NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY
1027 Budapest, Horvát u. 14-24.

ANNUAL REPORT 2000

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NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY
Balance sheet ASSETS

THUF

ASSETS	31.12.1999	31.12.2000
A. Fixed assets	**29,776**	**37,946**
I. Intangible assets	2,420	680
1. Rights and concessions	0	0
2. Intellectual property	2,420	680
3. Cap. value of form. and transformation	0	0
II. Tangible Assets	18,387	27,047
1. Land and buildings	0	0
2. Equipment, fittings, vehicles	18,387	27,047
3. Assets in the course of construction	0	0
4. Payments on account	0	0
5. Adjustment on tangible assets	0	0
III. Investments	8,969	10,219
B. Current assets	**24,176,456**	**31,124,338**
I. Stocks	17,300	17,300
1. Raw materials	0	0
2. Goods	17,300	17,300
3. Subcontractors' performance	0	0
4. Advances	0	0
II. Receivables	6,072,583	6,363,533
1. Receivables from member institutions	5,616,342	5,934,427
a) Premium receivables	0	640
b) Receivables devolved to the Fund	5,320,392	5,597,063
c) Fees concerning onerous obligations	295,950	336,724
2. Other receiv. from credit institutions	430,917	420,561
3. Receivables from depositors	0	0
4. Receivables from the State	0	0
5. Other receivables	25,324	8,545
III. Securities	18,077,271	24,706,567
1. Government securities	18,077,271	24,706,567
2. Other securities	0	0
IV. Liquid assets	9,302	36,938
1. Cash, cheques	251	412
2. Bank deposits	9,051	36,526
C. Prepaid expenses and accrued income	**883,498**	**704,318**
TOTAL ASSETS	**25,089,730**	**31,866,602**

Budapest, 31 March 2001

Dániel Jánossy
Managing Director

NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY
Balance sheet EQUITY AND LIABILITIES

THUF

EQUITY AND LIABILITIES	31.12.1999	31.12.2000
D. Equity	**21,536,606**	**30,772,937**
I. Registered capital	807,267	817,267
II. Reserves	17,503,648	20,729,339
III. Revaluation reserve	0	0
IV. Retained earnings	3,225,691	9,226,331
E. Provisions	**3,497,069**	**1,052,632**
F. Liabilities	**49,221**	**31,513**
I. Long-term liabilities	0	0
II. Current liabilities	49,221	31,513
1. Liabilities due to member institutions	0	0
2. Short-term loans	113	0
3. Liabilities due to depositors	0	0
4. Liabilities due to the State	0	0
5. Other current liabilities	49,108	31,513
G. Accrued expenses and deferred income	**6,834**	**9,520**
TOTAL EQUITY AND LIABILITIES	**25,089,730**	**31,866,602**

Budapest, 31 March 2001

Dániel Jánossy
Managing Director

NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

Profit and loss statement (total cost method)

THUF

	Description	1999	2000
01.	Premium income from member institutions	3,405,472	4,090,716
02.	Income from receivables recovered on behalf of depositors	0	0
03.	Commission income from the reimbursement of deposits with State guarantee	0	0
04.	Fines due to NDIF collected from fin. instit. by the Hungarian Banking and Cap. Market Supervision	84,655	52,880
I.	Deposit insurance income (01+02+03+04)	3,490,127	4,143,596
II.	Other income	5,103	7,742
	Release of provisions	860,815	3,497,069
III.	Non-deposit insurance income	55,545	40,774
IV.	Income from financial transactions	5,206,733	5,329,008
V.	Extraordinary income	0	0
05.	Expenses on the payment of frozen deposits	11,740	147
06.	Expenses on receivables collected on behalf of depositors	0	0
07.	Expenses on the payment of deposits guaranteed by the State	0	0
VI.	Expenses on deposit insurance (05.+06.+07.)	11,740	147
VII.	Other expenses	99,240	79,243
	Provisions	3,497,069	1,052,632
VIII.	Non-deposit insurance expenses	0	0
IX.	Expenses on financial transactions	2,583,552	2,429,515
X.	Extraordinary expenses	0	0
08.	Material-type expenses	19,818	25,162
09.	Staff costs	117,320	133,469
10.	Depreciation	12,048	13,294
11.	Other costs	51,845	58,396
XI.	Operating costs (08.+09.+10.+11.)	201,031	230,321
A.	**Retained profit for the year (I.+II.+Release of provisions+III.+IV.+V.-VI.-VII.-Provisions -VIII.-IX.-X.-XI.)**	**3,225,691**	**9,226,331**

Budapest, 31 March 2001

Dániel Jánossy
Managing Director

1. General

1.1 Presentation of the National Deposit Insurance Fund of Hungary

Name of organisation:	**National Deposit Insurance Fund of Hungary, abbreviated name: NDIF or Fund**
Registered office:	**1027 Budapest, Horvát utca 14-24.**
Method of foundation:	**Act XXIV of 1993**
Date of foundation:	**31 March 1993**
Members of the Board of Directors:	President of the **Hungarian Financial Supervisory Authority**, Board member of the **National Federation of Savings Co-operatives**, Vice-President of the **National Bank of Hungary**, Secretary-General of the **Hungarian Banking Association**, Administrative Under-Secretary at the **Ministry of Finance**, Managing Director of the **NDIF** and their permanent deputies.

Management:	Dániel Jánossy, Managing Director	Tel.: 214-0661/216
	Dr. András Fekete-Győr, Deputy Managing Dir.	Tel: 214-0661/217
	Dr. Géza Gálfalvi, Chief Legal Advisor	Tel.: 214-0661/218
	Dr. (Ms) Ivanyos, Chief Economic Advisor	Tel.: 214-0661/214
	Gabriella Vankó, Chief Accountant	Tel.: 214-0661/222

1.2 Establishment of the Fund and taxation issues

The National Deposit Insurance Fund was established on 31 March 1993 with the promulgation of Act XXIV of 1993 (hereinafter referred to as: the NDIF Act) in issue 36 of the Official Gazette in 1993. It started its statutory deposit insurance activity effective from 1 July 1993. Act CXII of 1996 on Credit Institutions and Financial Enterprises (hereinafter referred to as: Act on Credit Institutions) as amended, entered into force on 1 January 1997 and the provisions included in the aforementioned separate act were incorporated therein, while Act XXIV of 1993 was repealed.

Section 108 (3) of the Act on Credit Institutions prescribes that the National Deposit Insurance Fund is not obliged to pay any corporation tax, local tax or duties on its own assets, revenues and income.

1.3 Scope of activity

One of the tasks of the NDIF, as prescribed in Section 105 (1) of the Act on Credit Institutions, is to pay compensation on the deposits insured by the Fund to deposit-holders in case the deposits become frozen (unavailable) in a member institution. This process should commence within thirty days after deposits are frozen or, in the case of liquidations, within fifteen days subsequent to the publication of the resolution ordering such.

A task of equal importance is to prevent the freezing of deposits and the insolvency of the credit institution. Section 104 of Act on Credit Institutions prescribes the crisis-prevention activity of the Fund stipulating that the Fund is obliged to choose a solution incurring the lowest long-term loss.

1.4 The governing body and control of the Fund

1.4.1 The Board of Directors

According to Section 110 (1) of the Act on Credit Institutions, the governing body of the Fund is the Board of Directors. Its members are as follows: the Vice-President of the National Bank of Hungary, the Administrative Under-Secretary of the Ministry of Finance, the President of the Hungarian Financial Supervisory Authority, two persons designated by the organisations representing credit institutions and the Managing Director of the Fund.

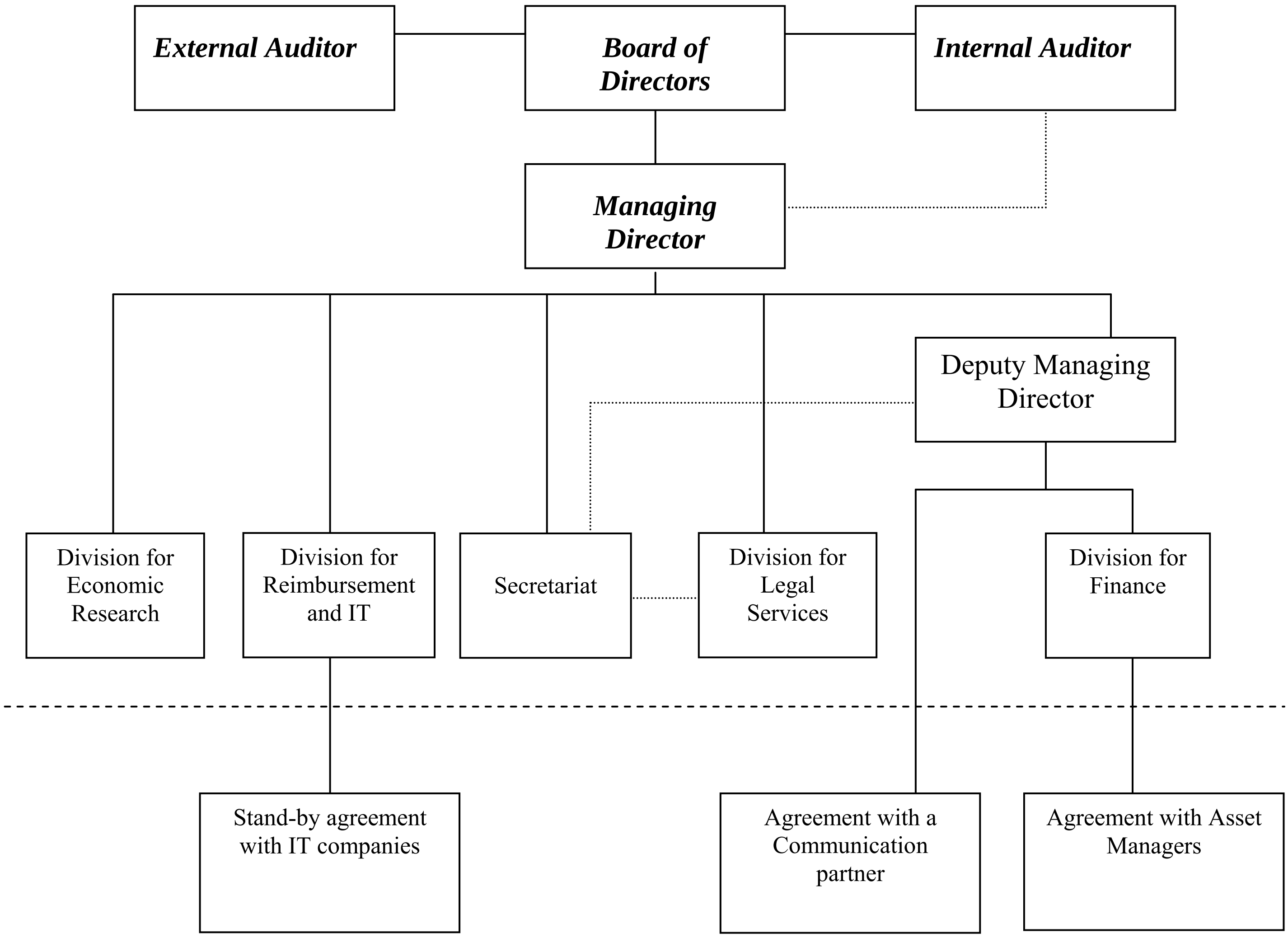
The Board of Directors elects a chairman and a deputy chairman annually from its members. In 2000 Dr Károly Szász, President of the Hungarian Financial Supervisory Authority, was the Chairman, while the office of Deputy Chairman was held by Dr Endre Kiss, Board member of the National Federation of Savings Co-operatives.

1.4.2 Control of the Fund

According to Section 109 of the Act on Credit Institutions, the Fund's financial-accounting supervision shall be performed by the State Audit Office.

1.5 Organisational chart of the Fund

The following diagram shows the organisational chart of the Fund:



1.6 Economic and financial environment

Based on the data available when closing the report it is clear that the Hungarian economy had an exceptional year from many points of view.
The *gross domestic product* (GDP) increased by 5.2%, surpassing all expectations (4.0-4.5%). It is true that *exports* are still the major driving factor of this economic development and their rate of growth reached 20.9%. (In 1999 exports grew by 13.3%.) At the same time, *domestic consumption* did not become the major factor in economic growth in 2000: although based on preliminary data the growth rate of *investments* exceeded that of the GDP (6.5%) *household consumption* grew to a smaller extent (3.8%).

The *current account* ratio to the GDP also changed favourably. In 2000 this deficit totalled EUR 1.92 billion which is equal to 3.7-3.8% of the GDP. This is better than the 4.3% deficit ratio to the GDP in 1999. The *inflow of capital* also developed positively, totalling EUR 1.76 billion, which is EUR 0.2 billion higher than in 1999.

The decrease in annual *average inflation* – which had lasted for four years – came to a halt in 2000. Inflation was higher (9.8%) than expected (6-6.5%). One of the major reasons for this was the unexpected increase in fuel and food prices and the significant growth in the value of the US dollar compared to the Hungarian forint. As a consequence of the changes in the inflation rate, which exceeded expectations, even the 11.4% growth of net average salaries only resulted in an average 1.5% increase in *real wages*.

According to the data issued by the National Bank of Hungary, the growth rate of *household savings* slackened considerably. As a result, the willingness of the population to increase net savings diminished: based on preliminary data, it fell from 8.0% of the GDP in 1998 to 4.3% in 2000. The increase in savings of private individuals (interests excluded) has essentially been decreasing since April 1999 compared to the same period of the previous year. The reason behind this is that the growth rate of the income of the population barely exceeded inflation. Within this trend it is evident that households place an ever-decreasing proportion of their savings in deposits and use other services offered by the financial sector instead (e.g. life insurance, pension funds). While in 1995 some 80% of household savings were deposited at credit institutions, this proportion decreased to approximately 60% in 2000.

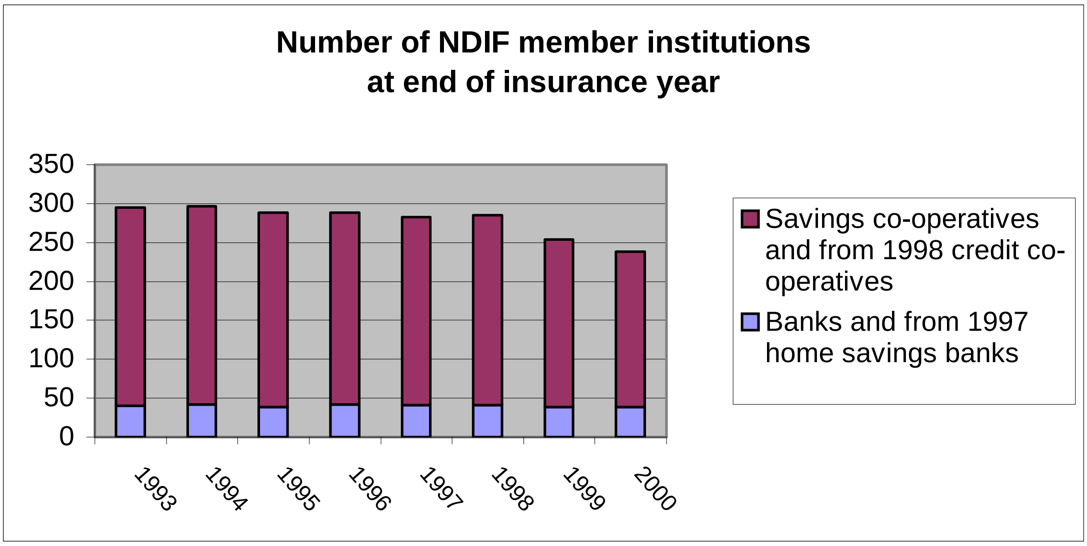
In the reporting period, the banking sector was characterised by a lower than expected growth rate, by expanding lending activity, by low exposure and by improving profitability. The balance sheet total of the banking sector increased 15% in 2000, while the pre-tax profit of credit institutions grew from HUF 37 billion in 1999 to more than HUF 100 billion in the reporting year.

1.7 Member institutions and their deposit portfolios

1.7.1 Number of member institutions

On 31 December 1999 the Fund had a total of 254 members, including 35 banks, 207 savings co-operatives, 8 credit co-operatives and 4 home savings banks. During 2000 the membership number of the Fund dropped by 16.

On 31 December 2000, the Fund had a total of 238 members, including 35 banks and specialised credit institutions, 192 savings co-operatives, 7 credit co-operatives and 4 home savings banks.



1.7.2 Review of insured deposit portfolio by type of deposit and member institution

According to the 1999 year-end balance sheet data, savings deposited at credit institutions totalled HUF 5,382.7 billion. In the savings deposit portfolio, savings co-operatives gained some ground among credit institutions: the shares of the banking sector (including home savings banks) and the co-operative sector (including credit co-operatives) were 92.4 and 7.6% respectively. This proportion was 92.6 and 7.4% at the beginning of 1999 (Table 1).

Breakdown of savings by type of credit institution

Table 1

	1999 opening	2000 opening		
	Portfolio THUF	Portfolio THUF	of which	
			Banks and home savings banks %	Co-operative credit institutions and credit co-operatives %
Deposits	**4,158,432,229**	**4,972,532,724**	**92.7**	**7.3**
of which savings deposits	593,190,189	682,292,784	71.2	28.8
other deposits	3,565,242,040	4,290,239,940	96.1	3.9
Securities	**362,292,377**	**339,340,151**	**91.3**	**8.7**
Interest payable	**80,603,553**	**70,846,364**	**80.5**	**19.5**
TOTAL	**4,601,328,159**	**5,382,719,239**	**92.4**	**7.6**

The share of deposits insured by the NDIF in savings at credit institutions increased from 70.9% to almost 73.9%, while the portfolio guaranteed by the State fell from 7.7% to around 7.2% and the non-insured portfolio from 21.4% to 18.9% (Table 2).

The rise in the NDIF insurance proportion was mainly due to the increase in the proportion of savings deposits insured by the NDIF. Here the growth exceeded 5%. At the same time, the proportion of non-insured deposits decreased compared to the previous period. This was mainly caused by the considerable drop in the proportion of non-insured savings deposits.

Breakdown of savings by type of insurance

Table 2

Description	1999 opening			2000 opening		
	Insured by NDIF %	Guaranteed by State %	Non-insured %	Insured by NDIF %	Guaranteed by State %	Non-insured %
Deposits	**77.1**	**8.2**	**14.7**	**79.0**	**7.6**	**13.4**
of which savings deposits	36.1	31.2	32.7	41.5	35.2	23.3
other deposits	83.9	4.4	11.7	84.9	3.2	11.8
Securities	**3.1**	**0.2**	**96.7**	**4.4**	**0.3**	**95.3**
Interest payable	**55.6**	**11.9**	**32.5**	**49.8**	**12.6**	**37.6**
TOTAL	**70.9**	**7.7**	**21.4**	**73.9**	**7.2**	**18.9**

The division of savings by type of insurance in terms of sectors show Table 3 and 4. At the beginning of 2000 the NDIF insured 74.5% of savings deposited with banks and 67.4% of savings in the co-operative credit institution sector. These proportions correspond to a 2.9% rise in the banking sector and a 5.0% rise in the co-operative sector compared with the figures at the beginning of 1999. In the banking sector this indicates accelerating growth (compared to 99/98 it is 2.5%) while in the co-operative sector it shows a slower rise (compared to 99/98 it is 6.2%).
The proportion of savings guaranteed by the State hardly changed in the banking sector while in the co-operative sector such decreased by 3.8%.

The share of savings not protected by either the NDIF or the State diminished more slowly in the co-operative sector. In the banking sector it fell from 21.4% to 18.7%, in the co-operative sector it decreased from 21.3% to 20.1% during one year.

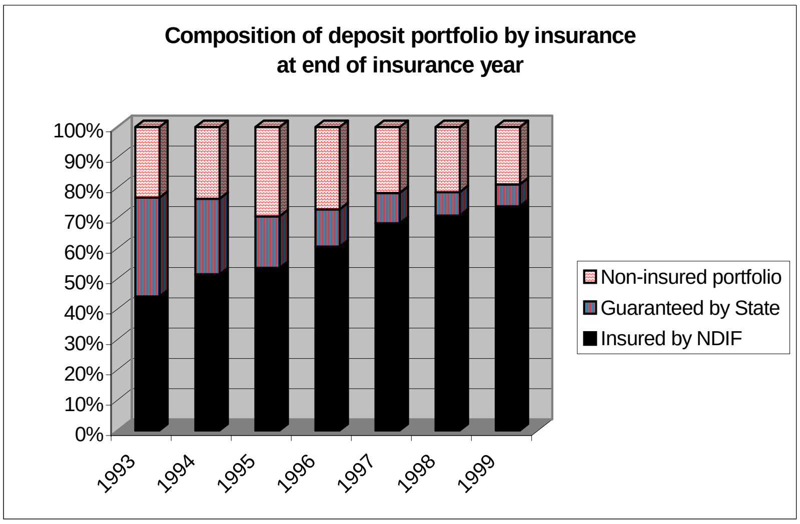
Breakdown of savings by insurance and type of credit institution at the beginning of 2000

Table 3

Description	Banks and home savings banks			
	Guaranteed by NDIF %	Guaranteed by State %	Non-insured %	**Total %**
Deposits	**79.8**	**7.5**	**12.7**	**100.0**
of which savings deposits	31.0	43.3	25.7	**100.0**
other deposits	85.6	2.9	11.5	**100.0**
Securities	**0.2**	**0**	**99.8**	**100.0**
Interest payable	**49.8**	**8.4**	**41.8**	**100.0**
TOTAL	**74.5**	**6.8**	**18.7**	**100.0**

Table 4

Description	Co-operative credit institutions and credit co-operatives			
	Guaranteed by NDIF %	Guaranteed by State %	Non-insured %	**Total %**
Deposits	**69.6**	**12.5**	**17.9**	**100.0**
of which savings deposits	67.5	15.1	17.4	**100.0**
other deposits	71.9	9.6	18.5	**100.0**
Securities	**48.4**	**2.7**	**48.9**	**100.0**
Interest payable	**49.6**	**30.0**	**20.4**	**100.0**
TOTAL	**67.4**	**12.5**	**20.1**	**100.0**



1.8 Indemnity commitments of the Fund

The NDIF indemnity commitment ratio within insured deposits fell to 39.8% at the beginning of 2000 (a 5.2% drop compared to 1999). This was caused by the fact that in line with the increase of the average deposit portfolio insured by the NDIF, the share of deposits over HUF 1 million, i.e. the non-insured part of deposits, grew. As a result, the insured deposits portfolio within the whole savings portfolio increased (from 71% to 74%) but the indemnity commitment of the NDIF fell by 2.6% (from 32% to 29.4%) within the savings portfolio deposited at credit institutions.

To take a wider interpretation of the joint extent of NDIF insurance and State guarantees, the conclusion is that according to current legal regulations in force there is approximately a *36% indemnity commitment to ensure the smooth operation of the credit institution system in Hungary and to strengthen depositor confidence.* From this, 29% is the indemnity pertaining to the NDIF and the State budget is responsible for the other 7%.

In terms of trends, there is a conflicting process: despite the fact that the amount of savings deposited in the credit institution system and secured by the NDIF is on the increase, in fact, the indemnity commitment is decreasing (Table 5).

It should be noted that the indemnity limit increase (to HUF 6 million) which will be effective at the time of EU accession would mean a 150% growth in NDIF's indemnity commitments if introduced at present. The limit increase would cause that the Fund's indemnity commitment within the savings portfolio of all NDIF member institutions would grow from 29% to 45%.

Table 5

Description	Start of insurance year	Insured by NDIF %	Guaranteed by State %	Non-insured or non-guaranteed portfolio %	Total %
Total savings by type of insurance	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
Ratio of indemnity or guarantee obligations within the insured/guaranteed portfolio (for NDIF, up to HUF 1 million)	1993	na	100.0	0	-
	1998	48.0	100.0	0	-
	1999	45.0	100.0	0	-
	2000	40.0	100.0	0	-
Ratio of indemnity or guarantee obligations within the savings portfolio of all NDIF member institutions	1993	**na**	**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**

1.9 Sources of the Fund and the proportion of liquid assets to commitments

According to Section 119 of the Act on Credit Institutions, the own revenue sources of the Fund include one-off admission fees, regular premium payments and, if necessary, extraordinary annual contributions paid by the members, returns on financial investments and the portion recovered from receivables devolved to the Fund. These sources can be supplemented through loans drawn by the Fund.

a.) Admission fee:
Credit institutions that receive licenses to collect deposits must pay a one-off admission fee to the Fund upon becoming a member institution. The admission fee corresponds to 0.5% of the registered capital of the member institution.
In 2000 the income of the Fund on these grounds was HUF 10 million, through the admission of Credigen Bank Rt.

b.) Annual premium:
Section 121 (1) and (2) of the Act on Credit Institutions specifies the upper limit for the statutory annual regular premium to be paid by the members as 0.2% of the deposit portfolio of the member institution insured by the Fund as at 31 December of the previous year. When establishing the annual premium payment of Fund members, the whole of their insured deposit portfolio must be taken into account.

In 2000, the premium policy of the Fund did not change, i.e. the member institutions have to calculate and pay their annual premiums based on four premium rates (differentiated by size of deposit) which decrease in increments the larger the deposit size. As a result, in 2000 the premium income generated by the NDIF was HUF 0.5 billion higher compared to 1999 due to the increasing premium base of credit institutions.

The NDIF asset/indemnity ratio – which compares the Fund’s assets (in government securities) with indemnity liabilities – was 1.13% at the beginning of 2000 (the liabilities portfolio and the assets of the NDIF were compared as at 31 December 1999). The average size of deposits placed at credit institutions rose by nearly 150%, from THUF 274 at the beginning of 1999 to THUF 408.

Besides the normal premium payment requirements, every six months the Fund may set increased or preferential premiums. Based on the Premium Regulation, *increased premiums* can be set if the member institution did not comply with the prescribed capital adequacy ratio and/or was more than 30 days late in complying with its premium or premium advance payment requirement, or perhaps carried out a particularly risky activity (Section 121 (6) and (7) of the Act on Credit Institutions). Four member institutions paid increased premiums during 2000, which increased the premium income of the Fund by HUF 36.6 million.

In view of double protection, *preferential premium rates* were used for savings co-operatives which were members of the National Savings Co-operatives' Institutions Protection Fund (an organisation which concluded a co-operation agreement with the Fund and had appropriate financial coverage) and which used a recording system for depositors’ data that complies with the requirements of Section 124 of the Act on Credit Institutions. The preferential premium was applied for 22 savings co-operatives and the discount was HUF 25.7 million, which the Fund transferred back to the member institutions.

2. Assets, financial position and the results of operations

2.1 Changes to and composition of balance sheet total

The balance sheet total rose HUF 6.8 billion (27%) on the previous year. The securities' portfolio growth is behind the increase in assets, caused by the reserve and the current year retained profit, i.e. equity growth, while provisions dropped by HUF 2.4 billion.

B/S	Description	31.12.2000 (THUF	Ratio (%)
A.	Fixed assets	37,946	0.1
B.	Current assets	31,124,338	97.7
C.	Prepaid expenses and accrued income	704,318	2.2
	TOTAL ASSETS	**31,866,602**	**100.0**
D.	Equity	30,772,937	96.6
E.	Provisions	1,052,632	3.3
F.	Liabilities	31,513	0.1
G.	Accured expenses and deferred income	9,520	0.0
	TOTAL EQUITY AND LIABILITIES	**31,866,602**	**100.0**

As a result of the securities' portfolio, assets mainly consist of current assets, while liabilities are dominated by equity thanks to the accumulated profits of previous years. This reflects the stable asset and financial position of the NDIF.

2.2 Summary evaluation of profit

In 2000 the Fund achieved a retained profit for the year of THUF 9,226,331. This was up HUF 6 billion on the 1999 figure. The table below summarises the reasons for the growth.

Description	1999 (THUF)	2000 (THUF)	Difference (THUF)
Income from deposit insurance	3,490,127	4,143,596	653,469
Other income	5,103	7,742	2,639
Release of provisions	860,815	3,497,069	2,636,254
Non-deposit insurance income	55,545	40,774	-14,771
Income on financial transactions	5,206,733	5,329,008	122,275
Extraordinary income	0	0	0
Total income	*9,618,323*	*13,018,189*	*3,399,866*
Expenses on deposit insurance	11,740	147	-11,593
Other expenses	99,240	79,243	-19,997
Provisioning	3,497,069	1,052,632	-2,444,437
Non-deposit insurance expenses	0	0	0
Expenses on financial transactions	2,583,552	2,429,515	-154,037
Extraordinary expenses	0	0	0
Total expenses	*6,191,601*	*3,561,537*	*-2,630,064*
Operational costs	201,031	230,321	29,290
Total expenses and operational costs	*6,392,632*	*3,791,858*	*-2,600,774*
Retained profit for the year	**3,225,691**	**9,226,331**	**6,000,640**

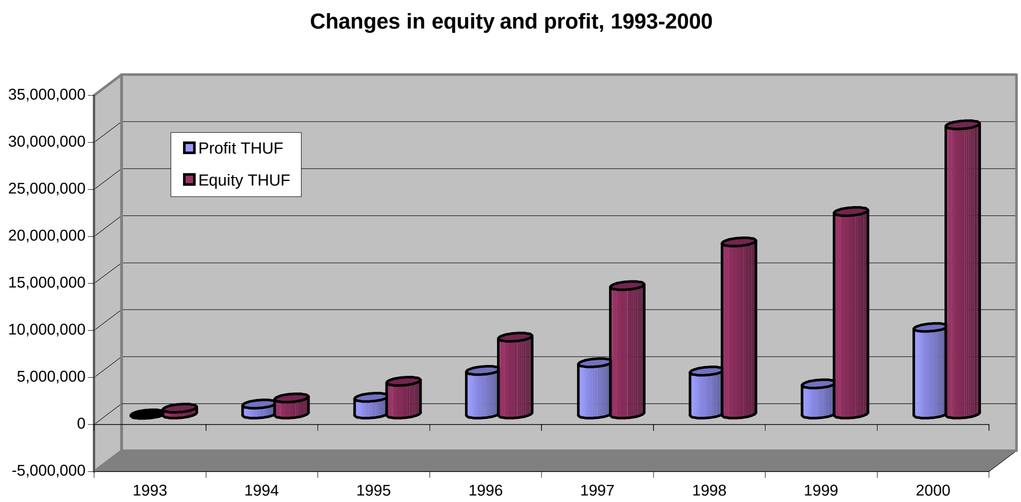
The table shows the three main factors for the growth of the retained profit in comparison to the previous year.

1. The item with the largest weighting on the result – around 80% – was the allocation and release of **provisions**, as the rise in provision releases increased income by HUF 2.6 billion on the previous year, while the reduction in provisioning decreased expenses by HUF 2.4 billion. The combined effect on the profit was therefore HUF 5 billion. The changes in provisions are due to the improvement in recovery prospects of receivables devolved to the Fund due to the compensation of Realbank depositors.

2. Although to a far lesser extent, deposit insurance activity also increased the result. In particular, an increase of HUF 653 million compared to the previous year in deposit insurance income along with expenses, which were down HUF 12 million on the same period.

3. Income from financial transactions exceeded the figure from the previous year by HUF 122 million while the relevant expenses were down HUF 154 million on 1999. All in all, the NDIF profit rose HUF 276 million on the previous year as a result of financial transactions.

Changes in the other factors of the result had little effect on the retained profit growth. The impact of operational costs on the result continues to be small, just like in previous years.



The graph shows that the profit decreased in 1998 and particularly in 1999, however, in 2000 this trend turned in the opposite direction. As a result, equity exceeded HUF 30 billion at the end of 2000.

3. Supplementary information and additional data

3.1 PR activity of the Fund

In 2000, the external communication activity of the Fund was restrained. The main reason for this, in light of lawsuits initiated – among others - against the NDIF in connection with Realbank, was not to give the impression that the Fund's aim would be to influence the public opinion or the opposing parties.
In line with crisis communication tasks prescribed in law, the Fund published announcements on two occasions in October 2000 – linked to press conferences – regarding the compensation of Rákóczi Credit Co-operative depositors. The voicenews service was supplemented at the same time with information on the specific crisis situation. The aim was to provide practical information how to file claims and how the reimbursement will be realized.

During the year the NDIF published two newsletters on the important events related to the Fund - principally to inform the managers of member institutions.

In December the NDIF web-site was completed with a radically new style and content. The internet web-site at www.ndif.hu or www.oba.hu provides useful and up-to-date information not only for depositors but also for member institutions and interested parties on the legal framework and operation of deposit insurance as well as credit institution issues related to deposit insurance. A new feature is the "virtual" deposit insurance ombudsman, to which consumer remarks on deposit insurance can be sent on-line.

3.2 Premium policy of the Fund

The modernisation of the premium payment system in 1999 was favourable for all member institutions, since the average premium rate dropped considerably.

In light of the positive experience, the Fund did not change its premium policy and premium rates for 2000. As a result of the premium policy which takes more consideration of the requirements of the member institutions with various (large and small) depositors, the reduction of the *average* premium rate in the banking sector continued, while that of savings co-operatives and home savings banks remained at 1999 level. The reason behind this process is that at banks the premium base growth was quicker at the large size deposits (above HUF 4 million) with lower-premium rate than at the higher-premium rate categories with deposit size under HUF 1 million.

The premium (specific fee) paid to protect a HUF 1000 deposit (NDIF indemnity commitment) rose in 2000 from HUF 2.4 to HUF 2.6, chiefly because at banks – which provide the largest share of premium income – the per unit insurance premium increased from HUF 2.5 to HUF 2.75. This is caused by the fact that though the premium bases of banks are shifting towards higher-size and thus lower-premium rate deposit categories, the indemnity commitment ratio in the higher-size deposit categories is lower. The specific fee for the other three credit institution groups did not change in 2000.

Type of credit institution	Premiums paid in 1999* (HUF million)	Premiums paid in 2000* (HUF million)	1999 actual average premium rate %	2000 actual average premium rate %	Premium for HUF 1000 NDIF indemnity commitment (HUF)	
					1999	2000
Bank	3,160	3,634	0.104	0.099	2.5	2.75
Savings co-op.	300	385	0.143	0.143	1.7	1.7
Home sav. bk	26	55	0.16	0.16	1.6	1.6
Credit co-op.	4	5	0.123	0.120	1.9	2.0
Total	**3,490**	**4,079**	**0.107**	**0.102**	**2.4**	**2.6**

* different from balance sheet data due to preferential and increased premiums as well as reconciling items

3.3 Examination activity of the Fund

The examination activity of the Fund was highlighted as an important strategic goal in 2000. The reason was the necessity of the scope of control (fulfilment of legal provisions connected to the merger of credit institutions and the experience in introducing deposit registers) and the increased number of member institutions to be examined.

- Since 1998-99, concentration in the Hungarian banking system has accelerated considerably, principally in the savings co-operative sector - in order to fulfil capital requirements prescribed by transitional provisions of the Act on Credit Institutions. The merger of banks has been continuing as well. The concentration of credit institutions (merger, fusion) as well as deposit transfers demand special recording requirements – in terms of deposit insurance – (Section 101 (7) and (8) of the Act on Credit Institutions) from the member institutions in question. For this reason, when compiling the examination plan, particular focus was placed on the general (on-site) examinations of member institutions where in the past one or two years there have been mergers/fusions and/or deposit transfers.
- The *"circular"* approved by the NDIF Board of Directors containing the NDIF examination guidelines enables external institutions and experts to be involved in the on-site reviews. In order to facilitate this process, the Fund developed an *"Examination Handbook"*. Besides supporting the work of the NDIF examination team, this handbook also enables the examination capacity to be expanded by means of outsourcing (controllers of the National Savings Co-operatives' Institution Protection Fund, reputable and experienced experts of the Hungarian Banking Supervisory Authority). Based on this, from the second half of 2000 it was possible to increase the number of member institutions to be reviewed.

The Fund carries out examinations based on an annual plan approved by the Board of Directors. The plan forecasts the on-site examination of 43 member institutions for the second half of 2000 and the first half of 2001.

In line with Section 124 of the Act on Credit Institutions, general on-site reviews cover 3 main areas:

- fulfilment of premium payment obligations, verified with numerical data (Sections 99-100 of Act on Credit Institutions);
- recording and updating of client data in the manner prescribed by law, in order that there be no difficulty to possible depositor indemnity due to data or documentation discrepancies (Sections 101-103, 233);
- compliance with the information obligations set forth in the Act on Credit Institutions and in other resolutions of the Fund's Board of Directors (e.g. deposit register) for the purposes of depositor protection.

Main experience from the examinations:

The review of the member institution self assessments, which form the basis for setting *premium payment requirements*, found irregularities at one member institution due to which subsequent amendments had to be proposed. When calculating the premium base, the member institutions otherwise only make "statistical" errors which do not affect the determination of the premium base or the extent of the premium payment. A typical error is that certain deposits, which were not insured based on Section 100 of the Act on Credit Institutions, are not disclosed in the proper place in the premium declaration or are not considered as items reducing the premium base at all. In all such cases, the review draws the attention of the member institution to the fact that these deposits are not insured by the NDIF, irrespective of where the member institution discloses them in its premium declaration, and the client must be notified of this fact at all times.

The review disclosed *deficiencies in the recording of client data* as well, in particular at those member institutions where mergers were carried out and/or deposit portfolios were transferred in the past few years.

- Section 101 (7) and (8) of the Act on Credit Institutions prescribes that in the case of mergers between credit institutions or the transfer of deposit portfolios – in respect of the HUF 1 million insured limit – the deposits of the same depositor placed at the fusioning, merging or receiving credit institution prior to the date of the merger (deposit transfer) shall qualify as separate deposits and are separately insured up to their release. The examined member institutions did not consider these provisions of the Act on Credit Institutions. Based on the records of the member institutions, it was not possible to establish which deposits were insured by the NDIF - and to what extent - at the merging entity at the date of the merger, i.e. which clients had double (triple) insurance. As a result, at the reviewed member institutions clients cannot decide when and from which deposits they wish to draw money, namely using the possibility provided by the Act on Credit Institutions to maintain the insurance of their deposits. The examinations always notified the member institutions that based on the records of the received deposit portfolio, a deposit recording system, which enables the clear assessment of the right for compensation based on Section 101 (7) and (8) of the Act on Credit Institutions, must be developed and continuously operated (even with retrospective effect).

- The experience of the reviews in respect of the computer and client records at credit and savings co-operatives are still not satisfactory, particularly in the case of those that are financially less stable.

The reviewed savings co-operatives apply various computer systems. However, some of these systems do not longer comply with modern recording requirements (acknowledged by most of the institutions), thus they do not have standard, client-data records either. This means that clearly defining depositor entitlement to indemnity within the time limits set by the Act on Credit Institutions is doubtful and only possible with surplus costs. *The accuracy of records is very important for both the Fund and the depositors*. The Fund must complete all compensation payments within the time limit set by the amended Act on Credit Institutions. At the same time, the depositor can only be indemnified if the data given by him match with that in the records of the member institution. Understanding this situation, the representation bodies of savings co-operatives make proposals for the member institutions – utilising the experience of the Fund gained during the examinations as well as its co-operation – to improve their recording systems in order to comply with deposit insurance requirements as soon as possible.

To *provide more precise information for clients*, the NDIF introduced the Deposit Register effective from 1 January 1999, which must be hung in public areas of the member institutions where it can be easily seen. The Deposit Register was positively received by both the member institutions and the depositors. In the Deposit Register, only the NDIF-insured products, which are distributed by the member institution or which ceased to exist but still can be repurchased, may be included. Unfortunately, in many cases the Deposit Register still did not show precisely the types of deposit offered by the member institution, thus the information provided to clients in respect of the insured deposits was not satisfactory. In order to improve communication, the NDIF – jointly with the National Savings Co-operatives' Institution Protection Fund – continuously strove to have the errors it became aware of corrected. As a result, the Deposit Register increasingly fulfils the role that, according to the Fund, is necessary for providing proper information to clients.

3.4 Developments connected to the deposits frozen at the Rákóczi Credit Co-operative and its liquidation

Background

The Rákóczi Credit Co-operative was established from the joint development fund of agricultural co-operatives in 1994. The credit co-operative incurred losses from 1996, its own assets were continuously on the decrease. The Hungarian Financial and Supervisory Authority sent a commissioner and an on-site controller to the institution on 17 September 1999. At the same time, it suspended the lending activity and limited the disbursement of loans too. On behalf of the Fund, the Supervisory Authority performed an on-site review in September/October 1999.

In its resolution the Hungarian Financial and Supervisory Authority revoked the licence of the Rákóczi Credit Co-operative with effect from 6 October 2000 and ordered an overall prohibition on payments. As a result, based on Section IV/7 of Schedule 2 to Act on Credit Institutions, the deposits were frozen from 11 October, i.e. after three working days of closing.

Up to the date when its licence was revoked, the credit co-operative was available to its 5,500 clients through the headquarter (Heves) and 6 branches.

Measures to accept claims, preparation for compensation

From the obligations of the Fund set out in Section 105 of Act on Credit Institutions, the NDIF complied with the following:

- The NDIF published its announcement related to the start of the indemnity process in two national newspapers on the day when the deposits were frozen (11 October 2000). *(Section 105 (2) of the Act on Credit Institutions)*
- In the announcement the Fund indicated to the depositors that they could file their claims from 17 October 2000 at the headquarter or the branches of the credit co-operative. (*Section 105 (3) of the Act on Credit Institutions)*
- On 11 October 2000, the day when the deposits were frozen, NDIF staff supported by its IT partner completed the saving of the data records including the deposit transactions which were initiated prior to 6 October 2000 (including GIRO items in transit) and supplemented this with a representation letter.
- According to the framework contract previously concluded with OTP Bank Rt., the Fund ordered the preparations for activation of the NDIF Deposit Insurance Cards, and the client information booklet on using ATMs. The prepared cards and the information materials were handed over along with filing of the claims of depositors starting from 12 October 2000. The Fund asked OTP Bank Rt. to inform its branch offices and the post office network that there will be clients who may present or use their Deposit Insurance Cards.
- The preparation of staff designated to receive the claims from clients took place at the headquarter on 12 October 2000, based on the regulation developed for the credit co-operative.

Deposit portfolio

Based on the information received from the commissioner of the credit co-operative on 10 October 2000, there were 2343 registered deposits (967 current accounts) totalling HUF 298.6 million. Based on the saved data records, the total indemnity commitment of the NDIF was HUF 278 million, taking into account the HUF 1 million indemnity limit. Up to 31 December 2000, payment of the above amount was effected as follows:

Date	Deposit insurance card		NDIF transfer		Postal transfer		*Total payment*	
	HUF	item	HUF	item	HUF	item	*HUF*	*item*
Total by year-end	185,112,424	893	68,594,208	304	1,805,470	16	*255,512,102*	*1,213*

The number of deposits insured for an amount less than HUF 1 million was 2,331 totalling HUF 278,030,360 (93% of the total portfolio). The number of deposits over HUF 1 million was 12, amounting to: HUF 20,611,014

New form of pay-out - NDIF Deposit Insurance Card

Payments commenced from 30 October 2000, i.e. 10 days before the expiration of the 30-day deadline prescribed by law. Besides the normal payment method (bank transfer), primary importance was accorded to payments with *NDIF Deposit Insurance Cards* when paying out the depositors of the Rákóczi Credit Co-operative. Private individuals could choose between the transfer of the amount to a current account opened at a different credit institution and pay out with the card. Legal entities could only choose the transfer to a current account when filling out their claim forms.

> With the help of the card received free of charge, the clients can comfortably and cost-free draw the amount due to them at any post office or National Savings Bank (OTP Bank) branch and at the ATM and POS terminals marked with the OTP Bankpoint sign. They can also draw it in instalments. The card offers quick and technically easy solution for the NDIF in addition to its other known advantages. It is suitable for effecting several payouts within a short processing time (when settlements are approved) since the coverage need only be transferred to one place (OTP Bank) and then it will be forwarded within the giro system of OTP and the Post Office. The Post Office and OTP also take care of the physical transport of the money. The Fund is informed of the payments electronically on the following day.

External engagements and estimated additional costs

In connection with the filing of the claims and indemnification of the Rákóczi Credit Co-operative depositors, the NDIF entered into a contract with Integra Rt., Capital Communications Kft. and Rákóczi Credit Co-operative 'under liquidation' (with the latter accepting and summarising claims). In relation to these contracts, the following additional costs arose, which based on Section 107 (3) of the Act on Credit Institutions are reported during the liquidation on a continuous basis.

Reason	Amount (HUF)
1. IT costs	5 238 876
2. Communication (press releases, voicenews)	5 158 472
3. Indemnity related costs	1 584 750
4. Postal costs	587 357
Total:	**12 569 455**

Starting the liquidation

The liquidation of the Rákóczi Credit Co-operative was ordered by the Capital Court on 26 October 2000. The Credit Institution Liquidating Non-profit Company is performing the liquidation process.

The branches were closed at the end of November 2000, the liquidation is currently in progress only at the headquarter. Based on the opening liquidation balance sheet, the assets of the credit co-operative are composed of the following major groups:

The net portfolio of liquid assets and placed loans amounted to HUF 241.6 million. The Co-operative has receivable of HUF 49 million.

The invested assets of the Co-operative totalled HUF 53 million. HUF 29 million of this is the government securities portfolio.

Tangible assets amounted to HUF 32 million, which includes the value of the registered office as well as the furniture and the office equipment.

57 creditor claims were filed at the Co-operative totalling HUF 454 million. Accepted creditor claims amounted to HUF 363 million.

Up to the balance sheet date, the following deposit payouts were effected:

	Deposit pay out THUF	Existing indemnity liability THUF	Total NDIF liability THUF
Capital paid up to 31.12.2000	248 764		
Interest paid up to 31.12.2000	6 748		
Total	**255 512**	**75 237**	**330 749**

3.5 Events related to liquidations in progress

Heves and Vicinity Savings Co-operative "under liquidation"

In respect of the Heves and Vicinity Savings Co-operative "under liquidation", the modified version of the interim balance sheet was received on 18 January 2001, which has to be submitted by the liquidator to the liquidating court together with the opinion of the creditors. Apart from two small corrections, the modified interim balance sheet is essentially the same as the previous one that was criticized by the Creditors' Board.

The company, which performed the liquidation until this point was sold as of 1 December 2000, thus the person of the liquidator changed.

The expert made several statements on behalf of the Creditors' Board, which were accepted by the Court, however, the liquidator did not enforce these during the modification of the interim balance sheet, therefor the Creditors' Board made notes to the interim balance sheet in a letter asking the Court to reject the modified interim balance sheet and order the liquidator to prepare a new interim balance sheet. According to the final judgement of the Court, the liquidator should have paid the liquidation fee advance back.

The NDIF cannot expect any return even based on the modified interim balance sheet.

From the beginning of the liquidation up to the closing of the balance sheet, deposit payouts of **HUF 259,665,050** were made, the receivable was reported to the liquidator.

Iparbankház Rt. ”under liquidation”

The liquidation was not completed due to some pending lawsuits of little importance. Within the framework of the liquidation, there is still no chance of recovering the Fund receivables.

Since the previous balance sheet, the following changes took place in the recovery of the receivables received from Iparbankház against NDIF’s lending in 1996:

THUF

	Sales price (income)	Cost price (expense)	Profit
Center Kft. receivable	5,800	5,000	800
Entrepreneurial loan	89	89	0
Housing loan	685	685	0
Total	**6,574**	**5,774**	**800**

Up to the balance sheet date the following deposit payouts were made:

THUF

	Deposit portfolio as of 03.07.1996	Deposits paid from start of liquidation to 31.12.2000	Remaining deposit portfolio
Insured by NDIF	11 530	2 310	9 220
Not insured by NDIF	13 510	0	13 510
Total	**25 040**	**2 310**	**22 730**

The deposits paid are all capital amounts and were reported to the liquidator.

Realbank Rt. "under liquidation"

Up to the balance sheet date, the liquidator of Reálbank prepared two interim balance sheets and made a payment proposal accepted by the creditors and the Capital Court supervising the liquidation.

Due to reconciliation problems between the NDIF and the liquidator, the second interim balance sheet prepared as of 30 June 2000 did not contain the creditor receivable of the Fund devolved to it for the payouts made to depositors (based on Section 107 of the Act on Credit Institutions). The receivable was in excess of HUF 5 billion and was recognised among crediting receivables proposed for payment in category "D", but the liquidator disputed its amount.
Agreement was reached on 13 September 2000 when the liquidator acknowledged that the receivable of the Fund based on the above Section of the Act on Credit Institutions was HUF 5,057,576,577. Accordingly, the liquidator prepared a new (the third) interim balance sheet as of 19 January 2001. In relation to this, it made an interim payment proposal for the Fund to pay in full the receivables devolved to the Fund (HUF 5,154,397,987) up to the balance sheet date based on the indemnity paid by the NDIF in category "D" of the payment order.
As of the balance sheet preparation date, the Court had not passed a resolution on the acceptance or possible rejection of the proposal.
The NDIF creditor receivable of THUF 58,298 disclosed in category "F" is still disputed since no final resolution was passed as of the balance sheet preparation date.

Up to the balance sheet date, the following deposit payouts were effected:

	Deposit payment THUF	Prevailing indemnity liability THUF	Sequestered items THUF	Total NDIF liability THUF
Capital paid by 31.12.2000	4 834 375			
Interest paid by 31.12.2000	242 739			
Total indemnity paid by NDIF	**5 077 114**	**77 207**	**9 923**	**5 164 244**

3.6 Co-operation agreements with partner institutions

The NDIF and its strategic partners, the Hungarian Financial Supervisory Authority and the National Savings Co-operatives' Institution Protection Fund have been regulating their professional co-operation within the framework of co-operation agreements for several years now. The co-operating partners review the agreements when necessary but at least once a year and amendments are made according to requirements.

The parties renewed both strategic co-operation agreements last year.

The most significant change in the co-operation agreement concluded with the *Supervisory Authority* is that effective from 2001, the Fund may access (on a mutual basis and for information related to its sphere of activity) the database of the Supervisory Authority related to credit institutions directly (on-line). Further progress in the area of co-operation is that during its reviews, the Supervisory Authority advises the Fund directly of its experience on topics affecting the NDIF (data supply, recording). In addition, the two parties established closer co-operation in the preparation for crisis management and in the area of international relations.

For 2000 the NDIF extended its agreement concluded with the *National Savings Co-operatives' Institution Protection Fund* three years ago. Thus the preferential fee payment liability remained in force for savings co-operatives with double protection (NDIF and National Savings Co-operatives' Institution Protection Fund membership). Further stipulations for providing the preferential fee are: the registered capital (equity) and the capital adequacy ratio is in line with the requirements of the Act on Credit Institutions; the institutions don't carry out particularly risky activities; the institutions fully comply with the premium payment liabilities on time and the data recording system is suitable for assessing the depositors' entitlement to indemnification without requiring extra time and work for the Fund. The novelty of the year 2000 is that the National Savings Co-operatives' Institution Protection Fund assumed responsibility in the planned on-site reviews of the NDIF.

3.7 Pending litigation

In 2000 the NDIF was the defendant in 6 legal cases, of which 4 were related to the Realbank, one to Iparbankház and one to Heves and Vicinity Savings Co-operative.

From the Realbank cases - whose conceptual importance surpasses the amount of the claim - the Fund won a case with a non-appealable judgement and won another at the court of first instance. Due to the appeal of the plaintiff, the judgement is not yet final. There has been no decision of note in the proceedings of two cases.

A judgement of first instance was passed in the HUF 91 million case with Iparbankház, which rejected the claim of the plaintiff against the Fund. Due to the appeal of the plaintiff, the judgement is not yet final.

The case initiated against the Fund in connection with the Heves and Vicinity Savings Co-operative, which amounts to HUF 1.2 million, is in a review phase initiated by the Fund.

Although the NDIF does not appear as one of the parties in the suit launched by shareholders to render the Realbank Rt. general meeting held on 4 September 1998 invalid, its outcome could affect the NDIF. According to the partial judgement passed during the proceedings, some of the resolutions of the general meeting are invalid, however, they do not directly affect the NDIF.

In the liquidation process of Realbank, a creditor raised an objection to change the ranking of the creditor application of the Fund. The Court rejected the claim at first instance and up to the closing of the Annual Report, no notification had been received on whether the decision became final or an appeal was submitted.

The Fund is not aware of any other claims submitted against it, with the exception of the usual trade creditors, etc. disclosed in the Annual Report.

The Fund has not issued any guarantees, which could give rise to payment obligations.

3.8 Human resources data

In 2000 the average staff number of the Fund was 14.7 persons. During the year, one new employee joined the Fund and the employment of one staff member was terminated. As of 31 December 2000, the number of staff was 17.

77% of employees are graduates of higher education, 23% have secondary education certificates. Eight of the Fund employees have language proficiency certificates.

The breakdown of staff as of 31 December 2000 was as follows:

Group of staff	Staff (person)
Senior management	2
Junior management	4
Employees: Higher education Secondary education	 7 4
TOTAL	17

3.9 International activities of the NDIF in 2000

The Managing Director of the NDIF had continued its activity in the working group on international deposit insurance seconded by the Deputy Managing Director and the economic advisor responsible for international co-operations. At the initiative of the G7’s finance ministers and central bank chairmen the working group was set up by the Financial Stability Forum. Mr Jean Pierre Sabourin, the CEO of the Canadian Deposit Insurance Corporation was elected as chairman of the deposit insurance working group, which comprises representatives from 12 countries in four continents, including the NDIF’s Managing Director as well as experts from the IMF and the World Bank. The task of the working group is to develop international deposit insurance guidance mainly for countries, which intend to establish a deposit insurance system. The development of the guidance is facilitated by a world-wide consultation process. Experts of nearly fifty countries joined the work within the framework of regional consultations, seminars or through the homepage on the Internet www.cdic/international which so far has had more than 40,000 visitors.

In order to perform its task, 16 sub-groups were formed with the co-ordination of certain members of the working group. The sub-groups cover all theoretical and practical issues of deposit insurance activity (e.g. moral hazard, transitioning to limited coverage from unlimited guarantees, etc.). The NDIF is the co-ordinator of the sub-group, which deals with reimbursing depositors and it takes an active part in further seven sub-groups. The working group will submit its final report to the Financial Stability Forum in September 2001.

The most outstanding event in the international relations of the NDIF was the accomplishment of the deposit insurance working group meeting in Budapest in November. This was supplemented with a round-table discussion, where the experts of the Bulgarian, Croatian, Polish, Lithuanian, Slovak and Ukrainian partner institutions, - who were invited by the NDIF - the opportunity was given to share their experience and problems with the working group members. The round-table discussion was followed by a two-day deposit insurance seminar, which was organised by the Basle-based Financial Stability Institute (FSI) and the EBRD. In addition to the participants of the working group and the round-table discussion, further Central and Eastern European countries took part in the seminar but there were also representatives of some countries from the EU and the Far East. The main topics of the seminar were as follows:

- comparison of the development of the Latin American and the Central and Eastern European deposit insurance systems,
- the issues of deposit insurance coverage and reimbursement of depositors,
- intervention and failure resolution methods.

In light of the preparation for European Union accession, contact with the member institutions of EU states is still of strategic importance. Bearing this in mind, the NDIF had a discussion in Vienna with the Managing Director of the deposit insurance institution of private Austrian banks and the Secretary General of the Banking Association. The results of the review of directive No. 19/94/EEC on deposit insurance and the role of deposit insurance in Austrian and Hungarian bankruptcies as well as the activity of the deposit insurance working group of the Financial Stability Forum, were the focus of the discussions.

The deputy managing director of the NDIF took part in a study trip to Portugal in order to gain experience on EU accession. During the trip, which was organised by the Hungarian Management Institute, he had a meeting with the Secretary General of the Portuguese Deposit Guarantee Fund.

The round-table conference entitled 'Deposit Insurance Systems', which was held in the Brussels headquarters of the EU Banking Association and organised for EU member countries and the countries awaiting accession, offered a valuable opportunity for gaining and exchanging experience. From Hungary the NDIF economic advisor responsible for international co-operations and one of the board members of the Hungarian Banking Association participated in the conference.

In addition to utilising foreign experience, the NDIF also shares its experience with newly formed deposit insurance institutions of other countries. Within this framework, the Fund’s senior staff members had a meeting with the director of the supervising department of the Ukrainian central bank and the Managing Director of the Ukrainian deposit insurance fund, in order to provide assistance in overcoming of start-up difficulties. During the summer, the expert preparing the establishment of the Slovenian deposit insurance institution paid a visit to the NDIF and was principally interested in the transition from the blanket, unlimited state guarantees to the limited deposit insurance system in Hungary. The expert responsible for establishing deposit insurance in Hong Kong, a participant of the deposit insurance seminar held in Budapest in November, asked for a consultative meeting with the NDIF Managing Director.

The experts of IMF visited the NDIF to assess changes and discuss the Hungarian situation related to the "Code of Good Practices on Transparency in Monetary and Financial Policies" to be developed by the IMF and the World Bank.

4. Strategic goals of the NDIF in 2001

Regarding its long-term targets and the changes to legal regulations valid from the beginning of the year (Act on Credit Institutions, Act on Accounting), the Fund defines its goals as follows.

a) The provisions of the Act on Credit Institutions on the NDIF changed. Taking this and other factors into account, the following should be fully reviewed and modernised:

- the content of *examinations*, bearing in mind the experiences of follow-up examinations and legal procedures affecting the Fund directly or indirectly,
- the *premium policy*, in light of the analyses which are necessary for risk-based differentiation; the structural-financial developments of the credit institution sector and the asset situation of the NDIF,
- *communication* including modernising the content of all information published through the various communication channels,
- the tender documentation of the *new payout IT system.*

b) Development of the document containing the "best practice to be followed" based on the experience of the examinations, in order to support compliance with the rules. Within the examination activity, follow-up examinations will receive greater emphasis supported by close co-operation with the Supervisory Authority.

c) Due to the amendment to the Act on Accounting and the recommendation of the State Audit Office the accounting policy and system of the NDIF have to be changed in such a way that its information content clearly and separately reflects the income and expenses of

- deposit insurance activity,
- asset management, and
- the operation of the work organisation.

d) The mutual results of the agreements formerly concluded with the Supervisory Authority and the National Savings Co-operatives' Institution Protection Fund are reflected in the examinations, risk-identification, the exchange of information, premium policy, communication, etc. It is in the Fund's interest to lift these agreements up to a strategic partnership level (e.g. supported by mutual access to databases), thus mirroring the close co-operation towards credit institutions as well. The continuous modernisation of these co-operations has been also on agenda along with exploring further partnership opportunities.

e) The expectations of the NDIF regarding participation in the international deposit insurance working group established by the Financial Stability Forum were met. The international reputation of the NDIF has improved. The working group will submit its final report including the guidance on deposit insurance to the Forum in 2001. Should it be approved, there will be further opportunities to distribute the recommendations of the guidance and apply them both locally and internationally.

Foreign exchange information

The official foreign exchange medium rates of the major foreign currencies registered by the NBH on the statement day (31 December 2000) were as follows:

Currency (1 unit)	**EUR**	**USD**	**DEM**	**ATS**	**GBP**	**CHF**	**FRF**
HUF	264.94	284.79	135.46	19.25	425.47	173.92	40.39

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Independent Auditors' Report

To the Board of Directors of National Deposit Insurance Fund

We have audited the accompanying balance sheet of National Deposit Insurance Fund ("the Fund") as at 31 December 2000 which shows total assets of THUF 31.866.602 and a retained profit for the year of THUF 9.226.331, the related profit and loss account for the year then ended and the supplement (collectively "the financial statements") included in the Fund's 2000 Annual Report. The Annual Report is the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information included in the Business Report is consistent with that contained in the financial statements.

We conducted our audit in accordance with Hungarian Standards on Auditing issued by the Hungarian Chamber of Auditors, which are substantially consistent with International Standards on Auditing, and applicable law and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our work with respect to the Business Report was limited to the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Fund. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Annual Report has been prepared in accordance with the provisions of the Act on Accounting and accounting principles generally accepted in Hungary and gives a true and fair view of the financial position of National Deposit Insurance Fund as at 31 December 2000 and of the result of its operations for the year then ended.

Budapest, 31 March 2001

KPMG Hungária Kft.
Chamber registration number: 000202

Henye István
Henye István
Partner, Registered Auditor
Identification number: 005674