TEN YEARS IN RETROSPECT

1993 – 2003

National Deposit Insurance Fund of Hungary

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NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

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Dear Reader,

An institution may celebrate its tenth anniversary in several ways. We decided to use this opportunity to reflect on, summarise and present the history of our first ten years to a wider audience. This publication was principally prepared for a professional readership. We believe this remedies a shortcoming since so far we have relatively rarely talked about ourselves and even then were tight-lipped, especially towards representatives of the profession. Perhaps this is not such a big problem in the case of an institution like the National Deposit Insurance Fund (NDIF), which is active and more visible during crises. However, it is even more important to utilise the increased interest surrounding such an anniversary to share news with a wider public.

Although it was us, the NDIF staff, who wrote down our history, we sincerely endeavoured to remain objective. By no means do we want to close the analysis and evaluation of the past ten years. On the contrary, with this publication we would like to encourage more professionals to pay attention to the matter of deposit insurance. For this reason, in the Appendix we have provided extensive information, both quantitative and textual, for all those who are interested in the details.

Nevertheless, continuing the analysis is even more important because we are aware of the shortcomings of our publication. We did not have time to pay closer attention to the theoretical background of deposit insurance by the deadline set by the anniversary and we were only able to compare domestic and international practices to a limited extent. Deposit insurance is essentially a financial activity, therefore figures and accounting data are indispensable if we want to present it. We hope that you will enjoy reading the chapters richly illustrated with figures and numbers too, because this information can give an even more precise and credible picture of Hungarian deposit insurance activity than just words.

We would like to express our thanks to all those who contributed to this publication: the staff of the National Deposit Insurance Fund, the members of the Board of Directors, the members of the editorial board and the reviser.

Budapest, October 2003

Dániel Jánossy
Managing Director

Dr. Tamás Kálmán
Chairman of the
NDIF Board of Directors

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I. DEPOSIT INSURANCE AND THE NDIF [1] IN A NUTSHELL

What is deposit insurance? In simple terms: protection for the depositor when the bank is unable to pay. In such a case, the deposit insurance system indemnifies depositors, of course, only in places where such an institution exists. The extent of the indemnification varies country by country. In many countries – in fact, in the majority of developed countries – deposit insurance is now an indispensable element in the so-called financial safety net, which supports the stability of the financial system.

The primary links of this safety net are the special legal regulation framework, the strict authorisation and supervisory system and the internal decision-making and control mechanisms of the banks. Further stabilising factors are the interbank institutions such as the interbank money market, which purposefully moves money and information around, as well as the registration of debtors. As a lender of last resort, the central bank may also provide assistance. If the aforementioned links of the safety net are not even able to prevent a bank from becoming insolvent – a very rare event in a basically healthy banking system – then deposit insurance steps onto the scene as a last resort for depositors.

The primary goal of Hungarian deposit insurance is to protect small depositors and those saving money who are less familiar in the area of finance. Banks are obliged to join the deposit insurance system and pay the set premium, so that if any bank becomes insolvent there will be sufficient funds available to indemnify depositors. Consequently, while the insurance itself is financed by the bank, the beneficiary is the depositor. For the majority of depositors, the statutory coverage limit covers all or almost all of their deposited funds, despite the current restrictions on the coverage amount. Therefore, if any bank becomes insolvent, deposit insurance is capable of preventing the outbreak of panic or at least the rippling effect thereof, and in this way can contribute to maintaining the stability of the financial system.

1 NDIF: National Deposit Insurance Fund of Hungary

Deposit insurance is not the same as the State guarantee offered by the former centralised economic-financial system in Hungary. Its extent is determined by the coverage limit set forth by law, however, it does not differentiate between depositors – it protects the deposits of both natural persons and legal entities. For the cautious-minded, deposits can be a safe form of investment since on the one hand, legal regulations do not permit the collection of deposits by institutions that are not members of the NDIF and on the other hand, the NDIF member institutions essentially only collect insured types of deposit. This is because since the end of 2001 it has not been possible to place non-insured, anonymous deposits and, in compliance with European Union guidelines, deposit insurance also covers credit institution bonds and certificates of deposit purchased from 2003.

However, the aggregate limit of coverage on deposits placed at a credit institution by the same depositor is still valid as a basic feature of deposit insurance. In the Hungarian deposit insurance system, this limit remained at HUF 1 million for 10 years. This was a significant level of protection both compared to income and on an international scale in 1993, however, its value has withered over the past ten years. From 2003, the limit rose to HUF 3 million and from the date of EU accession it will further increase to HUF 6 million, in compliance with the aforementioned EU guidelines.

Parallel to increasing the limit to HUF 3 million, the concept of a 10% "depositor co-insurance" entered into force, but only for reimbursement exceeding HUF 1 million. The purpose of this is to increase the liability of depositors, albeit to a limited extent, i.e. taking courage from the higher coverage limit and yielding to the temptation of significantly higher interest, depositors should not undertake extra risk when investing their money. [2]

The trustee of deposit insurance in Hungary is the National Deposit Insurance Fund (NDIF or the Fund). The NDIF established in 1993 is an independent legal entity and falls under the supervision of the State Audit Office in terms of finance and accounting. Its activity is currently regulated by Act CXII of 1996 (credit institutions). The latest amendment – affecting deposit insurance – entered into force on 1 January 2003. Deposit-collecting credit institutions are compulsory members of the NDIF. The governing body of the NDIF is the Board of Directors consisting

2 Those interested in the details of deposit insurance conditions will find in the appendix the most important legal regulations on deposit insurance along with the current version of the NDIF's Guide to deposit insurance, which can be found at each of the member institutions.

of six members: the Administrative Under-Secretary of the Ministry of Finance, the Vice-President of the National Bank of Hungary, the Chairman of the Hungarian Financial Supervisory Authority, the Secretary-General of the Hungarian Banking Association, a Board Member of the National Federation of Savings Co-operatives representing credit institutions, and the Managing Director of the NDIF, along with their permanent deputies. The Board elects a chairman and a vice-chairman each year.[3]

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3 A list of Board officials and members to date is included in the Appendix.

II. DEPOSITOR PROTECTION YESTERDAY, DEPOSIT INSURANCE TODAY

1. Short history of international regulations on the safety of deposits[4]

The crisis, shaking or collapse of the banking system or certain large banks very often accompanied economic development, and economic fluctuations, which accelerated from the 19th century. Bankruptcies and especially the related losses of small depositors increasingly highlighted the need for preventing such losses or mitigating the consequences of such collapses once they occur.

As a result of these endeavours, the regulation and supervision of credit institutions gradually became more and more stringent. The economic situation after World War One and later the world economic recession significantly contributed to the expansion of State influence. Importantly, it was realised in the second half of the 20th century that the banks of the world are strongly interdependent, and therefore it was neither possible nor sufficient to confine their supervision within national borders. Consequently, the committee formed under the auspices of the Bank for International Settlements (BIS) prepared an agreement on the international principles of banking supervision, which later became known as the Basel Accord. Another upshot of the collapse of credit institutions was the creation of the legal, financial and institutional conditions for mitigating damage, initially in a few countries then the process took off – from the last quarter of the 20th century – in many other countries.

In respect of the guarantee elements protecting the safety of deposits, the regulation on *savings banks* and the protection of *savings deposits f*orm separate chapters. Originally, savings banks were considered non-profit, welfare institutions. They held the savings of low-income people and the safety of their deposits had to be ensured. For this reason, it seemed natural – even in countries pursuing an otherwise free economic policy – that the State should adopt regulations to protect the deposits (savings deposits) placed at private and public savings banks. For example, in many instances it was ordered that savings deposits may only be accepted

4 For details please see the doctoral thesis of Dr Elemér Terták on the same topic.

by financial institutions that are part of a supervisory framework. This procedure was adopted by a 1924 Act in Czechoslovakia, and moreover, it obliged savings banks to create a common fund, whose function was to settle the liabilities of any member experiencing difficulties. Thus Czechoslovakia became one of the pioneers of modern deposit insurance.

In light of the fact that the legislators in certain countries considered it necessary to prescribe appropriate regulations from the very beginning to protect the security of savings deposits, it is strange that the issue of protecting *deposits held in banks* was barely touched upon for a long time. The banking crisis in the United States, which rose to catastrophic proportions from 1930 – the bankruptcy of nearly ten thousand banks – undermined confidence in the banking system, and panic outbreaks were rather frequent, involving throngs of people descending on their banks. Taking this into account, it is not surprising that the United States took the first step to protect depositors at institutional level by making *deposit insurance* compulsory and, in the Banking Act of 1933, by establishing an institution to ensure the security of deposits under the name of the Federal Deposit Insurance Corporation (FDIC). The FDIC insured and still insures depositors per person and per credit institution up to a certain limit. In response to concerns that deposit insurance would indirectly support badly managed banks, the FDIC along with other federal institutions built up an extensive supervisory structure.

From the perspective of the Hungarian deposit insurance system, the next significant event was that the need for international harmonisation of deposit insurance arose in the European Community. Deposit insurance systems operated in Germany from 1974, in Spain from 1977, in France and Holland from 1980, in Great Britain from 1982 and in Belgium from 1985, however, these systems differed significantly. In some of the countries the system was State-run, while in others it was established by private enterprises. Membership was mandatory in some countries while in others it was voluntary. There were big discrepancies in limits and product ranges in respect of both premium payments and insurance protection. Commission Recommendation No. 87/63/EEC outlined the basic principles of minimum harmonisation.

Western Europe took another step in the area of deposit insurance in the mid 1990s when after long preparatory work, Directive No. 94/19/EEC entered into force on 1 July 1995. The new directive made joining the deposit insurance system a condition for collecting deposits. There should be at least one deposit insurer in each country. In respect of branches, the directive stipulated the principle of home country insurance, whereby if the level of insurance is higher in the host country than that of the country in which the branch is authorised, in the latter the lower level should be applied. This "export ban" was later eliminated. Based on the directive, the upper limit of protection was 20,000 ECU (or today EUR) per credit institution and depositor from 31 December 1999 at the latest. Within that the directive permitted a limitation on protection of not more than 10%, i.e. the co-insurance to be born by depositors.

By the end of 1995, three of the East European countries (Hungary from 1993, the Czech Republic from 1994 and Poland from 1995) had established the deposit insurance institution prescribed by the directive. In this region, the establishment of new deposit insurance institutions and harmonisation with the EU were accelerated by the fact that the majority of the countries joining the EU in 2004 belong to this region.

2. Short summary of Hungarian regulations on the safety of deposits until the foundation of the NDIF

The second half of the 19th century brought an economic boom for Hungary, which at that time was part of the Austro-Hungarian Monarchy. Financial institutions flourished, yet from time to time they also had to cope with crises. In terms of our topic, an important event of this era was the establishment of the Post Office Savings Bank (Postatakarékpénztár), which was easily accessible for small depositors across the country, was run and guaranteed by the State, and fell under the supervisory authority of the State Audit Office. The amount of interest-bearing deposits that could be placed at the Post Office Savings Bank was maximised, and in order to adhere to this limit, each depositor could only have one savings book.

In Hungary it was common knowledge even before World War One that the country's banking system was in need of reform. The government frequently had to restructure credit institutions in difficulty, especially in the countryside, in order to protect the local market from larger repercussions. In response to this, the Financial Institution Centre (FIC) was created which started operations on 30 June 1916 with 1,261 member institutions. Its task was to supervise the member institutions, review their operations and, if necessary, restructure or liquidate them.

At the beginning of the 1920's, the FIC Act was amended and prescribed that financial institutions collecting deposits had to be reviewed, i.e. the use of the deposited funds had to be checked in the public interest. New deposits could not be added to savings books at private banks at all, and even financial institutions limited by shares and co-operatives could only accept such deposits if they were members of the FIC. During its operations, the FIC took over the assets of 154 organisations (of which 107 were financial institutions) for the purposes of crisis management, and 111 of these cases were closed by the end of 1940.

Due to the rippling effects of the Austrian then German banking crises in 1931 which were also felt in Hungary, the government was forced to order financial institutions to keep their cash desks closed for three days in July 1931. In addition to the activity of the FIC, the establishment of the Hungarian Guarantee Bank was aimed at mitigating the crisis. During the 1931 savings and loan crisis and the following economic recession, the bank granted credit secured by bills of exchange which although did not comply with the strict conditions for creditworthiness, still they were considered sufficient security for the amount of the disbursed loan. As a result it provided much assistance to financial institutions that were still rated as viable. The administrative tasks of the bank were handled by the FIC.

After World War Two, the formation of a one-level banking system similar to that of the Soviet Union commenced, which was based on specialised banks. An important step of this process was to nationalise the Hungarian shares of financial institutions that operated as joint stock companies. The savings division of the Post Office Savings Bank was merged with the branch network of other banks – mainly from outside Budapest – to create the National Savings Banks Corporation (OTP). This company “inherited” the deposits held at the merged institutions. Credit co-operatives were forced to merge with each other and the remaining companies were liquidated.

The decree law on savings deposits and the rights of depositors was adopted in 1952. This law declared a State guarantee for savings deposits: “the State shall guarantee the repayment of savings deposits”. The institution of the State guarantee was reinforced by Act IV of 1959 on the Civil Code. In the 1970s, the State guarantee was also extended to deposits on foreign exchange accounts. In contrast to the afore-mentioned guarantee of the Post Office Savings Bank, there was no upper limit to the State guarantee and nor did the savings deposit have to be registered in order to be guaranteed. It should be noted, however, that at that time there was no other alternative opportunity for placing deposits besides the OTP (until 1982, rural savings co-operatives which could be re-established from 1957 were under the control of the OTP).

In Hungary, the reform of the banking system started quite early, years before the socio-economic changes: in 1987, the majority of the commercial banking functions were separated from the National Bank of Hungary. By establishing large commercial banks and parallel to this by creating many smaller banks, the banking system was decentralised. In 1989, the restrictions separating corporate (entrepreneurial) and retail banking activities were completely removed.

From the beginning of the 1990s, the changes to ownership structures in the economy, the multiplication of players in the economy and the appearance of tens of thousands of new entrepreneurs increased the risks of banks. The collapse of the Eastern European markets contributed to this, which for several large corporations meant the loss of their traditional markets. This would have been a trial even for a mature banking system armed with several decades of experience in market and regulation issues, let alone the Hungarian banking system which was a newcomer to the market economy. Apart from the general difficulties of the economic environment, there were also concrete and direct reasons for the collapse of credit institutions such as unsuccessful business policies, incompetence and irresponsible behaviour on behalf of management, etc. Although the reasons were different, bankruptcies always had similar consequences: the bank which collapsed could not re-pay the money to their depositors.

Under these circumstances it became increasingly evident for the government that full-scale guarantees for a certain group of deposits or depositors were unsustainable. On the one hand, if the central budget continued to protect depositors unconditionally without restriction, this might imply to them that lodging a deposit is completely risk-free. Thus depositors would not care about where to place their money and they would only monitor the interest. Such a regulation would support the excessive – sometimes even irresponsible – assumption of risks, since risk-taking banks offering high interest would be able to collect deposits far more easily than banks adopting a prudent policy. But the costs of determining deposit protection too broadly would have to be borne fully by taxpayers in the case of a credit institution bankruptcy. The huge conditional budgetary liability derived from State guarantees made the changes urgent, but without affecting "vested rights".

From another perspective, the scope of the State guarantee was too narrow in the social and economic environment which in the meantime had changed to a great extent: it covered neither the deposits of several hundreds of thousands of self-employed business owners, nor those of business associations and other legal persons. This unprotected status encouraged the depositors of the Ybl Bank (went bankrupt in 1992) who suffered losses to create their own interest representation organisation.

Finally, the idea of creating an independent deposit insurance institution was supported by the fact that there was no organisation which in the case of the collapse of a bank or savings co-operative would have fulfilled the payment duties derived from the State guarantee, principally because formerly there was no need for such a body. Not having such an organisation weakens confidence in financial transactions during a banking crisis by jeopardising the credibility of the State guarantee.

In 1993, the time was ripe to replace State guarantees with deposit insurance, which is based on the logic of the market economy. The new system still protects the savings of small depositors against disruptions in the banking system, however, instead of taxpayers, the costs of sustaining the system are born by those who are interested in upholding security for business reasons.

In the meantime, the regulatory, financial, institutional and ownership conditions of the market banking system were created during the first half of the 1990s. New Acts were adopted on banking activities and supervision, on accounting, and on bankruptcy and liquidation proceedings. The credit, bank and debtor consolidation supported the financial rehabilitation of banks and their corporate clients, both experiencing difficulties in the wake of the change in economic system. This cost the budget more than HUF 300 billion. Consequently, the conditions for privatising banks were created and with the additional help of financially sound investors, the Hungarian banking sector was stabilised within a very short period, ahead of other Central and Eastern European countries.

The banking system was therefore cleansed of inherent risks in the first half of the 1990s, enabling the local deposit insurance system to launch its operations in July 1993 under ideal conditions. It was not burdened by the numerous – latent or obvious – crisis situations inherited from the past. When managing crises after 1993, the NDIF was only involved occasionally, and no financial problems arose because of this engagements, despite the fact that when the NDIF was established, it did not receive any contribution from the State.

3. Safety net: interrelationship of the NDIF

Supporting the stability of the financial system and applying the crisis management procedures, which can be considered the safety net of the banking system, are the responsibilities of several institutions. In order to avoid parallel tasks and extra costs and for the purposes of ensuring harmonised and efficient co-operation, a clear division of duties among institutions is crucial. As for the connection between crisis management activities, the close co-operation of these institutions is prescribed by legal regulations.

The operation and tasks of the NDIF are regulated by Chapter XV of Act CXII of 1996 on Credit Institutions and Financial Enterprises. According to the Act, the tasks of the NDIF are to take measures preventing the freezing of deposits, indemnify depositors for frozen deposits and represent the interests of depositors and lenders when credit institutions are liquidated. When performing its tasks, the NDIF may request data from the credit institutions and the Hungarian Financial Supervisory Authority, but may also request information from the National Bank of Hungary.

The Hungarian Financial Supervisory Authority exercises the statutory supervision and issues or withdraws licences. However, during any rescue operation or deposit payments, it may not assume any financial liabilities. The division of duties between the Supervisory Authority and the NDIF is reflected by Section 36 (6) of the deposit insurance Act, which states that the Fund is entitled to undertake onerous liabilities for the benefit of a member institution experiencing difficulties, in order to promote the effect of the extraordinary measures taken by the Hungarian Financial Supervisory Authority and to prevent the freezing of deposits.

Section 4 (7) of Act LVIII of 2001 on the National Bank of Hungary states that the basic task of the NBH is to support the stability of the financial system. This task is closely related to the function of the central bank as a lender of last resort. However, while the role of the NDIF clearly serves the interests of depositors, the lender of last resort function of the central bank is aimed at protecting the stability of the system. These two institutional goals are closely linked, since wavering depositor confidence may lead to the collapse of the financial system. There are, at the same time, some differences among the conditions of intervention: while the central bank only takes action when the stability of the system is jeopardised, deposit insurance covers all credit institutions. In order for these two tasks not to be in conflict with one another, during a crisis management the two institutions know exactly what the other is doing and they keep each other informed on a continuous basis.

The Act on the National Deposit Insurance Fund defines the task of the Fund over the whole life cycle of credit institutions. Credit institutions that wish to collect deposits must become member institutions of the Fund before commencing their activities (institutions already operating at the time the Fund is established have automatically become members). Apart from crisis situations, the member institution relationship of the NDIF is restricted to premium payment, rare examinations and a mutual provision of information. If a member institution gets into difficulty, the NDIF – in co-operation with the Supervisory Authority – seeks a solution to prevent the freezing of deposits as long as there is hope to avoid direct insolvency, however, this solution must be cheaper than a direct bankruptcy or making indemnity payments. In respect of prevention the Fund on the one hand acts as a catalyser but on the other hand also has the necessary financial resources. However, such a financial liability and risk assumption is limited by the law since it does not allow an amount to be spent or risked that exceeds the indemnity which would be payable at the credit institution on the insured deposits by the Fund, and, within these limits, it prescribes the application of the least cost principle.

If an analysis of the member institution in crisis shows that insolvency is unavoidable or that the only remedy to the accumulation of losses is the liquidation, then the Fund will prepare for the payout. Indemnifying depositors is the main function of the Fund and thus the most expensive, too, which should be considered with increased care when making the decision to "rescue or abandon". Chapter IV will discuss this in more detail.

4. Legal frameworks and amendments since 1993

The legal preparatory work of Act XXIV of 1993 on the National Deposit Insurance Fund was the Act on Financial Institutions prepared in November 1991 and which entered into force in December of the same year. This Act affected the security of depositors from two perspectives. On the one hand, by introducing the Basel norms it made the weaknesses of Hungarian financial institutions (today: credit institutions) more visible, and by granting a grace period it obliged them to achieve the internationally set requirements and to allocate provisions for doubtful or non performing receivables. On the other hand, it also included the recognition that deposits should be insured institutionally in Hungary too.

When the Act on Financial Institutions was being prepared, the idea was, similarly to Germany and Austria, that several voluntary deposit insurance funds would be created in Hungary and the financial institutions would be obliged to join one of them. The basic idea of a standard, compulsory, "top down" deposit insurance fund was raised based on a proposal of a Member of Parliament. In the Act, the solution adopted was a kind of compromise, which is rather rare in international practice: in addition to the compulsory deposit insurance, voluntary deposit protection funds may also be established by deposit collecting banks. The timeliness and importance of the Act was justified in practice, when the bankruptcies of 1991-1992 drew the attention of the wider public to the necessity of depositor protection.

The bill on the establishment of the Fund and detailed rules on its operations was debated in Parliament at the beginning of 1993 and accepted on 9 March with only one vote against and one abstention. During the debate, the members of parliament agreed that the bill, prepared according to high professional standards and taking European deposit insurance norms into consideration, was an important factor in maintaining trust in the Hungarian banking system.

The deposit insurance system established by creating the NDIF largely follows the solutions that conform to the relevant directives of the European Community, both in terms of defining the types of deposits protected by deposit insurance and the coverage limit. Although the insurance cap of HUF 1 million was nearly one third lower than the amount proposed shortly afterwards by the European Community, according to calculations nearly 90% of retail deposits still enjoyed full protection with this limit. In respect of companies, the insurance cap certainly may have seemed low, however, even this amount tangibly increased the financial security of self-employed businesses with low equity, who number the greatest and who are the most vulnerable. An insurance cap higher than the one accepted would have increased the premium rate to a great extent (set by the Act as 2-3 thousandths of the insured deposit portfolio) and the extra burden would have had to be borne by the depositors and/or borrowers.

The range of the deposits insured by the Fund, amongst other things, did not cover the institutions falling under the scope of the State Budget Act. This restriction was justified by the fact that these organisations may only invest their temporarily free liquid assets into government securities, in accordance with the provisions of the Public Finances and State Budget Acts. Similarly, the deposits of institutional investors and interbank deposits were not protected either, because it could be expected that these organisations would invest their money with appropriate professional knowledge and in a safe manner.

The entering into force of Act CXII of 1996 (hereinafter referred to as: Credit Institutions Act) on Credit Institutions and Financial Enterprises brought an important and positive change. The Act of 1993 made it possible for the NDIF to act in order to prevent the freezing of deposits, as an alternative to payout. The absolute upper limit of the preventive activity of the Fund remains what it would have to pay to the depositors of the affected credit institution if deposits are frozen and indemnity required. From 1997, however, the legal regulation stipulates that assuming financial liabilities for prevention purposes should be taken into consideration, meaning that within the absolute upper limit referred to above, the Fund must apply the solution which results in the least long-term loss for the depositors, the credit institutions and the central budget. In the period after entering into force, the amendments to the Act on Credit Institutions were justified mainly by the legal harmonisation necessary for Hungary's accession to the European Union and the experience gained during operations. The most important changes to the text of the law in force can be summarised below:[5]

01.01.1997 (Act CXII of 1996)

- Within the framework of the battle against money laundering, based on its international obligations Hungary is also strengthening the tools with which it can combat money laundering more effectively. In respect of deposit insurance, this means that the NDIF does not pay any indemnity for affected deposits.
- Defining the lowest amount which can be paid as indemnity (then HUF 100, from 2002 HUF 500) whereby the theory is that the indemnity and the costs necessary for payment cannot be disproportionate.

01.01.1998 (Act CLVIII of 1997)

- Credit co-operative institutions became members of the NDIF. The aim of the change was for deposit protection to be extended in general to registered deposits at credit institutions.

01.01.2001 (Act CXXIV of 2000)

- Only deposits held in euros and OECD currencies are insured. Again, the preparation of Hungary for accession to the EU made legal harmonisation necessary in this area.
- The membership of member institutions in institution protection funds should be taken into consideration for premium payments (the member institutions falling into this category had received premium discounts before, according to the agreement concluded with the institution protection fund signed based on the Fund's Premium Payment Procedures).

5 The valid provisions on the NDIF are set out in the Appendix to this publication.

- Limitation of the indemnity period to 90 days, which can be prolonged twice with the permission of the Supervisory Authority. This provision bringing a positive message for depositors is based on EU regulations too.
- Undertaking a liability with the support of four members of the Board of Directors, including the determination of action aimed at preventing indemnity, is only possible if there are no votes against. The purpose of this provision is that crisis prevention measures should be accomplished with as broad a consensus as possible of the organisations affected by the crisis management.

01.01.2002. (Act CXX of 2001)

- Introduction of indemnity in HUF. Given the convertibility of the forint, payment in foreign currencies no longer has any importance, not even in the case of FX deposits.

01.01.2003. (Act LXIV of 2002)

- Bonds and certificates of deposit issued by credit institutions and sold after 1 January 2003 become insured. The amendments were made based on the adoption of EU regulations, since in the European Union securities issued by credit institutions are also insured.
- The coverage limit rises to HUF 3 million, with the condition that the depositor's co-insurance is 10% – only for the amount above HUF 1 million. The introduction of the depositor's co-insurance complies with the regulations applied in the European Union. The theory is that by applying this concept, depositors can be encouraged to select the credit institution where they wish to place their deposits more carefully, and they should not only consider the offered interest rate when making their decision.
- The deadline for starting payments is shortened to 15 days (from the previous 30). The purpose of the change is that in the interests of depositors the payout can commence after short preparations.
- If initiated by the Fund, the insolvent credit institution is obliged to conclude an agreement with the NDIF to receive claims and perform the tasks related to settlement. Experience of the Fund so far shows that involving the staff of insolvent credit institution in the procedures can result in significant cost and time savings.
- Determination in the Act of the on-site examination activity of the Fund based on the review plan set by the Board of Directors annually and which is limited to deposit insurance issues.

01.07.2003. (Act XXXIX of 2003)

- In the case of community deposits (such as deposits of condominiums and housing co-operatives), the amount of indemnity is multiplied by the number of persons belonging to the community. The indemnity is independent of that payable for the other deposits of the private persons belonging to the community. Thus communities established for a public interest enjoy appropriate protection.

As for the provision of Act XXIV of 1993 on the Fund, which was later incorporated into the Act on Credit Institutions, it can be said that the principles and rules have stood the test of time. In contrast to many other legal regulations, the provisions on the NDIF have shown continuity over the last ten years, and the purposes and principles of deposit insurance have remained unchanged.

5. Membership

Based on the Acts on the NDIF and Credit Institutions, all credit institutions i.e. financial institutions collecting deposits (amongst other things) are compulsory members of the Fund in Hungary. Before applying for their operational licence they have to issue a written declaration on joining the Fund and upon becoming a member institution they have to pay a one-off affiliation fee to the NDIF.

When the NDIF was established, 40 banks and 255 savings co-operatives joined the Fund by law. Joining the Fund did and still does not carry any conditions apart from having (acquiring) permission from the Supervisory Authority. The financial administration was able to “allow itself” to do this because by that time the Hungarian banking system had stabilised to a sufficient extent given the aforementioned positive regulatory and financial measures as well as the institutional and ownership changes.

Over the past ten years, market restructuring began among Hungarian credit institutions as well. In addition to concentrating capital (bank and savings co-operative fusions, mergers and acquisitions), new types of credit institutions also entered the money market. Thus for example, in order to encourage private home building, an opportunity arose from 1996 to establish open building societies (home savings banks), making it possible to save money supplemented by State aid in a closed, independent system under a secure framework.

From April 1998, a new credit institution group was able to inform its clients that deposits placed with them were insured by the NDIF up to the statutory limit: the credit co-operatives which by law were previously not obliged to join the NDIF became members.

The number of NDIF members fell from 295 in 1993 to 224 by the end of 2002 (mainly due to mergers in the co-operative sector) of which 32 are banks, 183 are savings co-operatives, 3 are building societies (ie home-savings banks) and 6 are credit co-operatives. [6]

6. Changes to the insured deposit portfolio and its composition

Determining the NDIF premium base and requesting the member institution data required for this have rested on the same methodology since the institution was founded, thus a breakdown of savings by sectors and protection can be tracked for a period of ten years when this publication is issued.

Table No.1: Breakdown of savings by types of credit institution

Year-end	Year-endvalue THUF	Bank (+Build.soc.) %	Savings Co-op. (+Cred.Co-op) %	From Y-E value:savings deposit THUF	Bank (+Build.soc.) %	Savings Co-op. (+Cred.Co-op) %
1993	1,901,684,936	93.5	6.5	349,924,272	80.7	19.3
1994	2,147,719,495	93.6	6.4	393,183,826	80.9	19.1
1995	2,955,291,414	94.1	5.9	402,352,163	80.4	19.6
1996	3,292,839,520	93.6	6.4	454,494,386	79.1	20.9
1997	3,991,963,112	93.2	6.8	501,507,498	74.2	25.8
1998	4,601,328,159	92.6	7.4	593,190,189	72.7	27.3
1999	5,382,719,239	92.4	7.6	682,292,784	71.2	28.8
2000	6,176,399,917	92.2	7.8	745,667,093	69.8	30.2
2001	6,966,982,119	91.6	8.4	757,883,166	61.0	39.0
2002	7,891,375,700	90.1	9.9	809,855,178	59.0	41.0

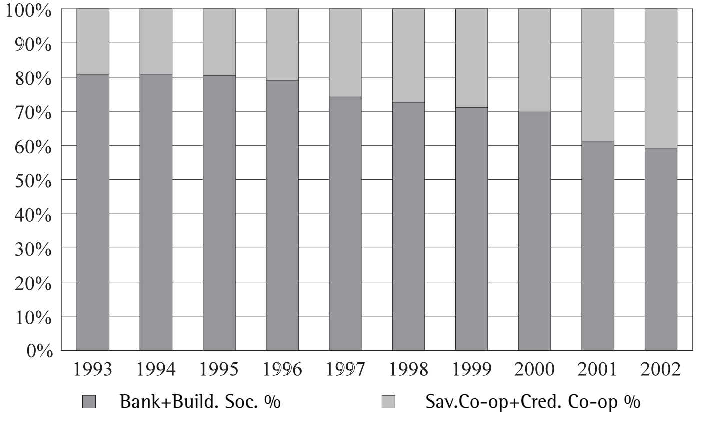
Build.soc.= building societies, Cred.Co-op.= credit co-operatives which joined the NDIF in 1997 and 1998 respectively. The "credit institution savings" used here and later on equal the total of the *"III. Informative data"* table within the premium calculation table in the Appendix. It includes the savings of clients held at credit institutions in various forms and with different maturities (savings deposits, other deposits, securities, etc.) but it does not contain receivables from other credit institutions.

Since 1993, the co-operative sector has gained more importance in terms of the breakdown of savings. In 2002, their proportion within

6 Detailed information on member institutions, the number and the composition of members is included in the Appendix.

savings held at credit institutions crept close to 10%. The proportion of the co-operative sector achieved spectacular results in the area of savings deposits especially:

Diagram No. 1: Breakdown of the savings deposit portfolio by type



The breakdown of savings by protection was influenced at the beginning by the fact that from 1993 only deposits not guaranteed by the State and which were not otherwise exceptions to the NDIF protection were insured. However, newly placed deposits were not able to enjoy protection by the State, thus as a result of the constant withdrawing of deposits, the State guarantee ratio gradually decreased.

Table No. 2: Percentage breakdown of savings by protection (year-end data)

Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Insured by NDIF	43.50	51.50	53.60	60.60	68.30	70.90	73.90	77.30	79.90	81.40
Guaranteed by State	31.90	24.90	17.00	12.30	10.00	7.70	7.20	6.30	4.70	3.60
Not insured	24.60	23.60	29.40	27.10	21.70	21.40	18.90	16.40	15.40	15.00

The following diagrams (2 and 3) and tables show the changes to the breakdown of savings by protection over the last ten years.

The effect of the legal regulation combating money laundering and on the termination of anonymous deposits, which entered into force at the end of 2001, resulted in considerable growth by 2002 in the ratio of especially savings deposits insured by the NDIF, to the detriment of the non-insured ratio.

Diagram No. 2: Composition of the savings portfolio by protection at the end of the insurance year

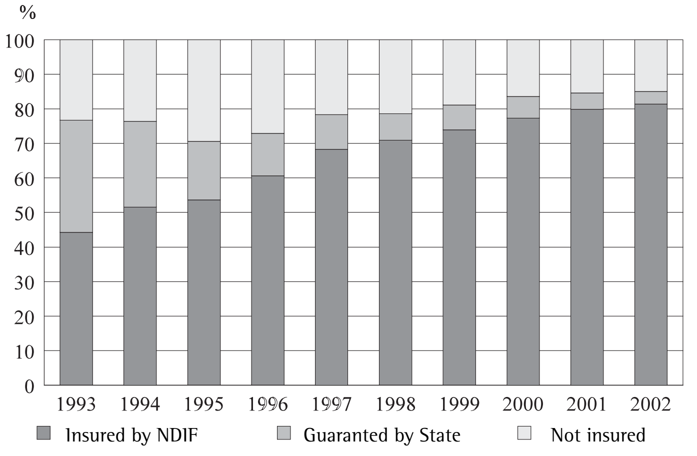
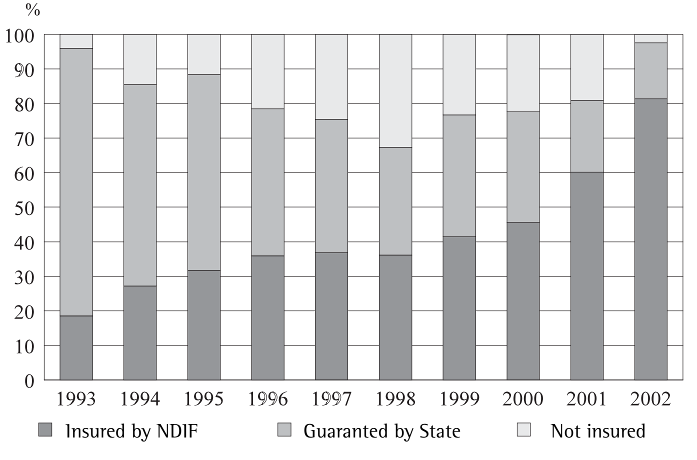


Diagram No. 3: Composition of the savings deposit portfolio by protection at the end of insurance year



The increase in the proportion of deposits insured by the NDIF accelerated particularly in the middle of the period under review which (amongst other things) was facilitated by the fact that from the beginning of 1997 security-type credit institution savings, which had previously been excluded from the insurance, were qualified by the Act as deposits, and therefore the registered deposits among them became insured:

Table No. 3: Breakdown of savings by protection and type of credit institution (%)

Year-end	Bank and building societies			Savings and Credit Co-operatives		
	Insured by NDIF	Guaranteed by State	Not insured	Insured by NDIF	Guaranteed by State	Not insured
1993	44.80	29.40	25.80	21.40	67.10	11.50
1994	52.70	23.10	24.20	34.70	50.90	14.40
1995	54.70	15.80	29.50	36.30	35.20	28.50
1996	61.80	11.40	26.80	43.40	27.30	29.30
1997	69.10	9.20	21.70	56.20	21.60	22.20
1998	71.60	7.00	21.40	62.40	16.30	21.30
1999	74.50	6.80	18.70	67.40	12.50	20.10
2000	77.70	5.90	16.40	72.90	10.40	16.70
2001	81.20	4.40	14.40	78.70	8.10	13.20
2002	80.50	3.40	16.10	90.90	3.80	5.30

The tables and diagrams displayed so far did not take into consideration that due to the coverage limit – HUF 1 million until 2002 and HUF 3 million from 2003 – only a part of the NDIF-insured deposits were covered by the NDIF's potential indemnity commitment (if deposits are frozen), namely, the deposits and parts of deposits which were below said limit. The table 4 shows this indemnity commitment of the NDIF during the period under review.

The indemnity commitment ratio of the NDIF between 1998 (since we have data in such a form) and 2002 decreased by 5 percentage points as a result of the fact that this ratio – due to the unchanged limit – fell more sharply within the insured portfolio than the share of NDIF-insured deposits grew within the total savings portfolio. From 1 January 2003, the limit of the insurance protection increased to HUF 3 million. As a result, the indemnity commitment of the NDIF rose almost 1.5 times within the insured portfolio and the portfolio of total member institution savings. Thanks to the increase in the limit, the indemnity commitment of the NDIF covers on average every second forint of the insured amount, where the ratio of said liability is 40% of total savings.

Table No. 4: Indemnity and guarantee liability for credit institution savings (data at start of year)

Description	Insurance year	Insured by NDIF	Guaranteed by State	Not insured or guaranteed portfolio	Total %
Composition of total savings by type of protection	1993	44.2	32.5	23.3	100.0
	1998	68.3	10.0	21.7	100.0
	1999	70.9	7.7	21.4	100.0
	2000	73.9	7.2	18.9	100.0
	2001	77.3	6.3	16.4	100.0
	2002	79.9	4.7	15.4	100.0
	2003	81.4	3.6	15.0	100.0
Ratio of indemnity or guarantee obligations within the insured* or guaranteed portfolio (for NDIF, up to HUF 1 million until 2002, up to HUF 3 million from 2003)	1993	n.a*	100.0	0	–
	1998	48.0	100.0	0	–
	1999	45.0	100.0	0	–
	2000	39.8	100.0	0	–
	2001	35.8	100.0	0	–
	2002	35.1	100.0	0	–
	2003	49.6	100.0	0	–
Ratio of indemnity or guarantee obligations within the savings portfolios of all NDIF member institutions	1993	n.a.	32.5	0	n.a.
	1998	32.8	10.0	0	42.8
	1999	31.9	7.7	0	39.6
	2000	29.4	7.2	0	36.6
	2001	27.7	6.3	0	34.0
	2002	28.0	4.7	0	32.7
	2003	40.4	3.6	0	44.0

Notes to Table No. 4: The insured portfolio equals the premium basis of the NDIF. The upper third of the table includes breakdown data contained in Table No. 2: The middle third of the table indicates the actual ratio of coverage *within* the ratios shown in the upper third. (within State guarantees this is obviously 100% because there is no such limit). The lower third of the table shows the ratio of the potential indemnity and guarantee liability of the NDIF and the State within the *total* savings portfolio.

The data in the last row of Table No. 4 can also be interpreted as follows: the external institutional indemnity commitment covers 44% of savings in 2003 in the case of freezing deposits, and the majority of this commitment is made up of NDIF insurance.

The average deposit amount characterises the increase in the amounts placed by one depositor, for which we have data for the period between 1994 and 2002: this increased from HUF 70,000 to HUF 560,000 over 9 years.

III. THE INSTITUTION AND ITS FINANCES

1. Conditions of operation, organisation

The institution of deposit insurance was introduced by the Act of 31 March 1993. The Preparation Office with three staff, which was supported financially and logistically by the Banking Supervisory Authority, worked on creating the operational conditions for some months prior to this. In light of the fact that the deposit insurance service was only enacted by the law from 1 July, the organisation created at the end of March had a further three months for preparations, relying on the established organisational framework and the financial resources derived from the affiliation fees.[7]

The Board of Directors, whose composition is determined by the law, held its first meeting on 31 March 1993 when the first office-bearers of the Fund were elected.[8] The following were approved at the meetings of the Board of Directors after establishment: the feasibility plan and cost estimates of the introductory communication campaign of the NDIF, the person to be the collaborating professional partner, the emblem of the Fund (which has not changed since then), the premium rate for 1993, the Organisational and Operational Procedure and the system of accounts of the Fund along with the conditions of the tender issued for the management of the government security portfolio.

The software development facilitating the payout procedure was a task which could not be delayed, all the more so because after three months, claims had to be paid to the depositors of the Heves and Vicinity Savings Co-operative. The forced development did not take place to the detriment of quality: indemnities have been paid with the help of this individually developed software and its corrected versions for ten years, essentially without any errors although not always in a client-friendly manner.

The open tender issued for the new payout system required the development of a system capable of managing the individual phases of the process separately, one that had a modular structure and was easy to handle and modify. As a result of the engagement assigned based on this

7 The structure of the organisation effective as of October 2003 is set out in the Appendix.
8 The list of the members of the Board of Directors and its executive officers along with the names of the managers of the organisation are included in the Appendix.

tender, in January 2003 a modern system based on the database enquiry technology applied in the world of the Internet and including the results of former experience was completed.

As a result of getting on its feet quickly in 1993, the structure, staff number and personnel of the NDIF have always been characterised by stability. Being a small organisation where the number of staff is below 20, its structure is very simple. The organisational structure developed after establishment and which consists of few hierarchical levels, was a step ahead of standard paths of development: despite its simplicity, it could provide an appropriate framework for the various functional requirements justified by international and the ten-year Hungarian practice.

During its operation so far, the NDIF has endeavoured to create an economical institution running effectively, in line with the justified expectations of the premium-paying member institutions. The State Audit Office as the organisation in charge of the financial- accounting reviews of the NDIF, checked and evaluated the business of the Fund twice over the last ten years in terms of legality and appropriateness. Its essentially positive reports contributed to the maintenance of public trust in the NDIF.

2. Is the asset portfolio of the NDIF too large or too small? (fund ratio)

Fund ratio is the internationally accepted indicator of the asset position of deposit insurers, which, in the case of the NDIF, compares the insured deposits and deposit portions (potential or theoretical indemnity commitments) of member institutions to the liquid asset portfolio of the deposit insurer as of the same date. In international terms (taking the example of the U.S.) fund ratio falling into a band of 1-1.5% can be considered appropriate or good and the NDIF considers this band to be the band of target fund ratio, in particular for premium policies.

The fund ratio of the NDIF was 0.09% at the end of the first year, reaching 0.26% by the end of the following year. Subsequent to that, apart from a sudden stop in 1999, it has increased by an average 0.2% annually, and at the beginning of 2002 it reached 1.6%, which provided a good basis for raising the insurance limit to HUF 3 million, as decided in 2002 and accomplished in 2003: the fund ratio remained above 1% subsequent to the raising of the limit. Calculations show that after accession to the EU when the insurance limit will grow to HUF 6 million (slightly over EUR 22,000), it is likely that this value will remain within the indicated target band without raising the premium rate (provided of course that in the meantime the assets of the NDIF will not be reduced by a large-scale payout). As a result of the flexibility of the asset policy expressed by the target band of the fund ratio, the 6-fold increase in the limit of the indemnity (i.e. the coverage) is not expected to induce changes in the premium policy.

Table No. 5 : Changes to the fund ratio between 2000 and 2002 (data at start of year)

Description	2000	2001	2002	2003
NDIF indemnity commitment	1585	1711	1957	3186
OBA assets*	19.3	25.5	31.3	37.4
Fund ratio (%)	1.22	1.49	1.60	1.17
Average premium rate (%%)**	1.02	0.60	0.59	0.21

* Market value including interest of NDIF liquid assets embodied by state securities - at end of year preceding current year (current year opening value)
** This data – unlike the balance sheet data – does not contain the impact of increased and preferential premium rates

The following sub-chapters analyse the factors influencing the assets of the NDIF in detail, in particular, its premium and investment policies.

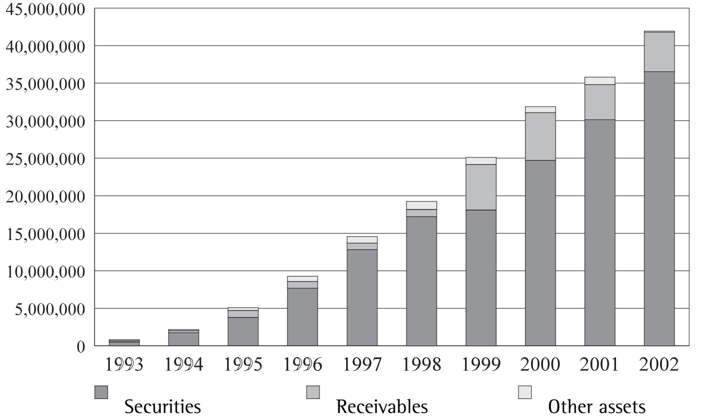
3. Evaluating the NDIF – Finances between 1993 and 2002

The starting assets of the National Deposit Insurance Fund totalled nearly HUF 600 million, which was derived exclusively from affiliation fees paid by member institutions after the decision of the Parliamentbut not from state contribution.

The picture is only complete if we note that, in contrast to many other countries, the banking consolidation that lasted until the middle of the 1990s did not involve deposit insurance, which at the time had only limited resources. Instead, it just used State funds. Indeed, the burdens of the largest two banking crises in the second half of the decade were borne exclusively (Postabank) or mainly (Agrobank) by taxpayers' money, which indirectly contributed to the topping up of the NDIF's assets to a level considerable even in international terms.

The costs necessary for the launching and initial operation of the Fund only consumed a small portion of the start-up assets, the Fund closed the first (half a) year with an asset accumulation of half a billion forints invested in government securities. In the second month after the start of operations, indemnifying the depositors of the bankrupted Heves and Vicinity Savings Co-operative amounted to HUF 200 million in 1993 and that was funded through the premium income of the first six months.

Diagram No. 4: Changes to assets over the last ten years



Neither then nor during the ten years of operation did extraordinary premium payments have to be made.

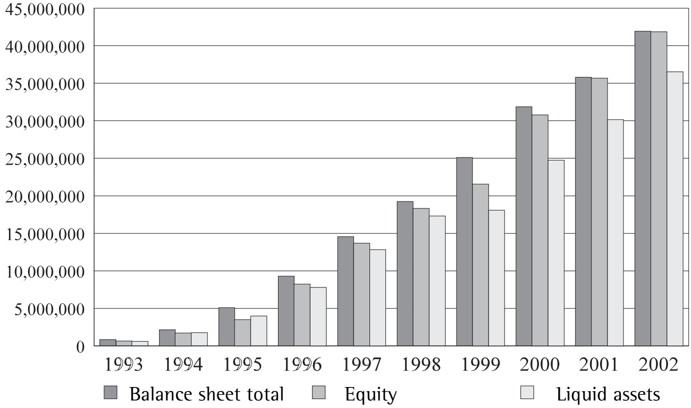
Between 1993 and 2002 the balance sheet total was constantly on the increase and by the end of 2002 it was almost HUF 42 billion. [9]

Over the past ten years, 92-99% of the Fund's assets were made up of current assets, mainly securities, since the Fund is obliged to keep its liquid assets in government securities. Their book value approached HUF 37 billion by 2002, indeed, the market value of the security portfolio with the recovery of the indemnity paid to Realbank depositors at the beginning of 2003 and the NDIF premiums for the 1st, 2nd and 3rd quarters of 2003 was more than HUF 44 billion in the middle of 2003, while the receivables portfolio obviously decreased. Nearly three quarters of the government securities are made up of Hungarian government bonds while one quarter is composed of discounted treasury bills (diagram 4.)

At the end of the 1990s the assets of the Fund included a significant portfolio of receivables, in addition to securities; in 2000 for example these amounted to more than HUF 6.3 billion. These were mainly receivables from member institutions since this balance sheet row contains indemnity payments transferred to the Fund, i.e. paid by the NDIF as receivables from the liquidator. This row contained the HUF 5.1 billion transferred to the Fund as a result of paying the frozen deposits of Realbank closed at the beginning of 1999 and which was recovered four years later.

9 The balance sheet figures for 1993-2002 are included in the Appendix.

Diagram No. 5: The balance sheet total, equity and liquid assets of the Fund between 1993 and 2002



The two main items on the equity and liabilities side are equity and provisions. The registered capital of the NDIF has only increased to a small extent from 1993 as a result of affiliation fee payments of some new credit institutions, while the other elements of the equity have increased several fold, albeit with some fluctuations. Starting from the HUF 610 million in the opening balance sheet, the equity of the Fund reached HUF 42 billion by the end of 2002. The ratio of equity within equity and liabilities was between 69 and 99% over the years, in particular due to the fluctuation of provisioning needs.

An important factor of the Fund's annual profit was the provisions portfolio (from 2001, as a result of the change to the Act on Accounting called: impairment). It totalled HUF 173 million at the end of 1993, while it was the highest in 1999 when it amounted to HUF 3.5 billion. Provisions had to be allocated for crisis management and indemnity losses (and now impairment has to be accounted for such receivables). Provisions allocated for receivables in connection with the Heves and Vicinity Savings Co-operative, Iparbankház Rt., Realbank and Rákóczi Credit Co-operative were indicated on this balance sheet row. This reflected and still reflects prospects for recovery in liquidations: in 2000, for example, the provisions portfolio of the Fund decreased since the liquidator of Realbank suggested payment which – together with other factors – led to a record profit in excess of HUF 9 billion. Certain lenders, however, challenged this and through many legal proceedings they contested the ranking of the Fund in the liquidation. In 2002, legal proceedings were closed finding in favour of the NDIF and the receivable of HUF 5.1 billion due from Realbank was collected by the Fund in January 2003. The losses connected to indemnity, i.e. through provisioning or impairment, decrease the profit and assets of the Fund, while recovery improves the profit and equity principally through the release of provisions (reversal of impairment) and this will only be visible later (after the actual payments) in the increase of liquid assets or more precisely, in the replacement of the assets extracted from the security portfolio (diagram 5).

During the operation of the NDIF so far, low-value receivables only included short-term, mainly deferred trade payable invoices, and the Fund has had no long-term liabilities at all.

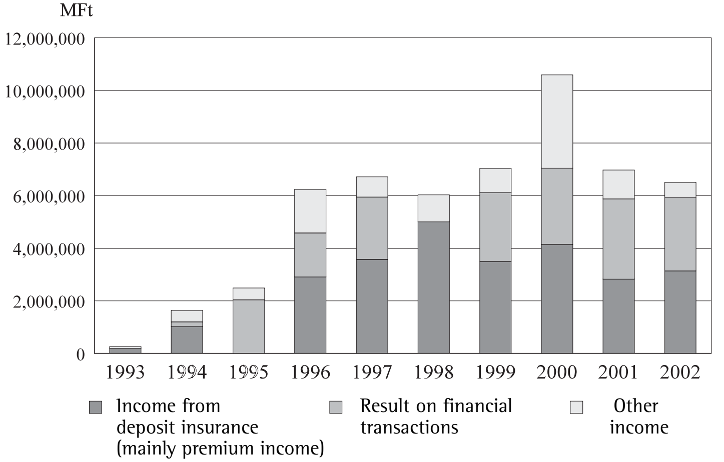
In 1994 (first full business year) the income of the NDIF was nearly HUF 1.5 billion and in 2000 when the Fund reached its highest income ever, it exceeded HUF 13 billion. In 2002, this figure was HUF 7 billion. By 1995, the larger portion of the income was composed of premium income, however, in 1996 crisis management costs were recovered (Iparbank) which was a significant item, and from 1995-96 the importance of net yield income (i.e. less expenses) from financial transactions (investments) increased. By 1999, yield income was almost at the level of premium income and in 2001 it exceeded premium income, which is expected to be the case in 2003 as well. In 2000, the positive liquidation developments in connection with Realbank, which were described above, increased 'other' items within income significantly (diagram 6).

There is a separate sub-chapter on further factors (credit institution crisis management, operations and asset management) which influence the premium policy and asset situation of NDIF. Here we only note that the continuous increase in premium income stopped in 1999 and between 2000 and 2002 it fluctuated between HUF 3-3.5 billion as a result of the premium rate decrease and the premium base increase. The following significant premium rate decrease in 2003 diminishes premium income to around half of that in the previous year (i.e. nearly HUF 1.5 billion) which will thus fall back to the starting level of 1994-95.

The portion of penalties levied by the Supervisory Authority which are transferred to the NDIF based on a legal regulation also form part of the NDIF's income. This item first appeared among the income of the Fund in 1997; the largest annual amount was realised in 1999 (HUF 85 million) and the accumulated value had reached HUF 298 million by the end of 2002.

As for expenses, in terms of weighting and importance, expenses connected to allocating provisions/impairment and financial transactions (investments) – which are related to crisis management – together make up

Diagram No. 6: Changes to the income of the NDIF between 1993 and 2002



55-95% of expenses in the profit and loss statement. It should be noted that the precise amount of these two expenses were influenced by book-keeping techniques: for example, as a result of the ongoing liquidation of the savings co-operative in Heves, which has lasted nearly as long as the NDIF has been in existence, the related provisions had to be indicated in our books over and over again. The extent of the financial expenses is basically influenced by previous expectations through restructuring the composition of the portfolio. Expenses are derived from the foreign exchange loss on sold government bonds, but these expenses are mostly offset by the interest income from the transaction (so overall the deal is profitable); the losses only appear in the balance sheet because of the breakdown prescribed by the Act on Accounting. In 1998, an item related to crisis management was indicated as an expense on financial transactions as an exception, namely, the impairment of Realbank shares.

The negative result in 1993, which was incidentally a truncated year, was caused by allocating provisions necessary because of required payout and some one-off expenses linked to foundation. In 1994, the result became positive and grew continually until 1997. The reason for the decrease in profit in 1998 was the impairment accounted for the Realbank ownership share. The further decline in 1999 was derived from the diminishing premium income in addition to the allocation of provisions on the indemnity of Realbank depositors. However, in 2000 the positive change of the same factors nearly tripled the result and one of the stabilising factors in this continued to be the yield on investments. Thereafter, in

2001-2002 the result fell back to the level which prevailed before the fluctuations in 1999-2000, since nominal growth was hindered by the decrease in premium rates.

Overall, it can be said that the asset and financial situation of the Fund has been stable over the past years. During this period, the Fund participated in the crisis management of several credit institutions (Heves and Vicinity Savings Co-operative, Iparbankház Rt., Realbank Rt., Rákóczi Credit Co-operative) and made payments to the owners of insured deposits totalling several billions of forints, yet there was no need to draw loans or prescribe extraordinary premium payment liabilities.

The first ten years of the NDIF (especially the second half of this period) was at the same time characterised by preparations for accession to the European Union. The busy but – in terms of direction – clear financial process presented above resulted in a stable asset situation for the Fund after ten years, which is in line with the statutory tasks of the Fund, and from a financial perspective, this process laid the foundations for the deposit insurance requirements derived from European Union membership.

4. Premium policy

a) Premium income within income

The NDIF covers its (non-recoverable) expenses related to the fulfilment of its duties and its operating costs mainly from the premium payments of the member institutions and the yields on the invested assets accumulated over the past ten years. The Act allows the NDIF to supplement its own funds accumulated this way by loans, if necessary. At the request of the NDIF the government assumes a guarantee for loans drawn to fulfil indemnity liabilities. Since the State guarantee is there for the NDIF in a worst-case scenario, there is no real financial difficulty to the indemnification of depositors. This is an important guarantee factor, despite the fact that the Fund has not needed to draw any loans so far during its operations.

In certain years, the Fund had significant income from the penalties levied by the Supervisory Authority, 80% of which is by law due to the NDIF, provided that the member institution which was fined is not a member of any other voluntary funds (e.g. institution protection funds for savings co-operatives). (In the latter case the voluntary fund receives a portion of the penalty.)[10]

10 A short description of the institution protection funds, which existed at the time this publication was prepared, can be found in the Appendix.

Table No. 6: The Fund's own income in the past ten years (HUF million)

Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Premium income from member institutions	857	1,031	2,036	2,965	3,592	5,048	3,406	4,101	2,757	3,082
Yield on invested assets *	56	417	372	1,516	2,150	2,762	2,549	2,845	2,991	2,794
Miscellaneous (share in supervisory authority fine)	5					10	84	53	80	70
Total	918	1,448	2,408	4,481	5,742	7,820	6,039	6,999	5,828	5,946

* In 1998, due to the capital loss in connection with Realbank, it was HUF -244 million.

b) The premium payment system of the NDIF: types of premium

The extent, upper limit and forms of the premiums payable by the member institutions for the deposit insurance are set forth by law. One of the income sources of the Fund is the *one-off affiliation fee*, however, the main source of income is the *regular annual premiums* payable on insured deposits. In addition to this, there is an opportunity to prescribe an *extraordinary premium payment liability* if the repayment of a loan drawn is not covered by the annual premium income. During the history of the NDIF, it has never been necessary to call for extraordinary premium payments.

The NDIF gave premium discounts to a certain group of member institutions from the annual deposit insurance premium – within the framework of the law and under pre-announced conditions – while for other member institutions it prescribed an extra premium payment liability based on an increased premium rate.

Table No. 7: Changes to premium income from member institutions (HUF million)

Description	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Affiliation fee	663	7		55	18	55	1	10	10	10
Annual premium	194	1,023	2,036	2,910	3,610	4,922	3,484	4,079	2,812	3,289
Balance of increased premiums / premium refunds		1			-36	71	-79	12	-65	-217
Total	857	1,031	2,036	2,965	3,592	5,048	3,406	4,101	2,757	3,082

c) Affiliation fee

Based on the NDIF Act and the Act on Credit Institutions, a one-off affiliation fee has to be paid by credit institutions which join the Fund on a mandatory basis. The fee equals 0.5% of the registered capital included in the license for foundation.

The member institutions which joined the Fund when it was established paid an affiliation fee of HUF 633 million which represented the starting registered capital of the Fund. Since then, the conditions for joining have not changed and the income from this was between HUF 0–55 million per annum, depending on the number and size of the institutions joining the Fund.

d) Annual premium

The premium policy of the Fund in the first ten years was mainly influenced by the fact that it received no State aid. The assets necessary for the start-up and to fulfil its tasks had to be gathered from the member institutions' premium income. It should be noted, however, that the State guarantee remained valid for the savings deposits placed before the launch of the deposit insurance system, until the money was withdrawn.

The upper limit for the regular annual premium payment liability which can be levied by the Fund is determined by the law. This value was defined by legislators in 1993 based on an international example considered as a sample, taking into account the inherent risks of the Hungarian banking system. According to this, the Fund can only prescribe an annual premium payment liability of up to 2 thousandths of the deposit portfolio insured by the member institution as of 31 December of the year preceding the current year. We note that the NDIF has never used this maximum amount over the last ten years.

The practice of the NDIF so far has not questioned the suitability of one measurement date per year, despite criticism from professional circles. The one-off determination of the premium base based on balance sheet data does not require any separate data provision system for the sake of the NDIF, and so far we have not seen manipulation of such an extent as of the balance sheet date which would have justified relinquishing this advantage.

The premium policy pursued so far by the Fund can be broken down into two different phases: the first phase lasted until 1998 while the second phase has lasted until now.

The premium policy of the NDIF after its establishment was characterised by higher and less diverse premium rates in light of the fact that the Fund needed to accumulate assets relatively quickly in order to be able to fulfil its statutory duties.

In 1993, the Board of Directors of the NDIF bore in mind the accumulation of funds needed for the start-up and subsequent operations when it determined the insurance premium as a flat rate of annual 1.8 thousandths of the insured deposits.[11] When determining the premium payment liability the Act allowed the Fund to vary the premiums, taking into account risk and other factors. The reason for varying the premium from 1994 was that member institutions typically had either large or small depositors. As a result of the coverage limit of HUF 1 million at that time, the protection provided by the NDIF was greater for institutions where the average deposit amount was lower. In light of this, the Fund applied a more moderate premium rate of 1.6 thousandths from 1994 for member institutions where the average size of the deposit exceeded HUF 1 million, and 1.9 thousandths where the average size of deposit was lower than HUF 1 million. The average premium rate remained around 1.8 thousandths.

The structure and size of the premium rates remained unchanged between 1994 and 1998. At the end of this period, the assets of the NDIF had almost reached HUF 20 billion. Based on these assets the time came to make the premium payment system more sophisticated and fairer, and to harmonise the premium structure more closely with the member institutions having various mixes of clients. The ever-increasing yield derived from the investment assets made it possible at the same time to reduce the premium rates. An important aspect for the development of the premium policy that changed from 1999 was for the Fund to have appropriate fund ratio, in light of the higher coverage limit to be introduced after accession to the European Union.

In the present system of Hungarian deposit insurance, the premium base is not the same as the insured deposit portfolio (the potential indemnity commitment) it is higher than that (in proportion with the parts of deposits in excess of HUF 3 - formerly 1 - million). In 1998, the NDIF carried out a full-scale survey at the member institutions on what the difference is between the portfolio of protected deposits (deposit portions) and the premium base that serves as the basis for premium payments. The survey justified the presumption that the premium base and the indemnity commitment differ to a great extent by credit institution: the premium payable for each of HUF 1000 deposit (the per-unit price of insurance) in the case of member institutions with large-depositor clients could be several times higher than the index for small depositors.

Based on the survey, we reduced the deposit insurance price gap from 1999. In accordance with the Act, the full amount of the insured deposits still remained the premium base, but the member institutions had to pay the annual premium based on *four* rates differentiated by deposit category,

11 The table of premium rates applied between 1993 and 2002 can be found in the Appendix.

instead of the two rates applied to the average deposit portfolio. Premium rates decreased degressively towards the higher deposit categories since the potential indemnity/premium base ratio is the highest in the case of deposits below HUF 1 million (in fact practically 100%) while it is lower in the case of deposit categories with higher amounts.

The premium payment system developed from 1999 is still valid with some minor changes. Changes in the meantime were mainly necessary because it became certain that Hungary would join to the European Union in 2004. The premium rate structure which was introduced in 2002 and which is still valid at the time this publication is being prepared only contains three deposit categories (below HUF 1 million, between HUF 1 and 6 million and above HUF 6 million) which is in line with the coverage limits that will be valid after accession to the Union.[12]

In respect of the assets of the NDIF we already expressed that its most important index is the fund ratio, i.e. the ratio of liquid assets and the theoretical indemnity commitment. Since the figure was pushing the upper limit of the targeted 1-1.5%, the Fund reduced its premium rates several times starting in 1999, then in 2001, and in 2003 to a radical extent. As a result, the average premium rate fell back to slightly more than one tenth, i.e. 0.21 thousandths of the starting value in 1993 and the statutory upper limit. This decrease and the composition of deposits differently affecting the average premium rate typical of the various types of credit institution are set out below:

Table No. 8: Average premium rates in thousandths

Type	1998	1999	2000	2001	2002	2003
Bank	1.79	1.04	0.99	0.55	0.54	0.19
Savings Co-operative	1.90	1.43	1.43	0.98	0.99	0.37
Building society	1.90	1.60	1.60	1.20	1.18	0.49
Credit Co-operative	1.40*	1.23	1.20	0.80	0.82	0.29
NDIF total	1.80	1.07	1.02	0.60	0.59	0.21

* Low due to mid-year affiliation

The NDIF has to pursue a premium policy after acceding to the European Union which, on the one hand, ensures coverage for higher indemnity liabilities and, on the other hand, does not result

12 Just a reminder: after accession, the NDIF will indemnify depositors as follows:
- for (parts of) deposits below HUF 1 million it pays 100%
- for the parts of deposits between HUF 1 and 6.7 million it pays 90% (a total of up to HUF 6 million)
- for the parts of deposits in excess of HUF 6.7 million it does not pay anything.

in any competitive disadvantage for the Hungarian banking system. Provided that the aforementioned system of premium payments, which at the beginning was larger and less differentiated but later decreased and became more diverse, has fulfilled its asset accumulation role, it may become timely to develop a more selective system that takes into consideration the risks of member institutions. In terms of the method and the database, it seems expedient to integrate and harmonise deposit insurance risk analyses, premium policies and the application of the least cost principle in crisis management. Analyses so far show that member institutions represent a larger financial risk to the NDIF where

- compared to the assets of the NDIF and its own balance sheet total, the potential indemnity commitment is high (liability and deposit risk)
- the recovery during the liquidation of the member institution of any potential indemnity payable by the NDIF is low (risk on asset side).

e) Premium diversions

We already mentioned that the NDIF grants premium discounts from the aforementioned annual deposit insurance premium for its member institutions – if pre-announced conditions are met (or not met) – or levies the payment of extra premiums.

In recent times, based on the announcements of the Premium Payment Procedure, the Fund obliged its member institutions to pay higher premiums in excess of the normal liability when the organisation in question did not comply with the prescribed minimal capital requirement, its capital adequacy index for whatever reason did not achieve the statutory minimum and/or it met its premium or premium advance payment liability with a delay of more than 30 days. Member institutions carrying out particularly risky activities had to pay increased premiums and the Supervisory Authority indicated this to the NDIF.

Granting premium discounts has only been possible since 1997. From this point of time, member institutions which are members of any of the voluntary deposit insurance or institution protection funds (hereinafter referred to as: supplementary funds), i.e. their depositors are protected twice, may benefit from refunded premiums. Another condition is for the supplementary fund with sufficient assets and the NDIF to conclude a co-operation agreement for the shared financing of a banking crisis, based on which the supplementary fund shall pay the NDIF part of the indemnity paid by the NDIF in proportion to the premium discount. Based on these conditions, only savings co-operatives could receive premium discounts.

The financial impact of the changes to the normal premium payment liability (increased premiums, discounts) are detailed in the following table:

Table No. 9: Financial impact of premium diversions (HUF million)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Income from increased premiums	–	1	–	–	11	151	1	37	–	–
Premium discounts (fall in income)	–	–	–	–	47	80	80	25	65	217

5. Investments and Asset Management

One of the very first tasks for the Board of Directors formed in 1993 was to set forth the principles of asset management. They decided unanimously that the – at that time modest – assets of the NDIF should be invested by a professional firm (or firms) instead of internal employees; the task of the internal employees was to control the activity performed by the external contractual partner(s). This decision was influenced by several factors, such as cost savings, motivation to achieve higher performance, risk controls, etc. The degree of development at the time of capital market regulations, tools and institutions provided a good base for market competition as well as security. High-level analysis and investment expertise as well as capital market experience had developed, which enabled the NDIF to increase its assets effectively, taking advantage of the market competition but keeping within the strict framework of the law, thus decreasing the premium payment liability of member institutions.

The ten-year history of the NDIF's asset management activity and its results are summarised below: [13]

In the beginning there was only modest interest in managing the assets – largely because the Fund started at zero and shortly after the establishment an indemnity payment liability decreased the income received up to that point. At the request of the asset manager selected by the Board of Directors from the invited bidders, the NDIF consented to conclude a long-term agreement from September 1993 to the end of 1998, with a yield guarantee which at that time was quite unusual.

13 The Appendix contains a list of the asset manager and custodian partners of the NDIF from 1993-2003.

The continuous asset expansion supported the decision of the NDIF in 1998 to entrust the accumulated asset portfolio to several asset managers. The Board of Directors decided to invite bids within an open tender – and the former asset manager also had to submit a bid. As a result, from 1999 three asset managers received different sizes of the portfolio for a one-year mandate, which could be extended by a further one year. The following year we invited a limited number of bidders, then at the end of 2002 the Board once again issued an invitation for an open tender, always entrusting the asset growth to three portfolio managers.

The average value of capital invested in the securities portfolio of the Fund rose continuously due to growth in the securities portfolio, and in 2002 it reached HUF 33 billion (Diagram 7).

The yield on the portfolio capital displays a decreasing trend as a result of falling interest rates. (Diagram 8).

In the case of the Fund, the interest rate and the invested capital moving in opposite directions resulted in a continuous increase until 1998 in the net income or result from financial transactions (i.e. net of expenses). It then fell due to the significant capital withdrawal in 1998-99 before growing again until 2001. In 2002 the Fund booked yield income of HUF 2.8 billion, despite a slight fall (Diagram 9).

The income from financial transactions includes mainly the interest and exchange gains on liquid assets invested in government securities, that is, the yield on the Fund's investments. Naturally, the yield depends on the securities portfolio, which is continuously expanding as premium income is invested, the change in interest rates and the expertise of the Fund's asset managers (now referred to as portfolio managers). In order to eliminate distortion, we excluded the impairment accounted in 1998 on Realbank shares from financial expenses, thus the diagram only illustrates the results from portfolio management.

The productivity of portfolio managers is expressed by the yield level to the performance benchmark (reference yield). The first year shown is that when performance comparisons were first carried out using a benchmark. From 1997 to 1999 the basis for comparison was the mean weighted by the issued quantity of the average yield in the given period of fixed yield government securities (discounted treasury bills and government bonds) issued on a primary, auction market. From 1999 to date, we compare the performance of the portfolio managers to the MAX Composite index, which is calculated as a complex index of long-term and short-term government securities (Diagram 10).

Diagram 7: Changes in average invested capital

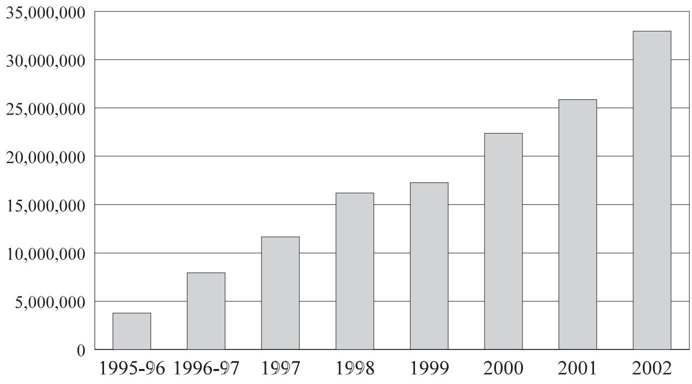
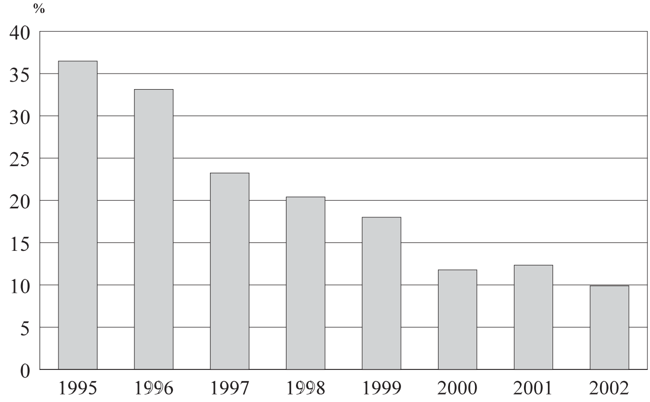


Diagram 8: Changes in yield on capital



1999 was a milestone in many respects in the history of managing NDIF assets through external companies. Besides the several portfolio managers, from this time the NDIF has employed a custodian too. The other significant change was the decision on the new benchmark index. In that year we changed from the mentioned index calculated by ourselves to the Max Composite reference index published officially on a daily basis, to which we compare our achieved performance quarterly. The decreasing trend in yields and the narrowing room for manoeuvre resulting from the convergence effect leave increasingly few opportunities for an

Diagram 9: Income on financial transactions

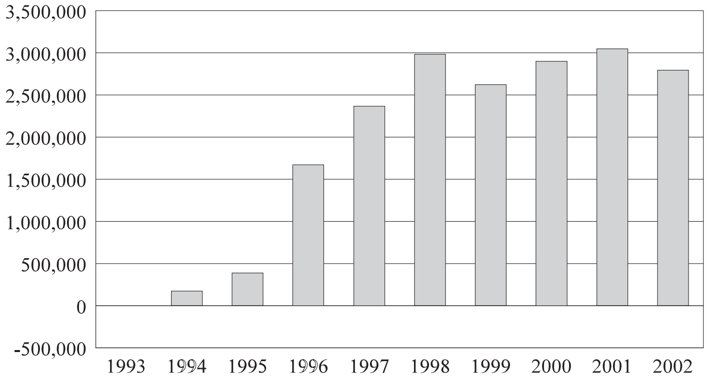
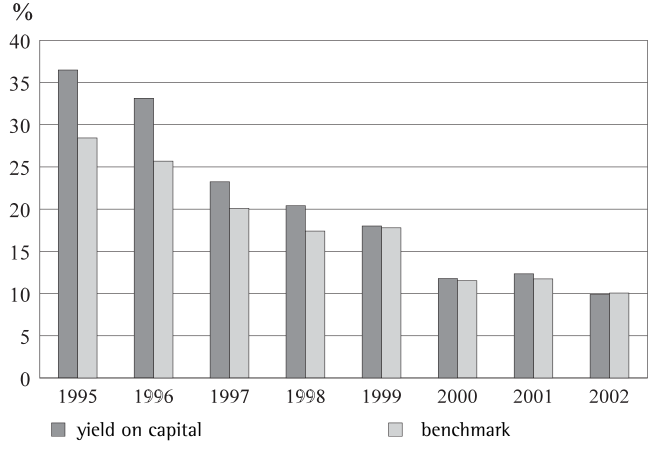


Diagram 10: Asset managers' results compared to the benchmark



outstanding performance from one year to the next. Furthermore, since only government security investments are an option for the NDIF – in contrast to other public and generally mixed funds – it is not possible to compensate for losses (e.g. by creating a share portfolio) arising from under weighting or over weighting the reference index.

During the ten years the NDIF has operated, the portfolio has always been managed by experts, and this also contributed to the maintenance and increase of the real value of the assets paid by the member institutions.

IV. PARTICIPATION IN THE MANAGEMENT OF CREDIT INSTITUTION BANKRUPTCIES

1. Introduction: prevention or deposit payout

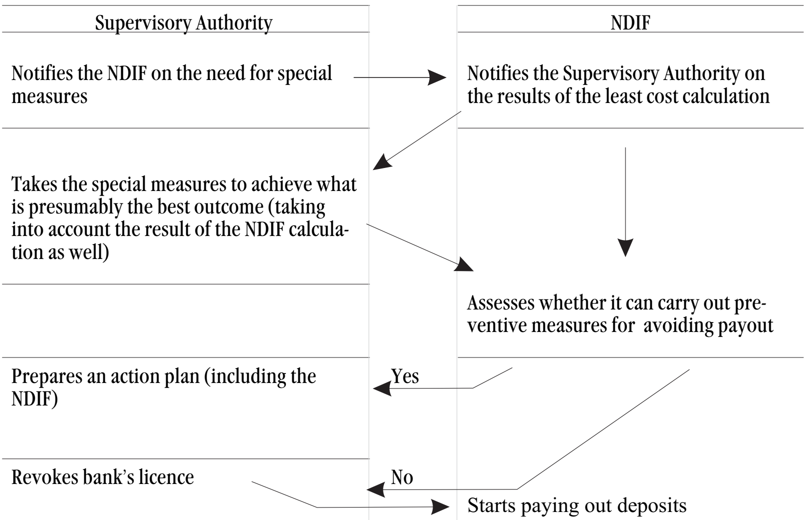
The prevention and management of banking crises is a focal point for theoretical and practical experts world-wide. The crises which erupt occasionally and the resulting actions by the relevant international organisations and bodies see to it that this keen interest is maintained. Opinions differ from each other in many respects, but there is consensus that preventing crises and containing the effects of crises if they have already occurred is only possible with the unity of all institutions involved in the financial security network. Indeed, with the globalisation of money markets those charged with financial governance in the individual countries are in need of continuous exchanges of information and co-operation at international level too.

The conditions, requirements and restrictions for managing bank crises in Hungary are contained in the Act on Credit Institutions, at least in respect of supervision and deposit insurance. In crisis-management cases involving the NDIF, other players have emerged who following their own considerations have become more or less active participants.

The 1993 Act establishing the Fund already differentiated the more complex task of *preventing* bankruptcies (freezing deposits) – often requiring several players – from the *deposit payout t*o be made once the deposits are actually frozen. The latter is more an organisational-technical task for the NDIF as the "main party responsible" under the Act, the financial consequences of which can by that time be less influenced by the NDIF. Partly using the experience of the NDIF, the Credit Institutions Act which integrated the NDIF regulations from 1997 made a stricter distinction between the functions of prevention and deposit payout, yet made them equal decision alternatives, which, however, underpinned the decision-making mechanism developed and applied by the NDIF and based on the least cost principle.

The aim of this regulation was above all to prevent an individual crisis at one credit institution from spreading to other entities in the banking system, to maintain trust in the banking system, to avoid the majority of depositors having to suffer losses, and for all of the above not to be expensive for the deposit insurer. The two key players in crisis management are the Supervisory Authority and the deposit insurer availing of financial means.

The co-operation between the Supervisory Authority and the NDIF in crisis management is illustrated below:



The most common cause for the development of crises is when, due to excessive risk-taking, the market value of a credit institution's assets does not cover its liabilities in full, namely there is a lack of capital compared to the minimum statutory amount (technical term: insolvency). In such cases the Supervisory Authority must take action and the Fund must prepare for alternative methods of crisis management. From its establishment, the NDIF had to intervene on every second year up to 2000. With a membership number of around three hundred this does not seem to be too often, however, given the variety of "life" and legal opportunities practically all types of crisis management have raised their head giving the Fund a great opportunity to gather experience.

2. Summary of methodology: the least cost principle

Legal background

Legal provisions on the National Deposit Insurance Fund from 1 January 1997 made the cost minimising principle detailed below obligatory (adherence to *relative cost limitation*), which until that time was just an option:

"In order to avoid deposit payout, the Fund shall choose the course of action that bears the least amount of long-term loss for the depositors, the credit institutions and the central budget alike." (Section 104 (2))

At the same time, the *absolute-cost limitation* of action aimed at preventing the payout remained in force, whereby

".. the total amount of the conditional and unconditional commitments may not exceed the expectable total amount of indemnity to be paid on insured deposits placed with the credit institution pursuant to Section 101 and the costs incurred by the Fund in connection with the payment thereof." (Section 104 (5))

Issues to be resolved and short description of methods

First of all it must be decided whether the credit institution in crisis can be rescued by means of a combination of measures from the Supervisory Authority and – if necessary – the NDIF, or closing the institution down (revoking licence) and launching liquidation proceedings is unavoidable. If the answer to the question is closure (liquidation), the NDIF begins indemnifying the depositors, within the limits prescribed by law. The loss of parties concerned (NDIF, the credit institutions, depositors, perhaps the central budget) in the liquidation is set by the limit under which solutions preventing closure (for the NDIF the freezing of deposits) may arise, solutions which give the owners of non-insured deposits (deposit portions) and other creditors a chance to avoid losses. It must also be examined which of the co-operation methods the NDIF can adopt fulfils the goal set by the Supervisory Authority most effectively, and which fulfils the afore-mentioned legal requirement of minimising costs.

The essence of the method is that with the help of linked tables based on the balance sheet figures of the member institution in crisis, the NDIF compares the long-term financial impact of *closure* (freezing deposits, payout) and *preventative measures* vis-à-vis the NDIF and other parties concerned (depositors, the State). The comparison takes into account the costs and losses of each of the options (e.g. recovery from liquidation, loans, return on capital), the order for satisfying creditor claims in the liquidation and the factor of time. The comparative analysis begins partly with an estimation on recovering the asset portfolio, which enables the creditor settlement fund to be estimated – taking liquidation costs into account too. Furthermore, on the basis of deposit portfolio data the NDIF indemnity commitment can be assessed and estimated along with any additional costs of an indemnity procedure, the recovery of which affects the order of settlements during liquidation. The loss from liquidation calculated in this way can then be compared with the loss expected from the potential preventative measure(s).

3. Participation in crisis management: summary

Table 10 illustrates the individual cases, methods of co-operation and success rates as of 2002 year-end.

Below we highlight the more important issues and lessons for the future, with illustrations of the individual crisis management cases. We do note that none of the credit institution liquidations affecting the Fund has been completed yet. These procedures include one which has been underway as long as ten years now. Thus far, the NDIF has received a liquidation payment for creditor receivables on one occasion (Realbank, beginning of 2003).

4. Simple pay-box or cost-minimising deposit insurance: practical application of the least cost principle

As previously indicated, the deed of foundation defined a wider role for the NDIF than just a simple pay-box, allowing action to be taken to *prevent* the freezing of deposits. However, the financial obligation undertaken for this purpose was restricted until 1997 by the afore-mentioned absolute cost limitation, and from 1997 – in addition – by the relative cost limitation prescribing the minimisation of costs.

The first bank closure in the history of the NDIF, the Heves and Vicinity Savings Co-operative, did not give a chance for deliberation: the diagnosis clearly showed that the savings co-operative could not be rescued. The next case affecting the NDIF was in May 1995, when the Supervisory Authority banned the payment of deposits at the medium-sized bank Agrobank Rt., after the management were arrested.[14] Following the action from the Supervisory Authority, deposit insurance played a part in saving the bank within the framework provided by law. When the deposits of Agrobank were frozen, the NDIF had liquid assets of approximately HUF 1.8 billion, yet according to assessments at the bank, the indemnity commitment of the NDIF was around HUF 15 billion. Although the NDIF could have produced the difference from central bank or money market loans, this would have meant a significant burden for the whole banking system. To put Agrobank back on its feet a capital injection of several billion forints was required. From this, the NDIF purchased shares of HUF 500 million, an insignificant amount compared to the absolute cost

14 Subsection IV. 6. deals with the resultant indemnity procedure.

Table No. 10: Crisis management methods and success rates

Start of co-operation	Credit institution	Method and content of co-operation	Expense (HUF million)	Recovery (HUF million)	Recovery %
22.09.1993	Heves and Vicinity Savings Co-operative	Deposit payout on insured deposits	262 +30 additional costs	0	0
28.06.1994	Innofinance Merchant Bank Rt.	Checking, electronic saving of deposit records before liquidation; making sure there are no deposit claims	0	0	0
25.05.1995	Agrobank Rt.	Advance indemnity payments to depositors, then capital allocation with share subscriptions	500 +26 additional costs	25 (10+15)	4.7
25.08.1995	Iparbankház Rt.	"Backing" the action plan of Supervisory Authority with lending, participation in controlling execution, sale of collateral	990 +2 indemnity	918	92.5
31.08.1995	MHB-Silver Bank Rt.	Checking, electronic saving of deposit records before liquidation; making sure there are no deposit claims	0	0	0
07.11.1996	Első Polgári Takarékpénztár Rt.	Agreement that credit institution itself will pay deposits; making sure there are no deposit claims left.	0	0	0
18.03.1997	Duna Befektetési és Forgalmi Bank Rt.	Checking, electronic saving of deposit records before liquidation; making sure there are no deposit claims	0	0	0
04.09.1998 18.01.1999	Realbank Rt.	Phase I.: Capital allocation to avoid closure, acquisition of majority holding for purposes of selling the bank. Phase II.: Indemnity payments on insured deposits	(I.) 3,062 equity (II.) 5,078 indemnity +58 additional costs	5,129	62.6
11.10.2000	Rákóczi Credit Co-operative	Indemnity payments on insured deposits	304	102*	33.6

* estimate

Notes: There was no need for indemnity payments in the cases of Innofinance Merchant Bank Rt., MHB-Silver Bank Rt. and Duna Befektetési és Forgalmi Bank Rt., the role of the NDIF was limited to assessing the deposit portfolio and informing depositors. In the case of Első Polgári Takarékpénztár Rt. the NDIF assessed the insured deposits after revoking the operating licence, however, there was no need for payout because the credit institution had sufficient liquid assets to pay all the deposits in full.

limitation mentioned above, and thus became a minority shareholder besides the State.

The similarity between the Heves savings co-operative and the Agrobank cases in terms of the NDIF was that expenses were not or only partially recovered, for reasons described later. This stimulated the NDIF to seek a way out with regard to crisis management techniques. The Iparbankház Rt. case also in 1995 gave an opportunity for this. The crisis-solving method initiated by the NDIF and implemented together with the State Banking Supervisory Authority, the *quiet removal from the market,* was an important theoretical and practical breakthrough. According to a statement prepared by the bank at the end of July 1995, client deposits totalled around HUF 5 billion, with the potential indemnity commitment of the NDIF standing at HUF 2.8 billion, the latter being the absolute upper limit for the NDIF's financial liability.

In respect of the least cost principle, the NDIF applied the *relative* cost limit – which is stricter than the absolute limit – for the first time during the quiet removal of Iparbankház, to all intents and purposes ahead of the relevant statutory obligation. According to calculations carried out at that time, recovery in the case of immediate closure would not have reached 80%; the rate of recovery from the quiet removal seemed much more favourable and has since been backed up with actual figures. The selected crisis solution method protected the Fund from having to pay nearly HUF 3 billion, the recovery of which would have been prolonged and uncertain. In addition, it saved depositors from the inconvenience and losses in terms of finance and time, which would have derived from the indemnification and liquidation procedure.

In 1998, during the Realbank crisis management, it was not only a right but also a statutory obligation for the NDIF to select the crisis solution incurring the lowest possible long-term loss, i.e. it had to take the relative cost limit into consideration. The other alternative was either for the NDIF to become a majority owner as a result of injecting capital of around HUF 3 billion, or, if the bank was closed, to pay a high amount of indemnity. The decision was made more difficult by the following factors:

- the difference between the losses of the two versions was really small based on the data known at the time of the decision;
- the legal regulation set a strict deadline for the decision;
- both alternatives were overshadowed by risk factors which could not be quantified.

The *ownership* risk was that based on the relevant provisions of Act CXLIV of 1997 on Business Associations, the NDIF – depending on other conditions too – would be financially liable towards the lenders of the bank in excess of its share holding, and the lenders would possibly be able to enforce collection through civil lawsuits. In light of the protracted legal procedures over many years, the *insurance* recovery risk of the NDIF was nearly the same in the liquidation. Based on the law, from the advantageous position of a depositor the NDIF may claim the amount of the indemnity paid during the liquidation proceedings, provided that the counterparties do not manage to contest the legal basis for this. After four years, when the related constitutional and liquidation procedures were closed, it became evident that the legal basis of the NDIF's liquidation position was stable, but we could hardly have known this for sure in 1998.

At that time, the NDIF decided to take part in the re-capitalisation of Realbank in the hope of being able to sell the bank and by this it chose to create the conditions of a "bridge bank" operation. After the NDIF acquired a majority holding, the new management of the bank evaluated the quality of assets and the capital situation. This evaluation showed further losses and once again negative equity compared to the status which formed the original basis for the capital acquisition. It has to be emphasised that these extra losses were incurred *prior* to the measures of the Supervisory Authority and the co-operation of the NDIF. To restore the conditions of legal operation therefore, *further* capital measures were necessary, which was beyond the cost-carrying capacity of the NDIF as defined by law (the least cost principle). The NDIF could not count on the co-financing participation of the government, furthermore the investors who had until that time showed interest in the bank withdrew. Considering all these factors at the beginning of 1999, based on the same legal regulation but using data modified in comparison to that known when the capital was increased, the NDIF was unable to assume further financial liabilities in order to settle the capital situation of Realbank. Subsequent to this, the Supervisory Authority withdrew Realbank's operating licence.

5. Measures aimed at preventing the freezing of deposits

As mentioned before, in the case of the Heves Savings Co-operative, preventive measures were not considered. In the case of Agrobank, the NDIF as a minority holder could not influence the method of prevention. The Ministry of Finance as the main owner of the bank decided to save Agrobank through a capital decrease, then a capital increase and a merger into another bank, which resulted in the value of the NDIF's holding being devalued to 1% (the NDIF finally sold its ownership share in 1997 at a premium of 200%, i.e. for HUF 10 million). Although the specific procedure still incurred less costs than a liquidation or deposit payout, the risk of acquiring a minority holding was a good lesson for the NDIF in respect of the future.

In the case of Iparbankház, the failure of the government's privatisation efforts made it necessary to take action. In light of the fact that liquid assets made up almost 50% of the bank's balance sheet, based on the negative experiences of the Heves liquidation the Supervisory Authority or more precisely the Banking Supervisory Committee and the NDIF agreed that it would be unreasonable to make Iparbankház available for a profit-oriented liquidator. The Banking Supervisory Committee made a decision in which it obliged the bank to work out an action plan for rationalisation, where the ultimate goal was to return the operating licence by the set deadline. It required the drawing of a loan so that the depositors, account holders and other lenders of the bank could get their money under normal operation of the bank. The essence of the process from the perspective of the NDIF was to satisfy the bank's depositors (including non-insured depositors too) during a normal course of business, and the selected solution at the same time had to comply with the strict condition of relative cost minimisation. The crisis management at Iparbankház well illustrates the fact that from the perspective of the NDIF, the purpose of the prevention was not to avoid the collapse of the financial institution but to prevent the *freezing of the deposits,* regardless of the subsequent fate of the bank.

The Fund concluded a standby credit contract for HUF 1.2 billion with Iparbankház Rt. of which the bank used HUF 990 million. The legal securities for the NDIF in the credit contract were the option rights, the liability assignments, the immediate collection right over the bank accounts and the right for termination stipulated in many cases. The goal of the standby credit was to pay insured and uninsured deposits without any problems including the financing of the necessary banking activity. As a first step, the management of the bank announced a cut in deposit interest rates, which was followed by the termination of deposit and account contracts, stating that the deposited amounts were transferred to non interest-bearing accounts. By the end of 1995 the portfolio of deposits had been halved and by the middle of the following year it had essentially ceased to exist. Evaluating the crisis management solution applied at Iparbankház from the perspective of the NDIF, it can be established that the quiet removal was really quiet (almost unnoticeable) and it did not cause any damage to the confidence in the stability of the banking system. There were only a very few depositors who after the closure of the bank were indemnified by the NDIF in accordance with the deposit insurance procedures.

The novelty of the Realbank crisis management was that the NDIF undertook the role of a *majority* owner as opposed to the previous action as a minority holder, which was not entirely a positive experience. The crisis management of Realbank was different from that of Iparbankház in the sense that this time the purpose was not the rationalisation of the bank but its rehabilitation and making it attractive to customers.

The crisis was explored by the Supervisory Authority (at that time State Financial and Capital Markets Commission) in a review which covered the extensive company relationships of the bank. The review necessitated an immediate capital injection of HUF 3-5 billion. Since the bank's owners were not in the position to increase capital to such an extent, the NDIF was asked by the Supervisory Authority to facilitate avoiding the freezing of deposits and the liquidation of Realbank by supplementing the bank's capital. We note that as the supervisory commissioner was sent out, the banking crisis became obvious and for lack of a positive message to counteract the situation, this would have led to panic among depositors. To prevent this, the NDIF announced that it was willing to raise the capital under the condition that the existing capital was first decreased. The extraordinary general meeting held on 4 September 1998 voted for a decrease in the capital to 1% and after this, the NDIF increased the capital of the bank to HUF 3.1 billion. As a result, the legal condition for operations was restored in terms of the capital situation, and the NDIF acquired a 99% holding in the bank. (We note here that a group of the bank's shareholders later contested some of the resolutions of the general meeting through legal channels, but not the capital increase carried out by the NDIF.)

The NDIF as the owner set the following closely related strategic goals for the bank and its management:

- *Restoring the conditions of normal banking operations,* including the rationalising or supplementing of the organisation, procedures and cost management along with stopping the outflow of funds which jeopardises liquidity.
- *Preparing the bank for sale,* including searching for potential customers and evaluating the business value of the bank. The expenses on crisis management (capital increase) for the NDIF were recovered through the sale, but even more important is that this was in the interest of the bank's clients and creditors too.

Since this latter endeavour did not bear any fruit due to the objective reasons detailed above, the second phase of the crisis management at Realbank commenced: the bank became the most significant payout case for the NDIF.

6. Cases of payout in the NDIF's history

Indemnifying the depositors of the Heves and Vicinity Savings Co-operative tested the preparedness of the Hungarian deposit insurance system nearly immediately once it was established. The payout system of the NDIF had just been completed by then and the Heves case was a live and otherwise successful test for the IT system. Payments were made by the Kereskedelmi és Hitelbank (Commercial and Credit Bank), a member institution of the NDIF, which received the assignment after a tender. By the end of 1993, the Fund had paid nearly two thirds (HUF 192 million) of the total registered indemnity liability of HUF 280 million to nearly two thousand depositors. By the end of the following year, together with the aforementioned payment, a total of HUF 257 million was paid to 2,785 depositors. Subsequent to that, there were only scattered payments made and as a result, the indemnity amount reached HUF 262 million by the end of 2002. Because of non-expiring savings deposits there are some small payments left even today.

In May 1995, the Supervisory Authority banned payment from deposits held at Agrobank, considered a medium-sized bank. On the following day, the NDIF ensured that the database of the bank was recorded and transferred to its own IT system and shortly afterwards an engagement contract was signed between Agrobank and the NDIF. In this contract, the NDIF engaged the bank to accept claims and carry out the tasks related to the payment of advances. With this flexible and customer-friendly solution, which did not jeopardise compliance with the payment limit, the initial depositor panic was successfully mitigated. In the case of entrepreneurial current accounts we made it possible for the bank to record money transfers arriving after the closure on a sub-account – working as a deposit account – which the customers could use. In co-operation with Agrobank, the NDIF created the conditions for customers to draw cash of up to HUF 20,000 as an indemnity advance from the balances of insured, but frozen, retail HUF current accounts, before the payout started 30 days later. This was possible for a period of more than two weeks, within the framework of an accelerated procedure not requiring any claim sheet or separate applications. (These advance payments were taken into account in the subsequent capital contribution.)

The amount of frozen deposits totalled HUF 5.7 billion at Realbank, of which HUF 5.1 billion was the deposits and parts of deposits below HUF 1 million which burdened deposit insurance scheme. The majority of claims were accepted by the 60 administrators working at 30 claim collection offices within 10 days. During the three months after the freezing of the deposits, the NDIF approved some 13,000 indemnity claims of the submitted 15,000, totalling HUF 4.6 billion. The payment of the remaining 10% was hindered temporarily by the fact that demands and banking records did not match, and also because there were clients who did not agree with the amount of the indemnity. There were also some items for which no claims were submitted. As for the breakdown by region, more than half of the direct payments were made in Budapest, nearly one fifth was made in Debrecen and the majority of the remaining claims were settled in Miskolc, Pécs and Tatabánya. The transfer proportion was above average in Budapest, Tatabánya and other places not included in the list.

The novelty of the indemnity procedure at Rákóczi Credit Co-operative, which was also registered in the city of Heves, was the *Deposit Insurance Card* of the NDIF, which was used for the first time. With this product, considered innovative even among international deposit insurers, the NDIF installed a cost-saving payment channel which could be operated from thousands of terminals and POS's. The most appropriate partner was Magyar Posta with its POSTAMAT service. The technical background of the card authorization procedure which is indispensable for card transactions was ensured by Magyar Posta and the OTP Bank having the largest network in the country. This offered the opportunity of triple co-operation, which in the end was accomplished, since the possibility of using the NDIF Deposit Insurance Cards was expanded by the ATM and POS network of the OTP and it provided a safe solution in terms of technical support for the Fund and all the customers using the cards.

With the help of the cards, the depositors involved could withdraw the indemnity amount safely and at no extra cost, even in several instalments if they wished; at the same time, this solution was quick, safe and technically simple for the NDIF. This technology is capable of carrying out mass payments with a short processing time after approval, since the funds only have to be forwarded to one place (OTP Bank) and the transfer or the handling of the cash is the task of the OTP or the post office. The NDIF receives electronic information on payments the following day.

7. Liquidation and recovery

In 1993, an important lesson from the case in Heves was connected to the *liquidation* of the savings co-operative. According to the law at that time, the Supervisory Authority and the NDIF could only make a joint proposal (not binding for the court) when appointing the liquidator, although credit institution liquidation procedures differ from the general rules in several respects. The operation of the liquidating company has since been accompanied by many controversies, from illegal withdrawals of money to an interim balance sheet which is not yet approved even after ten years. Omitting the details and the listing of legal procedures initiated by the Creditors' Electorate which operates under the direction of the NDIF, we only note here that the liquidation has not been completed to this day. The consequences of this have to be borne by not only the creditors but also the taxpayers because, similar to the rest of the lenders, not even the Hungarian State – which is the largest lender given the State guarantee and is prioritised in the asset distribution – has received anything so far, even though the liquidator has sold the majority of its assets and closed its office.

The aforementioned problems were meant to be remedied by the amendments to the rules on liquidating credit institutions, where the most important consequence was that from 1 January 1997, in the case of credit institutions, this activity must be performed exclusively by the Credit Institution Liquidation Non-profit Company.

The above change did not affect the liquidation of Iparbankház. The NDIF granted a loan of nearly HUF 1 billion before the liquidation was ordered and HUF 340 million of this was recovered before the securities included in the credit contract had to be used. As security for the disbursed loan we reserved a right to purchase the assets of the bank and we used this right after cancelling the loan and acquired the existing properties, tangible assets, investments, invoice and credit receivables of the bank and decreased the bank's debt with the purchase price. Most of the received assets and receivables have been sold since then. The recovery ratio of the Fund exceeds 90% at present.

On the *fourth* anniversary of starting the liquidation the NDIF received its total creditor receivable of HUF 5,078 million lodged under the title of indemnifying Realbank depositors. Under the title of additional costs, the NDIF reported a claim of HUF 60 million over a period of four years, of which HUF 51 million was recovered by the beginning of 2003. For the purposes of the premium paying member institutions of the NDIF, the most important question was obviously how much this whole thing cost and to what extent was the crisis management of Realbank recovered financially. Taking into account the lost invested capital, the rate of recovery was 63%. It is obvious, however, that the value of our currency today is not the same as four years ago: at discount value, the recovery is around 45%. Recovering the creditor's receivables of the NDIF was not smooth, despite the fact that the liquidator was the Credit Institution Liquidation Non-profit Company, in the creditor capacity of the NDIF. The process was made more difficult and thus slower by several circumstances which originated from the activity of Realbank before the NDIF acquired ownership. The main reason was that it took years to get the court decision as to whether the shares issued by the bank and the bonds issued by the companies related to Realbank could be used as creditor's claim in the liquidation or not.

The liquidation of the Rákóczi Credit Co-operative was ordered by the Budapest Court on 26 October 2000. The estimated ratio of recovery when this publication was written stood at 35%.

8. Other participants and parties affected in the NDIF's crisis management

In the case of the Heves Savings Co-operative, the State undertook a guarantee for the majority of the deposits and the payment started shortly after the savings co-operative closed, while according to the stricter rules on deposit insurance, the NDIF started deposit payout later but within the 30-day deadline through the branches of an agent bank. The payment of State-guaranteed deposits, which made up the majority of the approximately HUF 1.2 billion portfolio, was supervised by the NDIF on behalf of the Ministry of Finance.

It is not surprising that the bankruptcy which set in during the transfer from State guarantee to deposit insurance brought to light some unfortunate cases which originated from the initial ignorance of depositors and bank staff. Many people in particular were affected by the case of the fund and special purpose proprietary shares which entitled neither a State guarantee nor NDIF indemnity. Certain cases, for example, the problem of deposits – totalling far more than the coverage limit – transferred for public utilities development, construction works or for the management of local government and housing co-operatives and placed under the name of the managers, later led to the legislation being amended. In such a case, the NDIF felt that it was its obligation to stand up for the groups which suffered losses, even if due to the current legal restrictions it was not the

NDIF but the central budget and the the association of savings co-operatives which could help in the cases mentioned above. Whom the NDIF could not help were the owners of unregistered deposits placed after July 1993, when deposit insurance began.

The consequences drawn were useful in communication with member institutions and depositors. In order to avoid similar situations, the Fund summarised its negative experiences from indemnifying the depositors of the Heves and Vicinity Savings Co-operative in a “white paper”, one year after the bankruptcy. It attached an action plan to the paper which was addressed to the member institutions, so that they could make up for any shortcomings in shaping and advertising their savings products or in the keeping of their records. The campaign of the NDIF contributed to the favourable changes: the client and deposit registration of member institutions became much more thorough and depositors were informed in more detail. This improvement was later supported by both the on-site reviews of the NDIF and public opinion polls.

In addition to the Supervisory Authority and the Fund, there were two other important participants in the crisis management of Iparbankház: the NBH and the circle of member institutions. In considering the method of crisis management, not only the aforementioned liquid assets played an important role but also the significant refinancing loan of the NBH and the size of the loss because of the unfavourable rating of the credit in the liquidation. In light of this, the NBH became a partner of the NDIF, a party with financial interest in distributing the burdens of the crisis management.

An important element of the action plan was to sell the asset portfolio. Selling the branch properties together with the credit portfolio, tangible assets and, if possible, staff was a goal from the beginning, building on the interest to expand from member institutions. Although the latter did not fulfil expectations, finally at the beginning of 1996 the first agreement was concluded with the co-operation of the NDIF on transferring the banking assets and personnel of one of the branches of Iparbankház, including the sale of a significant amount of credit receivables. This was followed by the sale of other branches too.

To sell Realbank in one piece, the NDIF considered two possible market segments:

- foreign banks wishing to enter into the market of Hungary,
- local banks, i.e. the member institutions of the NDIF.

In respect of the first category, we contacted the IFC (International Financial Corporation). In order to gather information on the credit institutions registered in Hungary, the chairman of the Board initiated meetings with the managers of the institutions aiming at large and quick market expansion. As a sign of interest, three of the banks contacted asked for more information on the clientele of Realbank and the quality of its assets. In order to harmonise the process with the privatisation of other smaller banks, the NDIF checked with the Hungarian Privatisation and State Holding Co. and the Hungarian Development Bank (MFB).

From September 1999, due to the continuous operational and asset losses, a commissioner of the Supervisory Authority and a reviewer were assigned to the Rákóczi Credit Co-operative. The operating licence was withdrawn by the Supervisory Authority one year later, in October 2000, and at the same time ordered a full ban on payments. As a result of the measures, the deposits were frozen and the indemnity commitment of the NDIF entered into force. Thanks to the co-operation with the commissioner of the Supervisory Authority, the recording problems of the deposit portfolio were settled and payments could start 10 days before the statutory 30-day deadline.

V. RELATIONS WITH MEMBERS AND OTHER INSTITUTIONS

1. Informing and examining member institutions

The Fund can only carry out its deposit insurance-related tasks, which facilitate the stability of the financial system, in close co-operation with the member institutions of the Fund. This requires mutual and regular professional contact between the parties. Over the past ten years, the Fund has been able establish forms of co-operation within the framework of which both the NDIF and the member institutions have learnt and continuously developed deposit protection in a market environment, namely, the deposit insurance system. The Fund was open to the ideas of its member institutions. It tried to take into consideration the opinions and proposals raised at professional forums or received from interest groups or through bi- or multilateral relations and to utilise these during its activity. Nevertheless, it continuously strove to give professional and up-to-date information to the member institutions on its operation and the issues of deposit insurance – in particular, those affecting credit institutions.

The order of the information flow between the Fund and its member institutions is regulated by law. The NDIF may only ask for data and information from its member institutions which are necessary to carry out its tasks and which are not available at the Supervisory Authority and the NBH. Bearing this requirement in mind, using the data supply procedures it has developed, the Fund collects the basic information necessary to assess the premium payment liabilities. An important piece of such data is for example the changes in the insured deposit portfolio and the partial data required to determine the current indemnity commitment of the Fund, etc. The NDIF continuously analyses and systemises the information and data it receives from the member institutions.

Deposit insurance operating in a market environment was a novelty in the Hungarian financial system ten years ago. In light of this, shortly after its establishment, the Fund drew up a publication for credit institution employees containing the basic information on deposit insurance. It provided assistance especially for front desk officers who performed tasks at banks and savings co-operatives in connection with deposit insurance and whose job it was to give information to clients.

The Fund gives answers to questions occasionally raised by member institutions which are also of general interest in the form of circulars. Similar to this, it prescribes the obligations of member institutions which by law must be fulfilled in the form defined by the Fund. Over the past ten years – amongst other things – the management of the NDIF has sent circulars to all member institutions on the examination principles of the NDIF, the identical interpretation of registered deposits and the recording requirements for deposits insured by the Fund.

At the beginning of 1997, after the Act on Credit Institutions entered into force, the Fund compiled fact-sheets which promoted the standard application of legal regulations on deposit insurance. With this it tried to provide assistance to mainly smaller credit institutions where the employment of a full-time legal expert was not possible. The fact-sheet is regularly updated by the Fund in light of changes to the legal regulations.

The Fund was continuously available for direct, verbal consultations and if requested, its staff held lectures on topics connected to deposit insurance. The member institutions or their groups mainly asked for such services in the beginning.

A new chapter of the relationship between the Fund and its member institutions was the start of the NDIF's *examination activity.*

At the outset, the Fund reviewed the procedures and deposit contracts related to deposit insurance after collecting them from some randomly selected member institutions. Within this framework, it was possible to review the contents of the legal regulations related to deposit insurance and the member institutions received information on the results of this review and any shortcomings. In addition, the Fund examinedthe correctness of premium declaration forms each year, but not on-site. This method of premium payment examination, however, did not allow the contents of the premium base calculation to be reviewed, nor compliance with other legal regulations related to deposit insurance. Only during an on-site examination can it be confirmed whether the records systems of the individual member institutions enable any potential indemnity of depositors, or create the conditions of NDIF co-operation in other forms of crisis management.

The Fund has conducted regular on-site examinationsat its member institutions since 1996. The Board of Directors at the NDIF approves the examination plan developed by the management and their experiences and findings are also appraised by this body. During its examinations, the Fund always makes sure that it does not act as an authority, in accordance with its own status.

So far examinations have been carried out at 180 member institutions by the staff of the NDIF and or the external experts it engaged. This means that 80% of the member institutions have already been examined at least once, including all institutions that are not savings co-operatives.

The most important goal of on-site examinations is to gain assurance that the registration of depositors at member institutions complies with legal requirements, i.e. whether the indemnification of depositors or the participation of the NDIF in another form of crisis management could be supported by sufficient data or documentation (client records). Since the deposit insurance system operating on a market basis is not yet well-known, during the examinations the Fund pays close attention to ensuring that its member institutions comply with their obligation to inform their clients of deposit insurance in accordance with legal regulations (client information). During the on-site examinations of premium declarations, the review focuses on the figures underlying the premium base.

The examinations of the past one or two years have clearly proven that member institutions consider deposit insurance increasingly important for business policy purposes, and treat this issue accordingly. Based on feedback, the preventive examination practice of the NDIF is welcomed by the member institutions. Based on the findings of the examinations, the Fund formulated its opinions which respond to certain questions and are given to the member institutions.

2. Communication

The change of the economic and political system in 1989-90 and the expansion of the market and private holdings made it necessary to lay new foundations for confidence in the banking system. Recognising this, the Parliament created the National Deposit Insurance Fund in 1993 whose service (deposit payout in the case of bankruptcy) is a sort of a final resort for depositors after the ceasing of State protection on bank deposits. This change in itself represented a communication challenge, bearing in mind the preservation of depositor confidence. In addition, in contrast to the former State guarantee the deposit insurance system is limited in terms of the extent of protection and there are other important rules which influence the degree of such protection. These had to be conveyed to the depositors, indeed, in the new system not only to private persons but also to the owners of company deposits which also fall under the scope of deposit insurance.

In light of all this, the Fund considered communication a strategic issue from the beginning, specifically the following tasks:

- Convincing Hungarian depositors of the fact that their deposits are protected (albeit to a limited extent) even after the termination of the State guarantee; thus strengthening confidence in banking system security; avoiding multiple deposit withdrawals because of the changes to guarantee conditions.
- Increasing the awareness of depositors about the banking business, in particular, the conditions of guarantees; new concepts such as: NDIF member institution, protected – unprotected forms of savings, freezing of deposits, coverage limit, joint deposits, etc.;
- Preparation and training of member institutions in respect of deposit insurance so that they can answer the questions of their clients well-prepared and responsibly;
- Developing a communications strategy in the event of a banking crisis, the freezing of deposits and indemnity payout by the NDIF.

As mentioned before, the NDIF was formed at the end of March 1993 and it had to be ready to fulfil its duties from the beginning of July. The Fund only had these few months to plan the start-up communications campaign with external professional assistance and by using a communications consultant, have it approved by the Board of Directors and then implement the plan, which had four main goals:

a) Institutional design and image

The institutional image and the basis for consistent application are set out in the Visual Identity Guidelines. The institutional "image carriers" (business cards, letters, round stamps, etc.) were prepared based on the standard image with the logo of a truncated pyramid that can be easily interpreted and printed. These strengthen the feeling of stability and security while at the same time clearly identifying and distinguishing the institution from other players on the money market.

b) Media communication

From the beginning, the NDIF endeavoured to build up a partner relationship with the press. The purpose of the NDIF's media communication is to give information to journalists (and through them to depositors and professionals) on the purpose, role and operational rules of the institution.

c) Direct information to depositors

In order to maintain confidence in the security of bank deposits, a 20-second image film was shot announcing the establishment of the NDIF and its fundamental services. The film containing emotional elements and which can easily be interpreted by the average person coupled the activity of the NDIF with a feeling of security and continuity. The film, radio and printed versions prepared based on a creative concept were shown nearly 200 times – over a period of approximately 2 months – at prime time on the (then) two main channels of Hungarian television, the radio and the major nationwide and regional newspapers.

d) Informing depositors indirectly – through member - institutions

The NDIF asked the International Training Centre for Bankers and the National Association of Savings Co-operatives for co-operation in the initial training of banking administrators. As a result of the co-operation, hundreds of credit institution staff members involved in client service, deposit and money transactions participated in a one-day training course that was held 15 times. It was supported by a publication entitled "*Deposit insurance*" which was issued by one of the heads of the Training Center.

Shortly after the establishment of the deposit insurance institution, an opportunity arose to "harvest the fruits" of the introductory communications campaign. In the autumn of 1993, a medium-sized savings co-operative (Heves and Vicinity Savings Co-operative) went bankrupt and partly due to the campaign detailed above this did not result in any loss of trust in the Hungarian banking system.

In the second half of 1996, a market research company prepared a survey on the awareness and judgement of the NDIF among the general public and professionals. The most important finding of the survey was that the existence of the NDIF strengthened trust in the banking system and decreased the fear of bankruptcies among smaller banks. The research also pointed out that

- both the general public and professionals said that the information on deposit insurance was insufficient, and, professionals wanted more detailed information on the operation of the NDIF and the scope of protection while savings co-operatives required a more personal relationship;
- the public would like to get answers to questions partly through the media and partly at the bank branches – in writing and verbally from the bank staff.

Subsequent to the above public opinion poll, the NDIF established new means of communication for new target groups with the help of an experienced agency and specialised journalists. Firstly the publication entitled *"Saving Your Savings Together"* a guide to deposit insurance was prepared, which provides clear information for the general public in a "Q&A" form, grouped into 27 topics. To ensure constant and wide-ranging access, this *"guide"* is still available for depositors – updated – at all bank branches.

The *Info-Line* system provides details for the general public and gives information to callers on deposit insurance and the role of the NDIF based on sub-topics in the menu system. The phone number for the "Info-Line" (at the closure of this publication: + 36 (1) 431-2882) is advertised in more than 6,000 locations (all of the member institutions and post offices) on posters. Thousands of people have already used this opportunity to get information.

The NDIF *Newsletter* as a continuation of the *"Deposit Insurance"* publication mentioned in connection with the introductory campaign is issued periodically. It primarily serves to inform bank staff but professional journalists are also showing increasing interest towards it. In addition to the relationships with member institutions and other deposit insurance news, the publication includes the changes to the relevant legal regulations.

In order to balance the awareness of the NDIF throughout the various regions (revealed in a survey), the Fund expanded its media relations. Between 1997 and 2002, the Fund's managers participated in press conferences in 15 cities around the country to provide more detailed and "personal" information for non-professionals. The importance of relations built up with the staff of local media is indicated by the fact that the number of copies sold of county newspapers increases every year to the detriment of national dailies.

The biggest test of the preparedness of the NDIF in terms of communications was the closure of Realbank in January 1999, a medium-sized bank with tens of thousands of clients and a national branch network. In addition to the regular information channels (paid announcements, advertisements) the NDIF held press conferences every day over several weeks – a novelty in Hungarian press practice – while interest prevailed and also informed the general public through the regional television channels. The crisis communication, which was also appreciated by the representatives of the press, mitigated the tension surrounding the indemnification of clients. Despite the big number of clients whom the NDIF could not indemnify, the bankruptcy of the bank did not cause any general loss of confidence from depositors.

As a result of the Realbank case, the Fund was approached more and more frequently with the question of whether the deposit product of a specific credit institution was insured or not. With this demand in mind, the NDIF in co-operation with its member institutions compiled the *Deposit Register*, which provides reliable, quick and up-to-date information on the insured products of the NDIF member institutions. Since 1999, financial institutions have made the part of the *Deposit Register* relevant for them available at all of their branches and it is also accessible in its entirety on the NDIF's website (see below) along with the *Saving Your Savings Together* guide.

In 2000, the NDIF developed its existing *website* into an informative page which can be used easily by both the general public and professionals. The internet page, which can be changed and expanded more flexibly than printed materials, supports the transparency of the NDIF. The new website provides easy access to the valid legal regulations affecting deposit insurance along with the announcements, newsletters and annual reports of the NDIF amid other current topics. In order to enhance the legal security of depositors, the NDIF established its virtual "deposit insurance ombudsman" institution in the same year. This virtual person (represented by the lawyers of the NDIF) who is accessible through the website of the NDIF is available for depositors to clarify any issues arising between the credit institutions and their clients in relation to deposit insurance.

The success of the communications policy consistently implemented over the years was shown by the nationwide awareness review prepared in 2000. 90% of those questioned were aware of the extent to which their deposits were insured. The research confirmed that the efforts of the institution so far had not been in vain, since the depositors could identify several sources from which they could get information on the NDIF. 47% of respondents indicated that they keep their money in their current bank because of the insurance.

However, the research identified deficiencies in the communication towards the general public and member institutions. It found that depositors require further information on the limits of deposit insurance and the member institutions are in need of more professional guidance and information. In 2001, the NDIF published a 10-part series of articles in the daily *"Metro"* newspaper, which is distributed free of charge. The concise articles each on a specific deposit insurance issue triggered significant interest based on the feedback of the paper. Parallel to this, the NDIF increased the frequency of publishing the *Newsletter* which provides information for member institutions.

Now with some experience, the current task of the NDIF in relation to communications is the "fine tuning" of its existing tools and channels and the development of the communication activity vis-à-vis depositors and member institutions. In light of this, the NDIF recently initiated a website co-operation agreement with its member institutions. The goal of the joint action was to give information to those interested in deposit insurance not only at the bank branches but also directly on the websites of the credit institutions.

Drawing near to the tenth anniversary of deposit insurance activities in Hungary, the Parliament increased the coverage limit from HUF 1 million to HUF 3 million as of 1 January 2003, parallel to other important changes in deposit insurance legislation. In addition to the communication tools applied so far, to ensure this information reached as wide an audience as possible, the NDIF introduced an online version of the *Newsletter* which is considered as a new personal form of communication. The advantage of the service – which is free for subscribers – is that this publication can be sent out quickly, at insignificant cost and in an almost unlimited number of copies. It is available on the website of the NDIF and the contents of the online publication are the same as that of the printed *Newsletter*. Widening the range of online communications, which are becoming more and more popular, the NDIF created a *"Press room"* on its website, which is aimed at supporting the work of journalists by collecting information which is of interest especially for the media.

A new communications challenge for the NDIF will be the accession of Hungary to the European Union in May of 2004. Spreading information on the new, higher deposit insurance limit set by law is just one part of giving information, accession to the Union and the resultant opening up of the market involves communications tasks which resemble the switch in 1993. Issues like opening a branch and cross-border banking services may be added to the agenda, bringing new and previously unknown opportunities for consumers, but also risks as well. The campaign must still give a reassuring answer to a potentially wider range of depositors as to how they can insure their money and in the case of difficulties, how and from whom can they receive the indemnity.

3. Hungarian and international professional relations

Hungarian professional relationships

Naturally, the professional relationship of the NDIF is the closest with the institutions which are represented on the Board of Directors. In addition to this, it co-operates with many other institutions, exploiting mutual advantages.

These include two other guarantee institutions which perform similar tasks: the Investor Protection Fund and the Pension Guarantee Fund. The heads of these three Hungarian guarantee institutions agreed in November 1999 that they would make informal professional discussions a regular occurrence.

In this publication we previously mentioned the International Training Centre for Bankers as a co-operating partner in the field of training materials, publications providing information or the joint organisation of conferences. We have active and regular contact with other training institutions: the staff of the NDIF participate in the drafting of course books, as tutors regularly welcome students and hold lectures on deposit insurance at higher education institutions such as the Budapest University of Economics and Public Administration, the Pázmány Péter Catholic University and the Law Further Education Institution.

The NDIF is an active member of the Hungarian Economic Society, both in the capacity of lecturers and participants.

International relations

A pleasing aspect is that the establishment of the Hungarian deposit insurance system was greatly affected by freely available international experience, on which the NDIF regularly relies, and indeed, in recent times contributes to.

The first international relationship in Hungarian deposit insurance was established earlier than the institution itself. The head of the Canadian Deposit Insurance Corporation (CDIC) contributed with his expertise to the preparation of the NDIF Act and his staff shared their practical experiences with our staff, which provided tremendous assistance, particularly in the quick and precise development of the indemnity payout (reimbursement) system. This was also a factor explaining why during the autumn of 1993 the Fund was able to stand its ground in the Heves indemnification case. Co-operation between the Canadian and the Hungarian deposit insurance institutions has been regular and close ever since, both in practical and strategic issues.

After the NDIF and its structure were created, within the framework of the PHARE Programme of the EU a group of international experts facilitated the building up of the institution and the establishment of its systems.

The prestigious US Federal Deposit Insurance Corporation (FDIC) with its valuable professional experience contributed to the development of the legal frameworks, operating principles and practice of the NDIF. Although the NDIF proved in the autumn of 1993 that it was able to pay indemnity, it is not insignificant how much the non-recovered loss incurred during the management of a banking crisis is. An authentic source in minimising losses is the FDIC, where in 1994 the deputy managing director of the NDIF visited for consultation purposes. Subsequent to this, a U.S. delegation of experts, lead by the then Vice Chairman of the FDIC visited the NDIF and other institutions involved in the management of banking crises. They held consultations about early preventive measures, the principle of least cost and the liquidation of banks. The outcome of the meetings was utilised first in the case of Iparbankház: by bearing the principle of least cost in mind, the bank in question was removed from the market quietly and cost efficiently.

As Hungary submitted its application for accession to the EU in 1994, legal harmonisation with the EU was basically on the agenda from the establishment of the NDIF. Directive No. 94/19 (EC) outlines the requirements of deposit insurance schemes of member states, bearing in mind the maintenance of stability on the single internal market. The majority of these requirements were included in the first Act on the NDIF in 1993. To harmonise the Act regulating the operations of the NDIF further, the technical consultations held with the competent members of the Commission in Brussels and the banking experts of the member states as well as studying the deposit insurance systems of the EU member states provided extensive help, and also buoyed bilateral relations with the partner institutions of several countries, in particular, Austria, Germany, Great Britain and Portugal.

The IMF and the World Bank along with the international credit rating companies visit the NDIF on a more or less regular basis to familiarise themselves with and evaluate the stabilising role of Hungarian deposit insurance. The transparency of the Hungarian deposit insurance institution was rated by the IMF into the highest category.

We have managed to establish lively, bilateral professional consultative co-operation frameworks with the Bulgarian, Croatian, Polish, Romanian, Slovakian, Ukrainian and Albanian deposit insurers in the Central and Eastern European region. As part of this, the NDIF as the first deposit insurance institution of the region readily shares its experiences with the partner institutions of other countries.

The Hungarian institution undertook an active mediating role in the spreading of information on deposit insurance between the regions: in March 1998 it organised a professional conference in Budapest in co-operation with the American Institute of East-West Studies and the International Training Centre for Bankers on the theoretical and practical issues of deposit insurance systems in which experts from the U.S., Great Britain and Sweden participated and held lectures, in addition to the partners from the region. The two basic types of deposit insurance were introduced at the conference: the American system, which works with an extensive infrastructure, is entitled to take preventive steps and minimise the costs of *crisis management*, along with its antithesis, the system which has minimal administration, limits its activity to a pay-box and thus minimises its *operating* costs.

At the end of 1998, the NDIF organised an international conference sponsored by a German foundation with participants from Hungary, Croatia, Romania and Slovakia, under the motto “The best deposit insurance: strict reviewing and examining”. This time, experts of German private banks and professionals from the co-operative sector shared their experiences gained over several decades on deposit and institution protection.

At the initiative of the Hungarian banking supervisory authority the NDIF twice received invitations for the regional conference of the Central and Eastern European Banking Supervisory Authorities (St. Petersburg in 1994 and Riga in 1998) where the main topic was deposit insurance.

The professional recognition of the NDIF by 2001 was indicated by the interest of Russian experts in Hungarian experiences. As a result of the visit to Budapest of the State agency dealing with the reorganisation and rehabilitation of Russian credit institutions, the managing director of the NDIF – in addition to an FDIC expert – was asked to hold a lecture on the role of deposit insurance at a budgetary committee meeting of the Parliament (lower house) of the Russian Federation, which was followed by further meetings with high-level officials of the Russian financial administration.

An opportunity arose in 1999 in Kazakhstan to share Hungarian experiences with an international audience, followed by China in 2002, where the managing director of the NDIF held a lecture at the deposit insurance workshop organised by the Chinese central bank.

As financial services including deposit insurance are tending to increasingly ignore national borders, there is a growing need for an international organisation operating within an institutional framework which represents more than just occasional bilateral relations. The need for multilateral co-operation was first raised at the worldwide international conference organised in 1998 by the FDIC in Washington D.C., where the leaders of the NDIF were also asked to hold lectures.

The requirement for multilateral international co-operation grew in light of the Asian crisis in 1997 which was followed by the debt crises of Latin America and Russia. To strengthen financial stability, analyse the situation and take preventive measures, the ministers of finance and heads of the central banks of the G7 countries created the Financial Stability Forum (FSF) whose leaders formed working groups including one focusing on deposit insurance. Mr Jean Pierre Sabourin, the CEO of the Canadian Deposit Insurance Corporation was asked to chair a deposit insurance-study group, whose members represented 12 countries over 4 continents and included the managing director of the NDIF and experts of the IMF and the World Bank. The task of the study (later: working) group was to develop international deposit insurance guidelines, primarily for countries planning to create deposit insurance systems in the future. The members of the group undertook to host meetings. Within this framework, the November 2000 meeting was organised by the NDIF in Budapest with the support of the FSI and the EBRD. This was supplemented with a round-table discussion where – in addition to the members of the working group – experts of the Central and Eastern European region shared their experiences with others as well. The group fulfilled its task upon submitting a report to the FSF in September 2001, which was divided into 20 sub-topics. Based on a consensus, the report summarised the group's opinion on best practice in deposit insurance in no less than 60 sections.

At the international deposit insurance conference in Basel in 2001 organised to present and discuss the report approved by the FSF, the idea of establishing an international deposit insurance association was raised. On 6 May 2002 the International Association of Deposit Insurers (IADI) was created with 25 founding members including the NDIF, and a further 8 associate members and 2 observers. The registered office of the IADI is in Basel, in the building of the BIS. Five standing committees support the efficient work of the IADI and the training and conference committee is chaired by the deputy-managing director of the NDIF. The goal of the association is as follows: contribute to maintaining financial stability, work out proposals to facilitate the efficient operation of deposit insurance systems. In achieving this goal, the association mainly relies on international co-operation, exchanging experiences and organising training programmes.

The European Forum of Deposit Insurers (EFDI) was formed at the end of 2002 in light of the need for closer co-operation between European deposit insurance systems, to which the NDIF joined as a founding member. The purpose of the EFDI where 25 European countries are represented is to contribute to the stability of European financial systems. The professional forum operates within an informal framework and is expected to play an important consultative role in further developing deposit insurance principles of the Union.

VI. AFTERWORD

"Deposit insurance and the NDIF in a nutshell" – this is the title of the introduction of our publication which summarises the essence of deposit insurance in general and deposit insurance in Hungary in light of the past decade. At the end of this 10-year review, instead of another summary we are rather looking to the future, trying to predict what changes and progress our next anniversary publication will report on.

Interestingly, the ten-year anniversary largely coincides with the significant change in the external legal, environmental and internal conditions that shape our operation. Above all this concerns the raising of the coverage limit which had remained the same for almost ten years, but a similarly substantial change is on the one hand the introduction of the depositor's co-insurance and on the other hand the extension of the insurance to cover non-deposit type forms of savings at credit institutions.

From 2004, deposit insurance will transcend the borders of the country thanks to European Union accession. In accordance with regulations entering into force relating to credit institution branches, on the one hand the NDIF "monopoly" will cease to exist, and on the other hand the Fund may take on liabilities abroad. The more cross-border branches that are established, the less we can consider the NDIF to be a "national" institution; it will be more a guarantee institution for member institutions that have received a licence from the Hungarian Supervisory Authority – but acting with European Union powers.

The legal regulation framework for this is essentially in place, but this is far from being sufficient for an institution like ours that affects so many citizens. In order for legal provisions not just to give guidance once a problem has occurred, but to become savers' routine when placing their deposits, the amended rules must be communicated to as wide an audience as possible; it must be ensured that deposit insurance will not be lost on people in the wave of communication expected with the upcoming EU accession.

Information from the NDIF is given credibility by the fact that depositors have experienced the high standard of insurance service that the Fund is capable of providing. After ten years it now has a fundamentally revised IT system for cases where payout need to be made to depositors. And in terms of its financial and asset stability, from 2003 the greater portion of the NDIF's income does not come from the annual premiums but from the yield on its assets. In connection with this, revising the premium policy is on the agenda, which may give a new guiding principles to other deposit insurance tasks, such as risk analysis, cost-minimising crisis management and member institution relations.

From this far from exhaustive outlook it is clear that the next ten years hold just as exciting tasks in store for the NDIF. We hope that our publication has underlined our most important message: a financially sound NDIF with advanced institutional service-providing capabilities protects deposits efficiently, thus contributing to the stability of the financial system.

APPENDIX

Presentation of the National Deposit Insurance Fund of Hungary

Name of organisation:	National Deposit Insurance Fund of Hungary abbreviated name: the NDIF or the Fund
Registered office:	1027 Budapest, Horvát utca 14-24.
Method of foundation:	Act XXIV of 1993
Current basis of operation:	Act CXII of 1996
Date of foundation:	31 March 1993
Type of organisation:	916 Other non-profit organisation
Scope of activity:	6713 Additional financial services not classified elsewhere
Members of the Board of Directors:	Administrative Under-Secretary of the Ministry of Finance Vice-President of the National Bank of Hungary, President of the Hungarian Financial Supervisory Authority, Secretary-General of the Hungarian Banking Association Board member of the National Federation of Savings Co-operatives, Managing Director of the NDIF and their permanent deputies.

Members of management as of 31 December 2002:

Dániel Jánossy	Managing Director
Dr. András Fekete-Győr	Deputy Managing Director
Dr. Géza Gálfalvi	Chief Legal Adviser
Dr. Zsuzsa Ivanyos (from May 2003: Dr. Péter Lőrinc)	Chief Economic Adviser
Gabriella Vankó	Chief Accountant

Telephone: + 36 (1) 214-0661
Fax: + 36 (1) 214-0665
Internet: www.NDIF.hu
E-mail: info@oba.hu

Chairmen, Vice-Chairmen and members of the NDIF Board of Directors*
1993–2003

Year	Chairman-Members	Position entitling membership	Permanent deputy
1993	Dr. Péter Ákos Bod, *Chairman*	National Bank of Hungary (NBH), President	Dr. Imre Tarafás
	Miklós Pulai, *Vice-Chairman*	Hungarian Banking Association (HBA), Secretary-General	Bella Rónaszéki (Ms)
	Dr. Katalin Botos (Ms)	State Banking Supervisory Authority (SBSA), President	Dr. Tamás Rusznák
	Dr. Sándor Gergely	National Federation of Savings Co-operatives (NFSC), Secretary-General	Dr. Endréné Szöllősi (Ms)
	Dr. Zoltán Nagy	Ministry of Finance (MoF), Adminstrative Under-Secretary	Álmos Kovács
1994	Miklós Pulai, *Chairman*	HBA, Secretary-General	Bella Rónaszéki (Ms)
	Dr. Katalin Botos, *Vice-Chairman*	SBSA, President	Dr. Tamás Rusznák
	Dr. Sándor Gergely	NFSC, Secretary-General	Ilona Szomszéd Aradi (Ms)
	Dr. Béla Bártfai/ Dr. Tibor Draskovits	MoF, Administrative Under-Secretary MoF, Administrative Under-Secretary	Dr. Kálmánné Simóka (Ms)
	Dr. Péter Ákos Bod	NBH, President	Álmos Kovács
1995	Dr. Miklós Mátrai / Dr. Tamás Rusznák, *Chairman*	SBSA, President	Dr. Sándor Orosz
	Dr. Sándor Gergely, *Vice-Chairman*	NFSC, Secretary-General	Ilona Szomszéd Aradi (Ms)
	Dr. Tibor Draskovits	MoF, Administrative Under-Secretary	István Farkas/ Éva Hegedűs (Ms)
	Dr. György Surányi	NBH, President	Álmos Kovács
	Miklós Pulai	HBA, Secretary-General	Bella Rónaszéki (Ms)
1996	Dr. Sándor Gergely *Chairman*	NFSC, Secretary-General	Ilona Szomszéd Aradi (Ms)
	Dr. Tibor Draskovits, *Vice-Chairman.*	MoF, Administrative Under-Secretary	Éva Hegedűs (Ms)/ Dr. Ágnes Balázs (Ms)
	Dr. György Surányi	NBH, President	Álmos Kovács
	Miklós Pulai	HBA, Secretary-General	Bella Rónaszéki (Ms)
	Dr. Imre Tarafás	SBSA, President	Dr. Sándor Orosz

* The NDIF managing director is a permanent member of the Board of Directors: from 1993 to October 1995 Dr. Elemér Terták, thereafter Dániel Jánossy (Deputy: Dr. András Fekete-Győr). Secretary of the Board of Directors: Dr. Géza Gálfalvi

Year	Chairman-Members	Position entitling membership	Permanent deputy
1997	Dr. Tibor Draskovits *Chairman*	MoF, Administrative Under-Secretary	Dr. Ágnes Balázs (Ms)
	Álmos Kovács, *Vice-Chairman*	NBH, Vice-President	Béláné Dobos (Ms)
	Miklós Pulai	HBA, Secretary-General	Bella Rónaszéki (Ms)
	Dr. Imre Tarafás	Hungarian Banking and Capital Market Supervisory Authority (HBCMS), President	Dr. Sándor Orosz/ Dr. Péter Piros
	Dr. Antal Lakatos / Dr. Endre Kiss	NFSC, President	(not designated)
1998	Álmos Kovács *Chairman*	NBH, Vice-President	Béláné Dobos (Ms)
	Miklós Pulai, *Vice-Chairman*	HBA, Secretary-General	Bella Rónaszéki (Ms)
	Dr. Endre Kiss	NFSC, President	(not designated)
	Dr. Imre Tarafás	HBCMS, President	Dr. Rezső Nyers
	Dr. Csaba László	MoF, Administrative Under-Secretary	Dr. Barátossy / Dr. Klára Csoór Kőváriné (Ms)
1999	Miklós Pulai, *Chairman*	HBA, Secretary-General	Bella Rónaszéki (Ms)
	Dr. Imre Tarafás / Dr. István Szalkai, *Vice-Chairman*	HBCMS, President	Dr. Rezső Nyers / László Náray
	Dr. Endre Kiss	NFSC, Board member	(not designated)
	Dr. Csaba László	MoF, Administrative Under-Secretary	Dr. Györgyné Barátossy (Ms)
	Álmos Kovács	NBH, Vice-President	Ferenc Karvalits
2000	Dr. István Szalkai / Dr. Károly Szász, *President*	Hungarian Financial Supervisory Authority (PSZÁF), President	László Náray
	Dr. Endre Kiss, *Vice-Chairman*	NFSC, Board member	(not designated)
	Dr. Csaba László	MoF, Administrative Under-Secretary	Dr. Györgyné Barátossy (Ms)
	Werner Riecke	NBH, Vice-President	Ferenc Karvalits
	Miklós Pulai	HBA, Secretary-General	Bella Rónaszéki (Ms)
2001	Dr. Endre Kiss *Chairman*	NFSC, Board member	(not designated)
	Dr. Elemér Terták, Vice-Chairman (permanent deputy of Dr. György Naszvadi)	MoF, Deputy Secretary of State	(Dr. Elemér Terták)
	Werner Riecke	NBH, Vice-President	Dr. Tamás Kálmán
	Dr. Rezső Nyers	HBA, Secretary-General	Bella Rónaszéki (Ms)
	Dr. Károly Szász	PSZÁF, President	László Náray

Year	Chairman-Members	Position entitling membership	Permanent deputy
2002	Dr. Elemér Terták/ Ákos Cserés, *Chairman* (permanent deputy of József Thuma)	MoF, Deputy Secretary of State	(Dr. Elemér Terták/ Ákos Cserés)
	Dr. Tamás Kálmán, *Vice-Chairman* (permanent deputy of Henrik Auth)	NBH, Managing Director	(Dr. Tamás Kálmán)
	Dr. Rezső Nyers	HBA, Secretary-General	Dr. Mária Móra (Ms)
	Dr. Károly Szász	PSZÁF, President	László Náray
	Dr. Endre Kiss	NFSC, Board member	(not designated)
2003	Dr. Tamás Kálmán *President* (permanent deputy of Henrik Auth)	NBH, Managing Director	(Dr. Tamás Kálmán)
	Dr. Rezső Nyers, *Vice-Chairman*	HBA, Secretary-General	Dr. Mária Móra (Ms)
	Dr. Károly Szász	PSZÁF, President	Dr. Éva Sáray (Ms)
	Dr. Endre Kiss	NFSC, Board member	(not designated)
	József Thuma	MoF, Deputy Secretary of State	Ákos Cserés

SAVING YOUR SAVINGS TOGETHER!
2003
GUIDE TO DEPOSIT INSURANCE*

CONTENTS

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* A new version is being prepared containing the changes in deposit insurance due to EU accession

20. How much interest does the deposit insurance pay if the interest due under the deposit insurance contract has not yet been capitalised?
21. Does the Fund protect deposits bearing any rate of interest?

PRACTICAL ADVICE

22. What data must the depositor disclose to the bank for the insurance to be enforced and paid?
23. When a deposit is frozen, what must a client do to receive the money as soon as possible?
24. How soon do insured clients receive payment?
25. Do deposit insurance claims ever expire?
26. Apart from this publication, how can you find out what is insured and what is not?
27. Where can you go if your bank cannot respond to deposit insurance issues related to your deposit?

DEFINITIONS
GENERAL INFORMATION

1. What is the function of deposit insurance and why is it important to you?

Deposit insurance protects depositors and as a result the stability of the financial system.

Until 1993, retail and foreign exchange deposits were guaranteed by the State. In mid-1993 this role was assumed by an independent deposit insurance institution, the National Deposit Insurance Fund (the Fund), but deposits placed before this time continue to be guaranteed by the State until they are withdrawn.

The Hungarian deposit insurance system and its head institution, the National Deposit Insurance Fund, were created by Act XXIV of 1993 and currently regulated by Act CXII of 1996 as amended. This Act provides for the strict regulation of credit institutions in Hungary in accordance with international standards and practice. The primary aim of the regulation is to protect depositors' money. Compliance with the statutory rules is strictly and regularly checked by the Hungarian Financial Supervisory Authority (HSFA).

The Fund is headed up by an independent board of directors. Its operational activities are overseen by the State Audit Office, who reports its findings to Parliament. The National Deposit Insurance Fund is not an authority, yet because it serves a public interest it does possess the information, inspection permits and financial means to act in the interests of depositors. The Fund performs its duties from the income of compulsory regular payments of member institutions and the yields from funds so accumulated. Moreover, for the purposes of indemnifying depositors the Fund may order the payment of extraordinary premiums or – under a government guarantee – draw loans from the markets. The Fund can also take preventative action to preserve the security of deposits or to avoid deposits being frozen.

According to the Act, if insured deposits cannot be withdrawn (are frozen) due to the insolvency of a credit institution, the Fund shall compensate each depositor and credit institution for the capital and interest on frozen deposits up to the statutory maximum amount (coverage limit).

The essence of deposit insurance under the Act can be summarised in three points:

- *If a credit institution falls insolvent, the Fund pays indemnity on all registered deposits (where the owner can be identified).*
- *The statutory upper limit for payment per depositor is HUF 3 million from 2003*
- *The insurance is valid separately for each credit institution. Therefore, if a depositor deposits money in more than one place, he/she is insured up to the statutory limit at each institution.*

2. What institutions are parts of the deposit insurance system?

The deposit insurance system comprises the member institutions of the National Deposit Insurance Fund, i.e. banks, savings co-operatives, home savings banks and credit co-operatives. The Act refers to all of these collectively as credit institutions, but for the sake of brevity we will use the term 'bank' throughout this leaflet. Only member institutions of the Fund may accept deposits. If you wish to take advantage of deposit insurance protection, before placing your deposit make sure that the institution you have selected is a member of the Fund, or find out what official deposit protection guarantee it offers. Should you have any doubts, do not hesitate to contact the National Deposit Insurance Fund.

3. Whose money is protected?

With the few exceptions stipulated in the Act (e.g. investment funds, insurance companies, local governments) the protection applies to everyone who lodges a registered deposit at a Hungarian licensed bank, or who purchases their bonds or certificates of deposit after 1 January 2003.

The protection covers the deposits of private individuals, businesses, associations, foundations, etc., including people living abroad and foreigners. What is important is that only registered deposits identifiable on bank records or deposit documents are insured, namely, whose owner can be determined unambiguously. We note that since 19 December 2001 only registered deposits can be placed, and bearer deposits must be converted to registered deposits when the deposit document is first presented.

If someone lodges deposits at the same bank as a private individual and on behalf of a company, then the two types of deposit are insured independently of each other.

Example: Private individual and business association

Mr. J. Smith	
Retail current account	HUF 880,000
Interest	HUF 20,000
Total:	HUF 900,000
Insured:	*HUF 900,000*

Mr. J. Smith&Co Partnership Ltd.	
Company current account	HUF 5,540,000
Interest	HUF 60,000
Total:	HUF 5,600,000
Insured:	*HUF 3,000,000*
Not insured	HUF 2,600,000

Important! Self-employed business owners do not legally constitute companies, therefore savings deposited as private individuals and as self-employed business owners must be aggregated in terms of the upper payment limit.

Example: Aggregate deposit – self-employed businessman

Mr. T. Harvey	
Retail current account	HUF 2,150,000
Self-employed business acc.	HUF 1,100,000
Total interest:	HUF 50,000
Total:	HUF 3,300,000
Insured:	*HUF 3,000,000*
Not insured:	HUF 300,000

If the deposit is owned by a minor, then it is naturally handled by the child's parents or guardian, etc. Such deposits are insured separately too – in favour of the minor – even if, for example, the parents have deposits in their own name at the same bank.

Important! The insured party is always the owner of the deposit, i.e. the person in whose name the deposit is registered, and not the person who is just authorised to use the account.

4. Who bears the costs of deposit insurance?

Clients do not have to pay any charge for the insurance. The expenses of the Fund are essentially paid for by the payments from banks, but it may also draw loans to fulfil its duties. There can be no financial obstacle to making the statutory payments of money to depositors. If required, the borrowings of the National Deposit Insurance Fund are guaranteed by the Hungarian State.

INSURING DEPOSITS

5. What is protected?

Deposit insurance protection covers registered bank deposits (deposit documents, deposit account receivables), and from 1 January 2003 bonds and certificates of deposit. (For simplicity's sake, henceforth we refer to the above types of savings as deposits, unless there is some significance regarding the difference between them.)

We would also like to remind you here that the Fund's insurance service only covers its member institutions, i.e. banks, savings and credit co-operatives and home savings banks.

Caution! Deposits may only be collected by the credit institutions listed above, and only such institutions may be members of the Fund. Certificates of deposit may only be issued by credit institutions. Bonds, however, may be issued by other bodies such as local governments and business associations. In terms of deposits, the condition for insurance is that they must be registered, and for bonds and certificates of deposit, a further criterion is that they must have been purchased after 1 January 2003.

6. What is not protected?

All that glitters is not gold; not everything that bears interest is insured and not all bank clients are necessarily insured. Several banks offer savings schemes, such as voluntary pension fund savings, interest-bearing shares, co-operative and special purpose shares, which are not protected. Deposit insurance still does not protect bonds and certificates of deposit purchased from banks before 1 January 2003. Nor does the insurance cover investments units of open or closed-end investment funds that can be purchased mainly at banks.

7. Are only forints protected, or foreign exchange too?

Deposit insurance covers not only forint deposits but also those placed in the main foreign currencies. Only deposits in euros or in the currency of one of the member states of the Organisation for Economic Co-operation and Development (OECD) are protected. Insured foreign exchange deposits are repaid by the Fund in forints, converted using the middle rate of the National Bank of Hungary (NBH) valid as of the date the deposits were frozen.

Important! Should you have any doubts surrounding deposit insurance when you lodge a deposit in foreign exchange or currency, do not hesitate to ask one of the officers at your bank!

8. What is the Deposit Register?

The Deposit Register contains all of the deposits insured by the Fund and offered by the individual member institutions, including those no longer offered but which can still be cashed in.

Banks must report any new types of deposit to be introduced and any changes in existing deposit forms to the Fund for registration purposes.

Just like this information booklet, at least one copy of the latest Deposit Register must be displayed in the banks in a place easily visible to clients, and may also be made available as a free leaflet.

A well-administered and up-to-date Deposit Register enables banks to provide their clients with reliable, accurate and objective information on deposit insurance.

You can find the Deposit Register in your bank or on the Fund's Internet site (www.OBA.hu or www.NDIF.hu).

9. Which deposits are registered?

Registered deposits are ones where the depositor can be unambiguously identified from the document received when lodging the deposit (savings book, bank and current account contract, etc.) and from bank records. (In this respect we refer you to Section 22.)

Important! The fact that a savings form is a registered one, does not necessarily mean it is insured! Shares can be registered and – as we have seen – they are not insured by the National Deposit Insurance Fund. Registered bonds and certificates of deposit issued by banks and purchased before 1 January 2003 are still not insured by the Fund.

10. It looks like a security. Can it be insured?

Over and above registered deposits, deposit insurance covers security-type deposit documents issued by banks subsequent to 1 January 1997, commonly known as bank securities, provided of course that they are registered. To protect depositors and avoid misunderstandings, banks are required by law to indicate clearly on security-type deposit documents issued after 1 January 1997 that they embody a savings deposit contract.

Bank securities purchased between 30 June 1993 and 31 December 1996 are, however, not protected, not even if they are registered. Securities purchased during this period are only insured if the issuing bank converts them to registered deposits after seeking an opinion from the Fund. The issuing bank must inform its clients of this fact.

Important! The Fund's insurance covers bank bonds and certificates of deposit purchased after 1 January 2003.

11. Which post office savings books and bank securities purchased there are protected?

Several kinds of bank securities are available at the post office, as are government securities. The post office generally sells these securities on a commission basis.

Government securities are guaranteed by the State, while bank securities, as we know, are covered by deposit insurance if they are registered.

But the post office may not just accept commissions from the State and banks, but from others too. In such cases the degree of security is not provided by the post office but rather by the institution that gave the commission, who issued the security! Besides the post office, others (such as travel agencies) also offer bank securities and other types of savings. In this case the same rule applies, namely, such securities should be judged based on the reliability of the issuer, not the distributor. Therefore, special attention is recommended in such cases!

THE INSURANCE LIMIT

12. What is the insurance limit?

According to the Act in force from 1 January 2003, the Fund repays the capital and interest of frozen deposits up to three million forints (this limit will automatically rise to six million forints upon Hungary's EU accession). The raised indemnity limit also applies to deposits lodged before 1 January 2003.

A common misunderstanding in respect of the insurance payment limit is that the Fund pays the amount deposited up to three million forints, plus any interest due on top of that. Another misconception is that the deposit insurance only covers the sum deposited, i.e. the capital, but not the interest.

This is not true! The Act states that the limit is the maximum amount that the Fund may pay to any one bank client. This includes the capital amount paid into the current account, the fixed deposit, purchased bank securities, insured bonds, etc. and the interest due on them. The Fund therefore aggregates all the capital and interest claims of the depositor vis-à-vis the insolvent bank, but limits the total amount payable to the prevailing statutory limit.

Example: Mr. Smith

Savings deposit	HUF 7,980,000
Interest	HUF 20,000
Total:	HUF 8,000,000
Insured:	*HUF 3,000,000*
Non-insured:	HUF 5,000,000

Once again we point out that self-employed business owners legally do not constitute companies, therefore the bank accounts and deposits of private individuals and their private businesses are treated by the Fund as the deposits of the same person. If the bank falls insolvent, these deposits are aggregated and the Fund only pays up to the prevailing maximum limit.

13. Is there a depositor's insurance?

In line with the European Union directive on deposit insurance, Hungarian regulations have now adopted the concept of a depositor's co-insurance. The purpose of this is for the liability of depositors to grow, albeit to a limited extent, in proportion with the surplus indemnity, i.e. when choosing a credit institution in the hope of higher interest depositors should not forget about compulsory prudence. If a deposit is frozen, a 10% co-insurance is enforced during the subsequent indemnity procedure as follows: the indemnity paid by the NDIF is 100% up to HUF 1 million, and for the portion of the deposit above HUF 1 million the Fund pays 90%, but at most HUF 3 million per person and per credit institution.

Example: Depositor excess

Mr. Big

Savings deposit	HUF 970,000
Interest	HUF 30,000
Total:	HUF 1,000,000
Co-insurance:	HUF 0
Insured:	*HUF 1,000,000*
Not insured	HUF 0

Mr. Small

Savings deposit	HUF 1,750,000
Interest	HUF 50,000
Total:	HUF 1,800,000
Co-insurance:	HUF 80,000*
Insured:	*HUF 1,720,000*
Not insured	HUF 80,000

Mr. Grand

Savings deposit	HUF 3,410,000
Interest	HUF 90,000
Total:	HUF 3,500,000
Co-insurance:	HUF 250,000*
Insured:	*HUF 3,000,000*
Not-insured	HUF 500,000

The receivable of Mr. Big does not exceed HUF 1 million HUF, therefore there is no co-insurance in his case.

In the case of Mr. Grand, the upper limit is the reason for the non-insured HUF 500,000, not the co-insurance.

It is clear that the depositor's co-insurance only reduces the indemnity of Mr. Small, because the claim exceeds one million forints but is less than the limit raised with the excess.

* 10% of the portion above HUF 1 million

(Referring back to the examples in Section 3., the claim of Mr. Smith, private individual, did not exceed one million forints, therefore the co-insurance played no part here. However, in respect of the company deposit and Mr. Smith's and Mr. Harvey's aggregate deposit, the upper payment limit and not the co-insurance was responsible for the non-insured HUF 2,600,000 and HUF 300,000 respectively. The same applies to the examples in Section 12.)

14. What happens to claims over the insurance limit?

If deposits are frozen at a bank, depositors can receive the capital and interest receivables including the excess due over the limit within the framework of the liquidation proceedings. (In the examples, the amount that can be enforced during liquidation proceedings is contained in the "Not insured" row.) Although the Fund only exerts an indirect influence on liquidations, it endeavours to do its best to ensure that the remaining claims of depositors are settled as soon and as fully as possible during the proceedings.

15. Can the deposit insurance limit be raised?

Yes, it can. According to the principle mentioned above, the insurance applies to persons and banks, therefore there are two possibilities. You can use more banks, or increase the number of the deposit owners.

If a private individual or company deposits money in more than one bank, the protection limit can be raised by the upper limit per bank.

If a deposit has more than one registered, identifiable owner – for example family members – then the total deposit is insured by HUF 3,000,000 per owner up to the value of the deposit (see Section 16.).

16. What are joint and community deposits?

If a deposit has more than one owner, it is called a joint deposit. Unless otherwise instructed by depositors, the deposit insurance system does not differentiate between deposit owners, they are considered equal, regardless of who paid the deposit or how much it was. In such cases the owners receive an equal share of the amount payable.

Private individuals can open joint accounts and deposits and, if they can be identified based on the data in the bank's records, the protection limit applies separately to them all.

Joint deposits are not just beneficial for clients if the deposit amount exceeds the insurance limit per person (e.g. twice in the case of a husband

and wife), but also if the total deposit is under three million forints, due to the depositor's co-insurance.

Example: Joint deposit per person above HUF 3 million

Mr. and Mrs. Small

Savings deposit	HUF 6,490,000
Interest	HUF 110,000
Total:	HUF 6,600,000
Insured sum per person:	HUF 3,000,000
Not insured	HUF 600,000*

Example: Joint deposit above HUF 3 million
Mr. and Mrs. Small

Savings deposit	HUF 2,150,000
Interest	HUF 50,000
Total:	HUF 2,200,000
Per person:	HUF 1,100,000
Excess per person:	HUF 10,000
Insured per person:	HUF 1,090,000
Total insured:	HUF 2,180,000
Total not insured:	HUF 20,000

The same deposit in the case of one owner
Mr. Small

Savings deposit	HUF 2,150,000
Interest	HUF 50,000
Total:	HUF 2,200,000
Excess:	HUF 120,000
Insured:	HUF 2,080,000
Not insured:	HUF 120,000

Caution! Joint deposits can be disadvantageous for depositors, if they have deposits at the same bank in sole ownership, since the amount paid by the Fund based on the joint deposit is included into the limit payable to the given client, namely, it is possible that the whole amount of his/her own or joint deposit will not be paid out.

* There is no co-insurance here for reasons mentioned in Section 13.

<u>Example</u>: Private and joint deposits

Mr. Small	
Fixed deposit	HUF 2,970,000
Interest	HUF 30,000
Mr. and Mrs. Small	
Joint current account	HUF 1,270,000
Interest	HUF 30,000
Total:	HUF 4,300,000

Insured sum can be paid out per person:

Mr. Small	
Fixed deposit	HUF 2,970,000
Interest	HUF 30,000
Joint current account	HUF 635,000
Interest	HUF 15,000
Total:	HUF 3,650,000
Insured:	*HUF 3,000,000* *
Not insured:	HUF 650,000
Mrs. Small	
Joint current account	HUF 635,000
Interest	HUF 15,000
Total:	HUF 650,000
Insured:	*HUF 650,000*

The same deposits with one owner:

Mr. Small	
Fixed deposit	HUF 2,970,000
Interest	HUF 30,000
Total:	HUF 3,000,000
Co-insurance:	HUF 200,000
Insured:	*HUF 2,800,000*
Not insured:	HUF 200,000

* There is no co-insurance here due to the reason mentioned in Section 13.

Mrs Small	
Current account	HUF 1,270,000
Interest	HUF 30,000
Total:	HUF 1,300,000
Excess:	HUF 30,000
Insured:	*HUF 1,270,000*
Not insured:	HUF 30,000

Important! Community deposits are different from joint deposits. In the case of community deposits (e.g. condominiums) the indemnity limit is multiplied by the number of persons forming the community, but here there is no aggregation obligation. This means that if a private individual has a deposit at the same credit institution as the condominium of which he or she is an owner, then the private individual is entitled to indemnity of a maximum of three million forints on his or her own deposit(s), and the condominium is entitled to indemnity of up to three million forints based on the payments of the private individual (depositor's co-insurance has to be included here). Of course, the basis for the indemnity will be the condominium payments of the private individual.

<u>Example</u>: Community deposit

Condominium with 10 owners	
Bank account	HUF 24,000,000
Interest	HUF 200,000
Total:	HUF 24,200,000
Owner payments per person	HUF 2,400,000
Interest	HUF 20,000
Total:	HUF 2,420,000
Co-insurance:	HUF 142,000
Insured:	*HUF 2,278,000*
Not insured:	HUF 142,000
Indemnity due to condominium	HUF 22,780,000

17. Are authorised representatives entitled to indemnity?

If someone was registered as an authorised representative subsequent to 1 January 1997, "person with rights entitling use of account" according to the Act, then for the purposes of deposit insurance this does not qualify as an owner relationship. These authorised representatives are therefore not entitled to indemnity (as they do not own the deposit), namely, the deposit protection may not be raised on their account.

In contrast, if someone was registered as an authorised representative for a deposit or account before the end of 1996, then they still qualify as a joint owner, namely, similarly to joint deposit owners the protection limit applies separately to them as well.

18. Does the insurance limit also apply to foreign exchange deposits?

The limit also applies to deposits placed in foreign exchange, which the Fund calculates by converting the depositor's claim into forints at the middle exchange rate of the NBH valid on the day when the deposits were frozen.

If a client has deposits in both forints and foreign exchange, and the total value of the deposits exceeds the amount payable as per the statutory limit, then before payment is made the client may decide which deposit it would like the Fund to pay.

INSURING INTEREST

19. Does deposit insurance also cover interest?

Yes, the protection covers the deposited capital and the non-capitalised interest, naturally within the statutory limit.

20. How much interest does the deposit insurance pay if the interest due under the deposit insurance contract has not yet been capitalised?

The Fund must start repaying deposits within 15 days after they were frozen or after the bank's operational licence was withdrawn, or after the bank's liquidation was announced. Up to this deadline the Fund will pay the interest stated in the contract, but no more than the average central bank base rate for the period elapsed since the last interest capitalisation. As already mentioned, not exceeding the limit includes the interest amount as well.

21. Does the Fund protect deposits bearing any rate of interest?

The legislators endeavoured to reduce the chance of misuse. If a depositor gains significantly higher interest or other financial benefit in comparison to a deposit of the same size and term publicly offered, then the deposit is not protected at all. "Significantly higher interest" does not mean one or two percent above the publicly advertised rate! There has been a case in the experience of the Fund where a deposit bearing interest 100% higher than the conditions announced by the bank was excluded from the insurance.

22. What data must the depositor disclose to the bank for the insurance to be enforced and paid?

At least three pieces of information must be provided, based on which the person or organisation lodging the deposit can be clearly identified and found. Private individuals and self-employed business owners must give at least their name, address, and at the discretion of the bank, ID (passport) number, mother's maiden name, or date of birth. Businesses must state their name, address of registered office and tax number.

In your own interests we recommend that if your deposit document has less than the three minimum pieces of identification data listed above, ask your bank to supplement the data.

We also suggest that you should report any changes in this data, for example a change in address.

If someone fails to report the changes they still remain entitled to indemnification, however, difficulties in processing and checking data may mean that it takes longer for them to receive their money.

Important! Since 19 December 2001 it has not been possible to place a deposit without giving the personal identification data. In accordance with the Act on Money Laundering, banks must record the prescribed data on the depositor when accepting the deposit, or when the certificate is first presented in the case of deposits previously lodged as bearer deposits. In this publication we have only mentioned those identification data which are significant in terms of the Fund.

23. Once a deposit is frozen, what must a client do to receive the money as soon as possible?

Besides the bank, the Fund is also obliged to inform depositors. Based on current practice, daily press and announcements provide information on where indemnity claims can be submitted and when the payments start. On this basis the depositor must submit the indemnity claim at the designated location. The claim will be checked by the Fund with the bank's records then the depositor will receive notification on where and when the money will be available.

24. How soon do insured clients receive payment?

The Fund must start repaying deposits within 15 days after they were frozen or after the bank's operational licence was withdrawn, or after the bank's liquidation was announced, and complete the proceedings within three months. By this deadline the Fund must pay the rightful claims submitted. Under justified circumstances, the indemnity period may be extended for a further three months on two occasions. Remember: there can be no financial obstacle to any payment.

The Act enables the Fund to make the payments in the most rational and fastest manner possible. For example using an "NDIF Deposit Insurance Card", bank or postal transfer, direct payment through a paying agent – e.g. bank. The payment methods on offer to depositors, which are generally optional, are always included in the announcements of the Fund.

25. Do deposit insurance claims ever expire?

Deposit insurance claims can be made for as long as the original claim could have been recovered from the bank. Savings deposits, for example, do not expire, while other deposit claims are valid for five years, provided the contract does not stipulate a shorter deadline. Certificates of deposit expire after ten years following the passing of the payment deadline, bond claims do not expire. However, registered certificates of deposit and bonds issued by banks are only insured if they were purchased after 1 January 2003.

26. Apart from this publication, how can you find out what is insured and what is not?

The afore-mentioned Deposit Register contains the insured deposit products of banks. The relevant part of the Register for the given credit institution must be displayed in the bank branches, but the Register in its entirety is available at the NDIF. The Deposit Register is prepared with the co-operation of the member institutions and contains all of the insured deposit forms they offer and which are registered by the Fund.

Furthermore, under the Act banks are obliged to provide easily comprehensible information on all material issues related to deposit insurance, particularly in respect of which types of deposit are insured. The Act also prescribes that banks must give information in writing. What is important is that the bank must give precise and detailed information at your request!

If a deposit is not covered by the insurance provided by the Fund, then the following text must be indicated in a conspicuous place in the contract (on the deposit document): "The deposit forming the subject of this contract is not insured under Act CXII of 1996 on Credit Institutions and Financial Enterprises."

Even if you do not see this text, ask whether the type of savings is insured, since the text could be absent from the document because the type of savings in question is not a deposit but a security, which is not insured.

Guidance in deposit insurance issues is also available on the telephone information service (by subject) of the National Deposit Insurance Fund on the telephone number + 36 (1) 431-2882. It is good to know that if a bank fails, the telephone service is supplemented with up-to-date information on the frozen deposits.

The Fund's internet site www.NDIF; www.OBA.hu also contains information classified by subject for depositors and professionals interested in deposit insurance.

27. Where can you go if your bank cannot respond to deposit insurance issues related to your deposit?

To enhance the confidence of depositors in banks, the Fund created a "deposit insurance ombudsman" based on the internet.

In contrast to other well known similar institutions established by Parliament, the "deposit insurance ombudsman" is not an actual person. Depositors can send e-mails through the internet to ombudsman@oba.hu, or normal mail to 1535 Budapest 114. Pf. 793 relating to matters detailed below, which the staff of the Fund will process and then assist in resolving.

The "deposit insurance ombudsman" undertakes to resolve any client-problems between credit institutions and their customers related to deposit insurance objectively, correctly and hopefully quickly.

The "deposit insurance ombudsman" always pays special attention to complying with confidentiality regulations.

What specific help can you expect from the ombudsman? Given its independence and objectivity, the ombudsman may undertake to co-operate in finding mutually acceptable solutions to problems between parties. If required, this involves contacting the bank in question, perhaps the HFSA, and based on the circumstances of the case co-operate in finding recommendations for solutions.

Ask for the help of the ombudsman if you did not receive suitable information from the credit institution on deposit insurance, whether verbally or in writing, or if you have questions related to State guarantees.

If the "deposit insurance ombudsman" cannot be of direct assistance, then you will be told which organisation you should contact in the given matter.

In what matters is the "deposit insurance ombudsman" unable to help?

- The ombudsman may not perform detailed reviews, apart from cases violating general customer rights.
- The ombudsman is not competent in issues which fall under the authority of credit institutions' management.
- Nor may the ombudsman take action in existing crises or in the event deposits are frozen. In such cases the relevant laws designate the tasks of the HFSA and/or the Fund.
- Finally, the ombudsman cannot resolve issues where litigation is underway or which are under execution proceedings.

Warning!

This publication only contains excerpts of current deposit insurance regulations, and therefore is only for information purposes.
In the event of differences in interpretation between this publication and legal regulations in force, the provisions of the prevailing legal regulations shall apply.
The deposit insurance system reduces the credit risks of clients of bank, savings and credit co-operative and building society, i.e. your risks as a creditor.
This, however, does not provide complete security, since not all institutions collecting savings are members of the deposit insurance system, and not all forms of savings are protected.
The system serves to protect depositors, but it does not protect against risks derived from carelessness.

Saving your savings together!

This publication is for guidance purposes only.
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2003

Deposit insurance
DEFINITIONS

Deposit:

a liability created by virtue of a deposit contract or savings deposit contract as per the Civil Code, including the positive account balance of a bank account, as well as certificates of deposit and bonds issued by banks and purchased from 1 January 2003.

Registered deposit:

a deposit where the owner can be clearly identified from the data in the deposit contract, the savings deposit contract or the bank account contract.

Depositor:

the person in whose name the deposit is registered, or – solely in the case of bearer deposits – who presents the deposit document.
Person entitled to use the account: the owner of the deposit, or, if not the owner, then a person duly authorised by the owner to use the account, with or without restrictions.

Beneficiary:

the owner of the deposit or the person designated as the beneficiary by the owner to the credit institution in writing.

Joint deposit:

any deposit which has more than one owner, with the exception of collective deposits.

Community deposit:

the deposits of depositors being members of condominiums, housing co-operatives, school savings associations, building associations.

Frozen deposit:

a deposit for which the credit institution is unable to make payments within five business days of the due dates stipulated by law or as contracted.

Person entitled to indemnity:

the depositor. Deposits whose contractual terms and conditions stipulate an agreement to the contrary shall constitute an exception. A person who, on the basis of the depositor's authorisation, has powers to use the deposit at the time the deposit is frozen but who is, however, neither the owner nor beneficiary of the deposit shall not be deemed entitled to indemnity.

Current legal regulation

Act CXII of 1996
on Credit Institutions and Financial Enterprises
(last amendment: Act XXXIX of 2003)
excerpt

SECTION IV
DEPOSIT INSURANCE AND INSTITUTION PROTECTION

Chapter XV
The National Deposit Insurance Fund

Section 97 (1) Credit institutions must join the National Deposit Insurance Fund (hereinafter referred to as the "Fund").

(2) Foreign branch offices of credit institutions that have their registered offices in the territory of the Republic of Hungary shall be covered by the deposit insurance provided by the Fund, unless the laws of the country in which the branch office is established do not permit this. Foreign branch offices of credit institutions that have their registered offices in the territory of the Republic of Hungary may voluntarily join the deposit insurance system of the given country.

Section 97/A Indemnity on the deposits collected by a credit institution shall only be paid up to the amount insured by the Fund, furthermore only the insurance provided by the Fund shall apply to such deposits, with the exception of the insurance policies offered by voluntary deposit insurance funds as determined in Section 128.

Section 98 (1) The Fund shall be responsible for

a) taking action to prevent the freezing of deposits as defined in Section 104,

b) paying depositors an indemnity amount stated in Section 101 should the deposits placed with a credit institution that is a Fund member be frozen, and

c) performing the tasks related to guarantees provided on certain deposits or to the fulfilment of a given insurance, for a consideration, based on an order in a separate agreement entered into with the Hungarian State,

d) providing depositors with information in Hungarian or, in the case of foreign branch offices of Hungarian-registered credit institutions, the language of the country in which the branch office has been established.

(2) Based on an order received from a depositor and other creditors, the Fund shall act as a representative within its scope of responsibilities defined in Subsection (1) at compromise negotiations and during liquidation proceedings.

Deposits Insured by the Fund

Section 99 (1) The insurance provided by the Fund shall extend only to registered deposits.

(2) The insurance provided by the Fund - with the exceptions prescribed in Section 100 - shall apply to all deposits regardless of the number and currency of deposits which have been placed

a) without any State guarantee or State surety assumed by law until 30 June 1993,

b) without any State guarantee after 30 June 1993 at credit institutions that are members of the Fund.

(3) The insurance provided by the Fund extends to deposit documents issued or offered in series like securities until 30 June 1993, irrespective of their denomination.

Section 100 (1) The insurance of the Fund shall not cover the deposits of

a) budgetary organs,

b) business associations fully owned on a permanent basis by the State,

c) local governments,

d) insurance companies, voluntary insurance funds and private pension funds,

e) investment funds,

f) the Pension Insurance Fund and the Health Insurance Fund as well as the organisations managing and administering the same,

g) appropriated State funds,

h) financial institutions,

i) the NBH,

j) investment companies, members of the stock exchange and commodities brokers,

k) compulsory or voluntary deposit insurance, institution and investor protection funds, Pension Guarantee Funds,

l) credit institution executives, appointed auditors of credit institutions, persons who own at least a five per cent interest in the credit institution, and the close relatives of any of the above who share a common household with them,

m) business associations [Paragraph c) of Section 685 of the Civil Code] operating with the voting share of the person described in Paragraph l,

n) venture capital companies and venture funds

nor the foreign equivalents of such deposits.

(2) Furthermore, the insurance provided by the Fund shall not extend to

a) deposits on which the depositor receives significantly higher interest or other pecuniary benefits according to the contract as compared to the deposits of the same amount and for the same fixed period at the time the contract is executed, as well as

b) deposits in respect of which it has been determined by a definitive court decision that the sum deposited therein was derived from money laundering,

c) deposits that were not placed in euros or any of the legal tender of the member states of the Organisation for Economic Co-operation and Development.

Indemnity Paid by the Fund

Section 101 (1) The Fund shall compensate persons entitled to indemnity for the principal and interest on frozen deposits up to a maximum amount of three million forints per person and per credit institution. In the case of deposits in foreign exchange, the indemnity amount and the limit specified in this Subsection shall be determined using the official exchange rate effective on the day the deposits were frozen, regardless of the time of payment. The amount of indemnity paid by the Fund is 100 per cent up to one million forints, and for amounts over the one-million forint limit, one million forints and ninety per cent of the amount over one million forints.

(2) The Fund shall compensate persons entitled to indemnity for uncapitalised and unpaid interest due on frozen principal prior to the initial date of paying indemnity specified in Subsection (1) of Section 105 up to the limit specified in Subsection (1) of this Section, by calculating with the interest rate specified in the contract, but by no more than the average central bank prime rate (time-weighted) used during the period of interest payment.

(3) In the case of foreign exchange deposits, the Fund shall pay contractual interest but not more than the interest calculated using the mathematical average rate of interest quoted by the five largest Hungarian credit institutions – based on the previous year's balance-sheet total – in the same currency for the same fixed period of currency deposits at the time the contract is executed.

(4) In the case of premium deposits, contractual interest shall mean the interest at which the credit institution accepting the deposit has created the prize base since the drawing date preceding date of payment. As for the calculation of interest, the drawing date preceding the date of payment shall be considered as the date the deposit was fixed.

(5) Depositors may not, on any grounds, demand any payment from the Fund over and above the indemnity amount defined in Subsections (1)-(4).

(6) In the case of joint deposits, the limit of the indemnity defined in Subsection (1) shall be taken into account separately in respect of each person entitled to indemnity. In terms of calculating an indemnity amount - unless otherwise stipulated in a contract - the depositors shall be entitled to the deposit amount in equal proportions.

(7) In the case of a merger of credit institutions, the deposits – with the exception of building society deposits – of the same depositor that were lodged at the merging or combining credit institutions shall continue to be considered as separate deposits in terms of the limit specified in Subsection (1) for a maximum of five years.

(8) In the case of transferring deposit portfolios, the regulations on mergers described in Subsection (7) must be duly applied from the point of view of the limit specified in Subsection (1).

(9) No indemnity may be paid regarding deposits against which criminal proceedings are underway due to money laundering allegations, until the definitive conclusion of such proceedings.

(10) In the case of collective deposits, the limit of the indemnity defined in Subsection (1) shall be taken into account separately in respect of each person forming part of

the collective, regardless of when the deposits were lodged.

Section 102 (2) When determining the amount of indemnity, all frozen receivables due to the customer from a member of the Fund must be added up.

Section 103 (1) The Fund may assume the insurance of deposits intended to be insured by the State following 30 June 1993, for an agreed fee.

Chapter XVI
Indemnity

Preventing Payment of Indemnity

Section 104 (1) In addition to the payment of indemnity, the Fund may also assume other commitments (disbursement of loans and subordinated loans, acquisition of ownership interests in credit institutions, assumption of joint and several guarantees, providing collateral for the transfer of deposit portfolios, etc.) to facilitate the beneficial effects of special measures (Sections 157-168) taken by the Supervisory Authority, as well as to avoid the freezing of deposits within the framework as defined in this Section and in a manner as agreed upon with the Supervisory Authority.

(2) In order to avoid payment of indemnity, the Fund shall choose the course of action that bears the least amount of long-term loss for depositors, credit institutions and the central budget alike.

(3) The Fund may only assume the commitments described in Subsection (1) under customary business conditions (interest, fees, rates).

(4) The Fund shall cover the commitments defined in Subsection (1) with adequate security. In the event a credit institution is liquidated, such securities must be considered as validly stipulated in due time, even if they were stipulated on terms other than those defined in Paragraph b) of Subsection (1) of Section 57 of the Bankruptcy Act.

(5) In the interests of settling the credit institution's position, the total amount of the conditional and unconditional commitments, assumed according to Subsection (1) may not exceed the expected total amount of indemnities to be paid on insured deposits placed with the credit institution pursuant to Section 101 and the costs incurred by the Fund in connection with the payment thereof.

Payments from the Fund

Section 105 (1) The Fund shall begin to compensate depositors within fifteen days of the day on which the deposits were frozen or, if in the case of a Supervisory Authority decision under Paragraph c) of Subsection (30) of Section 1 or if liquidation proceedings have been initiated, within fifteen days of the publication of the court order instructing liquidation, whichever of the three occurs first. Such indemnity payments shall be completed within three months. The Fund may make no more than two requests to the Supervisory Authority to extend the payment deadline by up to three months each time.

(2) The Fund shall publish the first day claims can be enforced, the name of the credit institution entrusted with effecting payments, and the place(s) and method of enforcing claims in at least two national daily newspapers.

(3) If the person entitled to indemnity provides the necessary data to prove entitlement and this data is consistent with the data on record specified in Subsection (4), the Fund shall have due compensation paid to such person or to another person authorised by that person in a private document with full probative force.

(4) In the case of registered deposits, the deposit collecting credit institution must record two further pieces of identification data – from among those listed in Schedule No. 3 as prescribed by the Fund – in addition to the depositor's name, for the purposes of clearly determining entitlement to the indemnity.

(5) Payments shall be made through orders given to credit institutions, by means of depositing the indemnity sum at another credit institution, postal transfer, cheque or direct cash payment in forints. Indemnity shall only be paid out if above five hundred forints.

Assignment of Paid Deposit Receivables

Section 107 (1) In the event the Fund has paid indemnity to a depositor, the receivables due from the credit institution shall be assigned – up to the amount paid – from the depositor to the Fund. With such assignment, the Fund shall take the place of the formerly entitled party. The Fund shall be entitled to enforce the assigned receivables in the liquidation proceedings.

(3) During the liquidation of a credit institution, the Fund shall also be entitled to declare itself as a creditor in respect of deposits from which the rights have not yet been assigned to the Fund but in respect of which it has a payment obligation according to Section 101, including the costs incurred in relation to effecting payments.

Chapter XVII
Legal Status and Organisation of the Fund

Legal Status of the Fund

Section 108 (1) The Fund is a legal entity.

(2) The Fund is registered in Budapest.

(3) The Fund may not be obliged to pay any corporate taxes, local taxes or duties on its assets, income and proceeds.

(4) The Fund's monetary assets may not be diversified and may not be used for purposes other than those specified in Section 98.

(5) The Fund's equity capital may not be distributed.

Section 109 The Fund's financial-accounting audit shall be performed by the State Audit Office.

Organisation of the Fund

Section 110 (1) The Fund's governing body is the Board of Directors.

(2) Members of the Fund's Board of Directors:

a) Administrative Under-Secretary at the Ministry of Finance,

b) the Vice President of the NBH,

c) the Chairman of the Supervisory Authority,

d) two persons appointed by the interest representation organisations of credit institutions, and

e) the Managing Director of the Fund.

(3) Members of the Board of Directors - with the approval of the Board

of Directors - shall appoint a permanent deputy who shall attend the meetings of the Board of Directors in the absence of the member with full rights to make decisions.

(4) Meetings of the Board of Directors shall have a quorum if more than half of the members are present. Resolutions of the Board of Directors shall be passed by a simple majority of votes. In the case of a tied vote, the chairman's vote shall carry. Any assumption of commitments by the Fund shall be subject to the affirmative votes of at least four members of the Board of Directors. The measures specified in Paragraph o) of Subsection (1) of Section 111 shall not be applicable if they are opposed by any member of the Fund's Board of Directors.

(5) The Board of Directors shall elect a chairman and a vice-chairman annually from among its members. The Managing Director may not be elected as chairman or vice-chairman.

Duties of the Board of Directors

Section 111 (1) The Board of Directors shall

a) govern and control business management and other activities of the Fund,

b) approve the rules and procedures of the Fund,

c) determine the tasks and remuneration of the Managing Director and representatives of the Fund,

d) decide on the composition of special ad-hoc committees created for the performance of certain tasks,

e) determine the time, location and agenda of meetings of the Board of Directors,

f) determine the application of special symbols, information and other instruments for credit institutions based on which it can be determined that the deposits placed with the credit institution are insured,

g) decide on action to be taken in respect of performing the Fund's tasks,

h) determine the order of payments to be effected by the Fund under this Act,

i) decide on the Fund's budget, including its operating costs,

j) approve the Fund's annual financial statements and auditor's report and determine the Fund's financial position once a year, on or before 30 May of the year following the end of the financial year, and submit its report thereupon to the State Audit Office and send the same to the credit institutions,

k) establish once a year the Fund's premium policy within the framework of this Act and notify the credit institutions of this policy; determine the members' annual payment obligations based on the premium policy,

l) decide on exclusions,

m) determine regulations on obligations to pay increased and extraordinary premiums, as described in Subsections (6)-(8) of Section 121,

n) decide on the criteria of the measures described in Section 104,

o) decide on the application of measures described in Section 104,

p) draw up the Fund's review plan once a year,

q) perform other tasks described in this Act.

(2) When performing its tasks, the Board of Directors may use the services of the Supervisory Authority.

Section 112 (1) The Board of Directors shall appoint and remove managing directors as well as exercise employer's rights in this respect. The Board of Directors may transfer this right – with the exception of the appointment and dismissal – to the chairman of the Board of Directors.

(2) The Board of Directors shall review the activities of the Fund's Managing Director.

Managing Director and Organisational Structure of the Fund

Section 113 (1) The Fund has an independent organisational structure.

(2) The Managing Director shall perform the operative management tasks of the Fund's activities. The Managing Director shall exercise employer's rights in respect of the Fund's employees.

(3) With the consent of the Board of Directors, the Managing Director may engage non-employees or sign co-operation agreements for the performance of certain tasks.

(4) The provisions of Act XXII of 1992 on the Labour Code shall be applied in respect of the Fund's manager and employees.

Section 114 When acting within the scope of its responsibilities, the Board of Directors shall issue orders by duly applying the rules regulating conflicts of interest described in this Act.

Disclosure of Information to the Fund

Section 115 (1) The Fund may only request information from credit institutions which is necessary for its activities and which is not available to the NBH or the Supervisory Authority.

(2) Upon the Fund's request,

a) credit institutions shall be required to provide information from the data described by the Fund in compliance with this Act,

b) the Supervisory Authority and the NBH shall be required to provide information from the data available to them.

(3) The executive officer of branch offices that have joined the Fund shall immediately notify the Fund in writing if the foreign credit institution or any of its branch offices in any country has become insolvent.

(4) The Fund may use the information described in Subsection (2) only for the performance of its tasks.

(5) Upon the Board of Directors' consent, the Fund shall have powers to conduct inspections at member institutions to examine compliance with obligations pertaining to deposit insurance.

(6) If, on the basis of the available data, the Fund reaches the conclusion that it may have to intervene at a credit institution as described in this Act, the Fund shall be entitled to examine the credit institution's books, accounts and records. The Fund must obtain the permission of the Supervisory Authority to carry out such inspections.

(7) During the inspections described in Subsections (5) and (6), the Fund or the person representing the Fund may inspect the credit institution's books, accounts and records and request information from the credit institution's executive officers, employees, auditor, receiver or liquidator.

Section 116 (1) All bank secrets and business secrets obtained by persons employed by the Fund, or in other legal relationships for the performance of work or appointed by the Fund, as well as the members of the Board of Directors during their work, and all data, facts or circumstances which are not required to be disclosed by the Fund to other authorities or to the public shall be kept as professional secrets.

(2) In the course of the inspections carried out by the Fund, the persons described in Subsection (1) shall be qualified as official persons.

Section 117 Any indemnity claims against the Fund for damages caused contrary to the law may only be enforced if it can be determined that the Fund's actions or negligence have violated the law and the damages incurred were caused as a result.

Keeping the Accounts and Cash Management of the Fund

Section 118 (1) The Fund's bank account is held with the NBH.

(4) The Fund's profits, if any, may only be used to increase its equity capital.

Chapter XVIII
The Fund's Resources

Section 119 (1) The Fund's resources shall be:

a) affiliation fees,

b) regular or extraordinary annual payments effected by the credit institutions,

c) eighty percent of the fines collected by the Supervisory Authority from credit institutions, not including credit co-operatives which are members of a voluntary deposit insurance or institution protection fund,

d) loans drawn by the Fund,

e) other income.

(2) To perform the tasks defined in Paragraphs a)-b) of Subsection (1) of Section 98 the Fund may draw loans from:

a) the NBH or

b) credit institutions.

(3) Upon the Fund's request, in the case described in Subsection (2), the NBH may grant a loan within eight days and the Government shall assume a joint and several guarantee – on the loan borrowed by the Fund in the interest of fulfilling its obligations described in Paragraph b) Subsection (1) of Section 98 - according to Section 33 Subsection (3) of Act XXXVIII of 1992 on the State Budget.

Affiliation Fee

Section 120 A credit institution joining the Fund and having received a licence from the Supervisory Authority to collect deposits shall pay an amount equal to half a percent of its registered capital to the Fund – within thirty days of receiving the licence – as a one-off affiliation fee.

Annual Premium Payment Obligation

Section 121 (1) The annual payment obligation of the Fund's members shall be determined by taking into account the total amount of deposits kept by the credit institution insured by the Fund in accordance with Sections 99 and 100 on 31 December of the year preceding the financial year, the credit institution's membership in voluntary deposit insurance and institution protection funds, and other aspects determined in the Fund's regulations. When determining the annual premium, the Fund may consider the ratings determined for the credit institutions and their obligations by the rating organisation specified in a separate legal regulation.

(2) The amount of the annual premium to be paid as determined pursuant to Subsection (1) may not be higher than two thousandths of the aggregate total interest portfolio recorded under accrued expenses on deposits insured by the Fund and kept at the member institution on 31 December of the year preceding the year under review, and the deposits insured by the Fund as stipulated in legal regulations on the obligation of credit institutions to prepare annual financial statements and to keep books.

(3) Credit institutions shall pay the annual premium in quarterly instalments to the Fund's current account, by the fifteenth day of the quarter at the latest.

(4) The amount of the premium to be paid by credit institutions shall be determined on the basis of the declarations forwarded by the credit institutions to the Fund in the form and at the date as described in the procedures of the Fund.

(5) The premium to be paid by the credit institution for the year in respect of which the credit institution's activities are licensed shall be determined by multiplying 1/365 of the annual premium determined based on the deposit portfolio at the end of the relevant year with the number of days insured by the Fund, according to the general rules.

(6) If a credit institution performs risky activities justifying an increase in the premium according to the regulations, the Fund may increase the premium to be paid by the credit institution in the course of the relevant year. Prior to increasing the premium, the Fund shall

a) request an opinion from the Supervisory Authority and the NBH;

b) allow the credit institution to submit its comments.

(7) The premium increased as per Subsection (6) may not exceed three thousandths of the credit institution's insured deposit portfolio as of 31 December of the year preceding the relevant year.

(8) In the interests of repaying the loan borrowed by the Fund as per Paragraph d) Subsection (1) of Section 119, the Fund may prescribe an extraordinary payment obligation for the credit institutions determined on the basis of uniform principles. The extent and schedule of such payment obligation must be adjusted to the conditions of the loan repayment. The amount of the extraordinary payment obligation may not exceed the amount of the premium determined as per Subsection (2) in respect of any credit institution.

(9) Should the Fund gain any income in connection with the damage events necessitating that the Fund draw the loan, it must first of all be used to reduce the existing loan debt and thereafter to reduce the extraordinary payment obligation of the credit institutions and to refund the same.

(10) In the initial year of its liquidation (solvent or insolvent), the

credit institution must pay the prorated annual premium in accordance with the provisions described in this Section by the initial day of the solvent or insolvent liquidation. The premium shall be projected based on the average insured deposit portfolio in the quarter preceding payment.

Joining the Fund

Section 123 (1) Simultaneously on submitting the application for a licence to perform business activities as described in Section 18, the credit institution must also send a declaration on joining the Fund and attach a copy of such declaration to the application for a licence to perform business activities.

(2) The joining declaration must be prepared in the form as published by the Fund.

Chapter XIX
Initiation of Actions and Sanctions, Termination of Fund Membership

Section 124 (1) If a credit institution

a) fails to fulfil the payment obligations described in Sections 120-121 by the deadlines,

b) indicates its membership of the Fund in its business terms and conditions or on deposit documents in a deceptive manner or provides third parties with false information on material issues related to the deposits insured by the Fund,

c) advertises deposit insurance in an unlawful manner, or

d) has records from which depositors' entitlement to indemnity cannot be unambiguously determined,

e) violates the regulations on deposit insurance,

the Fund shall call upon the credit institution to discontinue the unlawful conduct and shall simultaneously inform the Supervisory Authority.

(2) If the credit institution fails to end the unlawful conduct referred to in Subsection (1) within thirty days of the warning, the Fund may request the Supervisory Authority to take action against the credit institution, impose a fine on it, or, with the consent of the Supervisory Authority, suspend the credit institution's membership for a minimum of twelve months after issuing a relevant warning, if the credit institution still fails to cease the unlawful conduct during this time. The Fund shall simultaneously notify the NBH about the initiation of the regulatory measures.

(3) In the event of initiating the exclusion of a member, the credit institution's membership in the Fund shall be terminated after the date specified in the preliminary warning, unless

a) the credit institution has taken the action aimed at conforming to regulations or terminating improper conduct;

Section 125 The Fund shall exclude a credit institution with immediate effect, if the credit institution may no longer collect deposits based on a resolution from the Supervisory Authority.

Section 126 (1) The exclusion of a credit institution or the termination of its membership shall not affect the insurance of deposits placed with the credit institution during the period of its membership.

(2) If a credit institution has been excluded from the Fund or its membership has been terminated, it may not request a refund of its earlier payments. The exclusion or the termination of membership shall not affect the obligation of the excluded credit institution to pay the annual premium on the insured deposits as described in Section 121.

(3) When increasing or decreasing its registered capital, a credit institution shall not be required to pay an affiliation fee on the amount of the increase, nor may it request the pro-rated portion of the paid affiliation fee to be refunded.

Section 127 In the event of an exclusion as described in Section 124, the Fund shall notify the Supervisory Authority and the NBH in writing – within twenty four hours – of the exclusion and the reasons therefor. The Fund shall publish the same within forty-eight hours in at least two national daily newspapers.

Prohibited Advertisements

Section 202 It is prohibited to use any information regarding deposit insurance, the Fund or the voluntary deposit and institution protection funds in advertisements, for the purpose of increasing deposit portfolios.

Information to Depositors

Section 204 Credit institutions must provide depositors with easily understandable information concerning the important issues affecting depositors with regard to the Fund, thus, in particular, the types of deposits insured by the Fund; the extent of the cover; furthermore – when deposits are frozen or the credit institution is liquidated – the conditions for indemnity payments under Subsection (1) of Section 101 as well as the procedure required for obtaining the insurance.

Section 205 A credit institution, whose Fund membership has been terminated, shall inform its depositors thereof and delete all references to deposit insurance stipulated by this Act from all notices. Such notices shall contain the rights of depositors, and the manner how such rights can be enforced.

General Terms and Conditions

Section 207 A financial institution is obliged to arrange the general contractual conditions for its licensed and regularly performed activities into a general terms and conditions document.

Section 208 The general terms and conditions for deposit transactions shall include in particular

f) information on the insurance protection of deposits,

g) in the case of registered deposits, the personal identification data recorded by the financial institution.

Section 211 (1) Credit institutions may only sign deposit contracts (release deposit documents),

a) if the deposit is insured in accordance with this Act, or

b) should the insurance provided by the Fund not cover the deposit pursuant to Subsection (1) of Section

99 and Subsection (1) of Section 100, the following clause shall be indicated in the contract (deposit document):

The deposit forming the subject of this contract is not insured under Act CXII of 1996 on Credit Institutions and Financial Enterprises."

(2) If a credit institution that is a member of the Fund carries out deposit transactions through another legal entity on the basis of Paragraph h) Subsection (1) of Section 14, such legal entity must also disclose on behalf of which credit institution it is accepting the deposit.

(3) Deposit documents made out in the form of securities must clearly indicate that the underlying contract is a savings deposit contract.

Chapter XXXII
Transitional and Closing Provisions

Section 233 (1) New payments made after 30 June 1993 into deposits under deposit contracts signed prior to 30 June 1993 – insured by the State guarantees (sureties) described in separate provisions of law – shall be insured – by the Fund – according to the provisions of this Act.

(2) Payments made from the deposits described in Subsection (1) must in all cases be effected from the earliest deposited amount.

Schedule No. 2
to Act CXII of 1996
Interpretative Provisions

I. Financial Services

2. Deposit: means a liability created by virtue of a deposit contract or a savings deposit contract as per the Civil Code, including the positive balance of a bank account.

IV. Definition of Terms for the Purposes of Part IV only

1. Deposit: means the deposits described under Point I/2 of this Schedule and debt securities issued by credit institutions, not including

a) deposits placed with a credit institution by another credit institution,

b) mortgage bonds issued by mortgage loan institutions in accordance with specific other legislation,

c) supplementary subordinated loan capital,

d) contributions by a co-operative member to a co-operative credit institution.

2. *Depositor*: means the person in whose name the deposit is registered, or – solely in respect of bearer deposits – who presents the deposit document.

3. *Person entitled to use the account:* means the owner of the deposit, or, if not the owner, then a person duly authorised by the owner to use the account, with or without restrictions.

4. *Beneficiary*: means the owner of the deposit or the person designated as the beneficiary by the owner to the credit institution in writing.

5. *Joint deposit:* any deposit which has more than one owner (registered in more than one name) with the exception of collective deposits.

6. *Person entitled to indemnity:* the depositor. Deposits whose contractual terms and conditions stipulate an agreement to the contrary shall constitute an exception. A person who, on the basis of the depositor's

authorisation, has powers to use the deposit at the time the deposit is frozen but who is, however, neither the owner nor beneficiary of the deposit shall not be deemed entitled to indemnity.

7. *Frozen deposit:* a deposit for which the credit institution is unable to make payments within five business days of the due dates stipulated by law or as contracted.

8. *Registered deposit:* a deposit where the owner can be clearly identified from the data in the deposit contract, the savings deposit contract or the bank account contract.

9. *Collective deposit:* deposits of condominiums, housing co-operatives, school savings associations, building associations.

Membership numbers

	Description	Opening	Joined	Mergers	Termination, transformation, liquidation	Closing
1993	Bank		40			40
	Sav.co-ops.		255			255
	Build.soc.					
	Cred.co-ops.					
	Total:		295			295
1994	Bank	40	2			42
	Sav.co-ops.	255				255
	Build.soc.					
	Cred.co-ops.					
	Total:	295	2			297
1995	Bank	42	1	3	1	39
	Sav.co-ops.	255	1	7		249
	Build.soc.					
	Cred.co-ops.					
	Total:	297	2	10	1	288
1996	Bank	39	4		2	41
	Sav.co-ops.	249	1		3	247
	Build.soc.					
	Cred.co-ops.					
	Total:	288	5		5	288
1997	Bank	41		1	2	38
	Sav.co-ops.	247		5		242
	Build.soc.		3			3
	Cred.co-ops.					
	Total:	288	3	6	2	283
1998	Bank	38	2	3		37
	Sav.co-ops.	242		6		236
	Build.soc.	3	1			4
	Cred.co-ops.		8			8
	Total:	283	11	9		285
1999	Bank	37		1	1	35
	Sav.co-ops.	236	1	30		207
	Build.soc.	4				4
	Cred.co-ops.	8				8
	Total:	285	1	31	1	254
2000	Bank	35	1		1	35
	Sav.co-ops.	207		15		192
	Build.soc.	4				4
	Cred.co-ops.	8			1	7
	Total:	254	1	15	2	238
2001	Bank	35	1	2		34
	Sav.co-ops.	192		6		186
	Build.soc.	4				4
	Cred.co-ops.	7				7
	Total:	238	1	8		231
2002	Bank	34	1		3	32
	Sav.co-ops.	186		3		184
	Build.soc.	4		1		3
	Cred.co-ops.	7		1		7
	Total:	231	1	5	3	226

Member institutions (2002 year-end)

Banks:

Általános Értékforgalmi Bank Rt.
BNP Paribas Bank (Hungaria) Rt.
Budapest Bank Rt.
CIB Közép-európai Nemzetközi Bank Rt.
Citibank Budapest Rt.
Commerzbank (Budapest) Rt.
Credigen Bank Rt.
Credit Lyonnais Bank Rt.
HVB Bank Hungary Rt.
Daewoo (from 2003: KDB) Bank (Magyarország) Rt.
Deutsche Bank Rt.
Dresdner Bank Rt.
Erste Bank Hungary Rt.
Hanwha Bank Magyarország Rt.
IC Bank Rt.
ING Bank Rt.
Inter-Európa Bank Rt.
Kereskedelmi és Hitelbank Rt.
Konzumbank Rt.
Magyar Cetelem Bank Rt.
Magyar Export-Import Bank Rt.
Magyar Fejlesztési Bank Rt
Magyar Külkereskedelmi Bank Rt.
Magyar Takarékszövetkezeti Bank Rt.
Magyarországi Volksbank Rt.
Merkantil Bank Rt.
Országos Takarékpénztár és Kereskedelmi Bank Rt.
Polgári Kereskedelmi Bank Rt.
Porsche Bank Hungária Rt.
Postabank és Takarékpénztár Rt.
Raiffeisen Bank Rt.
Westdeutsche Landesbank (Hungaria) Rt.

Savings co-operatives:

Abasár and Environs Savings Co-op.
AGRIA Bélapátfalva Savings Co-op.
ALBA Savings Co-op.
Alsójászsági Savings Co-op.
Alsónémedi and Environs Savings Co-op.
Apátfalvai Savings Co-op.
Ásványrárói Savings Co-op.
Bácska Savings Co-op.
Balatonfelvidék Savings Co-op.
Bak and Environs Savings Co-op.
Bakonyvidéke Savings Co-op.
Forrás Savings Co-op.
Balatonföldvár and Environs Savings Co-op.
Balatonszárszó and Environs Savings Co-op.
Balmazújváros and Environs Savings Co-op.
Bátaszék and Environs Savings Co-op.
Biatorbágy and Environs Savings Co-op.
Biharkeresztes and Environs District Savings Co-op.
Biharnagybajom and Environs Savings Co-op.
Bokod and Environs Savings Co-op.
Boldva and Environs Savings Co-op.
Bóly and Environs Savings Co-op.
Borotai Savings Co-op.
Bükkalja Savings Co-op.
Ceglédberceli Savings Co-op.
Csanádpalota and Environs Savings Co-op.
Csepreg and Environs Savings Co-op.
Cserhátvidéke District Savings Co-op.
South-Pest County Savings Co-op.
South-Zala United Savings Co-op.
Domoszló and Environs Savings Co-op.
Döbröközi Savings Co-op.
Drávamenti Savings Co-op.

Drégelypalánk and Environs Savings Co-op.
Dunaföldvár and Environs Savings Co-op.
Dunakanyar Savings Co-op.
Dunapataj and Environs Savings Co-op.
Ecseg and Environs Savings Co-op.
Eger and Environs Savings Co-op.
Endrőd and Environs Savings Co-op.
Ercsi and Environs District Savings Co-op.
Érd and Environs Savings Co-op.
Érsekvadkert and Environs Savings Co-op.
North-Tolna County Savings Co-op.
Esztergom and Environs Savings Co-op.
EuroDirekt National Savings Co-op.
Fadd and Environs Savings Co-op.
Fáy András Savings Co-op.
Fegyvernek and Environs District Savings Co-op.
Fehértó and Environs Savings Co-op.
Felsőzsolca and Environs Savings Co-op.
FÓKUSZ Savings Co-op.
Forrás and Environs Savings Co-op.
Füzesabony and Environs Savings Co-op.
Gádoros and Environs Savings Co-op.
Gyöngyös-Mátra Savings Co-op.
Gyulavári Savings Co-op.
Hajdúdorog and Environs Savings Co-op.
Hajdúsági Savings Co-op.
Hajdúsámson and Environs Savings Co-op.
Hajós and Environs Savings Co-op.
Halászi Savings Co-op.
Hangony and Environs Savings Co-op.
Háromkő Savings Co-op.
Hartai Savings Co-op.
Hatvan and Environs Savings Co-op.
HBW Express Savings Co-op.
Hévíz and Environs Savings Co-op.
Hodász and Environs District Savings Co-op.
Hosszúpályi and Environs Savings Co-op.
Ibrány and Environs Savings Co-op.
Ják and Environs Savings Co-op.
Jászárokszállás and Environs Savings Co-op.
Jászfényszaru and Environs District Savings Co-op.
JÓGAZDA Co-op. Savings Fund
Kaba and Environs Savings Co-op.
Kápolnásnyék and Environs Savings Co-op.
Karád and Environs Savings Co-op.
Kéthely and Environs Savings Co-op.
Kevermes and Environs Savings Co-op.
Kisdunamenti Savings Co-op.
Kiskundorozsmai Savings Co-op.
Kiskunfélegyházi Savings Co-op.
Kis-Rába menti Savings Co-op.
Kiszombor and Environs Savings Co-op.
Komádi and Environs District Savings Co-op.
Kondorosi Savings Co-op.
Körmend and Environs Savings Co-op.
Környe and Environs Savings Co-op.
Kunszentmárton and Environs Savings Co-op.
Lakiteleki Savings Co-op.
Lébény-Kunsziget Savings Co-op.
Létavértes and Environs Savings Co-op.
Lövő and Environs Savings Co-op.
Mecsekvidéke Savings Co-op.
Mezőkeresztes and Environs Savings Co-op.
Mohács and Environs Savings Co-op.
Monor and Environs Savings Co-op.
Mórahalom and Environs Savings Co-op.
Nádasd and Environs Savings Co-op.
Nagyatád and Environs Savings Co-op.
Nagybajom and Environs Savings Co-op.
Nagyecsed and Environs Savings Co-op.
Nagyhalász and Environs Savings Co-op.
Nagykáta and Environs Savings Co-op.
Nagymányok and Environs Savings Co-op.
Nagymaros and Environs Savings Co-op.
Nagyréde Savings Co-op.
Nagyvázsonyi Kinizsi Savings Co-op.
Nemesnádudvar and Environs Savings Co-op.
Nyírbélteki District Savings Co-op.

Nyírségi Savings Co-op.
Nyúl and Environs Savings Co-op.
Orgovány and Environs Savings Co-op.
Örkényi Savings Co-op.
Pacsa and Environs Savings Co-op.
Pannon Savings Co-op.
Pannonhalma and Environs Savings Co-op.
Partiscum XI Savings Co-op.
Pécel and Environs Savings Co-op.
Pereszteg and Environs Savings Co-op.
Pilismarót-Dömös Savings Co-op.
Pilisvörösvár and Environs Savings Co-op.
Pincehely-Ozora and Environs Savings Co-op.
Pocsaj and Environs Savings Co-op.
Polgár and Environs Savings Co-op.
Rábaközi Savings Co-op.
Rajka and Environs Savings Co-op.
Rakamaz and Environs District Savings Co-op.
Répcelak and Environs Savings Co-op.
Rétköz Savings Co-op.
Ricse and Environs Savings Co-op.
Rónasági Savings Co-op.
Rum and Environs Savings Co-op.
Sajókaza and Environs Savings Co-op.
Sárbogárd and Environs Savings Co-op.
Sárrétvidéke Savings Co-op.
Siklós and Environs Savings Co-op.
Siómenti Savings Co-op.
Solt and Environs Savings Co-op.
Soltvadkert and Environs Savings Co-op.
Surd and Environs Savings Co-op.
Sümeg and Environs Savings Co-op.
Szabadszállás and Environs Savings Co-op.
Szabolcs Savings Co-op.
Szarvas and Environs District Savings Co-op.
Szatmár-Beregi Savings Co-op.
Szatymaz and Environs Savings Co-op.
Szécsény and Environs Savings Co-op.
Szeghalom and Environs Savings Co-op.
Szegvár and Environs Savings Co-op.
Székkutas and Environs Savings Co-op.
Szendrő and Environs Savings Co-op.
Szentgál and Environs Savings Co-op.
Szentlőrinc-Ormánság Savings Co-op.
Szerencs and Environs Savings Co-op.
Szigetvári Savings Co-op.
Szolnok Environs Savings Co-op.
Szőreg and Environs Savings Co-op.
Savings Co-op. Credit institution Kazincbarcika
Tamási and Environs Savings Co-op.
Tarnamérai Savings Co-op.
Tata and Environs Savings Co-op.
Téti Savings Co-op.
Tiszaalpári Savings Co-op.
Tiszaföldvár and Environs Savings Co-op.
Tiszafüred and Environs Savings Co-op.
Tiszakécskei Savings Co-op.
Tiszavasvári Savings Co-op.
Tokaj and Environs Savings Co-op.
Tompa and Environs Savings Co-op.
Turai Savings Co-op.
Újpetre and Environs Savings Co-op.
Újszász and Environs District Savings Co-op.
Vámosgyörk and Environs Savings Co-op.
Vámospércs and Environs Savings Co-op.
Veresegyház and Environs Savings Co-op.
Vértes Savings Co-op.
Veszprémvarsány and Environs Savings Co-op.
Völgységi Savings Co-op.
Zalavölgye Savings Co-op.
Zemplén Savings Co-op.
Zirci Savings Co-op.
Zomba and Environs Savings Co-op.

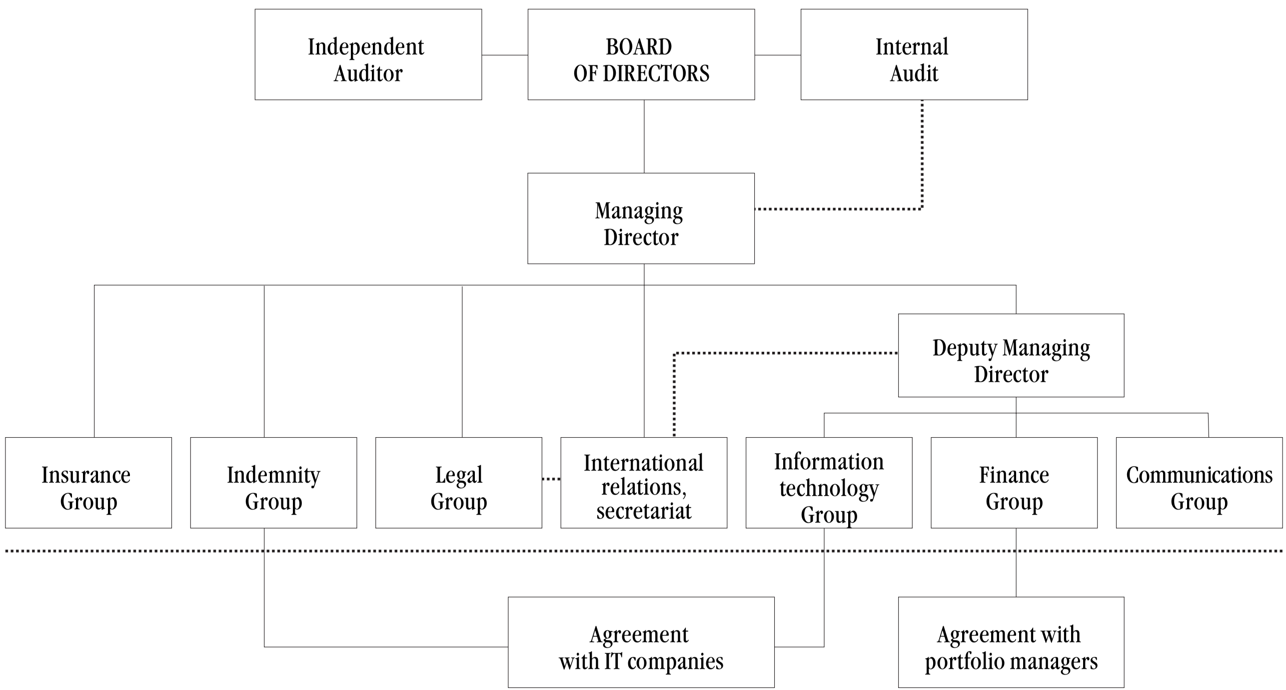
Building societies:
/Home-savings banks/

Fundamenta Magyar-Német
Lakás-takarékpénztár Rt.
Lakáskassza Első Általános
Lakás-takarékpénztár Rt.
OTP Lakás-takarékpénztár Rt.

Credit Co-operatives:

General Transport Credit Co-op.
Kárpátia Credit Co-op.
Mecsekkörnyék Credit Co-op.
Széchenyi Credit Co-op.
Szentesi Credit Co-op.
Tiszántúli First Credit Co-op., Debrecen
Zala Credit Co-op.

NDIF Organisational Chart



BALANCE SHEET FIGURES, 1993–2002

Assets (THUF)

DESCRIPTION	31.XII. 1993	31.XII. 1994	31.XII. 1995	31.XII. 1996	31.XII. 1997	31.XII. 1998	31.XII. 1999	31.XII. 2000	31.XII. 2001	31.XII. 2002
A. Fixed assets	29,686	43,293	41,555	43,055	46,227	38,469	29,776	37,946	53,256	93,103
I. Intangible assets	5,207	11,689	7,172	2,534	3,916	4,816	2,420	680	24,454	50,390
1. Rights and concessions	0	0	0	0	0	0	0	0	0	0
2. Intellectual property	5,207	11,689	7,172	2,534	3,916	4,816	2,420	680	24,454	50,390
3. Capitalised value of formation and transformation	0	0	0	0	0	0	0	0	0	0
II. Tangible assets	24,222	25,158	20,194	25,774	32,251	24,658	18,387	27,047	21,856	36,422
1. Land and buildings	0	0	0	0	0	0	0	0	0	0
2. Equipment, fittings, vehicles	24,222	21,627	15,485	24,793	32,251	24,658	18,387	27,047	21,856	36,422
3. Assets under construction	0	0	0	0	0	0	0	0	0	0
4. Payments on account	0	0	0	0	0	0	0	0	0	0
5. Upwards revaluation of tangible assets	0	3,531	4,709	981	0	0	0	0	0	0
III. Investments	257	6,446	14,189	14,747	10,060	8,995	8,969	10,219	6,946	6,291
B. Current assets	780,108	1,989,309	4,879,719	8,810,583	13,772,906	18,233,421	24,176,456	31,124,338	34,859,374	41,810,162
I. Stocks	0	97	13	126,175	104,354	17,300	17,300	17,300	17,300	17,300
1. Materials	0	0	0	0	0	0	0	0	0	0
2. Goods	0	97	13	126,175	104,354	17,300	17,300	17,300	17,300	17,300
3. Subcontracted services	0	0	0	0	0	0	0	0	0	0
4. Advances on stocks	0	0	0	0	0	0	0	0	0	0

DESCRIPTION	31.XII. 1993	31.XII. 1994	31.XII. 1995	31.XII. 1996	31.XII. 1997	31.XII. 1998	31.XII. 1999	31.XII. 2000	31.XII. 2001	31.XII. 2002
II. Receivables	201,095	265,573	925,994	899,282	853,463	934,575	6,072,583	6,363,533	4,701,002	5,278,014
1. Receivables from member institutions	191,988	255,300	262,828	455,563	435,454	540,842	5,616,342	5,934,427	4,674,265	5,192,701
a) Premium receivables	-4	160	2,966	10,001	0	38,364	0	640	0	10,361
b) Receivables transferred to the Fund	191,992	255,140	259,862	260,883	261,928	262,073	5,320,392	5,597,063	4,674,265	5,182,340
c) Fees concerning onerous obligations	0	0	0	184,679	173,526	240,405	295,950	336,724	0	0
2. Other receivables from credit institutions	0	3,282	650,058	349,694	349,694	365,194	430,917	420,561	19,822	51,313
3. Receivables from depositors	0	0	0	0	0	0	0	0	0	0
4. Receivables from the State	5,135	4,644	0	0	0	0	0	0	0	0
5. Other receivables	3,972	2,347	13,108	94,025	68,315	28,539	25,324	8,545	6,915	34,000
III. Securities	498,062	1,722,524	3,760,688	7,668,004	12,808,394	17,230,408	18,077,271	24,706,567	30,116,702	36,512,065
1. Government securities	466,000	1,722,524	3,760,688	7,668,004	12,808,394	17,230,408	18,077,271	24,706,567	30,116,702	36,512,065
2. Other securities	32,062	0	0	0	0	0	0	0	0	0
IV. Liquid assets	80,951	1,115	193,024	117,122	6,695	51,138	9,302	36,938	24,370	2,783
1. Cash, cheques	12	65	19	343	465	360	251	412	377	31
2. Bank deposits	80,939	1,050	193,005	116,779	6,230	50,778	9,051	36,526	23,993	2,752
C. Prepaid expenses and accrued income	2,624	118,509	156,628	420,543	716,549	957,195	883,498	704,318	894,484	24,031
TOTAL ASSETS	812,418	2,151,111	5,077,902	9,274,181	14,535,682	19,229,085	25,089,730	31,866,602	35,807,114	41,927,296

Equity and liabilities (THUF)

DESCRIPTION	31.XII. 1993	31.XII. 1994	31.XII. 1995	31.XII. 1996	31.XII. 1997	31.XII. 1998	31.XII. 1999	31.XII. 2000	31.XII. 2001	31.XII. 2002
D. Equity	624,991	1,705,902	3,499,486	8,197,175	13,685,125	18,310,665	21,536,606	30,772,937	35,682,090	41,856,618
I. Registered capital	662,693	669,012	669,012	734,354	752,353	807,017	807,267	817,267	827,267	837,582
II. Reserves	-540	-37,613	1,033,360	2,826,222	7,461,840	12,932,772	17,503,648	20,729,339	29,955,670	34,854,823
III. Valuation reserve	0	3,531	4,709	981	0	0	0	0	0	0
IV. Retained profit / loss for the year	-37,162	1,070,972	1,792,405	4,635,618	5,470,932	4,570,876	3,225,691	9,226,331	4,899,153	6,164,213
E. Provisions	172,792	412,732	902,384	1,058,316	801,976	860,815	3,497,069	1,052,632	0	0
F. Liabilities	7,679	5,606	660,328	12,953	7,970	8,469	49,221	31,513	11,459	60,321
I. Long-term liabilities	0	0	0	0	0	0	0	0	0	0
II. Current liabilities	7,679	0	660,328	12,953	7,970	8,469	49,221	31,513	11,459	60,321
1. Liabilities to member institutions	0	0	3	0	249	151	0	0	0	0
2. Short-term loans	0	0	650,000	0	0	0	113	0	0	0
3. Liabilities to depositors	0	0	0	0	0	0	0	0	0	0
4. Liabilities to the State	3,432	0	1	0	0	0	0	0	0	0
5. Other current liabilities	4,247	5,606	10,324	12,953	7,721	8,318	49,108	31,513	11,459	60,321
G. Accrued expenses and deferred income	6,956	26,871	15,704	5,737	40,611	49,136	6,834	9,520	113,565	10,357
TOTAL EQUITY AND LIABILITIES	812,418	2,151,111	5,077,902	9,274,181	14,535,682	19,229,085	25,089,730	31,866,602	35,807,114	41,927,296

Profit and loss statement (THUF)

	DESCRIPTION	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
01.	Premium income from member institutions	194,791	1,023,928	2,035,972	2,909,620	3,573,581	4,992,799	3,405,472	4,090,716	2,747,453	3,071,612
02.	Income from receivables recovered on behalf of depositors	0	0	0	0	0	0	0	0	0	0
03.	Commission income from the reimbursement of deposits under State guarantee	5,135	0	0	0	0	0	0	0	0	0
04.	Portion of fines due to NDIF collected from credit institutions by the Hungarian Banking and Capital Market Supervisory Authority	0	0	0	0	0	9,724	84,655	52,880	79,848	70,400
I.	Income from deposit insurance (01+02+03+04)	199,926	1,023,928	2,035,972	2,909,620	3,573,581	5,002,523	3,490,127	4,143,596	2,827,301	3,142,012
II.	Other income	3,019	2,130	30,623	755,169	67,459	127,988	5,103	7,742	2,117	27,336
	Use of provisions, impairment reversal (2001)	0	1,663	412,732	902,384	701,778	801,976	860,815	3,497,069	1,052,632	539,223
III.	Non-deposit insurance income	57,110	431,915	471	0	0	66,879	55,545	40,774	38,528	0
IV.	Income from financial transactions	0	172,792	902,065	2,068,661	2,983,504	5,091,806	5,206,733	5,329,008	3,342,760	3,225,454
V.	Extraordinary income	0	0	0	0	67	27,294	0	0	0	0
	Total income	260,055	1,632,428	3,381,863	6,635,834	7,326,389	11,118,466	9,618,323	13,018,189	7,263,338	6,934,025
05.	Expenses on the payment of frozen deposits	11,772	7,861	39,013	50,599	24,511	0	11,740	147	0	0
06.	Expenses on receivables collected on behalf of depositors	0	0	0	0	0	0	0	0	0	0

	DESCRIPTION	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
07.	Expenses on the payment of deposits guaranteed by the State	4,946	208	0	0	0	0	0	0	0	0
VI.	Expenses on deposit insurance (05+06+07)	16,718	8,069	39,013	50,599	24,511	0	11,740	147	0	0
VII.	Other expenses	21,659	12,745	13,824	375,745	266,584	330,344	99,240	79,243	94,801	95,469
	Provisioning/Impairment (from 2001)	172,792	412,732	902,384	1,058,316	801,976	860,815	3,497,069	1,052,632	1,735,713	0
VIII.	Non-deposit insurance expenses	0	0	0	0	0	0	0	0	0	0
IX.	Expenses on financial transactions	16	6	515,611	397,415	617,519	5,171,625	2,583,552	2,429,515	294,758	431,531
X.	Extraordinary expenses	5	0	0	114	1,023	0	0	0	0	0
08.	Material-type expenses	2,344	4,999	8,810	12,169	13,866	16,570	19,818	25,162	20,876	17,625
09.	Staff costs	30,722	59,689	63,950	68,476	82,023	106,151	117,320	133,469	114,799	135,760
10.	Depreciation	2,537	10,067	13,309	12,661	13,112	13,044	12,048	13,294	14,342	14,321
11.	Other costs	50,424	53,149	32,557	24,721	34,843	49,041	51,845	58,396	88,896	75,106
XI.	Operating costs (08+09+10+11)	86,027	127,904	118,626	118,027	143,844	184,806	201,031	230,321	238,913	242,812
	Total expenses	297,217	561,456	1,589,458	2,000,216	1,855,457	6,547,590	6,392,632	3,791,858	2,364,185	769,812
A.	Retained profit/loss for the year (Total income - Total expenses)	-37,162	1,070,972	1,792,405	4,635,618	5,470,932	4,570,876	3,225,691	9,226,331	4,899,153	6,164,213

Premium calculation table (excerpt)

2003 premium calculation					
Credit institution ID:			Confidential once completed!		
		III. INFORMATION			
					(data in THUF)
Type of deposit (with reference to liability rows of annual balance sheet of credit institution)		Premium baseas per Act CXIIof 1996	Portfolioguar anteedby State	Portfolio notprotected by State guar- antee orNDIF insurance	Total portfolio
Reference		(T)	(V)	(Z)	(T)+(V)+(Z)
(A)	Savings deposits:				
	2.aa)				
	2.ab)				
	2.ac)				
	(A) total:				
(B)	Other deposits:				
	2.ba)				
	2.bb)				
	2. bc)				
	(B) total:				
(C)	Issued securities and other liabilities				
	3.ba)				
	3.ca)				
	3.bb)				
	3.cb)				
	Bonds: 3.aa)+3.ab)				
	Sav.co-op. memb.contr. 4.a)+7.b)				
	Other subordinated liabilities 7.a)+7.c)				
	(C) total:				
(D)	Interest payable (from accrued expenses)				
	Total:				

Premium rates from 1993 to 2003

data: ‰

1993	flat for whole premium base: 1.8							
1994-1998	under HUF 1 million average deposit:			1.9	over HUF 1 million average deposit:			1.6
1999-2000	on deposits up to HUF 1 million:	1.6	on deposits from HUF 1 million to HUF 2 million:	1.3	on deposits from HUF 2 million to HUF 4 million:	1.0	on deposits above HUF 4 million:	0.7
2001	”	1.2	”	0.9	”	0.6	”	0.3
2002	”	1.2	on deposits between HUF 1 million and HUF 6 million:			0.9	on deposits above HUF 6 million:	0.2
2003	”	0.5	”			0.3	”	0.05

NDIF asset managers and custodians from 1993 to 2003

Creditanstalt Értékpapír Rt. (from 1997 under the name of CA IB Értékpapír Rt., from 2003 CA IB Értékpapír Befektetési Alapkezelő Rt.)	1993-
Postabank Értékpapír Rt.	1999-2000
Credit Suisse First Boston Rt.	1999-2000
Takarékbróker Rt.	2000-2002
Raiffeisen Bank Rt.	2000-2002
OTP Alapkezelő Rt.	2003-
CIB Befektetési Alapkezelő Rt.	2003-

Between 1999 and 2000 the NDIF's custodian was Citibank Rt., thereafter such services have been performed by ING Bank Rt.

Voluntary institution protection funds

The following voluntary credit institution protection organisations operate as independent legal entities based on the Act on Credit Institutions and Financial Enterprises:

OTIVA – National Savings Co-operatives' Institution Protection Fund

The fund was established in 1993 by 233 savings co-operatives. The task of the fund is to enhance the prudent operation of the integrated savings co-operatives, and thus contribute to strengthening client confidence vis-à-vis savings co-operatives.

TAKIVA – Savings Co-operatives' Institution Protection Fund

This is a voluntary institution protection fund founded by thirteen savings co-operatives. Year of foundation: 2000. The aim of the fund is to increase the security of member institution operations.

Both of the savings co-operative protection funds place great importance on their crisis prevention activities. If necessary, they take measures to prevent crises evolving, which can be in the form of financial assistance.

HBA – Credit Co-operatives First Hungarian Voluntary Deposit Insurance and Institutions Protection Fund

This fund was established by four credit co-operatives in 1994. Current membership number: seven. Core activity of the fund: institution protection and voluntary supplementary deposit insurance.

Source:

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List of Tables and Diagrams

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