National Deposit Insurance Fund of Hungary
H-1027 Budapest, Horvát u. 14-24.

ANNUAL REPORT 2002

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NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

Balance sheet ASSETS

Data in THUF

ASSETS	31.12.2001	31.12.2002
A. Fixed assets	53,256	93,103
I. Intangible assets	24,454	50,390
1. Capitalised value of formation, transformation	0	0
2. Rights and concessions	0	0
3. Intellectual property	24,454	50,390
4. Advances on intangible assets	0	0
5. Upwards revaluation of intangible assets	0	0
II. Tangible assets	21,856	36,422
1. Land and buildings and related rights and concessions	0	0
2. Equipment, fittings, vehicles	21,856	36,422
3. Assets under construction	0	0
4. Payments on account	0	0
5. Upwards revaluation of tangible assets	0	0
III. Investments	6,946	6,291
B. Current assets	34,859,374	41,810,162
I. Stocks	17,300	17,300
1. Materials	0	0
2. Commercial goods	17,300	17,300
3. Mediated services	0	0
4. Advances on stocks	0	0
II. Receivables	4,701,002	5,278,014
1. Receivables from member institutions	4,674,265	5,192,701
a) premium receivables	0	10,361
b) receivables transferred to Fund	4,674,265	5,182,340
c) premiums on onerous obligations	0	0
2. Other receivables from credit institutions	19,822	51,313
3. Receivables from depositors	0	0
4. Receivables from the State	0	0
5. Other receivables	6,915	34,000
III. Securities	30,116,702	36,512,065
1. Government securities	30,116,702	36,512,065
2. Other securities	0	0
IV. Liquid assets	24,370	2,783
1. Cash, cheques	377	31
2. Bank deposits	23,993	2,752
C. Prepaid expenses and accrued income	894,484	24,031
TOTAL ASSETS	35,807,114	41,927,296

Budapest, 31 March 2003

Dániel Jánossy
Managing Director

NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

Balance sheet EQUITY AND LIABILITIES

Data in THUF

EQUITY AND LIABILITIES	31.12.2001	31.12.2002
D. Equity	35,682,090	41,856,618
I. Registered capital	827,267	837,582
II. Reserves	29,955,670	34,854,823
III. Valuation reserve	0	0
IV. Retained profit for the year	4,899,153	6,164,213
E. Provisions	0	0
F. Liabilities	11,459	60,321
I. Long-term liabilities	0	0
II. Current liabilities	11,459	60,321
1. Liabilities to member institutions	0	0
2. Short-term loans	0	0
3. Liabilities to depositors	0	0
4. Liabilities to State	0	0
5. Other current liabilities	11,459	60,321
G. Accrued expenses and deferred income	113,565	10,357
TOTAL EQUITY AND LIABILITIES	35,807,114	41,927,296

Budapest, 31 March 2003

Dániel Jánossy
Managing Director

NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

PROFIT AND LOSS STATEMENT (total-cost method)

Data in THUF

	Description	2001	2002
01.	Premium income from member institutions	2 747,453	3,071,612
02.	Income from receivables recovered on behalf of depositors	0	0
03.	Commission income from the reimbursement of state-guaranteed deposits	0	0
04.	Other deposit insurance income	79,848	609,985
I.	Deposit insurance income (01+02+03+04)	2,827,301	3,681,597
II.	Other income	2,117	26,974
	Release of provisions	1,052,632	0
III.	Non-deposit insurance income	38,528	0
IV.	Income from financial transactions	3,342,760	3,225,454
V.	Extraordinary income	0	0
05.	Expenses on the payments of frozen deposits	0	0
06.	Expenses on receivables collected on behalf of depositors	0	0
07.	Expenses on the payment of deposits guaranteed by the State	0	0
08.	Other deposit insurance expenses	1,735,713	362
VI.	Deposit insurance expenses (05.+06.+07.+08.)	1,735,713	362
VII.	Other expenses	58,459	56,926
	Provisioning	0	0
VIII.	Non-deposit insurance expenses	0	0
IX.	Expenses on financial transactions	294,758	431,531
X.	Extraordinary expenses	0	0
09.	Material-type expenses	105,750	92,731
10.	Staff costs	155,163	173,941
11.	Depreciation	14,342	14,321
XI.	Operational costs (09.+10.+11.)	275,255	280,993
A.	Retained profit for the year (I.+II.+Use of provisions+III.+IV.+V.-VI.-VII.-Provisioning -VIII.-IX.-X.-XI.)	4,899,153	6,164,213

Budapest, 31 March 2003

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**
In short:	**NDIF** or **the Fund**
Registered office:	**H-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:	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 the Management:

Mr. Jánossy, Dániel *Managing Director*	Tel.: + 36 (1) 214-0661/211
Mr. Fekete-Győr, András dr. *Deputy Managing Director*	Tel.: + 36 (1) 214-0661/213
Mr. Gálfalvi, Géza dr. *Chief Legal Advisor*	Tel.: + 36 (1) 214-0661/218
Mrs. Ivanyos, Zsuzsa dr. *Chief Economic Advisor*	Tel.: + 36 (1) 214-0661/214
Ms. Vankó, Gabriella *Chief Accountant*	Tel.: + 36 (1) 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 as of 1 July 1993. Act CXII of 1996 on Credit Institutions and Financial Enterprises as amended (hereinafter referred to as: Act on Credit Institutions) 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 Mandates and powers

One of the tasks of the NDIF, as prescribed in Section 105 (1) of the Act on Credit Institutions, is to pay indemnity on the deposits insured by the Fund to depositors, within fifteen days after said deposits are frozen at a member institution.

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

1.4 Governance arrangements

1.4.1 The Board of Directors

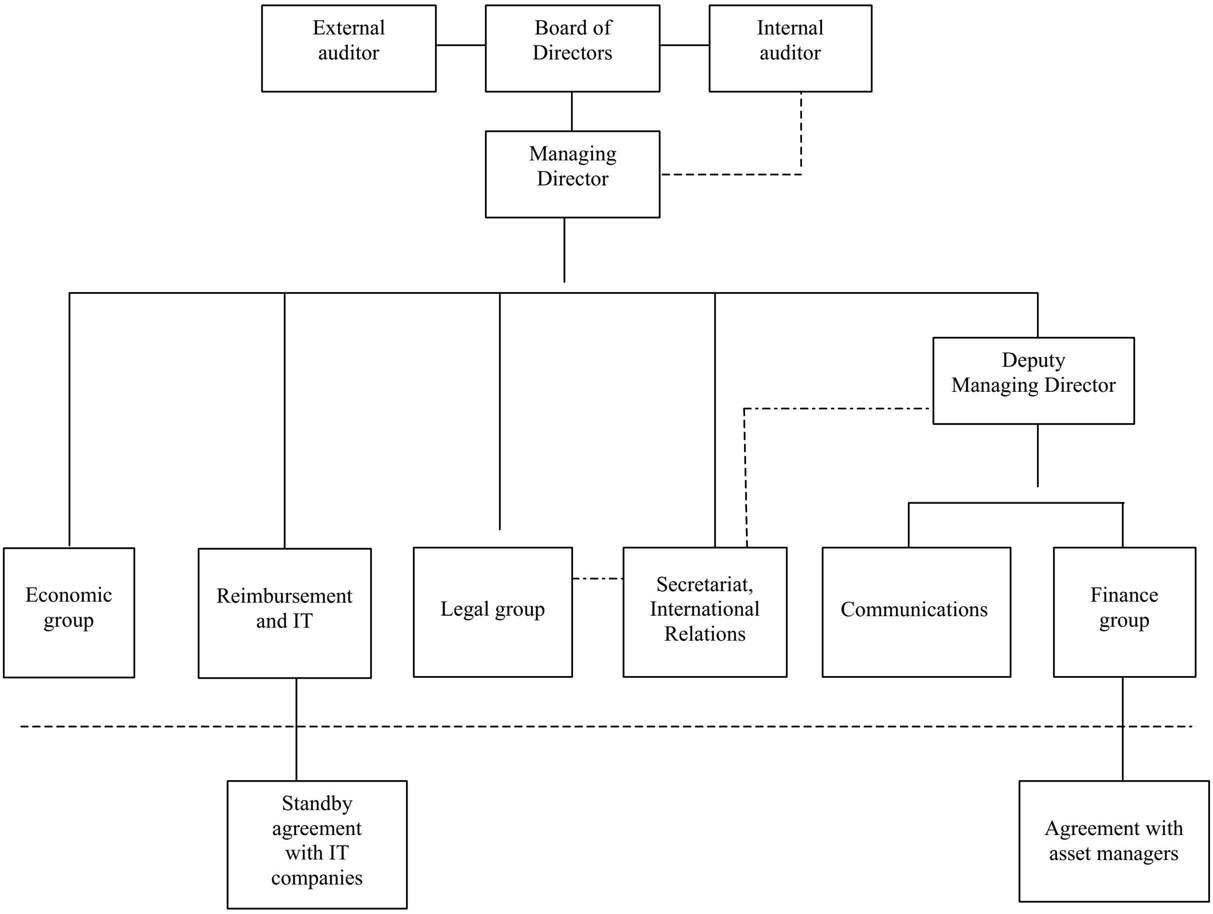
According to Section 110 (1) of the Act on Credit Institutions, the governing body of the Fund is the Board of Directors whose members are as follows: the Vice-President of the National Bank of Hungary, the Administrative Under-Secretary of the Ministry of Finance, the President of the Hungarian Financial 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 vice-chairman annually from its members. Until November 2002 the chairman's duties were performed by Mr. Terták, Elemér dr. thereafter by Mr. Cserés, Ákos the permanent deputy of the Administrative Under-Secretary of the Ministry of Finance. The vice-chairman's duties were carried out by Mr. Kálmán, Tamás dr. the permanent deputy of the National Bank of Hungary's vice-chairman.

1.4.2 Control of the Fund

According to Section 109 of the Act on Credit Institutions, the Fund's financial and accounting audit is performed by the State Audit Office.

1.5 Organisation chart of the Fund



1.6 Economic and financial environment

According to data from the Central Statistics Office available when closing the report, annual *gross domestic product* (GDP) growth in 2002 was 3.3%. (Economic performance in 2001 rose by 3.8%.) The slowdown in growth is due principally to unfavourable international economic conditions, which could not even be compensated by the dynamic rise in the internal demand.

According to the preliminary calculations of the Ministry of Finance for 2002, *retail consumption* increased by 8% in comparison to the 4% in 2001. The doubling of retail consumption growth and the increase in governmental infrastructure investments also promoted a rise in *import growth* (from 4.0% in 2001 to 6.3%), however, *export growth* fell from 9.1% to 7.4% as a result of the drop in external demand. The slowing exports reduced the pace of industrial production growth – in comparison to previous years – and also contributed to the deterioration in the current account deficit.

The upswing in retail consumption was caused principally by the swift rise in real wages and the greater propensity of the public to take out loans. The growth in *real wages* was 13.0%, due to the 18.3% rise in gross average wages and the fall in the *consumer price index* to 5.3%. The increase in wages for the economy as a whole was due chiefly to the raises in the public sector.

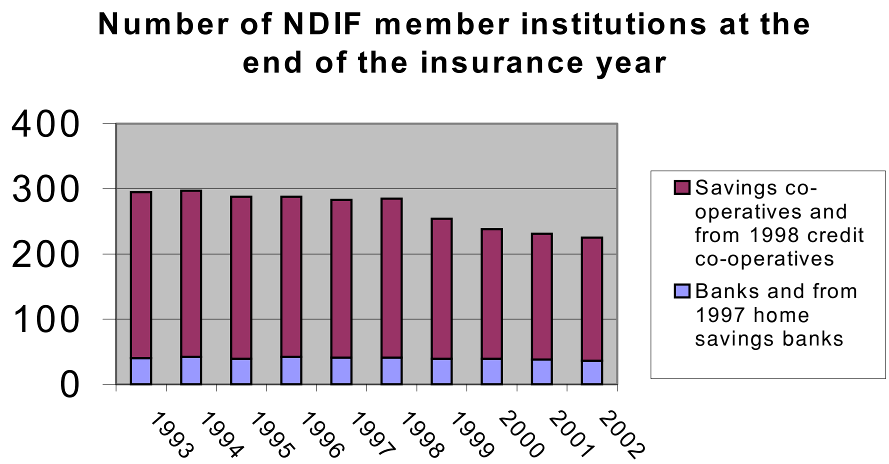
According to their preliminary data published thus far, the *commercial banks* closed a good year. This was aided by the increasing willingness of the population to go into debt, including the peak in house building, thanks also to the rise in state interest subsidies. The return on equity improved at most commercial banks. In 2002 the *savings co-operatives* also grew dynamically. The aggregate balance sheet total rose by 21.7% - above the average for the banking sector - while profits before tax increased by 40.8 %.

1.7 Member institutions and their deposit portfolio

1.7.1 Number of member institutions

At the beginning of 2002 the Fund had a total of 231 members, including 38 banks and specialised credit institutions (of which 4 were home savings banks), 186 savings co-operatives and 7 credit co-operatives. During 2002 the number of the Fund's members dropped by 7.

As of 31 December 2002 the Fund had a total of 224 members, including 35 banks and specialised credit institutions (of which 3 were home savings banks), 183 savings-co-operatives and 6 credit co-operatives.



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

When closing the report, balance sheet data suitable for the review were available only for the end of 2001. According to this data, credit institution savings totalled HUF 7,000 billion. Breaking down these savings by type of credit institution, it is clear that the savings co-operatives are gaining increasing ground, meaning that at the end of 2001, credit institution savings were split 91.6% and 8.4% between the banking sector (including home savings banks) and the co-operative sector (including credit co-operatives). This ratio was 92.2% and 7.8% at the beginning of 2001. (Table 1)

Breakdown of savings by type of credit institution

Table 1

Description	2001 opening	2002 opening		
			of which:	
	Portfolio (THUF)	Portfolio (THUF)	Banks and home savings banks (%)	Co-operative credit institutions and credit co-operatives (%)
Deposits	**5,790,801,400**	**6,484,204,486**	**92.6**	**7.4**
Savings deposit	745,667,093	757,883,166	61.0	39.0
Other deposits	5,045,134,307	5,726,321,320	96.8	3.2
Securities	**320,952,768**	**417,747,301***	**78.5**	**21.5**
Interest payable	**64,645,749**	**65,030,332**	**73.8**	**26.2**
TOTAL	**6,176,399,917**	**6,966,982,119**	**91.6**	**8.4**

*Under the amendment to the Act on Accounting which entered into force from 2002, the securities booked until 2001 as ‘Other deposits’ were in 2002 once again classified under ‘Securities’.

At the credit institutions the share of savings that were insured by the NDIF increased from 77.3% to 79.9% during 2002, while the portfolio guaranteed by the State fell from 6.3% to 4.7% and the non-insured portfolio from 16.4% to 15.4%. (Table 2)

The growth in the share of portfolio insured by the NDIF was mainly due to the almost 15% rise in the proportion of insured savings deposits. In contrast, the ratio of state guaranteed and non-insured deposits continued to decrease year-on-year, including non-insured interest. (The increase in the share of insured securities was caused by the reclassification indicated in the footnote to the table.)

Breakdown of savings by type of protection

Table 2
(%)

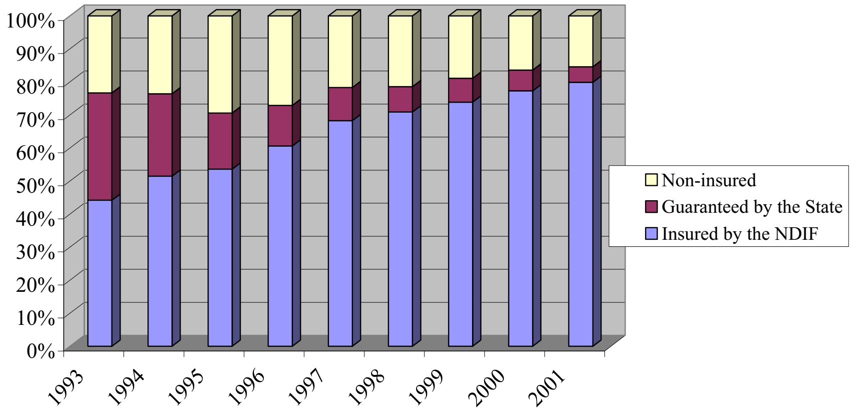
Description	2001 opening			2002 opening		
	Insured by the NDIF	Guaranteed by the State	Non-insured	Insured By the NDIF	Guaranteed by the State	Non-insured
Deposits	**81.6**	**6.5**	**11.9**	**84.3**	**4.0**	**11.7**
of which Savings deposits	45.7	32.0	22.3	60.1	20.8	19.1
Other deposits	86.8	2.8	10.4	87.5	1.8	10.7
Securities*	**5.4**	**0.2**	**94.4**	**16.4**	**13.6**	**70.0**
Interest payable	**54.3**	**11.7**	**34.0**	**55.0**	**13.1**	**31.9**
TOTAL	**77.3**	**6.3**	**16.4**	**79.9**	**4.7**	**15.4**

*Under the amendment to the Act on Accounting which entered into force from 2002, the securities booked until 2001 as 'Other deposits' were in 2002 once again classified under 'Securities'.

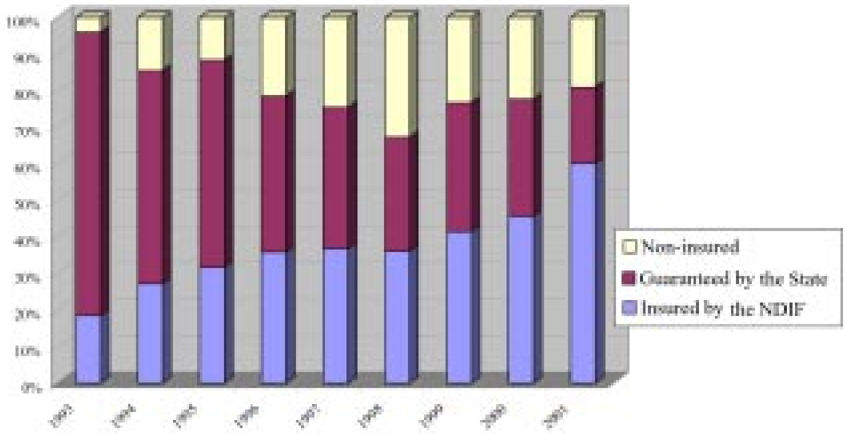
The distribution of the savings portfolio by type of protection in terms of *sectors* is as follows. At the beginning of 2002 the NDIF insured 81.2% of savings deposited with banks and 78.7% of savings in the co-operative credit institution sector. These proportions correspond to a 3.5 p.c. point rise in the banking sector and a 5.9 p.c. point rise in the co-operative sector compared to the figures at the beginning of 2001. The dynamic of growth in both sectors accelerated compared to the previous years. Year-on-year growth between 2000 and 2001 in the banking sector was 3.2% while in the co-operative sector it amounted to 5.5 %.

In the banking sector the proportion of savings guaranteed by the State fell from 5.9% to 4.4%, while in the co-operative sector the corresponding figure decreased from 10.4% to 8.1%. The ratio of non-insured, non-guaranteed deposits within total savings fell to a greater extent in the co-operative sector than in the banking sector (Table 3 and 4).

Composition of savings portfolio by protection at the end of the insurance year



Composition of savings deposit portfolio by protection at the end of the insurance year



1.8 Indemnity commitments of the Fund

The potential indemnity commitment of the NDIF regarding the insured portfolio is reduced by the coverage limit set per depositor and credit institution. (At the end of 2001 - beginning of 2002 this limit was HUF 1 million.)

The indemnity commitment ratio of the NDIF within the insured portfolio (premium base) essentially did not change throughout 2001 (35%). Therefore the continual fall in the indemnity commitment ratio within the premium base - between 3-5 p.c. points in previous years - has stopped, which is possibly due to the fact that the category of deposits between HUF 0-1 million rose to a greater extent in 2001 than in the previous years, up almost by HUF 110 billion. Because of such a rise in the small deposits, the entire portfolio of insured deposits also increased within the full savings portfolio, (from 77% to 80%), which, as a result of the unchanged indemnity commitment ratio mentioned above, brought about a mere 1 p.c. point rise in the indemnity commitment of the NDIF within the savings portfolio of the member institutions.

The joint value of the NDIF insurance and the state guarantee could be interpreted in a wider sense as follows: in Hungary for the purposes of the smooth operation of credit institutions and to strengthen the confidence of depositors *there is an almost 33% indemnity commitment,* i.e. one in three forints deposited at credit institutions was protected by deposit insurance or a guarantee. 28% of this is the NDIF insurance and almost 5% is the State guarantee. (Table 3.)

Indemnity and guarantee commitments for credit institution savings portfolio

Table 3

Description	Start of insurance year	Insured by the NDIF (%)	Guaranteed by the State (%)	Non-insured or non-guaranteed (%)	Total (%)
Breakdown 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
Ratio of indemnity or guarantee commitments within the insured* or guaranteed portfolio (for NDIF, up to HUF 1 million)	1993	n.d*.	100.0	0	-
	1998	48.0	100.0	0	-
	1999	45.0	100.0	0	-
	2000	40.0	100.0	0	-
	2001	35.0	100.0	0	-
	2002	35.1	100.0	0	-
Ratio of indemnity or guarantee commitments within the total savings portfolio of the NDIF member institutions	1993	**n.d.**	**32.5**	**0**	**n.d.**
	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	**27.0**	**6.3**	**0**	**33.3**
	2002	**28.0**	**4.7**	**0**	**32.7**

* The insured portfolio is the same as the NDIF premium base

1.9 Review of the premium income of the Fund and the rate of liquid assets to commitments

Own revenue sources of the Fund are: according to Section 119 of the Act on Credit Institutions, the one-off admission fee, regular premium payments and, if necessary, extraordinary annual contributions paid by the members, return on financial investments and the return from receivables transferred to the Fund. These sources can be supplemented by loans drawn by the Fund.

a) Admission fee

Credit institutions which receive a license 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 subscribed capital of the member institution. The Fund had HUF 10.3 million, such revenue in 2002, due to the admission of Magyar Cetelem Bank Rt.

b) Annual premium payment

Section 121 (1) and (2) of the Act on Credit Institutions specifies the upper limit for the statutory annual 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 assessing the annual premium payment liability of Fund members, their total insured deposit amount must be taken into account as the premium base.

In 2002 the premium payment system of the Fund changed slightly; namely, the individual premium categories were adjusted to the coverage limit to be introduced upon EU accession. As a result of the change in structure, the drop in the premium rate of the highest deposit category (above HUF 6 million), as well as the rise in the premium base in comparison to the previous year, in the 2002 insurance year based on 2001 balance sheet data the NDIF achieved approximately HUF 0.3 billion more premium income than in 2001, while the average premium rate fell slightly (Table 6). Section 3.2 details the changes to the NDIF's premium policy.

Incidentally, the average size of deposits placed at credit institutions rose from HUF 478,000 at the beginning of 2001 to HUF 535,000 at year-end.

c) Increased premiums and premium discounts

Besides the normal premium payment obligations, the Fund may set increased or preferential premiums every six months. Based on the Premium Procedure, *increased premiums* can be set if the member institution did not comply with the prescribed capital adequacy ratio and/or complied with its premium or advance premium payment requirement with a delay of more than 30 days or perhaps carried out a particularly risky activity. (Section 121 (6) and (7) of the Act on Credit Institutions). None of the member institutions had to pay increased premiums in 2002.

The rules for assessing the *preferential premium* changed in 2002. The scope of co-operative credit institutions enjoying the preferential premium expanded, and includes all member institutions which are members of voluntary deposit insurance (no one existing at present) and institutional protection funds – licensed by the Supervisory Authority – as prescribed in Section 121 (1) of the Act on Credit Institutions. Provided these conditions are met, the NDIF considers the organisation as one risk in terms of the normal premium, and gives the premium discount to all of its members. Based on this new principle, in 2002 there were 179 member institutions that enjoyed the discounted premium totalling HUF 217 million, in contrast to the preferential premium returned in 2001, which was enjoyed by 95 savings co-operatives totalling HUF 64.9 million.

d) Fund ratio

The fund ratio is the internationally accepted indicator which compares the liquid asset portfolio of the deposit insurer to the insured deposits and deposit portions (potential indemnity commitments) of member institutions as at the same date. In international terms, the fund ratio between 1-1.5% can be considered as sufficient. The fund ratio of the NDIF at the beginning of 2002 was 1.6 %, which provides a solid basis for increasing the coverage limit in 2003 to HUF 3 million, as approved in 2002.

Fund ratio between 2000 and 2002

Table 4

Description	2000 actual	2001 actual	2002 actual
NDIF indemnity commitment (HUF billion)	1,585	1,711	1,957
NDIF assets* (HUF billion)	19.3	25.5	31.3
Fund ratio (%)	**1.22**	**1.49**	**1.60**
Average premium rate (%)**	**0.102**	**0.06**	**0.059**

* Fair value including interest of NDIF liquid assets embodied by securities - at end of year preceding current year (current year opening value)
** The average premium rate data - in contrast to the balance sheet data - does not contain the impact of the different premiums (increased, and preferential rates).

2 Financial position and the results of operations

2.1 Changes to and composition of balance sheet total

The balance sheet total rose by more than HUF 6 billion on the previous year. The increase in assets is almost entirely due to the growth in the securities portfolio. The growth was fuelled by the rise in reserves containing the profits from previous years and the retained profit for the current year.

Main indicators of the balance sheet

Table 5

Description	31.12.2001 (THUF)	31.12.2002 (THUF)	Change (%)
Fixed assets	53,256	93,103	75
Current assets	34,859,374	41,810,162	20
Prepaid expenses and accrued income	894,484	24,031	-97
TOTAL ASSETS	**35,807,114**	**41,927,296**	**17**
Equity	35,682,090	41,856,618	17
Liabilities	11,459	60,321	426
Accrued expenses and deferred income	113,565	10,357	-91
TOTAL EQUITY AND LIABILITIES	**35,807,114**	**41,927,296**	**17**

Current assets, the largest category of assets, rose by 20% as a result of the increase in the securities portfolio. Parallel to this, the equity rose by 17%.

2.2 Summary evaluation of profit

The retained profit for the current year totalled up to THUF 6,164,213 which exceeds the total for the previous year by THUF 1,265,060. The main reasons for the rise are analysed based on the table.

Retained profit

Table 6

Data in THUF

Description	2001	2002	Difference
Income from deposit insurance	2,827,301	3,681,597	854,296
Other income	2,117	26,974	24,857
Release of provisions	1,052,632	0	-1,052,632
Non-deposit insurance income	38,528	0	-38,528
Income from financial transactions	3,342,760	3,225,454	-117,306
Extraordinary income	0	0	0
Total income	*7,263,338*	*6,934,025*	*-329,313*
Expenses on deposit insurance	1,735 713	362	-1,735,351
Other expenses	58,459	56,926	-1,533
Non-deposit insurance expenses	0	0	0
Expenses on financial transactions	294,758	431,531	136,773
Extraordinary expenses	0	0	0
Total expenses	*2,088,930*	*488,819*	*-1,600,111*
Operational costs	275,255	280,993	5,738
Total expenses and operational costs	*2,364,185*	*769,812*	*-1,594,373*
Retained profit for the year	**4,899,153**	**6,164,213**	**1,265,060**

The growth in the retained profit for the year can largely be attributed to changes in three factors.

1. The income from deposit insurance rose by HUF 854 million, including HUF 539 million from the reversal of impairment.
2. No provisions were released in the current year, which reduces the 2002 profit by more than HUF 1 billion compared to 2001. This is compensated, however, by there being no impairment accounted similar to the HUF 1.7 billion impairment booked in 2001. These two factors together increased the result by HUF 700 million.
3. Income from financial transactions fell by HUF 117 million, while corresponding expenses rose by HUF 137 million. Overall this decreased the profit by HUF 254 million.

Changes in the other components of the profit had little effect on the increase in the retained profit. The changes in operational costs did not influence the profit alike to the previous years.

2.3 Reversal of impairment

The reversal of impairment – as a newly introduced concept – has a different content in terms of accounting in comparison to the provisions which formerly played a similar role. Content-wise, releasing provisions does not qualify as reversing impairment because it ensues annually *in one amount*, while reversing impairment is only a *change* in the impairment recognised in the previous year.

Based on information from the liquidators, the impairment allocated on receivables transferred to the Fund due to deposit payments and previously allocated on other receivables from credit institutions due to the additional costs of deposit payments was reviewed as of the balance sheet date. As a result there was a significant change in the expected recovery of the Fund's receivables from Realbank Rt., since the Fund's receivables transferred due to deposit payments were paid in full by the liquidator at the beginning of 2003, therefore the impairment previously allocated on this receivable was reversed in the current year. The liquidator of Realbank Rt. reimbursed 88% of the Fund's receivables from additional costs, therefore part of the impairment accounted on this receivable was also reversed. The full value of receivables from credit institutions under liquidation with the impairment allocated in 2001 and any reversals in the current year are shown in Table 7.

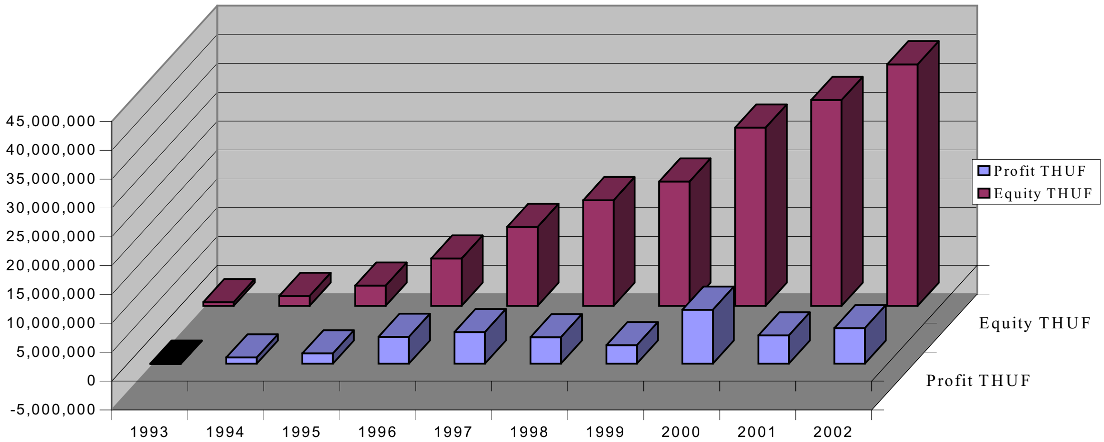
Evolution of the reversal of impairment

Table 7

Data in THUF

Description	Total amount	Impairment booked in 2001	Impairment reversed in 2002	Impairment as of 31.12.2002	Balance sheet value 31.12.2002
Receivables transferred due to deposit payments for Heves and Environs Savings Co-operative	262,127	262,127	0	262,127	0
Receivable from Iparbankház Rt.	727,255	727,255	0	727,255	0
Receivable from Rákóczi Credit Co-operative	303,423	198,756	0	198,756	104,667
Accumulated receivable transferred due to deposit payments for Realbank Rt.	5,077,672	507,733	507,733	0	5,077,672
Accumulated receivable from Realbank Rt. due to additional costs from deposit payments	58,302	38,479	31,490	6,989	51,313
Total	**6,428,779**	**1,734,350**	**539,223**	**1,195,127**	**5,233,652**

2.4 Changes to equity and profit from the establishment of the NDIF up to the present day



The growth of equity is influenced chiefly by the fluctuation in the profit. From 1998 the profit changed in accordance with the prevailing prospects of recovery from Realbank Rt. receivables (see sections 3.4 and 3.5.1). In 2000 there was still a realistic chance of recovering the Realbank Rt. receivable in full, therefore the Fund did not allocate any provisions at this time and the profit rose. However, in 2001, the deterioration of the recovery prospects lead to a fall in the profit. In 2002 the profit rose once again, since at the beginning of 2003 the Fund's Realbank Rt. receivable was practically recovered in full.

The other main factor behind the changes in profit over recent years is the premium income, which rose continuously until 1999 and has since changed year-by-year depending on the premium policy.

3. Supplementary information and additional data

3.1 Public-awareness

In 2002 there was a fundamental change in the organisation of the Fund's communications activity. Over its 10 years of existence, the NDIF has obtained sufficient experience in order to be able to organise its own communications without an external adviser - with the exception of crisis situations. This justified the fact that in May 2002 the Fund replaced its external adviser, *Capital Communications* with a new staff member.

In 2002 the Fund pursued a massive media communications activity. It what was a quiet year in terms of crisis management, the Fund reached more than 50 different coverages, in various media.

Due to legal and other changes which entered into force one after the other in recent years, the Fund began reviewing the deposit insurance curricula of Hungarian higher education (graduate and postgraduate) institutions for free.
Last year the Fund's newsletter appeared twice with a slightly different image. The design and distribution work related to the newsletter which was circulated to 2910 member institution branches was all handled using internal resources.

Seeing the growing popularity of on-line communications the Fund took steps towards developing internet communications as well.
In September a website co-operation agreement was concluded with the member institutions. As a result, it is now possible to access the Fund's website from the deposit services menu of the websites of around 20 credit institutions.
After this the Fund's website became more interactive with the creation of a virtual *Forum*. In the forum anyone may ask questions related to deposit insurance and the Fund, which are answered by the staff of the Fund.
To develop the newsletter further the NDIF introduced an internet version, the *Online Newsletter*.
The creation of the *Press room* (accessible under the Press room menu on the NDIF website) brought about a section on the website which contains information especially for the interest of journalists.

3.2. Premium policy

The 2002 premium policy took into account that upon Hungary's EU accession the coverage limit will rise to the forint equivalent of the amount prescribed in the EU directive 94/19/EC, i.e. HUF 6 million. It was important to preserve the premium payment structure in force since 1999 and accepted by member institutions (classification of deposits into categories and the application of degressive premium rates on this basis).

In addition to the above, another important factor in the assessment of the 2002 premium rates was for the NDIF fund ratio (the ratio between its assets and indemnity commitment) still to be around 1-1.5% after the raising of the coverage limit to HUF 6 million. On this basis, the premium rates valid for 2002 were established as follows:

2002 premium rates
(broken down by deposit size)

Table 8

Premium categories deposit size (HUF)	Premium rate (%) in 2001	in 2002
Under 1 million	0.12	0.12
Between 1 and 2 million	0.09	
Between 2 and 4 million	0.06	
In excess of 4 million	0.03	
Between 1 and 6 million		0.09
above 6 million		0.02
Average premium rate	**0.06**	**0.059**

The reduced premium rate in the category of deposits over HUF 6 million was one of the factors triggering the small decrease in the average premium rate, given that the premium base in the category of deposits over HUF 6 million grew around twice as fast as that of the small deposits, where the premium rates were unchanged. (It is worthwhile noting that the per-unit premium on the indemnity commitment rose slightly in contrast to the average premium rate; see Table 9.)

Changes to the per-unit premium in 2002

Table 9

Type of credit institution	Premiums paid in 2001* (HUF million)	Premiums paid in 2002* (HUF million)	Premium for HUF 1000 of NDIF premium base		Premium for HUF 1000 NDIF indemnity obligation	
			2001	2002	2001	2002
Bank	2,402	2,739	0.55	0.54	1.74	1.79
Savings co-operatives	340	448	0.98	0.99	1.2	1.3
Home savings bank	66	95	1.2	1.18	1.2	1.2
Credit co-operatives	3	5	0.8	0.82	1.4	1.5
Total	**2,811**	**3,287**	**0.6**	**0.59**	**1.6**	**1.7**

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

3.3. Examination activity

Bearing the deposit insurance requirements of the Act on Credit Institutions in mind, the NDIF reviews three issues on-site at member institutions:

- *Premium declaration:* to be in compliance with premium payment liabilities, backed up with numerical data.
- *Client records:* to be in compliance with statutory provisions with the aim, not to hinder the indemnity of depositors or NDIF co-operation in other crisis management because of the lack of depositors' data or other documentation.
- *Client information:* to be in compliance with the information obligations set forth in the Act on Credit Institutions and resolutions of the NDIF Board of Directors for the purposes of depositor protection.

The annual examination plan drawn up by the management of the Fund is approved by the Board of the NDIF and relates to the second semester of the current year and the first semester of the following year.

3.4 Events related to liquidation proceedings in progress

Heves and Environs Savings Co-operative "under liquidation"

From the beginning of the liquidation up to the closing of the balance sheet, deposit payments of HUF 262,126,706 were made, the receivable was reported to the liquidator. No deposit payments were made in 2002, the afore-mentioned creditor claim of the NDIF is still not expected to be recovered.

Iparbankház Rt. "under liquidation"

Most of the legal proceedings underway when the liquidation was ordered have now been closed. Negotiations are underway with the court to find out whether the proceedings can also be closed if the only pending lawsuits are ones where the plaintiff has not reported a creditor claim. Depending on the outcome of these negotiations, the liquidation report, wich required to close the proceedings will be sent shortly to the creditors.

Up to the balance sheet date the following reimbursement was performed and reported to the liquidator (in 2002 no deposit payments were made):

Reimbursement paid until the end of 2002

Table 10

Data in THUF

Description	Deposit portfolio, 3.7.1996	Deposits paid from start of liquidation until 31.12.2002	Remaining deposit portfolio
Insured by the NDIF	11,530	2,310	9,220
Not insured by the NDIF	13,510	0	13,510
Total	**25,040**	**2,310**	**22,730**

Realbank Rt. "under liquidation"

By the balance sheet date of this report, the liquidator of Realbank had prepared five interim balance sheets, the fifth one as of 31 October 2002.

In the light of the mentioned fifth balance sheet, as of 31 October 2002 the Realbank had assets totalling HUF 11,681 million - of which HUF 11,443 million (98%) were liquid assets. Creditor claims against the assets totalled to HUF 12,109 million.

The above mentioned along with the liquid assets generated from the sale of the assets and receivables enabled the liquidator to make a proposal for distributing the assets.

After approval by the Court the liquidator made the following payments to the NDIF:

- on 27 January 2003, the entire receivables in category "D", i.e. HUF 5,154,397,987;
- on 10 February 2003, 87.39% of the HUF 59,590,790 recorded in category "F", i.e. HUF 52,076,391.

Rákóczi Credit Co-operative "under liquidation"

By the closing date of the NDIF's balance sheet only the first interim balance sheet (closing the first year of the liquidation) of the credit co-operative had been prepared - as of 31 October 2001. After the lawsuits are settled, according to the liquidator the second interim balance sheet is expected in the first half of 2003, in relation to which the liquidator wishes to make recommendations for reserve allocations and payments.

The liquidator confirmed the amount of the NDIF's "D"-category receivables – taking into account indemnity paid and payable - totalling to HUF 292,613,917 and also the receivables in category "F" of HUF 12,666,189 – related to reimbursements so far.

The liquidator prepared an estimate on the recovery of the Fund's receivables in a letter dated 10 February 2003. On this basis, the payment of the receivables in category "D" is likely to be around 35-40%. However, the recovery of additional costs related to reimbursement and disclosed in category "F" is not expected.

3.5 Legal matters

In 2002 the NDIF was a defendant in 6 lawsuits, of which 5 were with the Realbank and 1 with the Iparbankház.

In the Realbank litigation, the Fund won two lawsuits, one of which after a review procedure. The Fund won a further lawsuit in the first instance, but the proceedings are continuing following an appeal. Yet another lawsuit was won by the Fund in the first instance, however, following an appeal by the plaintiff the court of second instance ordered the original court at the beginning of 2003 to launch new proceedings. No ruling was passed in the final lawsuit in 2002.

In the Iparbankház case, a judgment of the first instance was passed in 2000, which rejected the claim of the plaintiff against the Fund. Due to an appeal lodged by the plaintiff, the ruling is not yet final.

3.6 Human resources data

In 2002 the average staff number at the Fund was 15. During the year the staff number rose by one as of 1 May 2002 (communications colleague) and 2 staff members received child-care benefit. As of 31 December 2002, the number of staff was 18.
78% of employees have higher education qualifications while 22% have secondary education. 7 employees have one or more language qualifications.

Breakdown of staff as of 31 December 2002:

Group of staff	Staff (person)
Senior managers	2
Junior managers	4
Employees: higher education secondary education	 8 4
TOTAL	**18**

3.7 International activities

2002 was a turning point in the multi-lateral international co-operation of deposit insurers. In May the *International Association of Deposit Insurers* (IADI) (internet access: www.iadi.org) was established.

The association established on 6 May 2002 has 25 deposit insurance institution foundation members, including the NDIF. Further participants at the establishment were: 8 associate members and 2 observers. The IADI is based in Basel, in the BIS building. Its supreme body is the general meeting and is run by an executive council. Five standing committees ensure its efficient operation, of which the Training and Conference Committee chairman is the Deputy Managing Director of the NDIF.

The other important international body related to deposit insurance is the *European Forum of Deposit Insurers* (EFDI) formed at the end of the year, where the NDIF is also a founding member. The aim of the EFDI established by 25 European countries is to contribute to the stability of European finance systems through the closer co-operation of deposit insurance institutions. The professional forum which operates within an informal framework is likely to play a significant consulting role in the further development of Directive 94/19/EC on deposit insurance.

Foreign interest in the experience of the NDIF is well illustrated by the fact that at the budgetary committee sitting of the Duma of the Russian Federation (lower house of parliament) - besides the American deposit insurer expert (FDIC), the managing director of the NDIF was also asked to give a presentation – organised by the American Financial Services Volunteer Corps (FSVC). The managing director of the Agency for Restructuring Credit Organisations (ARCO) which is intended to run the deposit insurance institution invited the managing director of the NDIF along with further NDIF experts for a consultation. This took place in September at the Euromoney financial conference in Moscow. Following the conference the delegation held presentations for the management and experts of ARCO on Hungarian experiences.

At the invitation of the Chinese central bank, the NDIF's managing director participated in the Shanghai workshop that provided a basis for the establishment of the Chinese deposit insurance system, and gave a presentation.

Within the framework of bilateral co-operation, the economic adviser responsible for international relations exchanged views with the managing director of the deposit insurance institution of private Austrian banks and the general secretary of the association of private Austrian banks. The topic of the discussion was the result of the review of Directive 94/19/EC and information on the Austrian system monitoring banking risks.

Under Central and Eastern European regional co-operation the deputy managing director of the NDIF headed up a three member visiting team at the partner institution in Bulgaria.

In 2001 the NDIF agreed on an exchange of experience with the Polish partner institution, based on which Polish colleagues visited Budapest in 2002. At this meeting, NDIF staff received information on the Polish system which performs a wider range of tasks than the Hungarian one.

The Financial Sector Audit Programme (FSAP) of the IMF and the World Bank analysed the transparency of Hungarian financial institutions between 2000 and 2002. The deputy managing director of the NDIF and the economic adviser responsible for international relations discussed changes in the intervening period with the IMF expert. The IMF and World Bank joint evaluation placed the NDIF in the highest category in terms of transparency.

Strategic goals in 2003

In 2003 the NDIF is 10 years old, which in itself would give sufficient reason for reflection and to review the need and opportunities for renewal. This is particularly true if the anniversary falls at the same time as the significant changes in legal regulations, and operational and environmental conditions, like just now with the Hungarian deposit insurance system. And here this is not just about the multiplication in the indemnity commitment limit that has remained unchanged for almost ten years! The introduction of the co-insurance is an equally substantial change, as well as the fact that with EU accession, deposit insurance will become a cross-border activity. Due to the rules entering into force for credit institution branches, on the one hand the domestic “monopoly” of the NDIF will cease and on the other hand the NDIF may also incur liabilities abroad.

The legal framework for all this is essentially in place. But for an activity like deposit insurance that affects such a wide range of citizens this is not nearly enough. In interest of the fact, that the legal regulations orientate not only in case if trouble has occurred but they become routine for the savers’ behaviour, the changes in the legal regulations must be made known widely. In short; after the legislation, *communications* takes on the main role. The NDIF has around half a dozen tested and harmonised communication channels in peaceful times to perform a dual task: on the one hand to make known the changes brought in at the beginning of 2003, and on the other hand, the Fund must make sure that in the flow of information of the EU accession deposit insurance news will be not lost for the depositors.

A further task derived from European Union accession is to prepare for bilateral *deposit insurance co-operation* which is likely to be necessary in relation to cross-border branch establishments. This could facilitate the Fund's membership of the European Forum of Deposit Insurers.

The main professional challenge for 2003 based on a decision from the Board of Directors is the renewal of the *premium policy*. Based on previous preparatory work, the concept for developing
- the interpretation of the credit institution risk analysis from the aspect of the deposit insurer,
- the premium policy, and
- the crisis management based on the least cost test

has been drafted on the bases of the integration of methodology and databases. The premium policy which is to be renewed from 2004 should provide a professional framework for the new basis of the relationship with the member institutions.

From 2003 the majority of the NDIF's income does not come from annual premiums but from the yield on its assets exceeding HUF 40 billion. Managing such assets efficiently with due consideration of potential risks requires the regular examination *control* of *portfolio managers* based on factors other than the return of the given portfolio.

To *maintain the NDIF as a modern institution* is a continuous task, which is realized through the maintenance of internal-external regulations, cost efficiency control and innovative steps. In 2003 an important task will be the accomplishment of the administrative regulation for the reimbursement system, received at the beginning of the year. This means the full integration of the new payment system into the NDIF's operating system.

Finally a "task" for 2003 is the celebration of the 10th anniversary of the NDIF.

Foreign Exchange Information

The three official foreign exchange rates of the major foreign currencies registered by the NBH on the balance sheet date (31 December 2002) were as follows:

Currency (1 unit)	EUR	USD	GBP	CHF
HUF	235,9	225,16	362,67	162,37

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Independent Auditors' Report

To the Board of Directors of National Deposit Insurance Fund of Hungary

We have audited the accompanying balance sheet of National Deposit Insurance Fund of Hungary ("the Fund") as at 31 December 2002 which shows total assets of THUF 41,927,296 and a retained profit for the year of THUF 6,164,213, the related profit and loss account for the year then ended and the supplement, being components of the Fund's 2002 Annual Report. The Annual Report and the Business Report is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Annual Report 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 Annual Report.

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 Annual~Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Annual Report 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.

We have audited the Fund's Annual Report, its components and elements and their accounting and documentary support in accordance with Hungarian Standards on Auditing and gained sufficient and appropriate evidence that the Annual Report has been prepared in accordance with the provisions of the Act on Accounting and accounting principles generally accepted in Hungary. In our opinion, the Annual Report gives a true and fair view of the financial position of National Deposit Insurance Fund of Hungary as at 31 December 2002 and of the result of its operations for the year then ended. The Business Report corresponds to the disclosures in the Annual Report.

May 8, 2003

KPMG Hungária Kft.

Chamber registration number: 000202

Henye István
Partner

KPMG Hungária Kft.

Mádi-Szabó Zoltan
Registered Auditor
Identification number: 003247