide information on deposit insurance to depositors?

Yes, banks shall provide depositors with such information in the general conditions of offered deposit products and in the individual contracts alike, mentioning the applicable deposit guarantee scheme, the coverage level, the competent repayment authority, and the deposits excluded from coverage.

7. Will deposits be summed up to determine the size of the insured amount provided a depositor holds deposits with several banks?

No, they will not be summed up. Deposits with different banks are insured individually. However, the head office and all branch offices are considered as one bank. Consequently, if a person has deposits with a bank's head office as well as with one or more of its branches, the deposits will be summed up to calculate the insured cover.

8. What procedure will be applied if a bank I have placed funds with has merged with another bank?

In case of a merger or takeover, involving two or more banks, deposits held with these banks will be insured individually for a period of six months from the date of consolidation. After the expiry of this period, deposits will be summed up in order to determine the size of the insured amount.

9. How does the BDIF establish the ownership of a deposit?

Ownership is determined on the basis of deposit account records kept by the bank in bankruptcy as well as of the proofs presented by the depositor.

II. INSURANCE LIMIT

10. What is the size of the amount insured by the BDIF?

The BDIF guarantees the full payment of depositor's funds with each individual bank, regardless of the number and size of the deposits, up to BGN 100,000. This amount includes the principal and the interest accrued as at the date of revoking the bank's license.

Example:

- *If a person has a deposit of less than BGN 100,000, e.g. BGN 35,500, the amount to be repaid in the event of a bank failure will be BGN 35,500 plus the interest accrued, i.e. the person will be compensated in full.*
- *If a person has a deposit of BGN 100,000, he will be repaid BGN 100,000, without the interest accrued, as the sum of the principal and the interest will be over the guaranteed coverage of BGN 100,000, i.e. the person will be compensated in full only for the principal amount.*
- *For deposits exceeding BGN 100,000, the insured amount to be paid off will be BGN 100,000.*

In the event a depositor owes money to the bank, the amount of his debt will be deducted from the insured amount.

11. Can I increase the amount insured by the BDIF through distributing my funds in several deposits with one and the same bank?

No, since the insured amount is not computed on a single-deposit basis. A depositor cannot increase the amount insured by distributing his funds in different deposits with one and the same bank.

12. If I deposit my funds with more than one bank, will this increase the amount insured?

Yes, as deposit insurance is based on 'per depositor per bank' principle. If you deposit your money with different banks, it is insured in each individual bank up to the level of coverage of BGN 100,000.

III. SINGLE AND JOINT OWNERSHIP. DEPOSIT IN FAVOUR OF A THIRD PARTY

13. What is a personal deposit?

A deposit owned by one person is a single (individual) ownership deposit. It can be a time deposit, demand deposit, saving account, current account, etc.

14. How is a customer's personal deposit insured?

The funds on any personal deposit opened by, or in favour of one and the same person are summed up. The total amount is insured, including the principal and interest accrued up to the limit described in the answer to Question 10.

15. What is a joint deposit?

A joint deposit is a deposit owned by two or more persons, such as spouses, close relatives, business partners, etc., authorized to draw funds from it.

16. How is a joint deposit insured?

To determine the total insured amount of any depositor in the joint deposit, each person's portion in the joint deposit is added to his other deposits with the bankrupt bank. If it is not otherwise provided for in the deposit contract, the deposit holders have the right to equal portions of the joint deposit.

Example:

- *If a husband and a wife have a joint deposit of BGN 150,000 and personal deposits, each amounting to BGN 25,000, in order to determine the insured amount of the deposits of any of them, the sum of the joint deposit shall be divided in two, i.e. it will be BGN 75,000 ($150,000 : 2 = 75,000$). The personal deposits shall be added to the equal portions of the joint deposit ($75,000 + 25,000 = 100,000$). Thus, the deposit amount of each spouse will be BGN 100,000. The insured amount shall be based on this amount and computed analogously to the example described in Question 10.*

17. What is a deposit in favour of a third party?

A deposit account opened by an individual in favour of another person or several other persons is a deposit in favour of a third party. For example, a parent opens a deposit in favour of his child.

18. How is a deposit in favour of a third party insured?

The person in favour of whom the deposit has been opened (the beneficiary) has the right to a guarantee on the deposit, unless it is otherwise provided for in the contract.

IV. PAYMENT PROCEDURE

19. How will a depositor be informed of the bankruptcy of the bank he holds deposits with?

In the event of revoking a bank's license, the BNB informs the public through the media.

20. How does the BDIF inform depositors about the payment of insured deposits?

The BDIF shall publish an announcement in at least two major dailies, stating the initial date of repaying insured deposit amounts to depositors as well as the name of the bank authorized by the BDIF to make these payments.

Depositors may obtain comprehensive information on the repayment of guaranteed deposits on the BDIF web site, on the institution's premises or on the phone.

21. When will a depositor receive the insured amount on his deposits?

By virtue of the law, the BDIF shall start paying off insured deposit amounts to their holders not later than 20 business days as of the date of revoking the bank's license by the BNB. In wholly exceptional circumstances this deadline may be extended by 10 business days. The depositor on his part shall exercise his rights within the general five-year prescription period.

22. What should a depositor do to receive the guaranteed amount of his deposits?

In order to receive the guaranteed amount, a depositor shall report to the bank authorized by the BDIF to make the payment. There he shall submit an ID document and sign a declaration on the spot, stating that he is not a spouse or lineal or collateral relative up to the second degree of persons related to the management, ownership, or supervision of the failed bank.

The servicing bank shall repay in cash the depositor the guaranteed amount. Alternatively, the depositor may order a transfer of his funds to another bank, or leave them with the servicing bank.

In case the depositor wishes so, he is entitled to receive a certificate stating the reimbursable amount from the trustees of the failed bank.

23. How to proceed if customer's deposits are in foreign currency?

In this case a depositor will be paid off the lev equivalent of the insured amount at the BNB official exchange rate on the day, determined by the BDIF as the initial day for repayment of insured deposit amounts. The guaranteed amount shall be determined as described in the answer to Question 10.

24. What should a customer do if his deposit amount exceeds the insured cover?

In case the amount of a customer's deposits with the bankrupt bank exceeds the insured cover, the depositor shall first receive the guaranteed by BDIF amount of BGN 100,000, whereas he may later receive additional reimbursement by the failed bank trustees, following the bank bankruptcy procedures and depending on the amount of funds recovered from the sale of the bank's assets.

25. What should a depositor do if the servicing bank refuses to pay the guaranteed amount or he is not satisfied with the determined amount?

A depositor should file a contestation to the trustees of the bankrupt bank, providing evidence of his claim. The trustees shall reply within seven days. Contestations shall be filed within a year from the initial day of repayment. If depositor's contestation is not satisfied, he may appeal to the court.

V. GENERAL INFORMATION ABOUT THE BDIF

26. Who manages the BDIF's activity?

By virtue of the Law on Bank Deposit Guarantee the BDIF is managed by a Management Board consisting of five members: a Chairman designated by the Council of Ministers; a Vice Chairman designated by the Bulgarian National Bank; one member designated by the Association of Banks in Bulgaria; and two members designated jointly by the Chairman and the Vice Chairman of the BDIF Management Board.

27. How is the BDIF's activity funded?

The BDIF's main sources of income are the initial and annual premium contributions paid by banks, as well as the proceeds from investment of the BDIF's resources in securities issued or guaranteed by the government, and short term deposits with the BNB and banks. The Governing Council of the Bulgarian National Bank approves BDIF's administrative expenses budget. The National Audit Office exercises control over BDIF's activities.

NOTE:

This brochure contains popular information about the deposit insurance scheme applied to banks operating in Bulgaria. The information presented does not intend to replace the legal interpretation of neither the Law on Bank Deposit Guarantee, nor BNB Ordinance No. 23 on the Terms and Procedure for Pay-out of Insured Amounts on Deposits with Banks with Revoked Licenses. For more details regarding the technical aspects of deposit guarantee, depositors may refer to the legislative acts indicated above.

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