

**NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY**

**ANNUAL REPORT**

**01 January 2006 – 31 December 2006**

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Tax number: 10830516-2-41

Statistical number: 10830516-6713-916-01

<b>NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY</b>				
<b>BALANCE SHEET ASSETS</b>				
Description		2005	Effect of	2006
in HUF '000			revision	
1	<b>A</b> <b>FIXED ASSETS</b>	97,997	0	77,569
2	<i>I. Intangible assets</i>	67,291	0	56,514
3	I.1 Capitalized value of formation and transformation			
4	I.2 Rights and concessions			
5	I.3 Intellectual property	67,291		56,514
6	I.4 Advance payments for intangible assets			
7	I.5 Revaluation of intangible assets			
8	<b>II. TANGIBLE ASSETS</b>	28,559	0	19,021
9	II.1 Lands and buildings and rights to immovable	2,027		182
10	II.2 Equipment, fittings, vehicles	26,532		18,839
11	II.3 Assets under construction			
12	II.4 Payments on account			
13	II.5 Adjusted value of tangible assets			
14	<b>III. INVESTMENTS</b>	2,147		2,034
15	<b>B</b> <b>CURRENT ASSETS</b>	56,025,601	0	61,376,358
16	<i>I. Stocks</i>	100	0	100
17	I.1 Materials			
18	I.2 Commercial goods	100		100
19	I.3 Mediated services			
20	I.4 Advances on stocks			
21	<b>II. RECEIVABLES</b>	80,648	0	101,385
22	II.1 Receivables from member institutions	74,513	0	75,670
23	II.1.a Premium receivables			
24	II.1.b Receivables transferred to the Fund	74,513		75,670
25	II.1.c Premiums on onerous obligations			
26	II.1.d Other receivables from member institutions			
27	II.2 Other receivables from credit institutions			
28	II.3 Receivables from depositors			
29	II.4 Receivables from the state			
30	II.5 Other receivables	6,135		25,715
31	<b>III. SECURITIES</b>	55,941,597	0	61,249,978
32	III.1 Government securities	55,941,597		61,249,978
33	III.2 Other securities			
34	<b>IV. LIQUID ASSETS</b>	3,256	0	24,895
35	IV.1 Cash, cheques	435		248
36	IV.2 Bank deposits	2,821		24,647
37	<b>C</b> <b>Prepaid expenses and accrued income</b>	1,753,903		1,869,453
38	<b>TOTAL ASSETS:</b>	<b>57,877,501</b>	<b>0</b>	<b>63,323,380</b>

According to the Audit Report, I hereby certify:

Done on 17 February 2007

\_\_\_\_\_ authorized representative

Done on 17 February 2007

\_\_\_\_\_ registered auditor

Tax number: 10830516-2-41

Statistical number: 10830516-6713-916-01

<b>NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY</b>				
<b>BALANCE SHEET– EQUITY AND LIABILITIES</b>				
Description		2005	Effect of	2006
in HUF '000			revision	
39	<b>D. EQUITY</b>	<b>57,768,689</b>	<b>0</b>	<b>63,136,459</b>
40	I. Registered capital	861,082		871,082
41	<b>II. RESERVES</b>	<b>50,921,894</b>		<b>56,907,607</b>
42	III. REVALUATION RESERVE			
43	IV. RETAINED PROFIT FOR THE YEAR	5,985,713	0	5,357,770
44	<b>E. PROVISIONS</b>			
45	<b>F. LIABILITIES</b>	<b>100,372</b>	<b>0</b>	<b>182,346</b>
46	<i>I. LONG-TERM LIABILITIES</i>			
47	<i>II. SHORT-TERM LIABILITIES</i>	100,372	0	182,346
48	II.1 Liabilities towards member institutions			
49	II.2 Short-term credits			
50	II.3 Liabilities towards depositors	78,053		78,053
51	II.4 Liabilities towards the state			
52	II.5 Other short-term liabilities	22,319		104,293
53	<b>G. ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>8,440</b>		<b>4,575</b>
54	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>57,877,501</b>	<b>0</b>	<b>63,323,380</b>

Done on 17 February 2007

\_\_\_\_\_  
AUTHORIZED REPRESENTATIVE

According to the Audit Report, I hereby certify

17 February 2007

\_\_\_\_\_  
REGISTERED AUDITOR

Tax number: 10830516-2-41

Statistical number: 10830516-6713-916-01

<b>NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY</b>				
<b>PROFIT AND LOSS STATEMENT</b>				
Description		2005	Effect of	2006
in HUF '000			revision	
1	1 Premium income from member institutions	1,578,475		1,734,413
2	2 Premium income from receivables recovered by depositors' instructions			
3	3 Commission income derived from the reimbursement of deposits guaranteed by the State			
4	4 Other income derived from deposit insurance	137,888		2,895
5	<b>I. Income derived from deposit insurance (01+02+03+04)</b>	<b>1,716,363</b>	<b>0</b>	<b>1,737,308</b>
6	<b>II. Other income</b>	<b>1,357</b>		<b>6,192</b>
7	<b>III. Non-deposit insurance income</b>			
8	<b>IV. Income from financial transactions</b>	<b>4,924,202</b>		<b>4,479,950</b>
9	<b>V. Extraordinary income</b>			
10	5 Expenses on the payments of frozen deposits	0		0
11	6 Expenses on receivables collected on behalf of the depositors			
12	7 Expenses incurred by the payment of deposits guaranteed by the State			
13	8 Other expenses on deposit insurance	16,898		0
14	<b>VI. Expenses on deposit insurance (05+06+07+08)</b>	<b>16,898</b>	<b>0</b>	<b>0</b>
15	<b>VII. Other expenses</b>	<b>3,427</b>		<b>7,489</b>
16	<b>VIII. Non-deposit insurance expenses</b>			
17	<b>IX. Expenses on financial transactions</b>	<b>335,706</b>		<b>615,344</b>
18	<b>X. Extraordinary expenses</b>			
19	9 Material-type expenses	69,797		66,709
20	10 Costs on the personnel	208,392		157,212
21	11 Depreciation	21,989		18,926
22	<b>XI. Operation costs (09+10-11)</b>	<b>300,178</b>	<b>0</b>	<b>242,847</b>
23	<b>A. Retained profit for the year (I+II+III+IV+V-VI-VII-VIII-IX-X-XI)</b>	<b>5,985,713</b>	<b>0</b>	<b>5,357,770</b>

Done on 17 February 2007

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## NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

### CASH FLOW STATEMENT

	Description in HUF '000	2005	Revision Year of ...	2006	Change		Composition of the Year
					in HUF '000	%	
1.	Retained profit of the year*	5,985,713		5,357,770	-627,943	89.51%	24759.79%
2.	Depreciation charge	23,827		18,927	-4,900	79.44%	87.47%
3.	Write off of investments	-86,725		-1,141	85,584	1.32%	-5.27%
4.	Net provision charge	0		0	0	0.00%	0.00%
5.	Net gain on sale of fixed assets	824		6,342	5,518	769.66%	29.31%
6.	Changes in trade creditors	8,102		85,732	77,630	1058.16%	396.19%
7.	Changes in other short-term liabilities	2,172		-3,758	-5,930	-173.02%	-17.37%
8.	Changes in accrued expenses	-28,331		-3,865	24,466	13.64%	-17.86%
9.	Changes in trade debtors	44		-14	-58	-31.82%	-0.07%
10.	Changes in current assets (excluding trade debtors and liquid assets)	-5,665,688		-5,328,104	337,584	94.04%	-24622.69%
11.	Changes in prepaid expenses and accrued income	-235,965		-115,550	120,415	48.97%	-533.99%
<b>I.</b>	<b>CASH FLOW FROM OPAREATING ACTIVITIES</b>	<b>3,973</b>	<b>0</b>	<b>16,339</b>	<b>12,366</b>	<b>411.25%</b>	<b>75.51%</b>
12.	Acquisition of fixed assets	-3,493		-6,548	-3,055	187.46%	-30.26%
13.	Proceeds from sale of fixed assets	1,487		1,848	361	124.28%	8.54%
<b>II.</b>	<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-2,006</b>	<b>0</b>	<b>-4,700</b>	<b>-2,694</b>	<b>234.30%</b>	<b>-21.72%</b>
14.	Proceeds from issuance of share capital (capital increase)**	0		10,000	10,000	0.00%	46.21%
15.	Borrowings	0		0	0	0.00%	0.00%
16.	Repayment of loans and non-risk assets by Credit Institutions	0		0	0	0.00%	0.00%
17.	Capital contribution received	0		0	0	0.00%	0.00%
18.	Redemptions of shares (capital decrease)**	0		0	0	0.00%	0.00%
19.	Repayment of loans	0		0	0	0.00%	0.00%
20.	Loans and non-risk assets of Credit Institutions	0		0	0	0.00%	0.00%
21.	Capital contribution given	0		0	0	0.00%	0.00%
22.	Changes in liabilities due to founders	0		0	0	0.00%	0.00%
<b>III.</b>	<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>0</b>	<b>0</b>	<b>10,000</b>	<b>10,000</b>	<b>0.00%</b>	<b>46.21%</b>
<b>IV.</b>	<b>CHANGES IN LIQUID ASSETS</b>	<b>1,967</b>	<b>0</b>	<b>21,639</b>	<b>19,672</b>	<b>1100.10%</b>	<b>100.00%</b>

Notes:

\* With the balance of row number 3 and 5 the retained profit of the year is adjusted

\*\* The movement of the capital is the change of the equity of the Fund

## NATIONAL DEPOSIT INSURANCE FUND OF HUNGARY

### 1. Additional Supplement\*

01 January 2006 – 31 December 2006

#### 1.1. General characteristics

##### 1.1.1. Company data

Name of the Company:	National Deposit Insurance Fund of Hungary	
Type of the Company:	Code No.: 916 - Other, non-profit oriented organization	
Tax number:	10830516-2-41	
Statistical number:	10830516-6713-916-01	
Date of foundation:	31 March 1993	
Predecessor of title:	-	
Subscribed capital:	at the time of foundation:	HUF 609,544,000
	by the end of business year:	HUF 871,082,000
Activity of the Company:	Core activity	Deposit insurance
	Supplementary activity:	-
Network:	Headquarters:	H-1027 Budapest, Csalogány u. 9-11.
	Other premises:	-

##### 1.1.2. Characteristics of the Fund

Authorized to sign the Report:	Dr. Péter Székács
Board of Directors	Mr. László M. Tóth, István Farkas, Dr. Rezső Nyers, Dr. Tamás Kálmán, Mr. Álmos Kovács
Auditor:	Audit Service Ltd. /Dr. Iván Serényi /
Chief Accountant:	Dr. Erzsébet Királyné Nemes
Legal representation:	Dr. Géza Gálfalvi

Authority-tied activities:

- Company at public interest: Yes.

The information domain related to the specific activity of the Company and stipulated by legal acts:  
Government Regulation No. 214/2000

### 1.1.3. System of operation

The operation and ownership relations are regulated by Act CXII of 1996. The operation of the Fund is in compliance with the provisions of this Law.

The observation and recording of the daily transactions are done by a computerized program-system (Microsoft Navision program) that guarantees the closed processing of the data.

### 1.1.4. Accounting policy

Currency used in accounting:	Hungarian forint
Accounting system:	Book-keeping by double entry
Business year:	1 January 2006-31 December 2006
Type of profit and loss statement:	overall cost method
Profit and loss statement version:	“A”
Balance sheet version:	“A”
Usual date of making the balance sheet of the company:	31 January 2007
Making the balance sheet of the company per balance sheet item:	Granted according to each balance sheet item.
Closing date of auditing:	17 February 2007
Basis of the notarizing:	annual report
Form of obligatory reporting:	Other report, its type: decreed by Government Regulation No. 214/2000 for deposit insurance funds
Itemization of the balance sheet:	-new items: none -combined items: none
Itemization of profit and loss statement:	-new items: none -combines items: none

### 1.1.5. The scope of activity of the Fund

On the one hand, the task of the Fund is to reimburse depositors in case the deposits kept at the member institutions and insured by the Fund are frozen, commencing within fifteen days, as stipulated by para. 105 (1) of the Act on Credit Institutions and Financial Enterprises (hereafter *Act on Credit Institutions or the Act*).

The task of the Fund in accordance with para. 104 of the Act, the prevention of the freezing of deposits was ceased by the modification of the Act, which came into force on 1 January 2006.

### 1.1.6. The governing body and the controlling of the Fund

#### 1.1.6.1. The Board of Directors

As stipulated by para. 110 (1) of the Act on Credit Institutions, the governing body of the Fund is the Board of Directors, that consists of the Vice President of the National Bank of Hungary, the Administrative State Secretary of the Ministry of Finance, the President of the

Supervisory Council of the Hungarian Financial Supervisory Authority, and two representatives delegated by the credit institutions, as well as the Managing Director of the Fund.

Every year the Board of Directors elects a Chairman and a Vice-Chairman from its members. In 2006 the Chairman's post was held by Mr. László M. Tóth, the Managing Director of the OTSZ (Federation of Savings Co-operatives), while the Vice-Chairman's duty was carried out by Álmos Kovács, the State Secretary of Ministry of Finance.

#### **1.1.6.2. Controlling of the Fund**

In accordance with para. 109 of the Act the financial and accounting audit of the Fund is performed by the State Audit Office.

### **1.2. Economic and financial environment in 2006**

In 2006, just like in the past years, processes of the world economy have had a beneficial effect on the Hungarian economy. GDP had a moderate increase comparing to 2005 showing approximately 3.7%, and is likely to stagnate or show even slower progress. The budget adjustment, taking place in the middle of the previous year had a slight effect, it could rather influence the year of 2007. In 2006, the real wages are expected to increase by 3.5%, which is going to substantially decrease, so as the consumptions and savings. The State budget has started to improve, however, the deficit of year 2006 (approximately 10%) is by far larger than the previous year's (8%). The foreign trade deficit shows positive tendency, export has expanded much more than import (meaning 5 percentage point), but the exchange ratios have diminished by 2% since the prior year. During the year, inflation has been increasing from 3.2% (last year) to 3.9%.

In the banking sector, household loan portfolio kept growing just like in prior years, which was still based on wide interest-margin, very intensive competition and slow moderation of retail credit demands. The portfolio rose by 55 billion HUF to 4,731 billion HUF. The growth of stock of savings at credit institutions starting in July stopped in November. In December, the stock reached the peak of 5,932 billion HUF, meaning 244 billion HUF increase exceeding July index. (pre imposing interest tax). Due to wage transfers at the end of December and deposit immobilization action of several banks, the stock of deposits has considerably surged.

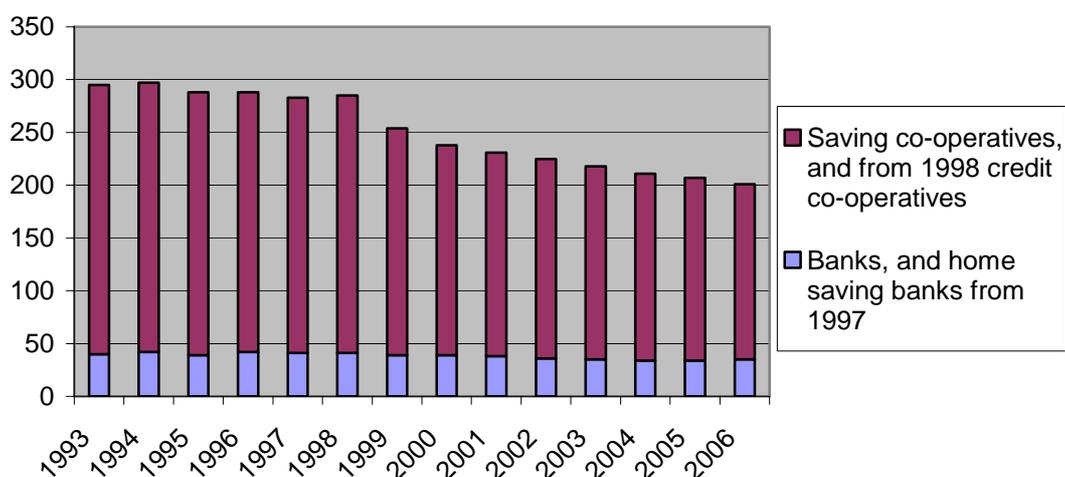
The growth in banking sector has caused a thriving return, besides, foreign currency denominated loans have kept increasing both in public and retail sector.

#### **1.2.1 The member institutions of NDIF and their deposit portfolio**

##### **1.2.1.1. Number of member institutions**

In early 2006 the Fund had 207 members, including 34 banks and specialized credit institutions (while from amongst the latter ones two were home savings banks), 168 saving co-operatives, and 5 credit co-operatives. In the course of 2006 the number of members of the Fund decreased by six. During the year a commercial bank became a member of NDIF, and all together 7 saving co-operatives merged into another saving co-operative.

Thus, on 31 December 2006 the Fund had 201 credit institutions as its members. 35 of those were commercial banks and specialized credit institutions (including 2 home savings banks), 161 savings co-operatives and 5 credit co-operatives.



#### 1.2.1.2. Trends and composition of savings and deposits

In the first half of the year 2006, the stock of savings held at the credit institutions was HUF 11,473 billion, which shows a more than HUF 1,700 billion (18 %) increase.

In comparison to the previous year, no significant changes could be observed in the distribution of savings among the credit institutions (90 % of the savings was held in the banks and home savings banks, while 10 % in the co-operative sector). The average size of deposits placed at credit institutions rose from HUF 617 thousand to HUF 708 thousand. It is a 15% increase.

#### The volume of savings and their distribution among the major credit institutional sectors

Table 1

Description	Stock of savings HUF billion		Difference 2005=100%	2006 opening	
	2005 opening	2006 opening		of which (%)	
				Banks and home savings banks	Savings co- operatives and credit co- operatives
<b>Deposits</b>	<b>8,895</b>	<b>10,264</b>	115	<b>91</b>	<b>9</b>
Of which:	716	755	106	<b>43</b>	<b>57</b>
- saving deposits					
- other deposits	8,179	9,509	116	<b>94</b>	<b>6</b>
<b>Securities</b>	<b>768</b>	<b>1,130</b>	<b>147</b>	<b>86</b>	<b>14</b>
<b>Interest payable</b>	<b>99</b>	<b>79</b>	<b>80</b>	<b>87</b>	<b>23</b>
<b>TOTAL</b>	<b>9,762</b>	<b>11,473</b>	<b>118</b>	<b>90</b>	<b>10</b>

The equities of the banks were other deposits and securities, the savings co-operatives sector had mainly saving deposit type of savings.

Studying the more than 1,200 billion HUF increase of the insured deposits, it shows an interesting tendency. In the three deposit classes (in 2006, 0-1 million HUF, 1-6 million HUF and over 6 million HUF classes are distinguished) deposits under 1 million HUF have barely increased (5%), while the 20% increase of deposits over 6 million HUF have significantly passed the rise of insured deposits. It explains the fact that average stock of deposits has dynamically risen from 617 thousand HUF to 708 thousand HUF. Deposits between 1 and 6 million HUF showed rise below average (13%).

**Growing concentration of deposits has been moving from the lowest to highest deposit class (deposits over 6 million HUF) and reached 57 %. Rate of middle class deposits remained the same. However, these changes have different effects on credit institution sectors.**

### 1.2.1.3. Breakdown of savings by types of protection

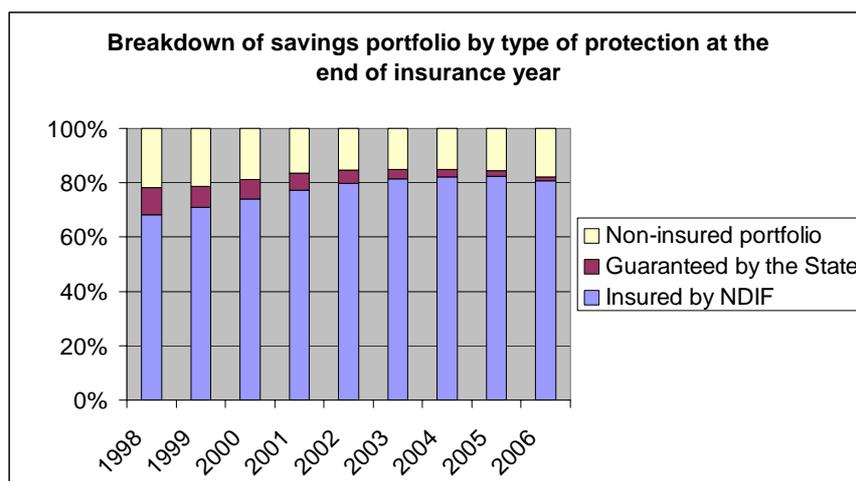
Due to a determining decline by the beginning of 2006, the ratio of savings insured by NDIF decreased to 80,7% from the peak of last year's 82.3 % - meaning a 1,6 percentage point drop. Stock guaranteed by the State fell to 1.5 %, while the non-insured portfolio rose to 17.8 %.

**Table 2**

Description	2005 opening			2006 opening		
	Insured by NDIF %	Guaranteed by the State %	Not insured %	Insured by NDIF %	Guaranteed by the State %	Not insured %
<b>Deposits</b>	<b>88.0</b>	<b>1.8</b>	<b>10.2</b>	<b>85.1</b>	<b>1.3</b>	<b>13.5</b>
Of which:						
- saving deposits	83.1	15.6	1.3	86.2	12.7	1.2
- other deposits	88.4	0.6	11.0	85.0	0.5	14.5
<b>Securities</b>	<b>20.3</b>	<b>4.5</b>	<b>75.2</b>	<b>42.6</b>	<b>2.6</b>	<b>54.8</b>
<b>Interest payable</b>	<b>56.8</b>	<b>5.0</b>	<b>38.2</b>	<b>55.6</b>	<b>4.7</b>	<b>39.7</b>
<b>TOTAL</b>	<b>82.3</b>	<b>2.1</b>	<b>15.6</b>	<b>80.7</b>	<b>1.5</b>	<b>17.8</b>

It is remarkable that the NDIF protection of security portfolio increased by 22.3 percentage point, meanwhile the rate of the deposits decreased by 3 percentage point - for the benefit of the non-insured deposits.

An explanation of the realignment could be the diminishment of the preference of standard form of deposits, and the spread of securities and the newly appeared mixed savings types combined with capital market instruments (structured deposits).



In the aspect of sector divisions, the situation is slightly better in case of the savings co-operatives: besides the ratio of the two other factors decreased, the ratio of savings insured by NDIF rose by 1.1 percentage point comparing to 2005. The standard saving types seem to be preferred in the cooperative sector.

At the beginning of 2006, the NDIF protection level of the co-operative credit institutions was higher (95 %) than that of the banking sector, where – including the home savings banks - this level was 79 %. The proportion of the non-insured savings in the banking sector is relatively high (close to 20 %, while the same ratio in the co-operative sector is 3 %) and this can be attributed to the fact that in the banking sector the number of depositors not being insured by legal acts is much higher than in the co-operative sector.

**Breakdown of savings by types of protection in early 2006  
(Banks and home savings banks)**

Table 3

Description	Banks and home savings banks			Total(%)
	Insured by NDIF	Guaranteed by the State	Not insured	
	%	%	%	
<b>Deposits</b>	<b>84.0</b>	<b>1.3</b>	<b>14.7</b>	<b>100</b>
Of which:				100
- saving deposits	75.5	23.5	1.0	
- other deposits	84.3	0.5	15.2	100
<b>Securities</b>	<b>34.7</b>	<b>2.8</b>	<b>62.5</b>	<b>100</b>
<b>Interest payable</b>	<b>47.6</b>	<b>1.5</b>	<b>50.9</b>	<b>100</b>
<b>Total 2006 opening</b>	<b>79.1</b>	<b>1.4</b>	<b>19.5</b>	<b>100</b>
<b>Total 2005 opening</b>	<b>81.0</b>	<b>2.0</b>	<b>17.0</b>	<b>100</b>

**Breakdown of savings by types of protection in early 2006**  
(Savings co-operatives and credit co-operatives)

**Table 4**

Description	Savings co-operatives and credit co-operatives			
	Insured by NDIF %	Guaranteed by the State %	Not insured %	Total (%)
<b>Deposits</b>	<b>95.8</b>	<b>2.0</b>	<b>2.2</b>	<b>100</b>
Of which:				100
- saving deposits	94.2	4.5	1.3	
- other deposits	97.1	0.1	2.8	100
<b>Securities</b>	<b>91.3</b>	<b>0.8</b>	<b>7.9</b>	<b>100</b>
<b>Interest payable</b>	<b>82.5</b>	<b>15.9</b>	<b>1.6</b>	<b>100</b>
<b>Total 2006 opening</b>	<b>95.0</b>	<b>2.1</b>	<b>2.9</b>	<b>100</b>
<b>Total 2005 opening</b>	<b>93.9</b>	<b>2.9</b>	<b>3.2</b>	<b>100</b>

**1.2.1.4. Reimbursement commitments of the Fund**

Growth of savings insured by NDIF took a part of 1,200 billion HUF of the entire previously presented 1,700 billion HUF saving stock accrual. 15% increment of this theoretical compensation liability of NDIF is decreased by coverage limit per persons and per credit institution, consisting of the amounts of 6 million HUF and 10% co-insurance on deposit values exceeding 1 million HUF since 01 May 2004. Considering this, by the year of 2006 the actual coverage liability of NDIF had risen with 550 billion HUF to 5,104 billion HUF.

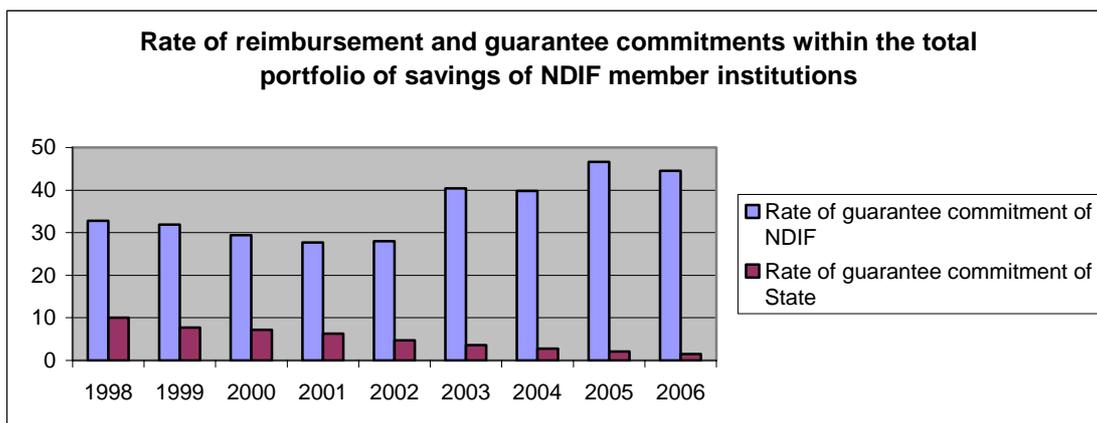
Counting with the continuously narrowing state guarantee, compensation and guarantee commitments of NDIF and in minor part of the state cover the 46% of the credit institutional savings. This includes 45% NDIF insurance and 1.5% State's guarantee commitment. Comparing with basis year, it is 3 percentage point less. The recession of insurance of deposit shown in all comparisons (see table 6.) is explained with a trend change (since 2004) in the decrease of non-insured deposits. The stock of non-insured deposits comparing to the basis year showed a dynamic, 2.2 percentage point rise. The reason is unknown, needs further investigation.

## Reimbursement and guarantee commitments for savings held in credit institutions

Table 5

Description	Start of insurance year	Insured by NDIF	Guaranteed by the State	Non-insured or non-guaranteed stock	Total (%)
Breakdown of total savings by type of protection (insured, guaranteed)	1993	44.2	32.5	23.3	100.0
	1998	68.3	10.0	21.7	100.0
	1999	70.9	7.7	21.4	100.0
	2000	73.9	7.2	18.9	100.0
	2001	77.3	6.3	16.4	100.0
	2002	79.9	4.7	15.4	100.0
	2003	81.4	3.6	15.0	100.0
	2004	82.1	2.8	15.1	100.0
	2005	82.3	2.1	15.6	100.0
	2006	80.7	1.5	17.8	100.0
Ratio of coverage limit or guarantee commitments within the insured* and the guaranteed stock	1993	n.a.*	100.0	0	-
	1998	48.0	100.0	0	-
	1999	45.0	100.0	0	-
	2000	39.8	100.0	0	-
	2001	35.8	100.0	0	-
	2002	35.1	100.0	0	-
	2003	49.6	100.0	0	-
	2004	48.5	100.0	0	-
	2005	56.6	100.0	0	-
	2006	55.1	100.0	0	-
<b>Ratio of coverage or guarantee commitments within the full savings stock of the NDIF member institutions</b>	1993	<b>n.a.</b>	<b>32.5</b>	<b>0</b>	<b>n.a.</b>
	1998	<b>32.8</b>	<b>10.0</b>	<b>0</b>	<b>42.8</b>
	1999	<b>31.9</b>	<b>7.7</b>	<b>0</b>	<b>39.6</b>
	2000	<b>29.4</b>	<b>7.2</b>	<b>0</b>	<b>36.6</b>
	2001	<b>27.7</b>	<b>6.3</b>	<b>0</b>	<b>33.3</b>
	2002	<b>28.0</b>	<b>4.7</b>	<b>0</b>	<b>32.7</b>
	2003	<b>40.4</b>	<b>3.6</b>	<b>0</b>	<b>44.0</b>
	2004	<b>39.8</b>	<b>2.8</b>	<b>0</b>	<b>42.6</b>
	2005	<b>46.6</b>	<b>2.1</b>	<b>0</b>	<b>48.7</b>
	2006	<b>44.5</b>	<b>1.5</b>	<b>0</b>	<b>46.0</b>

\*The insured stock is the same as the NDIF premium base



### 1.3. Premium income of the Fund

According to Para. 119 of the Act on Credit Institutions, the own revenue resources of the Fund consist of the one-off admission fee, the regular and extraordinary contributions paid by the member institutions, the returns on financial investments of the Fund, the 80 % of the amount of the fees paid by the credit institutions to the Supervisory (excluding saving co-operatives, which are members in volunteer deposit insurance fund and members of institution security fund), as well as the portion recovered from receivables transferred to the Fund. These revenues can be supplemented by NDIF through borrowing.

#### a) Admission fee

Credit institutions that have been licensed to collect deposits are required to pay a one-off admission fee to the Fund upon becoming its member institution. The admission fee equals 0.5 % of the registered capital of the member institution. In 2006, the Fund had 10 million HUF revenue from such fees.

#### b) Annual premium payment

As specified by Para. 121 (1) and (2) of the Act, the upper limit for the statutory annual regular premium to be paid by members is 0.2 % of the deposit portfolio of the member institution insured by the Fund as of 31 December of the year preceding the year under review. This statutory ceiling has never been fully exploited by the Fund.

The premium rate has been decreased, last time in 2003. Then the average value of the premium rate was reduced to approximately one third of the previous year's value, to 0.21 per mil. The premium rates did not change in 2006 either, the premium rates for 2006 are shown in Table 6. The premium income rose slightly to HUF 1.8 billion.

#### Premium rates for 2006

**Table 6**

Deposit classes	Premium rates (‰)
Under HUF 1 million	0.5
Between HUF 1 and 6 million	0.3
Above 6 million	0.05
<b>Average premium rate</b>	<b>0.19</b>

The specific rate of reimbursement per commitments worth HUF 1,000 has shifted (in comparison with the prior years) among the credit institutional sectors. In 2006 the specific rate slightly increased, but only at the savings co-operatives. On the other hand, in case of the whole bank sector, the charge of the rate was reduced by 20 percentage (Table 7).

### Development of the specific rates in 2006

**Table 7**

Credit institution	Premium paid in 2005* (HUF million)	Premium paid in 2006 (HUF million)	Theoretical indemnification commitment/HUF 1000	
			2005	2006
Bank	1,241	1,344	0.34	0.33
Savings co-operative	297	345	0.49	0.48
Home savings bank	52	63	0.37	0.37
Credit co-operative	2.8	2.7	0.3	0.28
<b>Total:</b>	<b>1,593</b>	<b>1,755</b>	<b>0.35</b>	<b>0.34</b>

\* Data do not indicate the deviations originating from preferential or increased rates. The balance sheet data are modified according to the positive or negative sum

#### c) Increased premiums and preferential premiums

Besides the regular yearly payment obligations, the Fund may also set increased and preferential rates. Increased premium can be charged, if a member institution did not comply with the prescribed solvency ratio, or perhaps carried out exceptionally risky activity. (Para. 121 (6) and (7) of the Act). In 2006, none of the institutions was obliged by the Board of Directors to pay increased premiums.

Preferential premiums are paid by those member institutions that are members of voluntary deposit insurance and institutional protection fund, permitted by the Supervisory Authority mentioned in Para 121. (1) of the Act. In 2006, 13 savings co-operatives enjoyed such preferential premium to the total value of HUF 20 million.

## 1.4. Fund ratio

Fund ratio is the internationally accepted indicator of the asset position of deposit insurers, which, as of the same date, compares the liquid assets of the Fund to the potential reimbursement commitments of the Fund at member institutions. At the beginning of 2005, the fund ratio of NDIF ratio just slightly exceeded the 1 % threshold. In 2006, the reimbursement commitment level was raised to HUF 6 million due to our EU accession and as its consequence the fund ratio is still 1.13 %.

### Development of the fund ratio between 2002 and 2006 (Year opening data)

Table 8

Description	2002	2003	2004	2005	2006
NDIF reimbursement commitment (HUF billion)	1,957	3,186	3,521	4,551	5,104
NDIF assets* (HUF billion)	31.3	37.4	44.3	51.5	57.8
<b>Fund ratio %</b>	<b>1.60</b>	<b>1.17</b>	<b>1.26</b>	<b>1.13</b>	<b>1.13</b>
Average premium rate (thousandth)**	<b>0.59</b>	<b>0.21</b>	<b>0.20</b>	<b>0.20</b>	<b>0.19</b>

\* Fair value including interest of NDIF liquid assets embodied by securities – at end of the 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).

## 1.5. Explanation to balance sheet items

### 1.5.1. Intangible assets

a.) Software.

b.) Structure

**Table 9**

Description / in HUF '000	Opening balance	Additions	Disposals	Reclassifications +/-	Closing balance
<b>GROSS VALUE</b>	105,016	0	324	0	104,692
Capitalized costs of foundation and restructuring					0
Rights	0	0	0	0	0
Intellectual property	105,016	0	324	0	104,692
- software	105,016		324		104,692
Goodwill (, if positive)					0
Advanced payments on intangible assets					0
Revaluation of intangible assets					0
<b>DEPRECIATION</b>	37,725	10,777	324	0	48,178
Capitalized costs of foundation and restructuring					0
Rights	0	0	0	0	0
Intellectual property	37,725	10,777	324	0	48,178
- software	37,725	10,777	324		48,178
Goodwill (if positive)					0
Advanced payments on intangible assets					0
<b>NET VALUE</b>	67,291	-10,777	0	0	56,514
Capitalized costs of foundation and restructuring	0	0	0	0	0
Rights	0	0	0	0	0
Intellectual property	67,291	-10,777	0	0	56,514
- software	67,291	-10,777	0	0	56,514
Goodwill (, if positive)	0	0	0	0	0
Advanced payments on intangible assets	0	0	0	0	0
Revaluation of intangible assets	0	0	0	0	0

### 1.5.2 Tangible assets

- a.) Contents:
- Rented buildings,
  - Equipment,
  - IT,
  - Vehicles.

b.) Structures:

**Table 10**

Description / in HUF '000	Opening balance	Additions	Disposals	Reclassifications +-	Closing balance
<b>GROSS VALUE</b>	74,120	11,216	18,267	0	67,069
Land and building related rights	4,518	182			4,700
Other equipment and vehicles	69,602	5,426	12,659		62,369
Construction-in-progress		5,608	5,608		0
Advanced payments on construction-in-progress					0
Adjusted value of tangible assets					0
<b>DEPRECIATION</b>	45,561	8,216	5,729	0	48,048
Land and building related rights	2,491	2,027			4,518
Other equipment and vehicles	43,070	6,189	5,729		43,530
Construction-in-progress					0
Advanced payments on construction-in-progress					0
<b>NET VALUE</b>					
Land and building related rights	28,559	3,000	12,538	0	19,021
Other equipment and vehicles	2,027	-1,845	0	0	182
Construction-in-progress	26,532	-763	6,930	0	18,839
Advanced payments on construction-in-progress	0	5,608	5,608	0	0
Adjusted value of tangible assets	0	0	0	0	0

### 1.5.3 Financial investments

a.) Contents:

- Shares,
- Accounting for housing loan.

b.) Structure:

**Table 11**

Description / in HUF '000	Opening balance	Additions	Disposals	Reclassifications +-	Closing balance
<b>GROSS VALUE</b>	3,064,091	940	0	-1,053	3,063,978
Non current investments	3,061,944				3,061,944
Non current loans	2,147	940		-1,053	2,034
Other investments					0
Other non current loans granted					0
Long term bank deposits					0
Adjusted value of financial investments					0
Difference in invested liquid assets valuation					0
<b>DEPRECIATION</b>	3,061,944	0	0	0	3,061,944
Non current investments	3,061,944				3,061,944
Non current loans					0
Other investments					0
Other non current loans granted					0
Long term bank deposits					0
<b>NET VALUE</b>	2,147	940	0	-1,053	2,034
Non current investments	0	0	0	0	0
Non current loans	2,147	940	0	-1,053	2,034
Other investments	0	0	0	0	0
Other non current loans granted	0	0	0	0	0
Long term bank deposits	0	0	0	0	0
Adjusted value of financial investments	0	0	0	0	0
Difference in invested liquid assets valuation	0	0	0	0	0

### 1.5.4 Inventories

a.) Content:

- Goods.

b.) Structure:

**Table 12**

Description In HUF '000	2005	Revision Year of...	2006	Change		Indicator for 2006 %.
Raw materials	0	0	0	0	0.00%	0.00%
Goods						
- Commercial goods	100	0	100	0	100.00%	100.00%
Mediated services	0	0	0	0	0.00%	0.00%
Advanced payments on inventories	0	0	0	0	0.00%	0.00%
<b>Total:</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>0</b>	<b>100.00%</b>	<b>100.00%</b>

## 1.5.5 Receivables

a.) Contents:

- Receivables from member institutions,
- Receivables from credit institutions,
- Other receivables.

b.) Structure:

**Table 13**

Description In HUF '000	2005	Effect of revision	2006	Change		Indicator for 2006 %
				In HUF '000	%	
<b>Receivables from member institutions</b>	<b>74,513</b>	<b>0</b>	<b>75,670</b>	<b>1,157</b>	<b>101.55%</b>	<b>74.64%</b>
- premium receivables				0	0.00%	0.00%
- Receivables transferred to the Fund				0	0.00%	0.00%
= receivables transferred due to deposit withdrawal	336,774		336,790	16	100.00%	332.19%
=depreciation of receivables transferred due to deposit withdrawal	-264,436		-264,437	-1	100.00%	-260.83%
- Premiums on onerous obligations	375,252		375,252	0	100.00%	370.13%
- Depreciation of premiums on onerous obligations	-375,252		-375,252	0	100.00%	-370.13%
- Other receivables from member institutions				0	0.00%	0.00%
= accessory costs due to deposit withdrawal	31,547		31,547	0	100.00%	31.12%
= depreciation of accessory costs due to deposit withdrawal	-29,372		-28,230	1,142	96.11%	-27.84%
<b>Receivables from credit institutions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-19,390</b>	<b>0.00%</b>	<b>0.00%</b>
- due to guarantee and redemption of onerous obligations	349,694		349,694	39,589	100.00%	25.36%
- depreciation due to guarantee and redemption of onerous obligations	-349,694		-349,694	59,612	100.00%	50.66%
<b>Other receivables:</b>	<b>6,135</b>	<b>0</b>	<b>25,715</b>	<b>39,589</b>	<b>419.15%</b>	<b>25.36%</b>
- Accounts receivable	56		70	20,023	125.00%	25.29%
- Interest-free housing loan	1,216		1,053	-163	86.60%	1.04%
- Advanced payments			50	50	0.00%	0.05%
- Deposit fee	1,074			-1,074	0.00%	0.00%
- Receivables from MNB (Hungarian National Bank) due to credit institution	3,332		3,332	0	100.00%	3.29%
- reclassified debit trade creditors			21,210	21,210	0.00%	20.92%
- other receivables	457			-457	0.00%	0.00%
<b>Total:</b>	<b>80,648</b>	<b>0</b>	<b>101,385</b>	<b>20,737</b>	<b>125.71%</b>	<b>100.00%</b>

c.) Priority inventory certificate:

Change in depreciation in accordance with Hungarian Accounting Regulations (HAR):

**Table 14**

Description In HUF '000	HAR				HAR
	Opening balance	Additions	Disposals	Impairment loss written back	Closing balance
Receivables from member institutions	264,436				264,436
Receivables from credit institutions	754,318			1,141	753,177
<b>Total</b>	<b>1,018,754</b>	<b>0</b>	<b>0</b>	<b>1,141</b>	<b>1,017,613</b>

Amounts of receivables to be collected from member institutions:

**Table 15**

Description In HUF '000	Amount of receivable	onerous obligations	depreciation opening	depreciation closing	Book value closing
Heves and Environs Savings Co-operative deposit withdrawal	262,126		262,126	262,126	0
Heves and Environs Savings Co-operative accessory cost	16,690		16,690	16,690	0
Rákóczi Credit Co-operative accessory cost	12,682		12,681	11,540	1,142
Rákóczi Credit Co-operative deposit withdrawal	72,354		0	0	72,354
Realbank Accessory cost	2,175		0	0	2,175
Iparbankház Rt. deposit withdrawal	2,310		2,310	2,310	0
Iparbankház Rt. Credit premium	375,252	375,252	375,252	375,252	0
Iparbankház Rt. balance of account and credit deficit	349,694	349,694	349,694	349,694	0
<b>Total</b>	<b>1,093,283</b>	<b>724,946</b>	<b>1,018,753</b>	<b>1,017,612</b>	<b>75,671</b>

Amount of guarantee and onerous obligations per member institutions:

**Table 16**

Description In HUF '000	Amount of receivable	onerous obligations	depreciation opening	depreciation closing	Book value closing
Iparbankház Rt.	2,310		2,310	2,310	0
Iparbankház Rt.	375,252	375,252	375,252	375,252	0
Iparbankház Rt.	349,694	349,694	349,694	349,694	0
<b>Total</b>	<b>727,256</b>	<b>724,946</b>	<b>727,256</b>	<b>727,256</b>	<b>0</b>

Receivables transferred to the Fund:

**Table 17**

Description In HUF '000	Frozen deposits amount	Amount of discharged payments In year			Total amount of discharged payments		
		total	equity	interest	total	equity	interest
Heves and Environs Savings Co-operative	1,389,090	0	0	0	262,127	262,127	0
Iparbankház Rt.	25,040	0	0	0	2,310	2,310	0
Rákóczi Credit Co-operative	330,765	16	16	0	72,353	72,353	0
<b>Total:</b>	<b>1,744,895</b>	<b>16</b>	<b>16</b>	<b>0</b>	<b>336,790</b>	<b>336,790</b>	<b>0</b>

## 1.5.6 Securities

a.) Contents:

- Government securities,
- Discount treasury bills (T-bills).

b.) Structure:

**Table 18**

Description In HUF '000	Opening balance	additions	disposals	Closing balance
<b>GROSS VALUE</b>	<b>55,941,597</b>	<b>134,467,956</b>	<b>129,159,575</b>	<b>61,249,978</b>
Government securities	55,941,597	134,467,956	129,159,575	61,249,978
- domestic government securities	55,941,597	134,467,956	129,159,575	61,249,978
= Hungarian government bond	43,320,409	68,787,087	67,661,888	44,445,608
= discount T-bills	12,621,188	65,680,869	61,497,687	16,804,370
Other securities				0
<b>DEPRECIATION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Government securities				
- domestic government securities				
= Hungarian government bond				
= discount T-bills				
Other securities				
<b>NET VALUE</b>	<b>55,941,597</b>	<b>134,467,956</b>	<b>129,159,575</b>	<b>61,249,978</b>
Securities	55,941,597	134,467,956	129,159,575	61,249,978
- domestic government securities	55,941,597	134,467,956	129,159,575	61,249,978
= Hungarian government bond	43,320,409	68,787,087	67,661,888	44,445,608
= discount T-bills	12,621,188	65,680,869	61,497,687	16,804,370
Other securities	0	0	0	0

## 1.5.7 Liquid assets

- a.) Contents:  
 - cash, cheques,  
 - bank accounts.

- b.) Structure:

**Table 19**

Description In HUF'000	2005	Revision In year...	2006	Change		Indicator for year 2006
Cash	435	0	248	-187	57.01%	1.00%
Cheques				0	0.00%	0.00%
Bank deposits	2,821	0	24,647	21,826	873.70%	99.00%
<b>Total</b>	<b>3,256</b>	<b>0</b>	<b>24,895</b>	<b>21,639</b>	<b>764.59%</b>	<b>100.00%</b>

## 1.5.8 Prepaid expenses

- a.) Contents:  
 - due to incomes,  
 - due to expenditures.

- b.) Structure:

**Table 20**

Description In HUF'000	2005	Revision In year...	2006	Change		Indicator for year 2006
				In HUF '000	%	
Accrued income	1,728,677	0	1,868,097	139,420	108.07%	99.93%
- accrued revenue	1,562		1,628	66	104.23%	0.09%
- accrued interest	1,727,115		1,866,469	139,354	108.07%	99.84%
Prepayments for costs and expenses.	25,226	0	1,356	-23,870	5.38%	0.07%
- accrued cost	25,226		1,356	-23,870	5.38%	0.07%
Deferred expenses	0	0	0	0	0.00%	0.00%
<b>Total</b>	<b>1,753,903</b>	<b>0</b>	<b>1,869,453</b>	<b>115,550</b>	<b>106.59%</b>	<b>100.00%</b>

- d.) Notes:

Impact of profit of interest-bearing securities at purchase on current year: 1,866,469 thousand HUF.

## 1.5.9 Provisions

During the year there were none.

## 1.5.10 Long-term liabilities

The Fund does not have any long term liabilities.

### 1.5.11 Short-term liabilities

a.) Contents:

- Liabilities towards depositors,
- Other liabilities.

b.) Structure:

**Table 21**

Description In HUF '000	2005	Revision In year....	2006	Change		Indicator for year 2006
				In HUF '000	%	
Liabilities towards member institutions	0	0	0	0	0.00%	0.00%
Short-term credits	0	0	0	0	0.00%	0.00%
Liabilities towards depositors	78,053	0	78,053	0	100.00%	42.81%
- other deposit insurance liabilities	78,053		78,053	0	100.00%	42.81%
Liabilities towards the State	0	0	0	0	0.00%	0.00%
Other short-term liabilities	22,319	0	104,293	81,974	467.28%	57.20%
- Trade creditors	11,053		96,899	85,846	876.68%	53.14%
- Liabilities towards Budget	9,509	0	7,394	-2,115	77.76%	4.06%
= Personal income tax (SZJA)	4,764		3,487	-1,277	73.19%	1.91%
= Social security (TB)	3,958		3,452	-506	87.22%	1.89%
= other tax	787		455	-332	57.81%	0.25%
- other liabilities due to additional costs of deposit insurance	764			-993	0.00%	0.00%
- other short-term liabilities	993			-993	0.00%	0.00%
<b>Total:</b>	<b>100,372</b>	<b>0</b>	<b>182,346</b>	<b>81,974</b>	<b>181.67%</b>	<b>100.00%</b>

### 1.5.12 Accrued expenses

a.) Contents:

- Costs,
- Due to deferred revenue.

b.) Structure:

**Table 22**

Description In HUF '000	2005	Revision In year...	2006	Change		Indicator for year 2006
				In HUF '000	%	
Accrued expenses, expenditures	8,240	0	4,375	-3,865	53.09%	95.63%
- accrued cost	8,240		4,375	-3,865	53.09%	95.63%
Deferred revenue	200	0	200	0	100.00%	4.37%
- reception of assets without reimbursement	200		200	0	100.00%	4.37%
<b>Total</b>	<b>8,440</b>	<b>0</b>	<b>4,575</b>	<b>-3,865</b>	<b>54.21%</b>	<b>100.00%</b>

### 1.5.13 Equity

a.) Contents:

- Registered capital,
- Reserves,
- Profit for the year.

b.) Structure:

**Table 23**

Description In HUF '000	2005	Effect of revision	2006	Change		Indicator for year 2006
				In HUF '000	%	
Registered capital	861,082	0	871,082	10,000	101.16%	1.38%
Reserves	50,921,894	0	56,907,607	5,985,713	111.75%	90.13%
Revaluation reserve	0	0	0	0	0.00%	0.00%
Retained profit for the year	5,985,713	0	5,357,770	-627,943	89.51%	8.49%
<b>Total</b>	<b>57,768,689</b>	<b>0</b>	<b>63,136,459</b>	<b>5,367,770</b>	<b>109.29%</b>	<b>100.00%</b>

c.) Change of portfolio:

Change of equity:

**Table 24**

Description In HUF '000	Registered Capital	Reserves	Revaluation reserve	Profit for The year
Opening balance	861,082	50,921,894		
Additions	10,000	5,985,713	0	
- capital increase at registration	10,000			
- transiting of the retained profit of prior year		5,985,713		
Disposals	0	0	0	
Closing balance	871,082	56,907,607	0	5,357,770

## 1.6. Explanation to profit and loss account

Profit and loss account of operating activities:

**Table 25**

Description	Deposit Insurance		Asset Management		Operation		Total	
	2005	2006	2005	2006	2005	2006	2005	2006
1 Premium income from member institutions	1,578,475	1,734,413	0	0	0	0	1,578,475	1,734,413
2 Premium income from receivables recovered by depositors' instructions	0	0	0	0	0	0	0	0
3 Commission income derived from the reimbursement of deposits guaranteed by the State	0	0	0	0	0	0	0	0
4 Other income derived from deposit insurance	137,011	2,895	0	0	877	0	137,888	2,895
I. Income derived from deposit insurance (01+02+03+04)	1,715,486	1,737,308	0	0	877	0	1,716,363	1,737,308
II. Other income	96	0	0	0	1,261	6,192	1,357	6,192
III. Non-deposit insurance income	0	0	0	0	0	0	0	0
IV. Income from financial transactions	0	0	4,924,189	4,479,950	13	0	4,924,202	4,479,950
V. Extraordinary income	0	0	0	0	0	0	0	0
5 Expenses on the payments of frozen deposits	0	0	0	0	0	0	0	0
6 Expenses on receivables collected on behalf of the depositors	0	0	0	0	0	0	0	0
7 Expenses incurred by the payment of deposits guaranteed by the State	0	0	0	0	0	0	0	0
8 Other expenses on deposit insurance	16,898	0	0	0	0	0	16,898	0
VI. Expenses on deposit insurance (05+06+07+08)	16,898	0	0	0	0	0	16,898	0
VII. Other expenses	0	0	0	0	3,427	7,489	3,427	7,489
VIII. Non-deposit insurance expenses	0	0	0	0	0	0	0	0
IX. Expenses on financial transactions	0	0	335,671	615,344	35	0	335,706	615,344
X. Extraordinary expenses	0	0	0	0	0	0	0	0
9 Material-type expenses	9,666	0	280	0	59,851	66,709	69,797	66,709
10 Costs on the personnel	0	0	0	0	208,392	157,212	208,392	157,212
11 Depreciation	9,761	0	0	0	12,228	18,926	21,989	18,926
XI. Operation costs (09+10-11)	19,427	0	280	0	280,471	242,847	300,178	242,847
A. Retained profit for the year (I+II+III+IV+V-VI-VII-VIII-IX-X-XI)	1,679,257	1,737,308	4,588,238	3,864,606	-281,782	-244,144	5,985,713	5,357,770

## 1.6.1 Income derived from deposit insurance and other incomes

a.) Contents:

- premium income from member institutions,
- other income derived from deposit insurance,
- other income.

b.) Structure:

**Table 26**

Description	2005	Effect of	2006	Change		Indicator for year 2006
				In HUF '000	%	
		Revision		In HUF '000	%	%
Premium income from member institutions	1,578,475	0	1,734,413	155,938	109.88%	99.48%
- standard premium income	1,581,562		1,754,491	172,929	110.93%	100.63%
- raised premium income	721			-721	0.00%	0.00%
- premium reimbursement	-3,808		-20,078	-16,270	527.26%	-1.15%
Premium income from claim collection on the behalf of depositors	0	0	0	0	0.00%	0.00%
Commission premium from payment of deposits insured with State guarantee	0	0	0	0	0.00%	0.00%
Other income derived from deposit insurance	137,888	0	2,895	-134,993	2.10%	0.17%
- Income derived from sales of assets received in return for claims	457		154	-303	33.70%	0.01%
- reversal of depreciation in accordance with deposit insurance	103,415		1,141	-102,274	1.10%	0.07%
- PSZÁF penalty	16,800		1,600	-15,200	9.52%	0.09%
- other income derive from deposit insurance	17,216			-17,216	0.00%	0.00%
Other income	1,357	0	6,192	4,835	456.30%	0.36%
<b>Total</b>	<b>1,717,720</b>	<b>0</b>	<b>1,743,500</b>	<b>25,780</b>	<b>101.50%</b>	<b>100.00%</b>

## 1.6.2 Operation costs

a.) Contents:

- Cost type,
- Other expenditures.

b.) Structure:

**Table 27**

Description	2005	Revision	2006	Change		Indicator for 2006
In HUF '000		Year...				
<b>Cost type</b>						
- raw material-type	69,797	0	66,709	-3,088	95.58%	26.65%
= costs of raw materials	6,701		4,434	-2,267	66.17%	1.77%
= raw material type of services called	58,333		58,381	48	100.08%	23.32%
= other services	4,763		3,894	-869	81.76%	1.56%
- payroll related costs	208,392	0	157,212	-51,180	75.44%	62.80%
- depreciation	21,989	0	18,926	0	86.07%	7.56%
Other expenditures	3,427	0	7,489	4,062	218.53%	2.99%
<b>Total</b>	<b>303,605</b>	<b>0</b>	<b>250,336</b>	<b>-50,206</b>	<b>82.45%</b>	<b>100.00%</b>

### 1.6.3 Results of financial activities

a.) Contents:

- revenues from financial transactions,
- expenditures from financial transactions.

b.) Structure:

**Table 28**

Description In HUF '000	2005	Effect of revision	2006	Change		Indicator for 2006
				In HUF '000	%	
<b>Results of financial activities</b>						
Interest income received	15		11,993	-1,824,912	79953.33%	0.27%
Revenues from financial transactions	4,924,187	0	4,467,957	-912,456	90.73%	99.73%
- foreign exchange gain on investments in foreign currency	10		6	-4	60.00%	0.00%
- profit on Hungarian government bonds	4,924,177	0	4,467,951	-456,226	90.73%	99.73%
= exchange rate profit on government bonds	1,046,937		381,511	-665,426	36.44%	8.52%
= profit on interest of government bonds	2,951,678		3,311,218	359,540	112.18%	73.91%
= foreign exchange gain on discount treasury notes	925,562		775,222	-150,340	83.76%	17.30%
<b>Total:</b>	<b>4,924,202</b>	<b>0</b>	<b>4,479,950</b>	<b>-2,737,368</b>	<b>90.98%</b>	<b>100.00%</b>
<b>Financial expenditures</b>						
Interests paid and similar expenditures	7			861,461	0.00%	0.00%
Expenditures from financial transactions	302,189	0	589,342	287,153	195.02%	95.77%
- foreign exchange loss on investments in foreign currency	29		27	-2	93.10%	0.00%
- loss on Hungarian government bonds	302,160	0	589,315	287,155	195.03%	95.77%
= foreign exchange loss on Hungarian government bond	302,160		589,315	287,155	195.03%	95.77%
Other financial expenditures	33,510		26,002	-7,508	77.59%	4.23%
<b>Total:</b>	<b>335,706</b>	<b>0</b>	<b>615,344</b>	<b>1,141,106</b>	<b>183.30%</b>	<b>100.00%</b>
<b>Balance</b>	<b>4,588,496</b>	<b>0</b>	<b>3,864,606</b>	<b>-723,890</b>	<b>84.22%</b>	

## 1.7 Number of employees, wages and salaries

Average number of employees:

**Table 29**

person	2005	2006
Non blue collar	14	8
Employees total:	14	8

Itemized payroll related expenses:

**Table 30**

HUF '000 / year	2005	2006
- incentive	9,182	5,544
- welfare	5,602	3,553
- refund	3,355	914
- other	4,677	12,198
Other payroll related expenses	22,816	22,209
Expenses of social security	43,703	32,742
Wage tax:		
- employer	4,237	3,236

## 1.8 The Fund's assets, financial position, and the result of its operation

### 1.8.1 Description of the securities portfolio and the evaluation of the activity of the assets managers

By the end of the previous year, the book value of the (opening) stock of the securities had reached HUF 55,941,597 thousand. At the end of the year concerned, the value of securities (closing stock) in the balance sheet was HUF 61,249,978 thousand. Of this value, HUF 44,445,608 thousand was taken up by the closing stock of Hungarian government securities, and HUF 16,804,370 thousand of discount treasury bills.

The impact of the activity of the assets managers on the results of the basic year's balance sheet is shown in the following table:

**Table 31**

(in HUF '000)

Description	Income	Expenditures	Profit
Exchange rate profit and loss on government bonds	381,511	589,315	-207,804
Profit on interests of government bonds	3,311,218	0	3,311,218
Exchange rate profit and loss on discounted government bonds	775,223	0	775,223
Interests on provisionally non-invested financial means	0	0	0
Expenses on portfolio management	0	16,308	-16,308
Charges of custodian services	0	9,695	-9,695
<b>Total</b>	<b>4,467,952</b>	<b>615,318</b>	<b>3,852,634</b>

Last year, the Hungarian government securities market, which is still the exclusive area where the Fund hitherto realized its investments was altering. Year of 2006 brought great contradictions, but also significant changes to the Hungarian economy. Actions before and after parliamentary elections held at spring, had large impact on bond market, while international influence played second fiddle during the year. Last year's diminution of yields continued in January 2006 at domestic state bond market, but started an increasing reverse tendency from the beginning of February. Following a temporary decrease, June and July showed yield improvement and it remained at a relatively high level until the beginning of October. Investors' confidence returned to Hungary after the introduction of convergence program, which brought relief to the judgment of state bond market after the gloom of October. Expected yield of long-term bonds returned to the level shown at the beginning of the year, meanwhile those of short-term indicated much higher levels. First and last, yield of short-term bonds (less than 5 years) increased, yield of long-term bonds decreased. Highest increment of yields was experienced in case of maturities up to 1 year (150-200 basis points), yield of bonds with maturities between 1-5 years increased with 25-150 basis points. However, yield of long-term bonds (maturity: 10 years or longer) decreased by 25-30 basis points during the year. At the beginning of the year, the yield curve was normal but transformed to inverse by the end of the year. Portfolio managers achieved 7.3% gross yield on the full portfolio. In 2006, trustee activity resulted in an increase of the retained profit of the year by HUF 3,879 million, of which 85 % was derived from the exchange rate profit on government bonds.

Earnings derived from management of portfolios were curtailed by the remuneration paid to managers of both the portfolios and the custodian. In comparison to the figure for the previous year, total expenditures originating from administration of portfolios were reduced by 39 %, while the volume of securities managed increased by approximately the same percentage. The two portfolio managers accomplished lower than benchmark, so were not remunerated as set in our contract.

In the course of 2006, on 2 January, assets were redistributed among portfolio managers. According to the previous year resolution of the Board of Directors, CA IB Értékpapír Befektetési Alapkezelő Rt. (CA IB Securities Investment Fund Corp.), which used to manage 50% of the portfolio, transferred 50% of the managed portfolio to CIB Befektetési Alapkezelő

Rt. (CIB Investment Fund Corp.). In the year concerned 50% of the portfolio was managed by OTP Alapkezelő Rt. (OTP Fund Corp.), 25% by CIB Investment Fund Corp., 25% by PIONEER (successor of CA IB Securities Investment Fund Corp.).

In the year concerned, the result of only one portfolio manager exceeded the level of yield of the reference index. Pioneer achieved an annualized gross yield of 7.8 %, while CIB achieved 6.58 %. At the same time, the seasonal value of MAX-C was 6.71 %.

Like in the years before, investing into foreign government bonds were considered too risky by our portfolio managers. Thus, - in spite of the fact that investment directives would have allowed it - no investment was made into foreign government securities.

## 1.8.2 Summary evaluation of the profit

In 2006, the profit amounted to HUF 5,357,770 thousand, was less by HUF 628 millions the retained profit of 2005. The main items behind this change are illustrated in Table 32.

**Table 32**

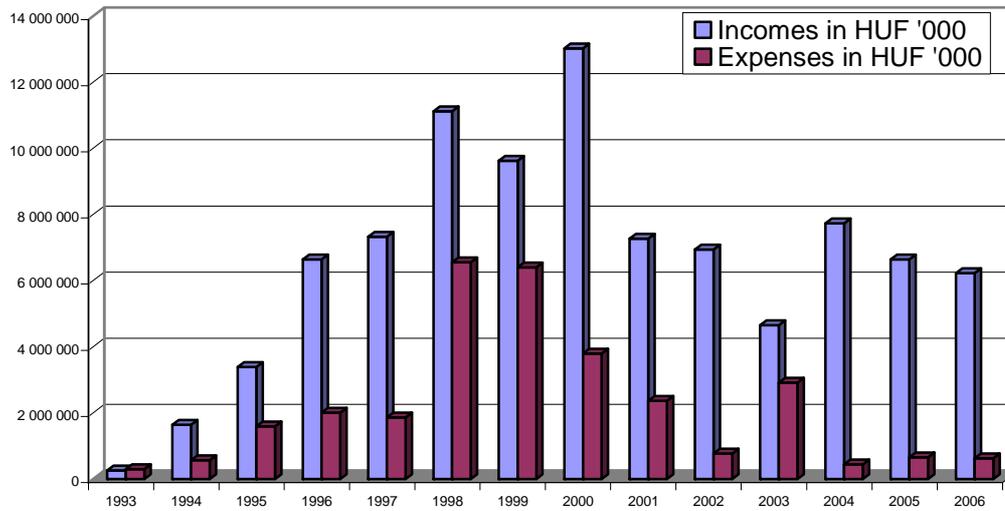
Description	2005	Impact of revision	2006	Change		Indicator for 2006* %
				In HUF '000	%	
Income from deposit insurance	1,716,363	0	1,737,308	20,945	101.22%	32.43%
Other income	1,357	0	6,192	4,835	456.30%	0.12%
Income from financial transactions	4,924,202	0	4,479,950	-444,252	90.98%	83.62%
<b>Total income</b>	<b>6,641,922</b>	<b>0</b>	<b>6,223,450</b>	<b>-418,472</b>	<b>93.70%</b>	<b>116.16%</b>
Expenses on deposit insurance	16,898	0	0	-16,898	0.00%	0.00%
Other expenses	3,427	0	7,489	4,062	218.53%	0.14%
Expenses of financial transactions	335,706	0	615,344	279,638	183.30%	11.49%
<b>Total expenses</b>	<b>356,031</b>	<b>0</b>	<b>622,833</b>	<b>266,802</b>	<b>174.94%</b>	<b>11.63%</b>
Operating costs	300,178	0	242,847	-57,331	80.90%	4.53%
<b>Total expenses and operating costs</b>	<b>656,209</b>	<b>0</b>	<b>865,680</b>	<b>209,471</b>	<b>131.92%</b>	<b>16.16%</b>
<b>Retained profit for the year</b>	<b>5,985,713</b>	<b>0</b>	<b>5,357,770</b>	<b>-627,943</b>	<b>89.51%</b>	<b>100.00%</b>

Decrease in retained profit can be attributed to the diminution of the financial transactions. This has been caused by the fall of the interest rate.

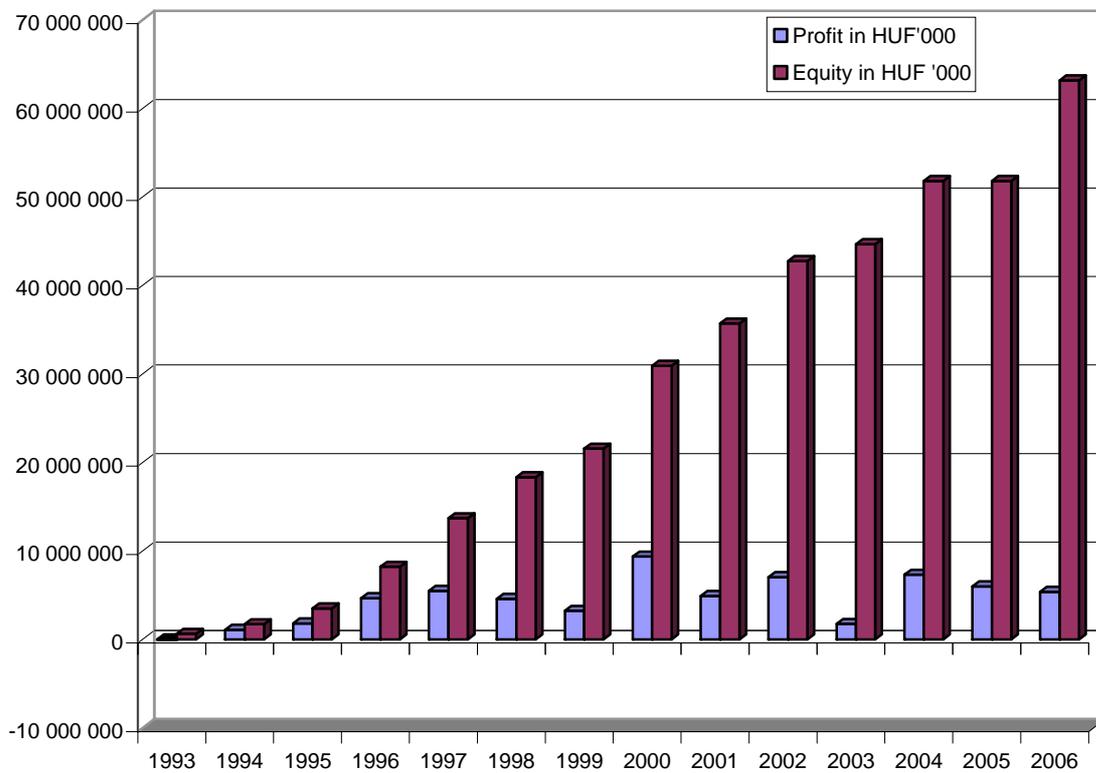
Growth in income from deposit insurance and growth of other income is not considerable comparing to financial results. Income from financial transactions decreased by 10%, while expenses of financial transactions increased by 83%, compared to the previous year. Decrements of operating costs and of expenses on deposit insurance are factors to grow retained profit.

The following graph illustrates total income and total expenses of NDIF, as showed in the balance sheets from the Fund's foundation in 1993 up to 2006.

Incomes and expenses of NDIF 1993-2006.



### 1.8.3 Trends of the Fund's equity and profits from its foundation up to 2006



When examining this table, it must be taken into consideration that the equity contains in an accumulated manner the profits of the preceding years and also the profit of the current year, therefore the extent of equity's growth is influenced by the fluctuation of profit.

The fluctuation of profit – experienced from 1998 – could be attributed until 2002 to the recovery prospects, connected with the liquidation of Realbank Rt. Afterwards these fluctuations were the result mainly of the development of yields originating from the government securities market.

## **1.9 Explanation of main differences between estimated and real data of 2006**

*Absorbed premium income from member institutions* was 16% higher than estimated.

*Other income derived from deposit insurance* was realized on the level of 14% of the estimated value. Among these, the part of HFSA penalties (hard to predict) entitled to NDIF remained considerably below the estimated level (1,600 thousand HUF in contrast with 20,000 thousand HUF penalty).

Due to its character, accounting and reversal of depreciation cannot be planned. In 2006, the reversal of depreciation was 1,141 thousand HUF.

Among our *other incomes*, 1,848 thousand HUF revenues were deriving from selling tangible assets at restructuring NDIF.

*Income and expenditures from financial transactions* should be studied together, because while estimating both incomes and expenses, the expected result of portfolio was planned. The following assumptions were made:

- market value of annual average portfolio was 61 billions HUF, besides paid premiums, endorsed yield of portfolio was also considered;
- cannot count with payments in connection with bankruptcy of credit institutions, and neither with retirement of equity following.
- In the portfolio, the estimated rate of state bonds was at 73%, discount treasury bills' at 27%.

Besides the above-mentioned predictions, the yield was realized over 6%, however, the yield of portfolio had been to be at the level of 6.0%. The amount of the paid premiums and the endorsed equity were altogether above the estimated level, because the market value of annual average portfolio developed more auspiciously than calculated. The result of portfolio management in financial transactions was above the plan by 26%, although all of the managers but one executed under the benchmark.

*Other expenses derived from deposit insurance* had not been planned, and there were none.

The amount of *other expenses* was two times higher than calculated, which was caused by writing off a wrecked vehicle.

The *operation costs* were under the estimated level by 5%. The cost decreasing effect of restructuring NDIF was obvious at the beginning of 2006 (only the achievement of depreciation was 2% higher than estimated).

The material-type expenses were under the estimated level by 15%. It derived from the effort of saving costs, and from couple of accrued expenses occurred by objective reasons.

## **2. Supplementary information and reference data**

### **2.1. The institutional communication of NDIF**

The necessity of the consumer protection is very considerable for the financial consumers by the accession to the EU, because of the new deposit insurance information and the competitive deposit insurance conditions offered by the possible foreign participants. As far as the deposit insurance is concerned, it is the “insured financial products” that is essential and so are the promptly and obviously distinguishable, identifiable member institutions from the aspect of the ordinary consumer.

At the meeting, taking place on 29.11.05 the Board of Directors of NDIF decided to offer to the member institutions of NDIF the indication of deposit insurance consumer protection emblem starting from 01.03.06.

The “NDIF-insured-deposit” emblem means in its appearance a graphical combination of a text and the already existing NDIF logo into a stamp design. NDIF suggests placing the emblem to any credit institution-information-materials (printed or electronic media, internet).

On 30.08.2006 member institutions of NDIF were requested to give information in connection with using the emblem, asking them about their experiences and reactions of clients.

Only 10 % of the respondents had the point of view of not planning to use the emblem. All of the member institutions, which had decided to utilize it, reported positive experiences, indicating that not only they did, but the clients also had positive review on the emblem. Up until closing this very report, 74 credit institutions, out of which 11 banks, 61 savings co-operatives, 1-1 credit co-operative home saving bank have used this dependable sign on their deposit surveys.

The staff of NDIF keeps following with attention the experiences in connection with introducing the consumer protection emblem.

### **2.2 Events related to liquidation in progress**

#### *Heves and Environs Savings Co-operative ‘under liquidation’ (Heves és Vidéke Takarékszövetkezet "f.a.")*

In 2006, in the liquidation case of Heves and Environs Savings Co-operative, which started on 25 November 1993, the major event was that on the 07.04.2006 meeting of the Creditors’ Board had a negation about the modified interim balance, and presented to the Court of Justice. The Court of Justice according to the report received from Concordat Liquidator Ltd. (Concordat Felszámoló Kft.) has not been able to approve the first interim balance because of its delivery problems towards the creditors. After the final judgment of the interim balance the liquidator presents the closing balance-sheet and the asset allocation proposal, and plans to finish the liquidation by the end of the year 2007.

Since the commencement of the liquidation up until the closing of the balance sheet NDIF paid an indemnification of HUF 262,126,706 that is registered by the liquidator in the category “d”. Besides, the registry of declared incidental expenses of 16,690,000 HUF was confirmed by the liquidator. We note that due to the few assets of the savings co-operative and the classification of NDIF’s creditor claim no recovery of the losses can be expected.

*Iparbankház Rt. ‘under liquidation’ (Industry bank)*

The liquidation process commenced on 4 July 1996 has got into the state that the Budapest City Court of Justice ended the liquidation process in the decree no. Fpk. 01-96-001194/47. One of the creditors, Generali-Providencia Insurance Rt., petitioned an appeal, which could make the process last until indefinite date.

In the decree the court made a decision on the fund allocation, according to which, after the decree becomes legal, 39,384 HUF should be transferred to the Duties Office and to the liquidator.

Besides NDIF’s return already reaching 97.5 %, we do not count on any further return on the Fund’s creditor claims presented.

Up to the balance sheet turning date deposit reimbursements to the value of HUF 2,309,729 were realized, and reported to the liquidator.

*Realbank Rt. ‘under liquidation’*

Since the commencement of liquidation on 19 January 1999 up to the balance sheet turning date six interim balance sheets were prepared.

On 13.09.2006 the closing balance-sheet and asset allocation proposal, which are necessary for the completion of liquidation process were presented by Credit Institution Liquidator Pc. to the Budapest City Court of Justice. The turning day of the liquidation balance is 31.05.2006.

Realbank Rt. ‘under liquidation’ performs payments to its approved and registered creditors up to 100% in case of creditors’ claims categorized from a) to f) according to the Cstv. 57. § (1) paragraph, considering the advance payments during the liquidation process. Meanwhile, the assets of the debtor company cover the 8.78% of the claims on default interest registered in category g) as well.

The creditors’ claims is going to be likely paid in second half of the year 2007 -gearing to the approval of the closing balance sheet and asset allocation proposal.

According to the formerly approved interim balance sheet, NDIF’s claim in category d) returned in 100% (5,154,398 thousand HUF), while its creditor claim in category f) has returned in 96.35% (57,416 thousand HUF) so far. In this category until reaching 100%, 2,175 thousand HUF is expected to be paid. Beside the 1,946,383 thousand HUF claim on default interest, registered in category g) by the liquidator, a further amount of 170,892 thousand HUF is likely to be paid –based on foreshown measure.

### Rákóczi Credit Co-operative 'under liquidation' (Rákóczi Hitelszövetkezet "f.a.")

Till the turning date of the balance sheet reimbursement to the value of HUF 290,7774,697 was paid by the Fund and reported to the liquidator in category d). the amount of the claim registered in category f) is 12,681,610 HUF.

According to the newest handout of the Credit Institution Liquidator Pc, no. IV. interim balance sheet and its asset allocation proposal were made, which the NDIF had not received up until the closing of this report.

Rákóczi Credit Co-operative 'under liquidation' (Rákóczi Hitelszövetkezet "f.a.") performs payments to its approved and registered creditors up to 100% in case of creditors' claims categorized from a) to e) according to the Cstv. 57. § (1) paragraph, considering the advance payments during the liquidation process. Meanwhile, in category f) return is expected to 9.78% (1,240 thousand HUF) in 2007. The assets of the debtor company do not cover the claims on default interest registered in category g).

## **2.3 Legal matters**

### **2.3.1 Pending litigations**

The NDIF was the defendant in the legal case related to Realbank, started in 1998. The decisions didn't order any payment obligations for NDIF. Presumably, it will not take place in 2007, either.

### **2.3.2 Other commitments**

The Fund is not aware of any other liabilities with the exception of the customary – e.g. suppliers' – liabilities included in the financial statements.

In 2006, the Fund has not issued any guarantees that could give rise to payment obligations.

## **2.4 Development in the field of Informatics in 2006**

Among NDIF's planned investments the purchase of the central server and the fax machine were done. The software making the daily savings and the license of anti-virus system were updated.

The KIR (payout system) was developed to a new platform in 2006, completing with developments getting necessary by imposing the newly introduced tax on interest. The thorough testing of the system is to be held in 2007.

## 2.5 International activities

In the international relations of NDIF ever decisive role is played by the co-operation within the international organizations, thriven with temporary multilateral consultation in the Commission of the EU.

The **International Association of Deposit Insurers (IADI)** held its fifth annual assembly in Rio de Janeiro in November 2006 with the participation of the Chief Economist of the Fund. The Annual General Meeting (AGM) approved the annual report and balance sheet of 2005/2006 and the business plan of the following year. The mandates of dozen member of the Executive Council expired – including the Chief Economist’s representing NDIF. The assembly elected a new treasurer, namely Bakhyt Mazenova (Kazah Deposit Insurance Fund), the representative of NDIF was re-elected for 3 further year term.

The AGM was followed by a yearly conference, during which was announced that the Canadian Deposit Insurance Corporation was honored with the award of the “Deposit Insurance Corporation of the Year” in 2006.

The Executive Council of IADI held meetings in May, in October and at the AGM in November, at which – excluding the one in October- the Chief Economist of NDIF was present as a member, similarly to our participation in IADI Research and Guidance Committee which held four meetings during the year. It is remarkable, that within the frameworks of subcommittees currently there are researches in 6 subjects (Efficiency of deposit insurance systems; Effective deposit insurance mandate; creating an IADI data base; Funding; Claims and Recovery, Governance) these all aiming developments of IADI guidance. Decision was made by the Committee to commence developing further guidance topics in the following 2006/07 business year. These are: Coverage, Cross-border Deposit Insurance, Sufficiency of deposit insurance funds, Legal protection, Public Awareness.

A further event in the life of the Association was that the Chairman of the IADI European Regional Committee, who is also the Chairman of the Czech Deposit Insurance Fund, summoned a conference on 19.01.2006 in Prague, which was attended by the Chief Economist of NDIF. The agenda of the meeting included the acceptance of Terms and Reference of the committee and of the Business plan for the year 2006/07 and the discussion of the possible co-operation with the European Forum of Deposit Insurers.

The **European Forum of Deposit Insurers (EFDI)** incorporating the European deposit insurance institutions, held its Annual Meeting in Palermo at the end of November 2006. It was followed by a most informative symposium, entitled “The problems arising from cross-border activities of systematically important banks”. The Managing Director, the Chief Economist and the Chief Legal Counsel of NDIF took part in the event. The first independent publication of EFDI was presented with the title of “Deposit Guarantee Systems: EFDI’s first report”.

During the formal part of the meeting, participants voted on remarks of the draft of the Statutes of EFDI. The clarifying observation of NDIF was accepted. The amendment of the Statutes was necessary because of the Brussels registration of the forum (suggestion to define EFDI as an international non-profit organization), which requires the harmonization of the Statutes with the Belgian law.

The final voting on the Statutes is likely to be held at the beginning of 2007 in Brussels.

The AGM extended the mandates of the Chairman and the Vice-Chairman until the acceptance of the new Statutes.

At the beginning of 2006 the Chair sent out a questionnaire to EFDI members in connection with the new draft Statutes of which was about to assess the attitude of the European deposit insurance institutions to annual membership fee and in case of an agreement, suggestions on the amount of the fee. 28 out of 48 member institutions responded, the major part supported the introduction of the annual fee.

The **EU Commission** in co-operation with the management of the EFDI initiated an expert meeting on the modification of the EU Deposit Insurance Directives (still in progress) on 13th June 2006, in Berlin. The Managing Director and the Chief Economist of NDIF participated in the meeting. The aims of this gathering were the following: evaluation of the responses given to the questionnaire of the EU Research Center (JRC), refining of the definitions and data in case of certain countries and further purposes over the review of the no. 94/19EK Directive of the Commission.

The Commission intends to focus on the harmonization of the premium and financing systems in line with the continuous contraction of the professional questions incorporated into the review process, willing to learn the cost effects of possible changes in the existing funding systems on deposit insurance systems. So, the JRC was assigned to create a new questionnaire and effect study, the evaluation of which was done at the end of 2006 by the Commission.

Finally mentioned, on 30-31 January 2006 a workshop was held in Sofia, with a title of “The practice of deposit insurance of the EU members particularly on risk differentiated premium payment”, NDIF was represented by Dániel Jánossy, who was invited to speak at the event. His lectures were on conditions of deposit insurance, coverage limit and on other consumer protection questions and on premium payment systems.

## **2.6. Tasks defined by the Board of Directors of NDIF, and their implementation**

In 2006, the Board of Directors held 4 meetings and adopted 36 resolutions on items deemed obligatory in accordance with the stipulations of the Act, and the major issues related to the functioning and organization of the Fund. Among others, the following major themes were on the agenda:

- Adoption and submission of report and budget for the current year to the competent authorities and organizations,
- Determination of the work-plans of the internal auditor and of the IT security controller;
- Modification and announcement of the Rules on Premium Payment,
- Decision on accepting the assignment of the Ministry of Finance about compensation of shareholders of Heves és Vidéke Takarékszövetkezet “under liquidation” Base Shareholding Certificate II and Reserve Shareholding Certificate,
- Authorization of the Managing Director to make the necessary actions to propose are commendation on modification of the relevant law ensuring higher level of legal protection of NDIF’s data,
- Authorization of the Managing Director to modify the Reimbursement Rules, which became necessary after imposing the tax on interest income.
- Development of information security;

Decisions taken by the Board of Directors have been duly implemented and in accordance with their deadlines.

17 February 2007

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AUTHORIZED REPRESENTATIVE

### **3. Business plan**

#### **3.1. Savings and government securities yield expectations for 2007**

The GDP is likely to increase by 3%, within which, an approximately 8% increment is expected in the industrial output. The agricultural production is vaguely expanding. Trade is going to stagnate, the performance of the civil service is about to decline. The employment rate in the budget sphere is to decrease by 3-4%, but altogether there is to be a slight drop, the unemployment rate will reach the level of 7.8-8%.

The wage attitude of the business sphere is expected to act upon 2006's. The gross growth of earnings is still about 7%. The rise of net earnings is 3 percentage points less than the escalation in the previous year, which is caused by the rising of health care collateral and the narrowing of tax allowance. In the long run, the real wages diminish by just 1-2% in the business sphere. In the budget sector, the modification of real wage is about 6-8%, but occasionally it may even surge to 10%. On the whole the real wages in the national economy are to decrease by approximately 3-5%, which means a drop to the 2005 level. The level of net savings increases, because of the deceleration of the new credit withdrawal, is to be 5.5% of the GDP.

In 2007, the deficit of state budget is going to be at 6%, less than the estimated 6.8%, which is the common effect of the more auspicious, than assumed, commencing trim, higher tax revenues, expense reducing agreements and possible interest decrease in the second half of the year. The negative impact of interest decrease is expected to be more moderate in case of the diminution of savings, due to the high interest rate competition, which is already prevailing in the banking sector.

In 2007, the market opinion of the stabilization package, of the domestic economy, the inflation and the international environment of deposits are going to have a major effect on processes in the Hungarian bond market. The equilibrium indicators are likely to improve, so the deficit of the budget can approach to the level of 6.5%, the external equilibrium can significantly develop in 2007. There are remarkable doubtfulness regarding the development of inflation thought.

In 2007, we expect –together with our portfolio managers- that the level of gross yield is supposed to be almost identical to previous year's in the investments into state bonds. This judgment is based on caution deriving from numerous elements of uncertainty. Annual yield of the financial investments of the Fund was planned to be at the lower bound of the yield level, given by our portfolio managers, so as 8.5%.

#### **3.2. Major goals for 2007**

In 2006, the NDIF continued its activity among streamlined limits due to modified Rule on Organization and Operation (Rule Book), which was approved by the Board of Directors in the previous year, and the modified act on credit and financial institutions (Hpt.) came into force on 01.01.2006. NDIF paid special attention to the updating of the payout system of the

Fund, to its readiness and compliance with the law, and to the participation in the review process of the Directive no. 94/19 and within its scope preparing for the reforming of the premium policy (premium payment system).

In **2007**, the main task of the management of the NDIF is successfully finishing the **payout system** of the Fund, which is still in process, testing it and continuously ensuring its readiness and compliance with the law. A part of this progress is the contract of agency bound with the Ministry of Finance about compensation of shareholders of Heves és Vidéke Takarékszövetkezet “under liquidation” Base Shareholding Certificate II and Reserve Shareholding Certificate.

A key goal is preparing for the reimbursement tasks in connection with Hungarian **branches** of credit institutions with residence in another EU member country, and with foreign branches of credit institutions with Hungarian residence. The setting up of the bilateral cooperation with potentially concerned deposit insurance institutions of EU member countries has already started, and we are eager to bind concrete agreements in this very year.

Participation in the review of governing principle of the **EU Directive** is still in our focus, and within its scope reforming of the **premium policy**, furthermore preparing for cross-border crisis management –in accordance with supervisory systems of member countries – initiated by the EU.

The acceptance and declaration of legal capacity of the new Statutes of the European Forum of the Deposit Insurers could be a milestone in the international activity of the Fund. Its bottom line is that the cooperation with the institutions and organizations of the European Commission is based on new pillars, and the deposit insurance institutions can count on a strong representation on different multilateral forums. The Management of EFDI declaredly relies on the experience and professional approval of NDIF in the old-new organization.

In 2007, the following are still **crucial goals** with one year operational experience behind: ensuring efficient, budget-minded operation, taking the opportunities provided by Co operational Agreement between NDIF and Hungarian Financial Supervisory Authority (HFSA).

### 3.3 The budget of NDIF in 2007

(numbering according to the lines of balance sheet)

in HUF '000

	Description	2006		2006. realized / estimated	2007 Estimated	2007. est. /2006. real. %
		Estimated	Realized			
01.	Premium income from member institutions	1,492,000	1,734,413	116	1,637,000	94
04.	Other income derived from deposit insurance	20,000	2,895	14	10,000	345
I.	Income derived from deposit insurance (01+04)	1,512,000	1,737,308	115	1,647,000	95
II.	Other income	1,480	6,192	418	6,550	106
III.	Non-deposit insurance income	0	0	0	0	0
IV.	Income from financial transactions	3,544,000	4,479,950	126	5,193,000	116
V.	Extraordinary income	0	0	0	0	0
	<b>TOTAL INCOME (I+II+III+IV+V)</b>	<b>5,057,480</b>	<b>6,223,450</b>	<b>93</b>	<b>6,846,550</b>	<b>110</b>
05.	Expenses on the payments of frozen deposits	0	0	0	0	0
08.	Other expenses on deposit insurance	0	0	0	0	0
VI.	Expenses on deposit insurance (05+08)	0	0	0	0	0
VII.	Other expenses	3,440	7,489	218	5,710	76
VIII.	Non-deposit insurance expenses	0	0	0	0	0
IX.	Expenses on financial transactions	158,530	615,344	388	674,540	110
X.	Extraordinary expenses	0	0	0	0	0
	<b>TOTAL EXPENSES</b>	<b>161,970</b>	<b>622,833</b>	<b>233</b>	<b>680,250</b>	<b>109</b>
09.	Material-type expenses	78,841	66,709	85	87,270	131
10.	Costs on the personnel	157,481	157,213	100	139,635	89
11.	Depreciation	18,500	18,926	102	17,500	92
XI.	TOTAL OPERATION COST (09+10+11)	254,822	242,848	95	244,405	101
	<b>TOTAL COST (VI+VII+VIII+IX+X+09+10+11)</b>	<b>416,792</b>	<b>865,681</b>	<b>142</b>	<b>924,655</b>	<b>107</b>
	wage reserve with collateral +2%		0		1,500	0
	corrigated costs on personnel		157,213		141,135	90
	corrigated costs with +2%		864,540		926,155	107

#### Explanations to the lines of 2007 budget estimation

01. Premium income from member institutions (Estimated: 1,637,000 thousand HUF)

According to the premium policy approved by the Board of Directors of NDIF for 2006, the premium payment system is not going to change, the premium rates of 2006 are going to be

valid in 2007. By virtue of this, the premium income of NDIF is likely to be around 1.809 million HUF. It can be decreased by the premium discount, declared in the premium policy, which could be demanded by totally 156 member institutions in 2007.

**The expected premium base and premium income of 2007**

	<b>Description</b>	<b>Total (in million HUF)</b>
1.	Premium base calculated from the preliminary deposit-data given by the Supervisory on 31.December	9,550,800
2.	The estimated premium income as the product of calculated premium base and the probable average premium rate (0.20‰)	1,809
3.	The income-decreasing effect of possible use of preferential premium rate	-172
4.	The total of estimated premium income in 2007 (2.-3.)	1,637

04. Income from financial transactions (estimated: 10,000 thousand HUF)

Our estimated income from financial transactions is amounted by incomes, which is 80% of the supervisory penalties.

II. Other incomes (estimated: 6,550 thousand HUF)

The devolved cost of the personal use of cell phones, incomes deriving from sales of tangible assets, incomes on default interest and incomes related to property insurance damages are designated for this line.

IV. Income from financial transactions (estimated: 5,193,000 thousand HUF)

When estimating the income from financial transactions – likewise in previous year- the yield expectation of our portfolio managers and the expected average tied-up capital meant the guideline. The assumptions during calculation were the followings:

- the market value of the annual average tied-up stock of portfolio is going to be 63 billion HUF, in which besides the premium payment, the re-invested yield is also considered;
- will not be retirement of stock due to compensation;
- on the portfolio of securities the portfolio managers have a 8.5% yield in average;
- the deposit tied-up of the National Bank of Hungary calculated with an average 100 million valued deposit portfolio with 8% of deposit interest

VII. Other expenses (estimated: 5,710 thousand HUF)

Among other expenses the devolved cost of the personal use of cell phones, and the book value of the sold tangible assets are planned with the total of 3,440 thousand HUF.

IX. Expenses of financial transactions (estimated: 674,540 thousand HUF)

The expenses of financial transactions were estimated with scaling, using the above mentioned assumptions by the yield expectation of our portfolio managers, and the premiums and collaterals in connection with portfolio management are also considered on this line.

XI. Operation costs (estimated: 244,405 thousand HUF)

A minimum of 0.6%, 1.6 million HUF increase was planned in case of operation costs.

09. Material-type expenses (estimated: 87,270 thousand HUF)

The *material-typed expenses* of NDIF is going to rise by 31%, which derives from the increase of the joint cost of the office (estimated amount: 4,500 thousand HUF) and the increase of the expert fee. For book keeping service 4,645 thousand HUF, for the charge of software update of the payout system 8,400 thousand HUF and for accrued testing 5,000 thousand HUF were planned. Among expert premiums, the internal control and the attorney expenses were planned all together at 15.3 million HUF.

The assessed material-type expenses for international travel in 2007 (travel cost, material expenditures, accommodation, conference fee) were 6,270 thousand HUF. The reason of the increment of the travel costs was the fact that the Statute of EFDI was not accepted last year.

The membership fee of International Association of Deposit Insurers is written among the membership fees with the HUF equivalent of 10.000 USD. Above these, 1,000 EUR arising membership fee was also planned in connection with the European Forum of Deposit Insurers.

10. Costs on the personnel (estimated: 157,481 thousand HUF)

For 2007, the board of directors approved a 8.5% increase of the costs on the personnel, aiming 6.5% wage increase from 01.01 2007, and the remaining 2% is a reserve for wage increase in the budget. The latter could be used considering the inflationary processes during the year with the pre-approval of the Board of Directors.

The approved wage data were corrected with the 2006 effects of the quitters and the plan was diminished in accordance with these. The salary package of employees was standardized according to the expectations of the Board of Directors, the premium - formerly paid in installments, is now incorporated into the bonus of the concerned employees.

Data shown in HUF '000

Description	2006. realized	2007. estimated
Wage	79,137	62,388
Bonus	11,690	26,473
Premium	15,401	0
Total	106,228	88,861
Corrigation of the effect of accrued expenses and deferred income	-17,833	0
Accrued wage cost	88,395	88,861

**Wage increase reserves: 57,120 thousand HUF x 2%= 1,142,- thousand HUF**

**Accessories: 358,- thousand HUF**

**Reserves total: 1,500,- thousand HUF**

For *other costs on personnel* (cafeteria, individual retirement account) 18,568 thousand HUF, for *wage accessories* 34,244 thousand HUF were planned.

For the cafeteria limit approved by the Board of Directors for 2007, the amount of 3,462 thousand HUF was planned, considering the number of employees. Please note, that the estimated data is not comparable with the real data of 2006, because of the rearrangement of the structure of other costs on personnel.

11. Depreciation (estimated: 17,500 thousand HUF)

Depreciation was planned with considering calculation of the annual amortization of the existing assets, the calculation of the depreciation of planned investments, further more derecognizing of the tangible assets, which are to be sold.

Budapest, 17 February 2007.

Dr. Péter Székács  
Managing Director

## Independent Auditor's Report

To the Shareholders of ORSZÁGOS BETÉTBIZTOSÍTÁSI ALAP:

We have audited the accompanying balance sheet of ORSZÁGOS BETÉTBIZTOSÍTÁSI ALAP ("the Fund") as at 31 December 2006, which shows the sums of the corresponding total assets and liabilities of THUF 63.323.380 and a retained profit for the year of THUF 5.357.770 the related profit and loss account for the year then ended and the notes on the accounts (collectively "the financial statements") included in the Fund's report. The report, comprising the financial statements and the separately prepared business report, is the responsibility of the Fund's management. The examined report has been prepared for the consideration of members at the forthcoming annual general meeting and does not reflect the effects, if any, of resolutions that might be adopted at that meeting. 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 the Hungarian 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.

I, the undersigned, have reviewed and audited the report of ORSZÁGOS BETÉTBIZTOSÍTÁSI ALAP, including the various components and items and accounting and bookkeeping documents, in due observation of the national accounting standards, and, based on my findings I am satisfied that this report has been drawn up in accordance with the provisions of the Act on Accounting and the general principles of accounting. This report provides a true and fair view of the financial and earnings position of the Fund. The business report is in conformity with the data and information of the annual report.

In the light of our opinion, the Fund can forbear from the full publication of the Notes on the accounts, according to the Act C. of 2000 on Accounting, section 154, (1) subsection.

Budapest, February 16, 2007.

Audit Service Kft.  
registered audit company  
reg. no.: 001030

AUDIT SERVICE KFT  
bejegyzett könyvvizsgáló cég  
ny.sz.: 001030

dr. Serényi Iván  
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