

ANNUAL REPORT 2014  
INVESTOR COMPENSATION  
FUND



FD



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## **ABBREVIATIONS:**

**ABB** – Association of Banks in Bulgaria

**AMC** – Asset Management Companies;

**BAAMC** – Bulgarian Association of  
Asset Management Companies

**BALII** – Bulgarian Association of  
Licensed Investment Intermediaries

**BNAO** – Bulgarian National Audit Office

**BNB** – Bulgarian National Bank

**BSE** – Bulgarian Stock Exchange

**CA**– Current Account

**CB** – Commercial Banks

**DIF**- Deposit Insurance Fund

**EFDI** – European Forum of Deposit Insurers

**EU** – European Union

**FSC** – Financial Supervision Commission

**FI** – Financial Instruments

**GS** – Government Securities

**IADI** – Internationa Association of Deposit  
Insurers

**ICF** – Investor Compensation Fund

**II** – Investment Intermediaries

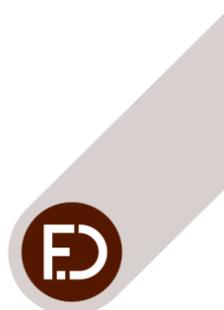
**LMFI** – Law on Markets in Financial  
Instruments

**LPOS** – Law on Public Offering of  
Securities

**MB**– Management Board

**MFs** – Monetary Funds

**ROOICF** – Regulation of Operation and  
Organization of Investor Compensation  
Fund





## 1. MANAGEMENT

The investor compensation fund (ICF) has been established to protect investors in financial instruments, who are clients of investment intermediaries, by providing compensation up to 90% of the investment amount, but no more than 40 thousands BGN.

The Fund aims at providing resources for covering eventual compensation payments, in a case of investment intermediary's failure. In order to fulfill this aim the Fund gathers contributions of the investment intermediaries (the participants) and invests them.

The activity of the Fund is ruled by a Management board (MB), which takes decisions in regard of all issues which are connected with its mission. The MB determines each year the annual contribution of the Fund's participants, invests the accumulated resources, prepares and approves internal legal acts of the organization, and where necessary proposes amendments in the legal framework which is applied for the Fund, etc.

In 2014 the MB of the ICF consisted of:

- ◆ Mileti Mladenov – Chairman
- ◆ Teodora Drenska – Deputy Chair
- ◆ Irina Marzeva- Member
- ◆ Atanas Boichev - Member
- ◆ Pavlina Anachkova-Kantareva - Member

The Chairman of the MB manages the operative activity of the Fund, which is performed by administration. As of December, 31<sup>st</sup> 2014 the Fund's administration consists of three employees.

The MB of the Fund reviews and decides issues in the field of its competence during its meetings, as in 2014 there were 20 meetings, 66 issues were discussed and 45 decisions were taken.

The activity of the Fund in 2014 was generally directed to gathering contributions from the Fund's participants; investing the Fund's resources; gathering and analyzing the data for the clients' assets, managed by the participants; assessment of the eventual exposure of the Fund; improvement of the Fund's legal framework; creating a new corporate identity; developing new website; international activity, etc.

In 2014 there were no cases of compensation payments by the Fund. In the end of 2014, after the withdraw of the CCB AD's license, the MB had to appoint a servicing bank which would provide eventual compensation payments to the clients of the bank, where it had acted as an investment intermediary.

As the quaestors of the bank informed the Fund that the financial instruments of all bank's clients had been transferred





in line with the legal procedures, no claims for compensations were expected.

By the end of 2014 such claims have not been submitted to the Fund.

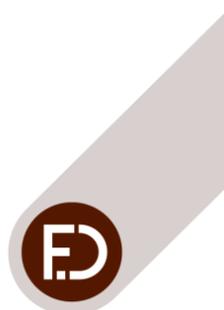
In 2014 the MB of the Fund decided to keep the annual contribution for 2015 at the level of 0,05% of the average monthly amount of the protected financial instruments (where the maximum level is 0,1%) and 0,5% of the average monthly amount of the monetary funds. That would leave the level of the contribution unchanged for a sixth consecutive year.

In 2014 the MB approved new logo of the Fund. It also determined a company which will develop the new website of the Fund. The technical part of this process was completed in the end of 2014. The new website will be uploaded in 2015.

In 2014 the Fund's functions were performed in accordance with the requirements of the national legislation, the legal framework which is acting for its activity (LPOS, LMFI, ROOICF, Ordinance 23 and 24 of the FSC) and the internal legal acts.

In 2014 the proposed and coordinated with the FSC amendments by the Fund in the Ordinance 46 on the term and procedure of compensation payments were approved, as well as amendments in the Regulation of Operation and Organization of the Fund. Some parts of the Ordinance were made more precise, and as a result of the amendments in the regulation the organizational structure of the Fund was also changed.

Of particular importance for the effective performance of the Fund's activity was the collaboration with national institutions and organizations such as FSC, BNB, ABB, BALII, BAAMS etc.





## 2. ACTIVITY

The confidence in the financial institutions in Bulgaria was challenged during the forgone year. The existence of financial safety net contributed for a decrease of the negative outcomes of the distress in the financial sector. This proves the necessity of financial safety net, part of which is the investor compensation fund.

The financial sector had influence upon the capital market, which after a strong first half of the year went through a period of a decrease of the main indexes and of the turnover, after June 2014. According to information of the BSE, the stock exchange turnover in 2014 has decreased almost twice in comparison with 2013. However, by the end of the year the main indexes increased slightly, where the highest increase was of BG TR30 (407,5) with 17%, followed by BG REIT (98,75) with 11%, SOFIX (522,1) with 6% and BG BX40 (104,61) with 5%.

The market condition affected the activity of the investment intermediaries and respectively the Fund. The information gathered from the participants for the clients' assets also registered a decrease in the amount of the financial instruments, protected by the Fund. The amount of the

clients' assets (monetary funds and financial instruments) is a basis for determining the annual contribution of Fund's participants, which was also negatively affected by the above results.

The Fund protects the monetary funds (MFs) and financial instruments (FI) of the nonprofessional investors, by providing compensation in a case that the investment intermediary they have signed a contract with has gone in a bad financial position for a certain time and thus could not repay their funds.

The license withdraw of Corporate commercial bank AD (CCB) didn't trigger the scheme practically and no compensations were paid.

Participants in the Fund are the investment intermediaries (II) and the asset management companies (AMC), licensed by the FSC, but also the bank-investment intermediaries (CB). The participants which are licensed to perform investment services make initial and annual contributions to the Fund.

Periodically analyses for the Fund's exposure against its participants are prepared in the Fund.



These analyses are made on the ground of the information for the clients' assets and the number of clients eligible to compensation. They provide opportunity to

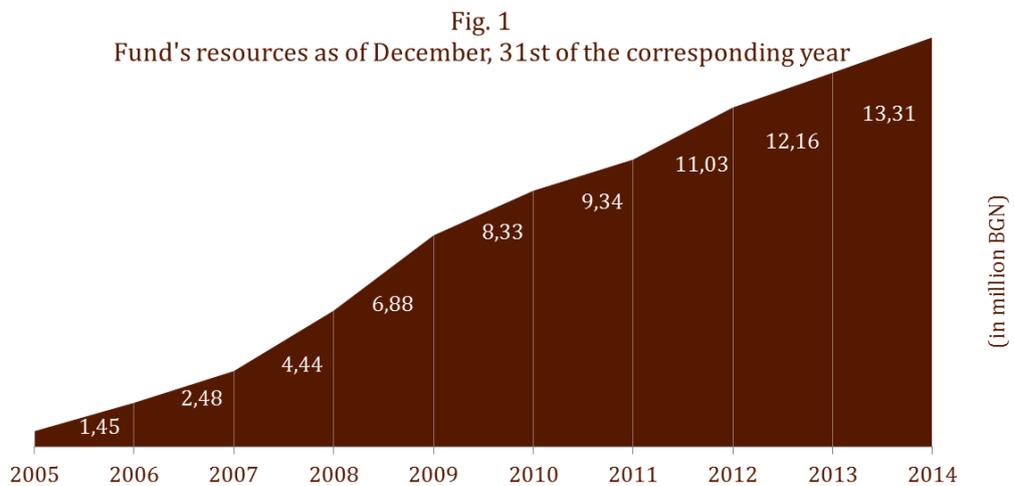
assess how adequate is the financing the Fund.

## 2.1 RESOURCES

In order to provide enough resources for covering eventual compensation payments, the Fund gathers initial and annual contributions from all participants. The Fund has the right to invest the accumulated funds in accordance with the legal limits and adhering to the requirements for safety and liquidity.

The total amount of Fund's resources includes not only the received contributions but also the revenues from investments.

On Figure 1 the accumulated resources in the Fund are given since its establishment, as of December, 31<sup>st</sup> of the corresponding year.



Source: ICF

As of December, 31<sup>st</sup> 2014 the accumulated resources in the Fund are 13,31 million BGN. <sup>1</sup> In the recent years they are increasing, but

much slower in comparison with the period before the global crisis.

<sup>1</sup> In the given amount the blocked resources of the Fund in CCB AD at the amount of 1,42 million BGN are also included.



In comparison with the previous year, as of December, 31<sup>st</sup> 2014, the Fund's resources are invested entirely in GS. In order to provide Fund's liquidity, a part of the resources are held in a current account at BNB.

The Fund's resources are accumulated, invested and spent in accordance with the provisions of the LMOS, ROOICF, the internal acts and the Investment policy of the Fund. The BNAO and FSC supervise the

accumulation, investment and spending of those resources.

The administrative activity of the Fund is financed by the revenues of investments. For 2014 the administrative expenditures are for the amount of 330 thousand BGN, as there has been an economy of 8% of the initially planned expenditures.

The financial result of the Fund for 2014 is a profit of 107 thousand BGN.<sup>2</sup>

## 2.1.1 CONTRIBUTIONS

The contributions to the Fund are initial and annual. The initial ones are calculated as 1% of the minimum capital, which is necessary for investment intermediaries' license. By joining of a new member to the scheme or widening its license he must pay the respective initial contribution.<sup>3</sup> All members must pay annual contributions, which level is determined by the MB and reflects the capital market situation in the country as well as the potential payments of the Fund to investors.

The level of the annual contribution for 2014 was determined by the MB as:

- ◆ 0,5 % of the average monthly amount of the protected MFs for 2013 and
- ◆ 0,05% of the average monthly amount of the rest of the clients' assets, eligible to compensation in 2013.

The revenues from Fund's participants contributions in 2014 are at the amount of 1,048 million BGN, as 15 thousand BGN of those are from initial contributions.

<sup>2</sup> The annual profit is calculated on the basis of financial revenues, increased (decreased) by the profit (loss) from revaluation of the GS and decreased by the administrative expenses of the Fund for the year.

<sup>3</sup> If with limited license are not members of the Fund. The AMC do not make initial contribution payments.

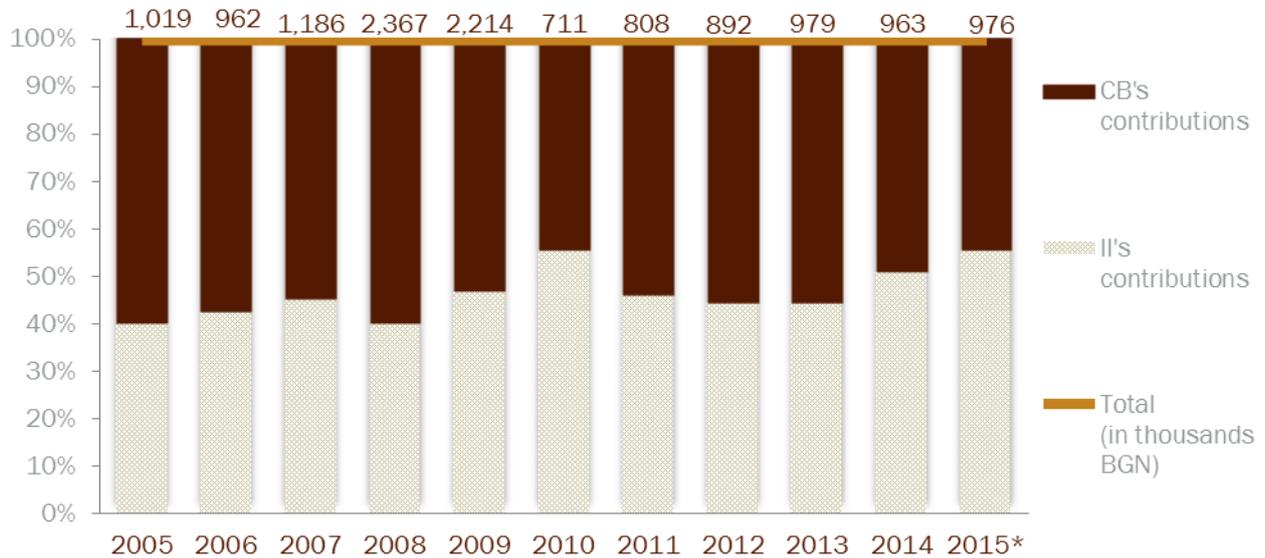


The annual contribution is formed mainly by the instalments of II and CB which provide investment services.

each year. It is based on the average monthly amount of the FI and MFs, reported by the participants for the previous year.

On Figure 2 is given the annual contribution of CB and II, determined for

**Fig. 2**  
Distribution of revenues from contributions of II and CB



\*The data for 2015 is preliminary.

Source: ICF

The total amount of the annual contribution of all participants for 2014 is 963 thousand BGN.<sup>4,5</sup> In 2014 the average monthly amount of clients' assets in CB and II was in total 1,41 billion BGN. In comparison with 2013 it was with 31% higher.

This is due mainly to the decrease of the amount of FI held by CB.

<sup>4</sup> The contribution is lower than the initially planned one because of the non gathered claims of the Fund from CCB AD for the amount of 220 thousand BGN.

<sup>5</sup> In 2014 one fourth of the annual contributions due for 2013 was paid until January, 30<sup>th</sup> 2014 as well as three fourth for the annual contributions due for 2014, which explains the different amount to the real contribution payments received in the Fund. In 2014 additional contributions were also paid resulting from recalculation of the contributions by some of the participants due to incorrect reporting of clients' assets



The calculated contribution for 2015 is 976 thousand BGN. Thus the expected contributions for 2015 are with 13 thousand BGN more in comparison with 2014.<sup>6</sup>

In 2014 51% of the annual contributions, received in the Fund, belongs to the investment intermediaries as it is expected

## 2.1.2 INVESTMENTS

According to the legal framework the Fund's resources should be invested in financial instruments, issued or guaranteed by the state, short term deposits in commercial banks and deposits in BNB. Also, the MB of the Fund acts according to internal investment policy for Fund's resources. The goal of the investment policy

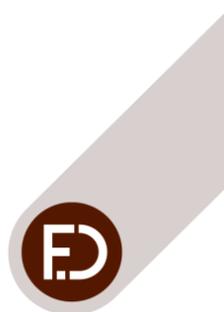
that they will have a higher contribution than CB for 2015 too. Despite that fact the share of the CB in the annual contribution payment is significant, having in mind that their number is twice smaller than the one of the investment intermediaries.

is to provide safety and liquidity for the Fund's resources by sticking to requirements it prescribes. The observed yield depends on the market situation and conjuncture changes.

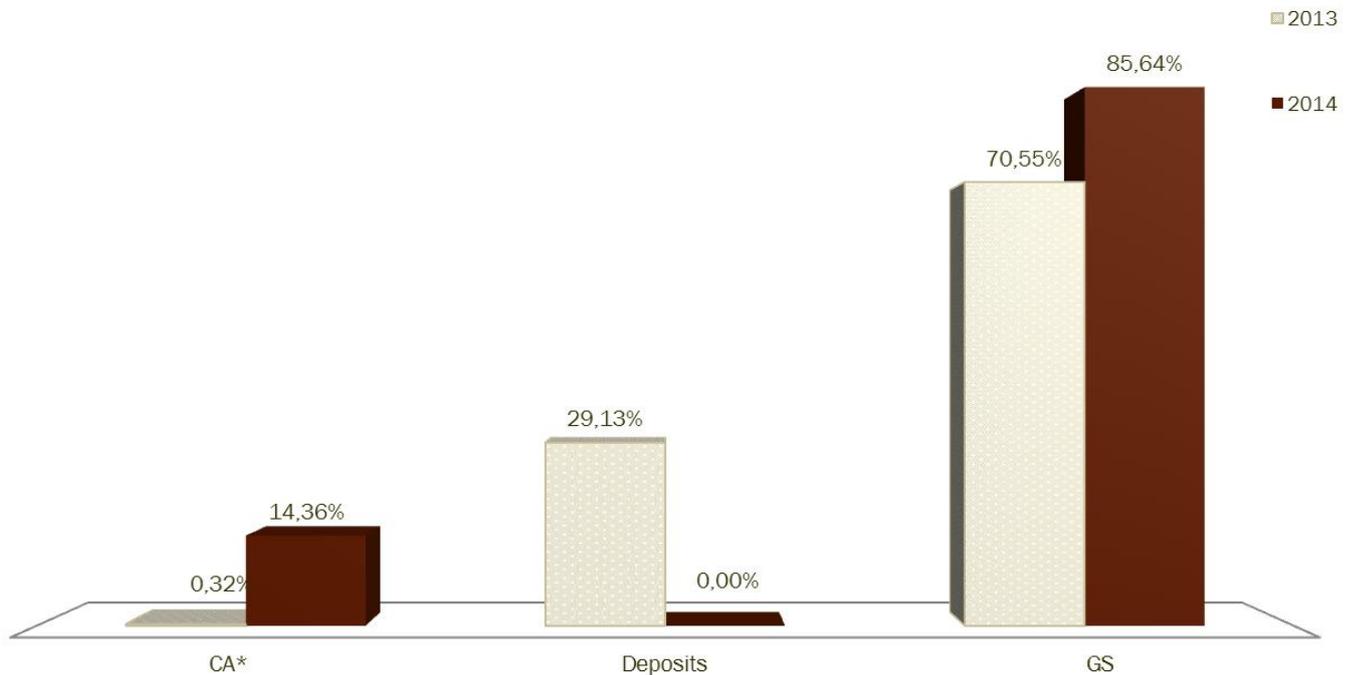
On Figure 3 the Fund's portfolio is given as of the end of 2013 and 2014.

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<sup>6</sup> In 2015 only three fourth of the annual contributions due for 2015 are paid and the last one fourth is paid at the beginning of 2016.



**Fig. 3**  
Structure of the portfolio as of December, 31<sup>st</sup>



\*CA – current accounts

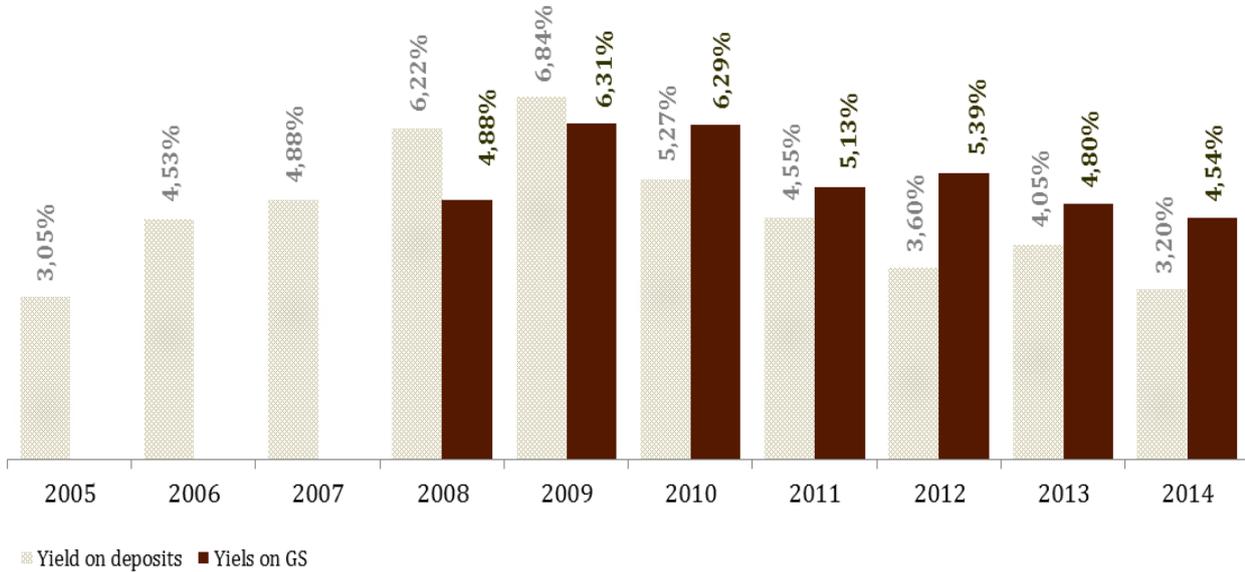
Source: ICF

As of December, 31<sup>st</sup> 2014 85,64% of the Fund's resources are invested in GS, where in comparison with 2013 they are with 15% more. Compared with 2013, when approximately 30% of the resources were held in short term bank deposits, as of December, 31<sup>st</sup> 2014 the Fund had no such investments. This is due mainly to the low interest rates, offered by the CB. That resulted in buying GS with part of the resources. For urgent liquid payments 14,36% of the Fund's resources were held in a current account at BNB as of December, 31<sup>st</sup> 2014.

During the last year the investment revenues are 445 thousand BGN. They include interest from deposits, GS's coupon payments and profit (loss) of GS's revaluation. This amount is with 1,2% higher in comparison with 2013. The slow growth of Fund's investment revenues is due to the lower yield of deposits, decreasing yield of the new GS as well as to the lower amount of the received contributions in 2014. Also the Fund has reported a loss of GS's revaluation as of December, 31<sup>st</sup> 2014.

On Figure 4 the average obtained yield from deposit interest and GS is given for the period of 2005-2014.

**Fig. 4**  
**Average yield of investments**



Source: ICF

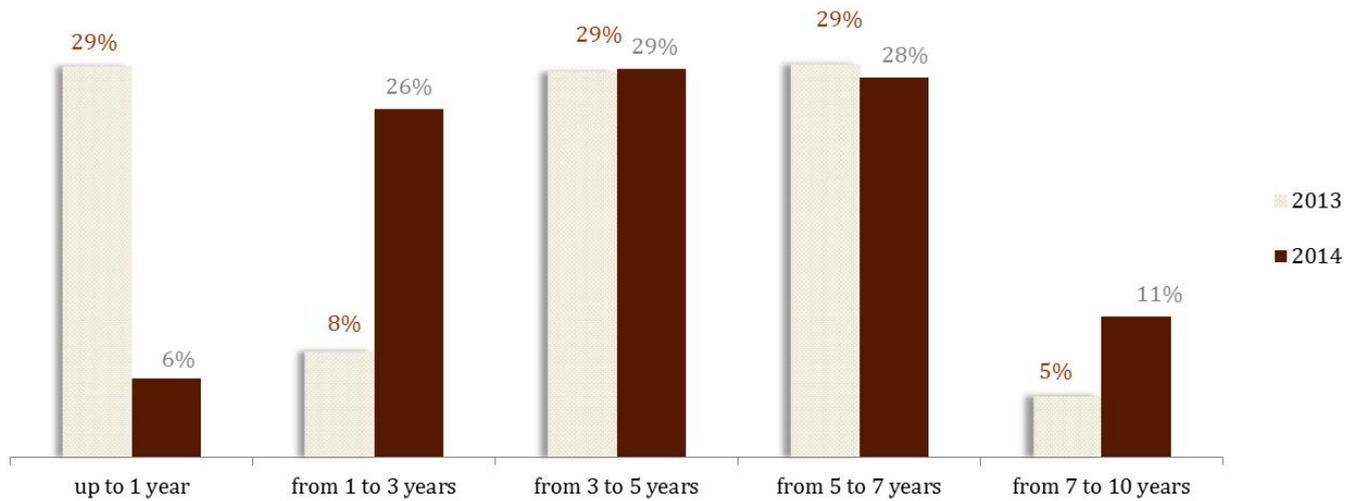
In 2014 the average obtained yield of interest on deposits is 3,2%, but from GS's coupons it is 4,54%<sup>7</sup>. The decrease of the coupon yield in comparison with 2013 is due to the increase of the investments in GS by the end of 2014, because of buying new emissions. Meanwhile, the received coupon payments during the year came only from the old emissions.

Coupon revenues from new emissions will be received by the Fund in 2015.

The Fund portfolio in GS and deposits as of December, 31<sup>st</sup> is presented on Figure 5 according to the maturity structure.

<sup>7</sup> The average yield on investments is calculated as a ratio of the amount of the yield gained from investments during the year (respectively the yield from interest paid on deposits and GS coupons) and the average weighed amount of the deposits and government securities in the portfolio. The revenues from GS revaluations are not included.

**Fig. 5**  
**Portfolio maturity structure**



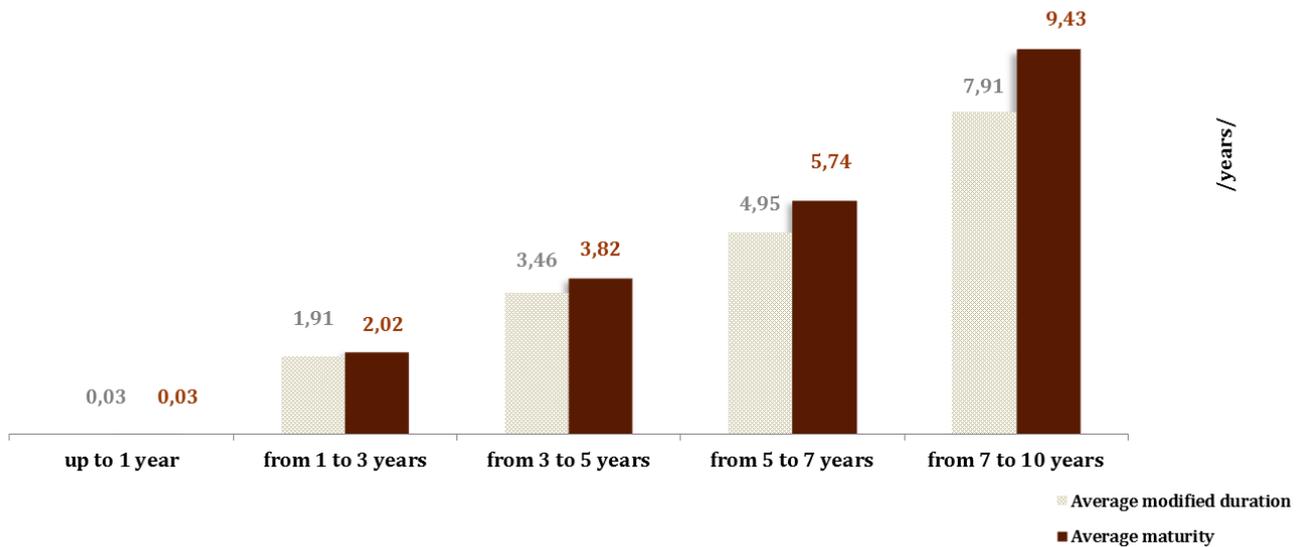
Source: ICF

In 2015 it is expected 6% of the portfolio of GS to mature. If the situation remains unchanged and in case of no obligations of the Fund to investment intermediaries' clients the resources received from the matured emissions in 2015 will be invested in accordance with the investment policy and the legal requirements. That regards also about the expected revenues of annual contributions.

Generally the GSs' maturities are equally distributed in the time, as the share of GS in the longer period from 7 to 10 years is the smallest one.

The modified duration and average maturity of GS by their maturity structure as of December, 31<sup>st</sup> 2014, are given on Figure 6.

**Fig. 6**  
Modified duration and average maturity of GS



Source: ICF

In the first months of 2015 one GS emission is expected to mature, which is the reason for the equal amounts (0,03) of the modified duration and maturity in the period up to 1 year. As of December, 31<sup>st</sup> 2014 the average weighted modified duration of the GS portfolio is 3.75 years against 3,97 years as of December, 31<sup>st</sup> 2013. The average

residual maturity of GS is 4,27 years while it was 4,54 years as of December, 31<sup>st</sup> 2013.<sup>8</sup> Because of the increased share of GS with maturity between 7 and 10 years the modified duration and the average residual maturity of those investments are increasing, as of December, 31<sup>st</sup> 2014 they are 7,91 and 9,43 years respectively.

<sup>8</sup> The average weighted maturity of the portfolio is calculated as a sum of all investments maturities, weighted by the share of each investment in the total amount of the resources invested in GS as of December, 31<sup>st</sup> 2014.

## 2.2 PARTICIPANTS

There are 6 participants in total which left the compensation scheme last year - three banks and three investment intermediaries. Two of the investment intermediaries voluntarily returned their license, but the license of the third one was withdrawn by the FSC as an administrative measure. One of the banks was excluded from the scheme because its headquarter had been moved in Ireland. During the year the process of merger of two other banks which had started in 2013 completed. On November, 6<sup>th</sup> 2014 the license of CCB AD was withdrawn which also included the license for investment intermediary. Thus, as of December, 31<sup>st</sup> 2014 the participants in the scheme are 93 of which 42 investment intermediaries, 21 commercial banks and 30 asset management companies. (A list with the licensed

investment intermediaries which have the right to provide investment services is given in Appendix 1).

Because many of the AMC are not reporting activity of individual portfolio management, the number of the active participants in the Fund by the end of 2014 is 63.

In Table 1 the number of the excluded II, AMC and CB is given for the period 2009-2014. The total number of the participants excluded from the investor compensation scheme for the period 2009-2014 is 41. In 2014 for the first time there were banks to be excluded – in total three of them. In contrast to the 6 excluded participants, there were no new ones to join the scheme in 2014.

**Table 1** Number of participants which left the investor compensation scheme

	2009	2010	2011	2012	2013	2014	Total:
II	3	9	5	4	3	3	27
AMC	-	6	1	4	0	0	11
CB	0	0	0	0	0	3	3

Source: ICF

As of December, 31<sup>st</sup> 2014 the Bulgarian intermediaries eligible to work on

the principal of free providing of services on the territory of the EU are 13, which means

that their number decreased by one in comparison with the same period of 2013. Three Bulgarian investment intermediaries have branches in the following European countries: Norway, Poland and Romania. One of those branches was established in 2014.<sup>9</sup> Investment intermediaries from

other EU member states could also provide investment services on the territory of the country through establishing a branch but also through free providing of services. Their number as of December, 31<sup>st</sup> 2014 is over 1500, of which 5 have established a branch office.<sup>10</sup>

## 2.3 CLIENTS' ASSETS MANAGED BY THE PARTICIPANTS

Fund's participants submit information on a monthly basis for their clients' assets that are held, administered and managed. This information includes data not only for clients' assets eligible to compensation but also for not protected assets' (the ones under art. 77d, para 2 from LPOS).

The sum of those assets shows the total amount of traded assets on the capital market through Bulgarian investment intermediaries. In Table 2 information for protected and unprotected clients' assets by groups of participants (II, CB, AMC) is presented, as of December, 31<sup>st</sup> of the corresponding year.

**Table 2** Clients' assets, managed by participants as of December, 31<sup>st</sup> of the respective year

By groups:	Protected clients' assets as of 31.12.2014	Protected clients' assets as of 31.12.2013	Change on an annual basis	Unprotected clients' assets as of 31.12.2014	Unprotected clients' assets as of 31.12.2013	Change on an annual basis
	(1)	(2)	[3=(1-2)/2]	(4)	(5)	[6=(4-5)/5]
FI - CB	950 232 820	1 673 211 811	-43%	12 821 061 915	12 073 094 144	6%
FI-II	518 387 331	585 135 111	-11%	3 507 038 036	3 264 979 078	7%
MFs-II	66 703 454	46 351 800	44%	26 062 211	19 523 837	33%
FI-AMC	42 319 463	20 444 066	107%	4 514 806	3 233 659	40%
MFs - AMC	1 754 302	304 706	476%	516 120	751 883	-31%
<b>TOTAL:</b>	<b>1 579 397 371</b>	<b>2 325 447 494</b>	<b>-32%</b>	<b>16 359 193 088</b>	<b>15 361 582 601</b>	<b>6%</b>

\*FI - financial instruments; MFs - monetary funds

Source: ICF

<sup>9</sup> According to a list of investment intermediaries that have the right to provide investment services on the territory of

other EU member-states, published on the internet website of the FSC.

<sup>10</sup> According to FSC's data.

The clients' assets, managed by the participants, as of December, 31<sup>st</sup> 2014 are in total 17,9 billion BGN of which 1,58 billion BGN are protected and 16,36 billion BGN are not protected.

The events in the financial sector in 2014 affected a lot the amount of the reported by banks-investment intermediaries clients' assets. Thus, the amount of 1,6 billion BGN financial instruments, managed by CB as of December, 31<sup>st</sup> 2013, decreased to 950 million BGN at the end of 2014. That brought the total amount of protected clients' asset to decrease to 1,58 billion BGN as of December, 31<sup>st</sup> 2014. In comparison with 31.12.2013 that amount was 2,34 billion BGN, which means with 32% less.

Although slight, but still a decrease, has been reported by II (11%), but only for the FI managed by them. The trend of holding more MFs as clients' assets remained, as II managed 44% more MFs as of December 31<sup>st</sup> 2014 in comparison with the previous year. The reason for that is probably the higher interest of investors to trade on electronic platforms for currency differences and financial derivatives.

An increase of MFs by AMC is also observed, but in absolute value it is 1,45 million BGN.<sup>11</sup> Thereby the total amount of the protected MFs is 68 million BGN which is by 47% more compared with the previous year.

The increase of unprotected clients' assets is only 6%. All participants reported an increase of the non-eligible to compensation clients' assets. An exception are AMC where the MFs are with 31% less.

The total amount of the clients' FI managed by CB is 13,77 billion BGN, from which 950 million BGN is the amount of the protected by the Fund FI, but 12,82 billion BGN are the unprotected FI.<sup>12</sup> The share of the protected FI in the total amount of eligible and non-eligible to compensation FI by CB is 7%. It is less than the one in 2013, because of the great decrease of the amount of the protected FI. The professional investors in CB hold 93% of all reported FI.

II hold FI (protected and unprotected) in a total amount of 4,025 billion BGN and MFs at amount of 92,77 million BGN. Thus the total clients' assets in II are 4,12 billion BGN.

<sup>11</sup>. From all 30 AMC, the ones that participate effectively in the Fund are 7. Five of them reported protected clients' assets.

<sup>12</sup>. Banks do not report MFs to the Fund because they are counted as deposits and thus are part of the scope of the DIF.

The share of the protected assets in the total amount of the clients' assets in II decreased as by the end of 2014 it is 13% or from 4,12 billion BGN clients' assets, held by II, only 13% are eligible to compensation by the Fund.

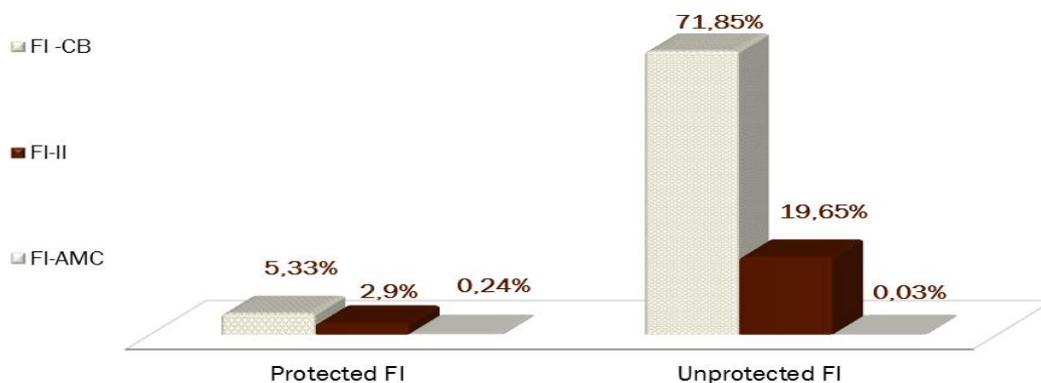
AMC hold about 49 million BGN protected and unprotected clients' assets, of which about 47 million BGN are FI and about 2 million BGN are MFs. The share of the protected by the Fund clients' assets in the total amount of eligible and non-eligible to compensation in the AMC is 90%.

According to art. 77s, para 1 from LPOS when the Fund's resources exceed 5% of the total amount of the clients' assets in all intermediaries, the contributions from the participants should be ceased. As of December, 31<sup>st</sup> 2014 the share of the accumulated resources by the Fund (13,31 million BGN) in the protected clients' assets

(1,58 billion BGN) is 0,8%. As of December, 31<sup>st</sup> 2014, 5% of the clients' assets are 79 million BGN (5% of 1,58 billion BGN). At the same time the Fund's resources increased only by 1,15 million BGN during the last year.

The amount of the FI (protected and unprotected) is 17,8 billion BGN. On Figure 7 the distribution of the eligible and non-eligible to compensation FI is presented. The share of the protected FI in the total amount of eligible and non-eligible to compensation clients' assets decreased, as of December, 31<sup>st</sup> 2014 it is approximately 8,5%. Compared to the end of 2013 it was 13%. That is due mainly to the decrease in the amount of the FI eligible to compensation. The increase of the amount of the FI out of the scope of the Fund, even a small one, is also a reason for the decrease of the share of the protected FI.

**Fig. 7**  
Distribution of FI by groups of intermediaries as of December, 31<sup>st</sup> 2014



Source: ICF

CB held 5,33% of all protected FI, as compared with 31.12.2013 they had been 9,5%, or with 4,2% less. The biggest share of the non-protected FI is also held by CB – 71,85% of all FI. II managed 2,9% of the protected FI and 19,765% of the unprotected. AMC held only 0,24% of the protected and 0,03% of the unprotected FI.

In Table 3 information about the protected FI of clients for some specific periods is provided. In the table three values for the protected FI are given: the lowest (918 million BGN), the highest (2,62 billion BGN) and the current value as of December, 31<sup>st</sup> 2014 (1,51 billion BGN).

It is interesting that the highest value of the FI is reported in February 2014. Since the start of the world financial crisis (2007-2008), when the FI traded by II reached 2,48 billion BGN, that has been the highest amount of FI, reported to the Fund. Because of some participants left the scheme these amount has decreased by 42%, and as of the end of the year it was 1,51 billion BGN (see “current value” in Table 3). Having in mind the above, it could be concluded that the process of recovering from the world financial crisis for the Bulgarian capital market is getting slowly.

**Table 3.** Protected clients’ assets

Clients’ FI	Date	Highest value	Lowest	Current value
	February, 2014	2 624 521 486		
	February, 2009		917 667 292	
	December, 2014			1 510 939 614
% of the highest value		100%	-65%	-42%

Source: ICS

On Figure 8 the average monthly amount of protected clients’ assets by years and participants is given.<sup>13</sup> It makes impression that in 2014 the average

monthly amount of the CBs’ FI decreased significantly. The reported FI by CB in 2014 are close to the values of 2010. After the increase in 2013, when CB held average monthly FI for 1,47 billion BGN, they reported a decrease of 41% in 2014, or 870 million BGN monthly average value.

<sup>13</sup>. In the amount of the monthly average values the FI reported by participants with withdrawn license during the year are not included, neither the ones of those being in a process of license withdraw as of December, 31<sup>st</sup> 2014.



Monthly average the protected FI, held by the II in 2014, are 476 million BGN, or this amount is with approximately 8% less compared with 2013.

The increase of the MFs' amount held by the II affected significantly their average monthly amount, as for 2014 it is 61 million BGN or with 30% more compared to 2013.

On the Figure the calculations for the AMC are not included because of the small amount of the assets managed by them. The monthly average amount of the FI held by AMC was 34 million BGN, and MFs - 1,98 million BGN.

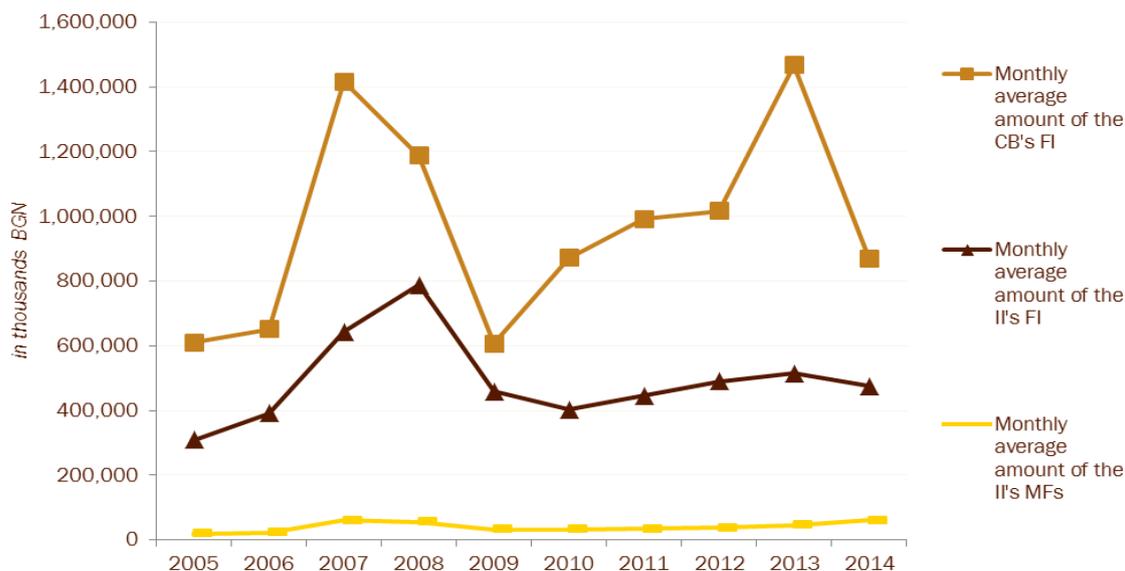
The calculation of the monthly average amount of the FI and MFs is a better indicator for the market condition over the

year. This is because in some months there are changes (seasonal increase/decrease of the traded assets) which do not reflect the real situation. From the increase or decrease of the monthly average amount of the clients' assets it could be drawn a conclusion for the situation on the capital market in Bulgaria.

The monthly average amount of the clients' assets is also a basis for determination of the Fund's participants contribution.

In 2014 the monthly average amount of all protected clients' assets is about 1,41 billion BGN. This amount is close to the one reported by the participants for their FI in 2011, when there was a slight recovery of the capital market.

**Fig. 8**  
Monthly average amount of the protected clients' assets



Source: ICF



In Table 4 the protected clients' assets, the stock exchange capitalization and GDP

are presented as of December 31<sup>st</sup> of the corresponding year.

**Табл. 4 Clients' assets, market capitalization and GDP as of December, 31<sup>st</sup>.**

	2008	2009	2010	2011	2012	2013	2014
Clients' assets eligible to compensation (million BGN)	1 314	1 259	1 322	1 612	2 091	2 325	1 579
Stock exchange capitalization (million BGN)	12 461	11 796	10 754	12 436	9 828	9 961	9 756
Ratio clients' assets/ stock exchange capitalization	11,00%	11,00%	12,00%	12,96%	21,28%	23%	16%
GDP (million BGN)	69 295	68 322	70 474	75 265	77 323	79 454	78 722
Ratio stock exchange capitalization/ GDP	18,00%	17,00%	15,00%	16,52%	12,71%	12,50%	12,40%

Source: website of BSE, ICF.

As of December, 31<sup>st</sup> 2014 the stock exchange capitalization was 9,76 billion BGN. Compared with the end of 2013 it was with 2,1% less. The GDP also decreased compared with 2013, as of December, 31<sup>st</sup> 2014 it is 78,7 billion BGN. Thus the ratio of the stock exchange capitalization to GDP stays almost at the same level as in 2013, as of December, 31<sup>st</sup> 2014 it was 12,4%.

As a result of the decrease of the amount of the protected assets, their share in the stock exchange capitalization also decreased, as of December, 31<sup>st</sup> 2014 it was 16% or with 7% less compared with 2013. The total amount of the clients' assets held by participants is 17,9 billion BGN. That amount is higher than the stock exchange capitalization because it includes also foreign financial instruments.



## 2.4 EXPOSURE TO THE PARTICIPANTS

The exposure of the Fund to the participants is assessed on semiannual basis. It is based on the information for the number of clients and their assets reported by the participants. The calculation of the amount of the eventual compensation which the Fund could pay to the clients of each participant, gives the opportunity to assess to what extent the eligible resources in the Fund would be enough to pay some of those claims.

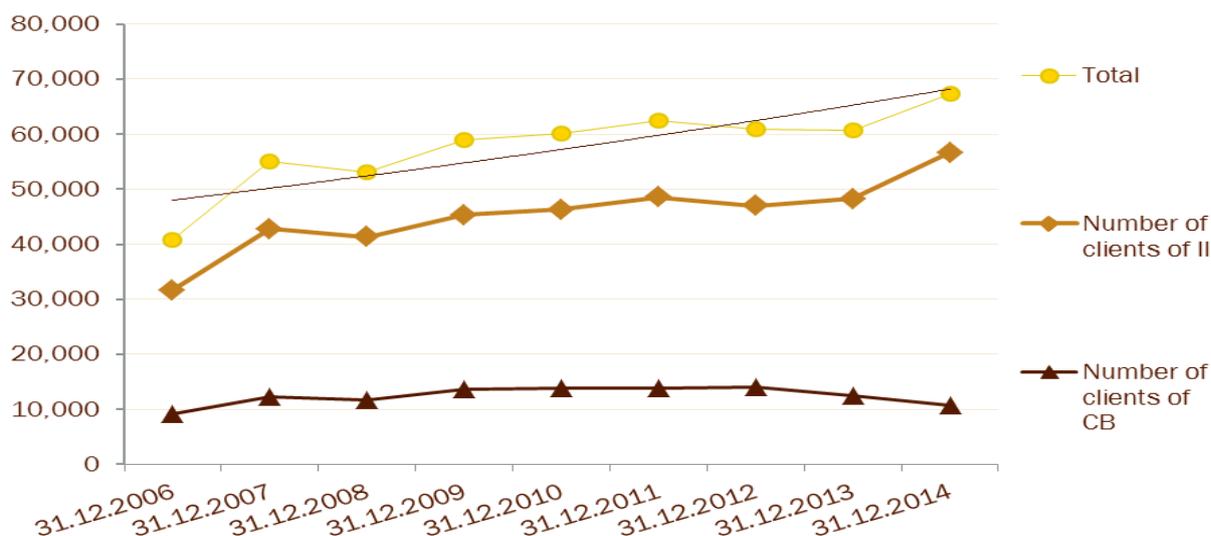
The number of the clients in all participants as of December, 31<sup>st</sup> 2014 is 67 556, which is with 6 765 more clients

compared to the previous year. This has been the highest number of clients reported to the Fund so far.

On Figure 9 the number of investors eligible to compensation is presented as of December, 31<sup>st</sup>, by groups of II for the period 2006-2014.

The increase of the total number of clients is due to the increase of the number of investors in the group of II which by the end of 2014 reported 56 666 clients. In comparison, the CB which are actually managing clients' assets almost twice more than the other Fund's participants, reported only 10 701 clients. This has been the lowest number of clients for banks reported since 2006.

**Fig. 9**  
Number of clients by groups of intermediaries



Source: ICF



That affirms the tendency CB to manage significant amount of assets of a small number but more wealthy investors.

The number of AMCs' clients is the lowest one - 189, therefore it is not presented on Figure 9.

The data shows that a possible reason for attracting new clients by II is the growing interest to high risk investments, like the ones of the electronic trading platforms.

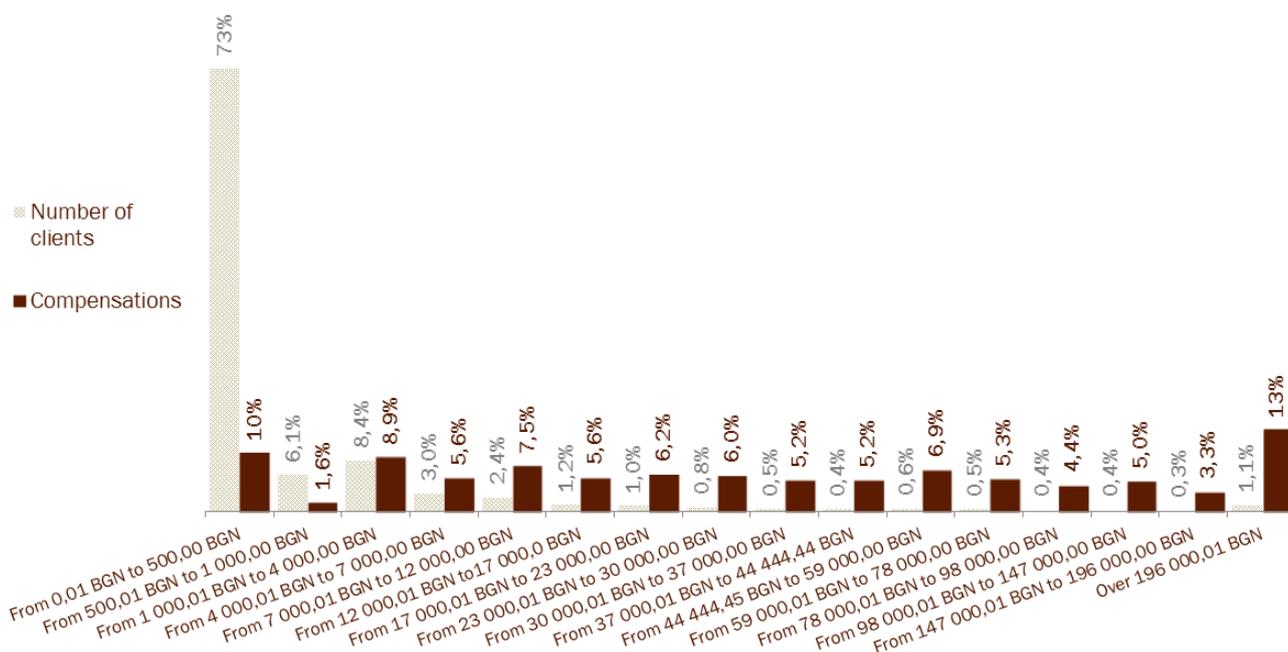
The higher number of investors affected the calculated maximum

compensation in the Fund.<sup>14</sup> As of December, 31<sup>st</sup> 2014 the maximum compensation for the clients of all participants is 228,6 million BGN or this is with 12,6 million BGN more compared with 31.12.2013.

On Figure 10 the distribution of the number of protected clients as well as the calculated maximum compensation is given by groups of clients' assets.

**Fig. 10**

Distribution of maximum compensation and number of clients, by groups clients' assets



<sup>14</sup> The maximum compensation to the clients of one investment intermediary is calculated as 90% of the amount of clients' assets but not more than 40 000 BGN per investor. The calculations are based on the information provided by intermediaries as of December, 31<sup>st</sup> 2014.

Due to the assumption that clients hold assets at the amount equal to the amount in the upper range where they fall, thus the estimated compensation payment is increased.

The highest number of investors (73%) is in the first group with assets up to 500 BGN. The compensation calculated for them is 10% of the total amount or 22 million BGN. The biggest amount of resources would be necessary for investors with assets at amount over 196 thousands BGN. The compensation calculated for them is 13% of the total compensations or in absolute value this is 31 million BGN. Those clients are actually 1,1% of all investors protected by the Fund.

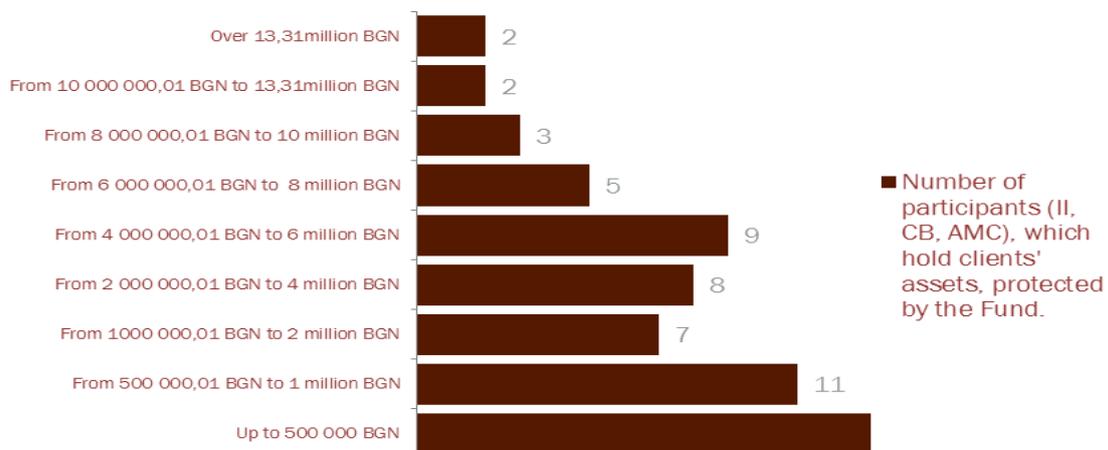
Due to the high number of investors (56666) the Fund exposure to II is also the highest one - 163,2 million BGN. 138 million BGN of them is the exposure of the Fund to the clients of II with full license, which number is 50 390. The exposure of the Fund

to the clients of all CB is approximately 61,45 million BGN for 10 701 clients. The compensation assessed for the AMC's clients is 3,9 million BGN. As of December 31<sup>st</sup> 2014 the amount of the calculated maximum compensation is 228,6 million BGN, where the accumulated resources by the Fund are 13,31 million BGN, which means that the Fund has resource equal to 5,8% of the amount of the total compensations.

The amount of all compensations is about 14,5% of the protected clients' assets (1,58 billion BGN).

On Figure 11 the distribution of compensation payments to each participant is presented by ranges up to the available resources in the Fund.

**Fig. 11**  
Number of participants depending on the Fund's exposure to their clients



The total number of the active Fund's participants is 63. There are 5 AMC included on the figure. The participants which as of December, 31<sup>st</sup> 2014 reported no clients (5), are not taken into consideration.

It is clear from the Figure that the biggest number of intermediaries are in the range with compensations up to 500 thousands BGN – 16, of which 9 II, 3 CB and 4 AMC. They are followed by the range of up to 1 million BGN – 11 participants, of which 8 II and 3 CB.

For 2 II the calculated compensation is more than the available Fund's resources. In case of a failure of one of those intermediaries the Fund could be forced to accumulate additional resources for covering the shortage. In the same time the Fund's resources would be enough for compensation payments to the clients of several intermediaries all at once, to which the Fund's exposure is smaller.

In Appendix 2 the distribution of the number of clients eligible to compensation is given by groups of clients' assets for II and CB.

The MFs held by the participants are presented separately below, because they are exposed to higher risk of loss compared with FI.

As of December, 31<sup>st</sup> 2014 the total amount of the protected MFs of II and AMC

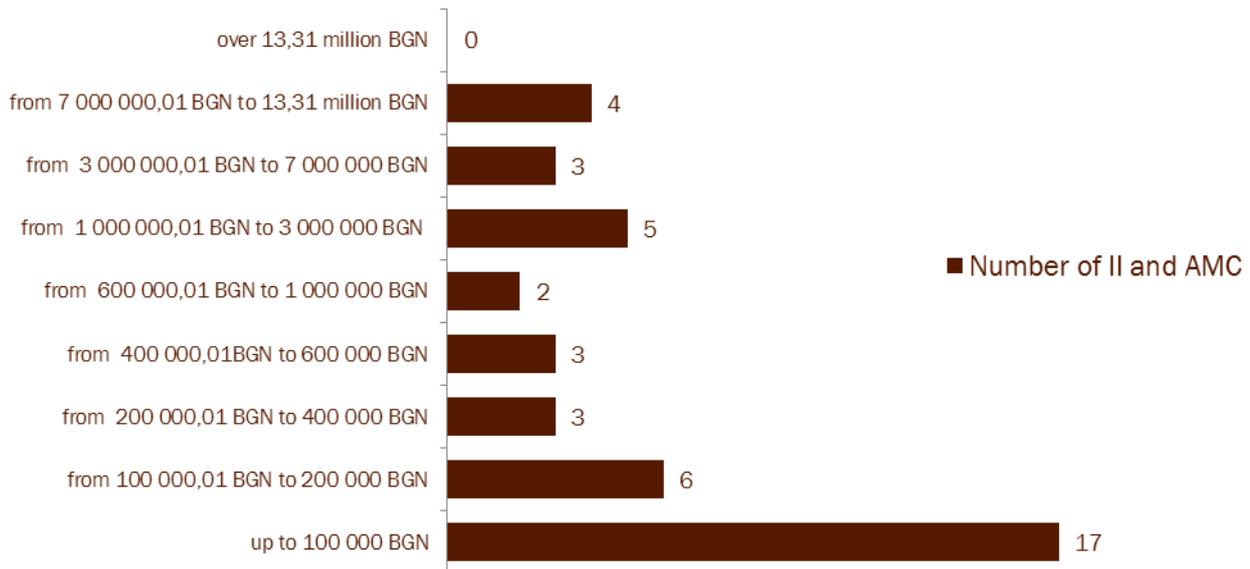
is 68 million BGN. There is an increase of 47% on an annual basis which shows that the tendency to attract and hold more MFs for clients' assets continues. The MFs held by II as of December, 31<sup>st</sup> 2014 are 66 million BGN, and by AMC – approximately 2 million BGN.

The amount of the unprotected MFs is about 27 million BGN. Compared to December, 31<sup>st</sup> 2013 the total amount of the protected and unprotected MFs has increased from 67 million BGN (as of 31.12.2013) to 95 million BGN (as of 31.12.2014) or this is an increase by 42%.

On Figure 12 a distribution of II and AMC is presented according to the protected MFs hold by them. It could be seen from the Figure that 40% of the participants hold clients' MFs up to the amount of 100 thousands BGN. The number of the participants in the range up to 200 thousand BGN is 6. In the group up to 3 million BGN their number is 5. 4 II hold MFs in the range from 7 to 13,31 million BGN. Equal number of participants (three) hold money of clients in the ranges up to 400 thousands BGN, up to 600 thousands BGN and up to 7 million BGN.

There isn't any participant whose MFs are more than the accumulated resources of the Fund.

**Fig. 12**  
MFs by II and AMC, as of December, 31<sup>st</sup> 2014<sup>15</sup>



## 2.5 INTERNATIONAL ACTIVITY

In 2013 a document of importance for the EU was published, and namely that was Regulation 575/2013 on prudential requirements for credit institutions and investment firms. As a result, later in June 2014 a directive for establishing a framework for recovery and restructuring of credit institutions and investment intermediaries was approved, which had to be transposed in the national legislation of member-states on a very short notice – by December, 31<sup>st</sup> 2014.

Similar legislative measures were undertaken in USA by the Dodd-Frank Act in 2010. Those measures aim at maintain the financial stability and use of non-public funds for recovering banks and investment intermediaries. The Directive foresees a set of instruments for management and prevention of financial crises.

The approval of this directive turned out to be a challenge for all member-states of EU

<sup>15</sup> The number of the participants on the Figure is 43, as in the range up to 100 thousand BGN the II with zero amount of the MFs are not included. CB do not report information to the Fund about their MFs.

including Bulgaria. The difficulties concern mainly the fact that its transposition would change to a great extent the acting legislation in that field.

Also a new directive on deposit insurance schemes was approved which significantly changes the mandate and functions of the schemes.

Despite the fact that in the end of 2013 the discussion on investor compensation scheme's directive was ceased, as a result of what was achieved in the two new directives it is expected that the discussions for changes in it will be reopened.

In 2014 representatives of the Fund participated in international meetings, seminars and working groups along the participation of the Fund in the European forum for deposit insuraers (EFDI), and also in conferences, organized by the International association of deposit insurers (IADI).

In September 2014 Fund's representatives participated in the annual meeting of EFDI, which took place in Bucharest, Romania. As standard practice there was also an annual conference within the meeting. The main topic of the conference was in regard of the two new directives and the challenges of implementing them in the national legislation of the member-states. The meeting provided opportunities for exchange of information and experience among the various schemes.

Having in mind the specific activity of the investor compensation schemes, the exchange of information and experience at international level has significant importance for their development. That is why the international collaboration is of priority for the Fund, because it has an important role for improving its activity in the field of investor compensation.



## 4. THE INVESTOR COMPENSATION FUND IN 2015

In 2015 the Investor compensation fund will celebrate 10 years of its establishment. During this time it has gained ground as an institution which works actively for improving the legislative framework and maintaining resources for eventual future payments of compensations.

In 2015 it is expected that the procedure of dropping out the scheme of two more participants will be finalized. For one of them the license withdrawn by the FSC will be because of a constant problems in its financial position. That would be the first case of compensation payment by the Fund since its establishment. In connection with that, actions were already undertaken by the Fund for providing smoothly payment of compensations to the clients of the intermediary.

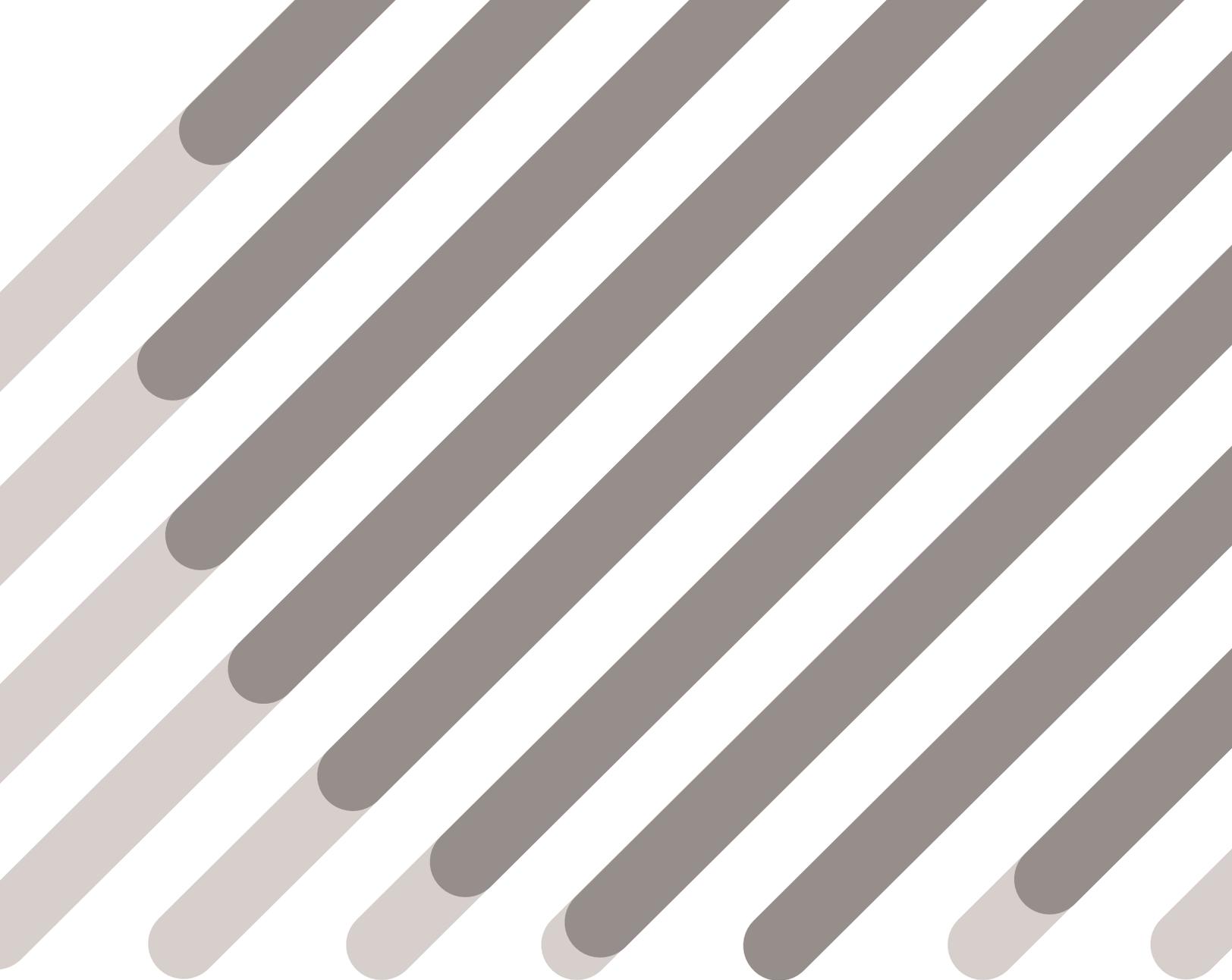
In 2015 the main Fund's activity will continue to be the protection of investors in financial instruments by providing compensation payment in line with the legal requirements. In order to provide grounds for its main activity in 2015 the Fund will gather and invest its resources in line with the legal requirements, the approved investment policy and the market situation.

In 2015 the Fund will continue to develop its data base system, as automating the process of preparation clients' assets analyses for the clients' assets and its

exposure. The new system is expected to eliminate the probability of mistakes, and also to allow faster processing of the information as well as its more effective supervision. In 2015 a new website of the Fund is also to be started. It will have a new design and will be entirely changed, so that it will provide easier access to the barest necessary information about Fund's activity and its goals.

In 2015 the Fund will continue making and maintaining contacts with investor compensation schemes of EU and other countries. Representatives of the Fund will participate in international meetings, seminars and working groups, in line with the financial safety net. Those participations contribute for raising the qualification and knowledge of the representatives. The accumulated experience from international meetings contributes for the development of the Fund's activity and for its preparation for meeting future compensation payments.





APPENDICES  
INVESTOR COMPENSATION  
FUND



FD

## INVESTMENT INTERMEDIARIES

1 ABC FINANCE EAD	24 FACTORY AD
2 ABV-INVESTMENTS EOOD	25 FAVORIT AD
3 ADAMANT CAPITAL PARTNERS AD	26 FH EVER AD
4 ALARIC SECURITIES OOD	27 FINA-S AD
5 AVAL IN AD	28 FIRST FINANCIAL BROKERAGE HOUSE OOD
6 AVUS CAPITAL OOD	29 FOCAL POINT INVESTMENTS AD
7 BALKAN CONSULTING COMPANY EAD	30 INTERCAPITAL MARKETS AD
8 BALKAN INVESTMENT COMPANY AD	31 KAROL AD
9 BENCHMARK FINANCE AD	32 POZITIVA AD
10 BETA CORP AD	33 REAL FINANCE AD
11 BG RPOINVEST AD	34 SOMONI FINANCIAL BROKERAGE OOD
12 BMFN EAD	35 SOFIA INTERNATIONAL SECURITIES AD
13 BUL TREND BROKERAGE OOD	36 STANDARD INVESTMENTS AD
14 BULBROKERS EAD	37 STATUS INVEST AD
15 CAPITAL INVEST EAD	38 TBI INVEST EAD
16 CAPITAL MARKETS AD	39 UG MARKET AD
17 CAPMAN AD	40 VARCHEV FINANCE EOOD
18 D.I.S.L. DECURITIES AD	41 ZAGORA FINACORP AD
19 DE NOVO EAD	42 ZLATEN LEV BROKERS OOD
20 DEALING FINANCIAL COMPANY AD	
21 DELTA STOCK AD	
22 ELANA TRADING AD	
23 EURO-FINANCE AD	

**BANKS – INVESTMENT INTERMEDIARIES**

1. ALLIANZ BANK BULGARIA AD
2. BULGARIAN-AMERICAN CREDIT BANK AD
3. BULGARIAN DEVELOPMENT BANK AD
4. CENTRAL COOPERATIVE BANK AD
5. CIBANK AD
6. COMMERCIAL BANK VICTORIA EAD
7. D COMMERCIAL BANK EAD
8. DSK BANK EAD
9. EUROBANK BULGARIA AD
10. FIRST INVESTMENT BANK AD
11. INTERNATIONAL ASSET BANK AD
12. INVESTBANK AD
13. MUNICIPAL BANK AD
14. PIRAEUS BANK BULGARIA AD
15. RAIFFEISENBANK (BULGARIA) AD
16. SOCIETE GENERALE EXPRESSBANK AD
17. TBI BANK EAD
18. TEXIM BANK AD
19. TOKUDA BANK AD
20. UNICREDIT BULBANK AD
21. UNITED BULGARIAN BANK AD

## ASSET MANAGEMENT COMPANIES

1	AVRORA CAPITAL AD	16	KAROL CAPITAL MANAGEMENT EAD
2	ACTIVA ASSET MANAGEMENT AD	17	KD INVESTMENTS EAD
3	ALFA ASSET MANAGEMENT COMPANY EAD	18	KTB ASSET MANAGEMENT EAD
4	ARKUS ASSET MANAGEMENT AD	19	MUNICIPAL BANK ASSET MANAGEMENT EAD
5	ASTRA ASSET MANAGEMENT AD	20	RAIFFEISEN ASSET MANAGEMENT (BULGARIA) EAD
6	BENCHMARK ASSET MANAGEMENT AD	21	REAL FINANCE ASSET MANAGEMENT AD
7	BALKAN CAPITAL MANAGEMENT AD	22	SAGLASIE ASSET MANAGEMENT AD
8	CAPMAN ASSET MANAGEMENT AD	23	SENTINEL ASSET MANAGEMENT AD
9	CCB ASSET MANAGEMENT AD	24	SOMONI ASSET MANAGEMENT AD
10	DSK ASSET MANAGEMENT AD	25	STATUS CAPITAL AD
11	ELANA FUND MANAGEMENT AD	26	TBI ASSET MANAGEMENT EAD
12	EXPAT ASSET MANAGEMENT AD	27	UBB ASSET MANAGEMENT AD
13	FIRST FINANCIAL BROKERAGE HOUSE ASSET MANAGEMENT AD	28	UG MARKET FUND MANAGEMENT AD
14	INVEST CAPITAL EAD	29	VARCHEV MANAGING COMPANY EAD
15	INVEST FUND MANAGEMENT AD	30	ZLATEN LEV CAPITAL AD

Appendix 2

Distribution of the number of the protected clients and the potential compensation, by groups of clients' assets, for II and CB, as of December, 31<sup>st</sup> 2014

Clients' assets by groups	Number of clients of II		Compensation for II <i>(in BGN)</i>		Number of clients of CB		Compensation for CB <i>(in BGN)</i>		Total number of clients		Total compensation <i>(in BGN)</i>	
From 0,01 BGN to 500,00 BGN	43 653	77%	19 643 850	12%	5 584	52%	2 512 800	4%	49 237	73%	22 156 650	10%
From 500,01 BGN to 1 000,00 BGN	2 641	5%	2 376 900	1%	1 452	14%	1 306 800	2%	4 093	6%	3 683 700	2%
From 1 000,01 BGN to 4 000,00 BGN	4 233	7%	15 238 800	9%	1 433	13%	5 158 800	8%	5 666	8%	20 397 600	9%
From 4 000,01 BGN to 7 000,00 BGN	1 520	3%	9 576 000	6%	489	5%	3 080 700	5%	2 009	3%	12 656 700	6%
From 7 000,01 BGN to 12 000,00 BGN	1 201	2%	12 970 800	8%	380	4%	4 104 000	7%	1 581	2%	17 074 800	8%
From 12 000,01 BGN to 17 000,0 BGN	666	1%	10 189 800	6%	171	2%	2 616 300	4%	837	1%	12 806 100	6%
From 17 000,01 BGN to 23 000,00 BGN	524	1%	10 846 800	7%	150	1%	3 105 000	5%	674	1%	13 951 800	6%
From 23 000,01 BGN to 30 000,00 BGN	391	1%	10 557 000	6%	110	1%	2 970 000	5%	501	1%	13 527 000	6%
From 30 000,01 BGN to 37 000,00 BGN	248	0%	8 258 400	5%	103	1%	3 429 900	6%	351	1%	11 688 300	5%
From 37 000,01 BGN to 44 444,44 BGN	236	0%	9 440 000	6%	61	1%	2 440 000	4%	297	0%	11 880 000	5%
From 44 444,45 BGN to 59 000,00 BGN	304	1%	12 160 000	7%	83	1%	3 320 000	5%	387	1%	15 480 000	7%
From 59 000,01 BGN to 78 000,00 BGN	216	0%	8 640 000	5%	77	1%	3 080 000	5%	293	0%	11 720 000	5%
From 78 000,01 BGN to 98 000,00 BGN	161	0%	6 440 000	4%	83	1%	3 320 000	5%	244	0%	9 760 000	4%
From 98 000,01 BGN to 147 000,00 BGN	191	0%	7 640 000	5%	86	1%	3 440 000	6%	277	0%	11 080 000	5%
From 147 000,01 BGN to 196 000,00 BGN	126	0%	5 040 000	3%	54	1%	2 160 000	4%	180	0%	7 200 000	3%
Above 196 000,01 BGN	355	1%	14 200 000	9%	385	4%	15 400 000	25%	740	1%	29 600 000	13%
<b>TOTAL:</b>	<b>56 666</b>	<b>100%</b>	<b>163 218 350</b>	<b>100%</b>	<b>10 701</b>	<b>100%</b>	<b>61 444 300</b>	<b>100%</b>	<b>67 367</b>	<b>100%</b>	<b>224 662 650</b>	<b>100%</b>